Mary's Center for Maternal and Child Care, Inc.

MC2 Community Development Corporation

Audit Report

Financial and Federal Award Compliance Examination

For the Year Ended December 31, 2017

MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION

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& FREEDMAN
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Mary's Center for Maternal and Child Care, Inc.
MC2 Community Development Corporation
Washington, D.C.

Report on the Financial Statements

We have audited the accompanying combined financial statements of Mary's Center for Maternal and Child Care, Inc. and MC2 Community Development Corporation (the Organizations), which comprise the combined statement of financial position as of December 31, 2017, and the related combined statements of activities and change in net assets, functional expenses and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Organizations as of December 31, 2017, and the combined change in their net assets and their combined cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Report on Summarized Comparative Information

We have previously audited the Organizations' 2016 combined financial statements, and we expressed an unmodified audit opinion on those audited combined financial statements in our report dated May 19, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited combined financial statements from which it has been derived.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The Combining Schedule of Financial Position on pages I-(29 - 30), Combining Schedule of Activities on page I-31 and Combining Schedule of Change in Net Assets on page I-32 are presented for purposes of additional analysis and are not a required part of the combined financial statements. The Schedule of Expenditures of Federal Awards on pages I-(33 - 36), as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the combined financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2018 on our consideration of the Organizations' internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organizations' internal control over financial reporting and compliance.

Gelman Rosenberg & Freedman

May 24, 2018

MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION

COMBINED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016

ASSETS

	2017	2016
CURRENT ASSETS		
Cash and cash equivalents	$ 3,109,454	$ 2,252,804
Investments (Notes 2 and 13)	2,334,166	1,547,993
Accounts receivable, net of allowance for doubtful accounts of $1,137,275 and $1,227,394 in 2017 and 2016, respectively	4,096,327	3,533,176
Grants receivable, net of allowance for doubtful accounts of $50,000 in 2017 and 2016	9,758,660	7,340,777
Pledges receivable	177,650	200,428
Inventory	690,934	516,887
Prepaid expenses	391,150	555,026
Note receivable (Note 5)	-	1,670,575
Total current assets	20,558,341	17,617,666
FIXED ASSETS (Notes 4, 5 and 10)		
Land	5,243,216	993,216
Buildings and leasehold improvements	25,725,679	22,156,293
Equipment	3,220,268	4,066,004
Furniture	1,226,698	1,206,518
Computer equipment	328,230	622,101
Vehicles	510,017	510,017
	36,254,108	29,554,149
Less: Accumulated depreciation and amortization	(8,432,019)	(8,749,691)
Net fixed assets	27,822,089	20,804,458
OTHER ASSETS		
Security deposits	106,485	90,067
Pledges receivable, net of current portion	293,238	504,697
Note receivable, net of current portion (Note 5)	-	13,400,425
Total other assets	399,723	13,995,189
TOTAL ASSETS	**$ 48,780,153**	**$ 52,417,313**

See accompanying notes to combined financial statements.

LIABILITIES AND NET ASSETS

	2017	2016
CURRENT LIABILITIES		
Lines of credit (Note 3)	$ 140,000	$ -
Current portion of long-term debt (Notes 4 and 5)	490,776	2,681,336
Accounts payable and accrued liabilities	5,426,248	3,936,969
Deferred improvement allowance, current (Note 10)	310,655	491,870
Contract payable (Note 14)	75,000	-
Refundable advances	18,687	26,796
Total current liabilities	6,461,366	7,136,971
LONG-TERM LIABILITIES		
Long-term debt, net of current portion (Notes 4 and 5)	10,171,461	20,271,975
Tenant security deposits	351,246	325,175
Deferred improvement allowance, net of current portion (Note 10)	2,851,193	3,161,847
Deferred rent abatement (Note 10)	371,557	246,034
Contract payable, net of current portion (Note 14)	426,288	-
Total long-term liabilities	14,171,745	24,005,031
Total liabilities	20,633,111	31,142,002
NET ASSETS		
Unrestricted:		
Undesignated	18,736,065	7,215,857
Board designated	85,000	85,000
Total unrestricted	18,821,065	7,300,857
Temporarily restricted (Note 6)	9,110,977	13,769,454
Permanently restricted (Note 7)	215,000	205,000
Total net assets	28,147,042	21,275,311
TOTAL LIABILITIES AND NET ASSETS	**$ 48,780,153**	**$ 52,417,313**

See accompanying notes to combined financial statements.

MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION

COMBINED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016

	2017				2016
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
REVENUE AND SUPPORT					
Patient services	$ 30,320,021	$ -	$ -	$ 30,320,021	$ 25,120,449
Contributions (Notes 7 and 9)	4,218,585	-	10,000	4,228,585	4,476,891
Grants and contracts (Note 11)	3,355,912	12,530,564	-	15,886,476	11,900,810
Other income (Note 14)	5,364,088	-	-	5,364,088	4,026,385
Rental income (Notes 4 and 8)	588,099	-	-	588,099	347,942
Investment income (loss) (Note 2)	138,077	(6,309)	-	131,768	158,272
Net assets released from donor restrictions (Note 6)	17,182,732	(17,182,732)	-	-	-
Total revenue and support	61,167,514	(4,658,477)	10,000	56,519,037	46,030,749
EXPENSES					
Program Services:					
Patient Services	24,887,501	-	-	24,887,501	20,386,481
Medical Services	8,670,975	-	-	8,670,975	8,457,445
Social and Educational Services	12,573,322	-	-	12,573,322	11,109,418
Pharmacy	396,974	-	-	396,974	-
Total program services	46,528,772	-	-	46,528,772	39,953,344
Supporting Services:					
Leased Employees (Note 14)	4,711,297	-	-	4,711,297	3,680,641
Fundraising	1,174,532	-	-	1,174,532	1,331,105
General and Administrative	1,761,705	-	-	1,761,705	2,407,656
Total supporting services	7,647,534	-	-	7,647,534	7,419,402
Total expenses	54,176,306	-	-	54,176,306	47,372,746
Change in net assets before other item	6,991,208	(4,658,477)	10,000	2,342,731	(1,341,997)
OTHER ITEM					
Contribution due to unwind of NMTC	4,529,000	-	-	4,529,000	-
Change in net assets	11,520,208	(4,658,477)	10,000	6,871,731	(1,341,997)
Net assets at beginning of year	7,300,857	13,769,454	205,000	21,275,311	22,617,308
NET ASSETS AT END OF YEAR	**$ 18,821,065**	**$ 9,110,977**	**$ 215,000**	**$ 28,147,042**	**$ 21,275,311**

See accompanying notes to combined financial statements.

MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION

COMBINED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016

					2017
	Program Services				
	Patient Services	Medical Services	Social and Educational Services	Pharmacy	Total Program Services
Salaries and personnel related expenses (Note 12)	$13,249,409	$5,743,021	$ 9,071,901	$ -	$ 28,064,331
Consultants and outside services (Notes 9 and 14)	1,879,024	523,421	981,469	167,753	3,551,667
Occupancy costs (Notes 4 and 10)	48,925	11,587	58,440	621	119,573
Depreciation and amortization	-	4,849	-	6,496	11,345
Medical and dental supplies/ donated vaccines (Note 9)	4,364,772	399,283	13,805	151,675	4,929,535
Insurance and registration	8,890	8,056	4,511	7,264	28,721
Equipment and maintenance	121,003	216,229	30,129	14,100	381,461
Office expenses (Note 9)	209,470	74,451	379,743	33,644	697,308
Meetings and travel	53,840	29,714	141,772	11,649	236,975
Interest expense (Note 4)	-	3,182	-	7	3,189
Bad debt	-	-	-	1,249	1,249
Software maintenance and licensing	790,206	43,494	-	-	833,700
Miscellaneous	51,450	26,361	97,908	2,516	178,235
Subtotal	20,776,989	7,083,648	10,779,678	396,974	39,037,289
General and administrative allocation	4,110,512	1,587,327	1,793,644	-	7,491,483
TOTAL	**$24,887,501**	**$8,670,975**	**$12,573,322**	**$ 396,974**	**$ 46,528,772**

See accompanying notes to combined financial statements.

	Supporting Services				2016
Leased Employees	Fundraising	General and Administrative	Total Supporting Services	Total Expenses	Total Expenses
$4,711,297	$ 479,432	$ 3,973,703	$ 9,164,432	$37,228,763	$32,247,567
-	66,175	1,170,968	1,237,143	4,788,810	4,447,535
-	3,480	1,319,233	1,322,713	1,442,286	1,494,901
-	-	1,218,759	1,218,759	1,230,104	1,050,906
-	-	-	-	4,929,535	3,710,307
-	986	163,401	164,387	193,108	120,902
-	6,100	261,747	267,847	649,308	537,644
-	61,156	747,774	808,930	1,506,238	1,658,857
-	254,280	68,376	322,656	559,631	516,296
-	-	183,659	183,659	186,848	233,926
-	-	50,155	50,155	51,404	36,504
-	8,283	78,459	86,742	920,442	778,775
-	87,900	223,694	311,594	489,829	538,626
4,711,297	967,792	9,459,928	15,139,017	54,176,306	47,372,746
-	206,740	(7,698,223)	(7,491,483)	-	-
$4,711,297	**$1,174,532**	**$ 1,761,705**	**$ 7,647,534**	**$54,176,306**	**$47,372,746**

See accompanying notes to combined financial statements.

MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION

COMBINED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 6,871,731	$ (1,341,997)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,230,104	895,317
Amortization of deferred financing costs	210,710	155,589
Unrealized loss on investments	3,360	3,026
Realized gain on investments	(916)	(74)
Loss on disposal of fixed assets	96,005	-
Permanently restricted contributions	(10,000)	(10,000)
Change in allowance for bad debt	(90,119)	738
Contribution due to unwind of NMTC	(4,529,000)	-
Write off of financing costs	-	12,046
(Increase) decrease in:		
Accounts receivable	(473,032)	(468,560)
Grants receivable	(2,417,883)	1,045,211
Pledges receivable	234,237	(563,025)
Inventory	(174,047)	(144,468)
Prepaid expenses	163,876	(130,991)
Security deposits	(16,418)	(40,197)
Increase (decrease) in:		
Accounts payable and accrued liabilities	1,489,279	801,687
Deferred improvement allowance	(491,869)	-
Contract payable	501,288	-
Refundable advances	(8,109)	10,505
Tenant security deposits	26,071	95,000
Deferred rent abatement	125,523	246,034
Net cash provided by operating activities	2,740,791	565,841
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(8,343,740)	(284,845)
Net purchase of investments	(788,617)	(748,828)
Net cash used by investing activities	(9,132,357)	(1,033,673)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds/payments on line of credit	140,000	-
Payments on long-term debt	(1,045,480)	(2,716,722)
Permanently restricted contributions	10,000	10,000
Proceeds from long-term debt	8,466,539	2,700,000
Payment of loan costs	(322,843)	(39,675)
Net cash provided (used) by financing activities	7,248,216	(46,397)

See accompanying notes to combined financial statements.

MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION

COMBINED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016

	2017	2016
Net increase (decrease) in cash and cash equivalents	$ 856,650	$ (514,229)
Cash and cash equivalents at beginning of year	2,252,804	2,767,033
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 3,109,454**	**$ 2,252,804**
SUPPLEMENTAL INFORMATION		
Interest Paid	**$ 408,594**	**$ 412,373**
Donated Securities	**$ 169,284**	**$ 26,265**
SCHEDULE OF NONCASH TRANSACTIONS		
Landlord Provided Leasehold Improvements, Furniture and Equipment	**$ -**	**$ 3,653,717**
Unwound of Note Receivable in Relation to New Market Tax Credit Transaction (See Note 5)	**$ 15,071,000**	**$ -**
Unwound of Long Term Debt in Relation to New Market Tax Credit Transaction (See Note 5)	**$ 19,600,000**	**$ -**

See accompanying notes to combined financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organizations -

Mary's Center for Maternal and Child Care, Inc. (the Center) was incorporated in October 1988 in the District of Columbia. The primary purpose of the Center is to provide low-cost, high quality maternity and child care for low income immigrant families of the Washington, D.C. area. The Center is supported principally through government grants and patient revenue. Mary Center is also the sole owner of the Mary Center Investment Fund, LLC (the Investment Fund) under the New Market Tax Credit Financing, see Note 5, Mary Center unwound the agreements and the Investment Fund held no assets or liabilities as of December 31, 2017. Mary Center is in the process of terminating the Mary Center Investment Fund, LLC.

MC2 Community Development Corporation (MC2) was incorporated on August 19, 2010 in the District of Columbia. The primary purpose of MC2 is to support the Center's charitable purpose and to act as a special purpose real estate subsidiary of the Center. MC2's mission is to acquire, own, develop, redevelop, improve and finance the interests in real estate that are or will be used by the Center in its charitable and educational activities within the meaning of Section 501(c)(3) of the Internal Revenue Code.

Capital Clinical Integrated Network (CCIN) was incorporated on November 27, 2012 in the District of Columbia within the meaning of Section 501(c)(3) of the Internal Revenue Services. CCIN was organized to facilitate the creation of an innovative patient care model that improves health care delivery and patient health outcomes. CCIN has received its 501(c)(3) status from the IRS, and there were no financial transactions.

Basis of presentation -

The accompanying combined financial statements are presented on the accrual basis of accounting, and in accordance with the Financial Accounting Standards Board (FASB) ASC 958-810, *Not-for-Profit Entities*, *Consolidation*. The statements reflect the activity of Mary's Center for Maternal and Child Care, Inc. and MC2 Community Development Corporation because of their common management. All intercompany transactions have been eliminated during combination.

The combined financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Center's combined financial statements for the year ended December 31, 2016, from which the summarized information was derived.

Cash and cash equivalents -

The Organizations consider all cash and other highly liquid investments with initial maturities of three months or less to be cash and cash equivalents excluding cash and money market funds held by investment managers in the amount of $1,892,575 at December 31, 2017.

At times during the year, the Organizations maintain cash balances in interest bearing accounts at financial institutions in excess of the Federal Deposit Insurance Corporation (FDIC) limits. Management believes the risk in these situations to be minimal.

Investments -

Investments are recorded at their readily determinable fair value.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Investments (continued) -

Interest, dividends, and realized and unrealized gains and losses are included in investment income in the Combined Statement of Activities and Change in Net Assets.

Receivables -

Accounts receivable are amounts due from clients and third-party payers and approximate fair value. Management has established an allowance for doubtful accounts in connection with these receivables based on historical analysis and aging of the receivable balance. Accounts are written off after they are deemed to be uncollectible.

Grants receivable are amounts due from Federal agencies, the District of Columbia, the State of Maryland and private foundations and are recorded at their net realizable value, which approximates fair value. For the year ended December 31, 2017, 80% of the ending receivable balance represents grants due from state and Federal agencies, and 20% of the ending balance is due from foundations. The allowance for doubtful accounts is determined based upon an annual review of account balances, including the age of the balance and the historical experience with the customer.

Pledges receivable represent unconditional promises to give by donors. Current pledges receivable are expected to be collected during the next fiscal year and are recorded at their net realizable value. Long-term pledges receivable expected to be collected subsequent to fiscal year 2018 have been discounted at a rate of 4.5% and are reflected in the combined financial statements at their net present value. At December 31, 2017, pledges receivable due in less than one year were in the amount of $177,650 and pledges receivable within two to seven years were in the amount of $293,238.

Fixed assets -

Furniture and equipment are stated at cost and are being depreciated and amortized on the straight-line basis over their estimated useful lives, generally between three and five years. The building and land are stated at cost and the building and improvements are being depreciated over 40 years. Furniture, equipment and improvements with a useful life of more than one-year, and costing $2,500 or more, are capitalized. Leasehold improvements are amortized over the remaining life of the lease. Repairs and maintenance are recorded to expenses. Depreciation and amortization expense for the year ended December 31, 2017 was $1,230,104.

Impairment of long-lived assets -

Management reviews asset carrying amounts whenever events or circumstances indicate that such carrying amounts may not be recoverable. When considered impaired, the carrying amount of the assets is reduced to its current fair value by a charge to depreciation expense. There were no impairments for the year ended December 31, 2017.

Income taxes -

The Organizations are exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. MC2 is organized as a supporting organization to the Center. The Organizations are subject to unrelated business income tax on rental income from tenant leases.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Income taxes (continued) -

A liability has not been accrued in the current year, as this amount is deemed not to have a material effect on the combined financial statements. Neither organization is a private foundation.

Uncertain tax positions -

For the year ended December 31, 2017, the Organizations have documented their consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and have determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

Inventory -

Inventory consists of donated vaccines. For the year ended December 31, 2017, the Organizations adopted FASB ASU 2015-11 *Simplifying the Measurement of Inventory*, and as such, inventory is measured at the lower of cost and net realizable value using the first-in, first-out method, at the time of the donation. The ASU is applied prospectively.

Debt issuance costs -

In accordance with the FASB ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, the Organizations present debt issuance costs in the financial statement as a direct deduction from the related debt liability. Amortization of the costs is reported as interest expense.

Net asset classification -

The net assets are reported in three self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of the Organizations and include both internally designated and undesignated resources.

- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of the Organizations and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Combined Statement of Activities and Change in Net Assets as net assets released from restrictions.

- **Permanently restricted net assets** represent funds restricted by the donor to be maintained in-perpetuity by the Organizations. Investment income is to be used for operating activities of the Organizations.

Revenue -

Contributions and grants are recorded as revenue in the year notification is received from the donor. Temporarily restricted contributions and grants are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Revenue (continued) -

Such contributions and grants received in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying combined financial statements.

The Organizations receive funding under grants and contracts from the U.S. Government and other grantors for direct and indirect program costs. This funding is subject to contractual restrictions, which must be met through incurring qualifying expenses for particular programs. Accordingly, such grants are considered exchange transactions and are recorded as unrestricted income to the extent that related expenses are incurred in compliance with the criteria stipulated in the grant agreements.

Cost reimbursable contracts are recorded as revenue as expenses are incurred. Income received in advance is recorded as deferred revenue in the Combined Statement of Financial Position.

Patient service revenue is recorded the month in which the services are rendered. The Organizations provided care to clients meeting certain criteria under their charity care policy without charge or at amounts less than their established rates. Such payments are identified based on financial information obtained from the client and subsequent analysis. Since the Organizations do not pursue collection of amounts determined to qualify as charity care, they are not reported as a component of revenue or accounts receivable. The Organizations maintain records to identify and monitor the level of charity care they provide. For the year ended December 31, 2017, care provided under the charity care policy, valued on a sliding fee basis, totaled $6,752,305.

Conditional pledges to give are recognized by the Organizations when the conditions on which they depend are substantially met. In 2008, the Organizations received a conditional promise to give of $50,000 from one donor. The promise is conditional on receipt of matching contributions of $50,000. As of December 31, 2017, the Organizations had received $50,000 of the pledge and $50,000 of the match.

Use of estimates -

The preparation of the combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Combined Statement of Activities and Change in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Reclassification -

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Risks and uncertainties -

The Organizations invest in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying combined financial statements.

Fair value measurement -

The Organizations adopted the provisions of FASB ASC 820, *Fair Value Measurement*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements. The Organizations account for a significant portion of their financial instruments at fair value or consider fair value in their measurement.

New accounting pronouncement (not yet adopted) -

In August 2016, the FASB issued *Accounting Standards Update* (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958), intended to improve financial reporting for not-for-profit entities. The ASU will reduce the current three classes of net assets into two: with and without donor restrictions. The change in each of the classes of net assets must be reported on the Combined Statement of Activities and Change in Net Assets. The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, functional classification of expenses, investment expenses, donor restrictions, and underwater endowments. The ASU is effective for years beginning after December 15, 2017. Early adoption is permitted. The ASU should be applied on a retrospective basis in the year the ASU is first applied. While the ASU will change the presentation of the Organizations' combined financial statements, it is not expected to alter the Organizations' reported financial position.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) (ASU 2014-09). The ASU establishes a comprehensive revenue recognition standard for virtually all industries under generally accepted accounting principles in the United States (U.S. GAAP) including those that previously followed industry-specific guidance. The guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB issued ASU 2015-14 in August 2015 that deferred the effective date of ASU 2014-09 by a year; thus, the effective date is fiscal years beginning after December 15, 2018. Early adoption is permitted. The Organizations have not yet selected a transition method and are currently evaluating the effect that the updated standard will have on the combined financial statements.

In 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the Combined Statement of Financial Position and disclosing key information about leasing arrangements. The ASU is effective for private entities for fiscal years beginning after December 15, 2019. Early adoption is permitted. The ASU should be applied at the beginning of the earliest period presented using a modified retrospective approach.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

New accounting pronouncement (not yet adopted) (continued) -

The Organizations plan to adopt the new ASUs at the required implementation dates.

2. INVESTMENTS

At December 31, 2017, the Organizations had investments, at fair value, as follows:

Money market	$ 1,892,575
Government and corporate bonds	121,829
Certificates of deposit	318,909
Common stocks	853
TOTAL INVESTMENTS	**$ 2,334,166**

For the year ended December 31, 2017, investment income included the following:

Interest and dividends	$ 134,212
Unrealized loss on investments	(3,360)
Realized gain on investments	916
TOTAL INVESTMENT INCOME	**$ 131,768**

3. LINES OF CREDIT

The Organizations have two lines of credit maintained with two different banks. The first line of credit is in the amount of $3,500,000 and is payable on demand. The bank can call the loan at any time due to non-compliance with loan covenants. Amounts borrowed under this agreement bear interest at the LIBOR rate. LIBOR rate shall mean the greater of 2.5% percentage point(s) above one-day (i.e, overnight) LIBOR, or 4% (the "Interest Rate Floor"). There was no outstanding balance at December 31, 2017.

The second line of credit is in the amount of $3,000,000 and bears interest at 4.06% expiring on September 30 2018. As of December 31, 2017, the outstanding balance on the line of credit was $140,000. The line of credit is subject to debt covenants.

4. LONG-TERM DEBT

On April 1, 2013, the Center refinanced a note in the amount of $2,910,779. The loan was originally set to mature on April 2, 2018. The loan assumed an amortization schedule of 15 years, with monthly installments of principal and interest of approximately $21,000. On June 29, 2016, the Center refinanced the remaining balance of the note in the amount of $2,688,246 . The interest rate on the loan is 3.85% and matures June 29, 2021. The loan assumes an amortization schedule of 5 years, with monthly installments of principal and interest of approximately $20,000. The loan is collateralized by the land and building. The loan agreement contains several loan covenants.	$ 2,494,828

4. LONG-TERM DEBT (Continued)

On November 24, 2015, the Center entered into a loan with Choice Health Finance in the amount of $89,765, bearing interest at 4.848%. The loan matures on December 20, 2020.	$ 56,636
The Center entered into a loan with the Boston Community Loan Fund, Inc.in the amount of $1,064,125, bearing interest at 7.5%. Principal payments were $9,627 paid monthly. The loan was originally set to mature on August 15, 2017. On September 27, 2017, the Center refinanced the remaining balance of the note with City First Bank of D.C., National Association in the amount of $789,809, bearing interest at 4%. The loan matures on October 1, 2022. The loan is collateralized by the deed of trust, the assignment of leases and rents on 2341 Ontario Rd NW WDC, and UCC financing statement. The Center is subject to debt covenants.	765,990
On April 25, 2017, the Center entered into a loan with PNC Bank in the amount of $3,176,729, bearing interest at 3.56%. The loan matures on April 25, 2023. The loan is collateralized by the land and building. The Center is subject to debt covenants.	3,176,729
On November 14, 2017, the Center entered into a loan with City First Bank of D.C., National Association in the amount of $2,520,000, bearing interest at 3.55%. The loan matures on November 14, 2022. The loan is collateralized by the deed of trust, the assignment of leases and rents on 2341 Ontario Rd NW WDC, and UCC financing statement. The Center is subject to debt covenants.	2,514,702
On November 14, 2017, the Center entered into a promissory note with City First Bank of D.C., N.A. in the amount of $980,000, bearing interest at 3.55%. The maturity date of this note is November 14, 2022. The loan is collateralized by the deed of trust, the assignment of leases and rents on 2341 Ontario Rd NW WDC, and UCC financing statement. The Center is subject to debt covenants.	977,940
On November 14, 2017, the Center entered into a promissory note with City First Bank of D.C., N.A. in the amount of $1,000,000, bearing interest at 6%. The maturity date of this note is November 14, 2022. The loan is collateralized by the deed of trust, the assignment of leases and rents on 2341 Ontario Rd NW WDC, and UCC financing statement. The Center is subject to debt covenants.	996,462
	10,983,287
Less: Current portion	(490,776)
Less: Deferred financing costs, net of accumulated amortization of $41,467	(321,050)
LONG-TERM PORTION	**$ 10,171,461**

4. LONG-TERM DEBT (Continued)

Aggregate annual principal payments are as follows at December 31, 2017:

Year Ending December 31,	
2018	$ 490,776
2019	536,975
2020	557,110
2021	2,446,120
2022	4,168,965
Thereafter	2,783,341
	$ 10,983,287

Interest expense on these debt instruments and amortization of the deferred financing costs for the year ended December 31, 2017 totaled $413,944, which is included in the occupancy costs in the Combined Statement of Functional Expenses.

5. NEW MARKETS TAX CREDIT

The Center helped finance two real estate projects known as the MC Expansion Project through the New Markets Tax Credit (NMTC) Program. The first project was the acquisition and build-out of a new clinic facility located in Ward 4 at 3912 Georgia Avenue, NW, Washington, D.C. the "Georgia Avenue Project". The second project was the renovation of its existing clinic located in Ward 1 at 2333 Ontario Road, NW, Washington, D.C. the "Ontario Road Project". This project included the renovation of 6,700 square feet of existing space to improve the efficiency of the facility in order to serve more people in need and provide better patient outcomes. The Center relocated an existing community health care facility in Ward 4 located at 508 Kennedy Street, NW, Washington, D.C. to the Georgia Avenue Project upon completion of the Ontario Road Project renovation during fiscal year ended 2011. The projects collectively were known as the “MC Expansion Projects”.

The Center used grant funds, private financing and other cash funds of the Center to facilitate a $19,600,000 New Markets Tax Credit Financing “NMTC Financing” made to MC2. The New Markets Tax Credit investor “US Bancorp Community Development Corporation” for the MC Expansion Project provided $5,538,000 of additional equity in exchange for the allocation of the New Markets Tax Credits generated by the MC Expansion Projects.

On February 8, 2011, MC2 closed on the NMTC Financing and acquired the Georgia Avenue Project from a third-party developer, 3910 Georgia Avenue Associates Limited Partnership II, for $8,911,034. The remaining balance of the NMTC Financing was used by MC2 to complete the renovation of the Ontario Road Project during fiscal year 2011. Under this arrangement, the Center made a loan in the amount of $15,071,000 (the Leveraged Loan) to the Mary’s Center Investment Fund, LLC (the Fund), a newly formed fund that was wholly owned by the US Bancorp Community Development Corporation (USBCDC). The loan amount was represented by two notes, Note A in the amount of $1,670,575 and Note B in the amount of $13,400,425. Interest rate was at 1% and Note A was due within 7 years after closing and Note B was due 40 years after closing. During the NMTC compliance period, the Fund was required to make annual payments of interest only; thereafter, in addition to interest, the Fund was required to make annual payments on the Leverage Loan based on the net cash flow of the Investment Fund. The loans were secured by a 99.9% limited liability company interest held by the NMTC Investor in the Sub-CDEs. The Center received interest payments in the amount of $150,710 during the year ended December 31, 2017.

5. NEW MARKETS TAX CREDIT (Continued)

Proceeds from the Leveraged Loan on February 8, 2011 were used by the Fund to refinance two qualified existing investments (QEIs) in the aggregate amount of $20,000,000 made by City First Capital 23, LLC and City First Capital 24, LLC (the Sub-CDE Lenders). The Sub-CDE Lenders used the proceeds of the QEI to make two qualified low-income community investments, structured as secured loans to MC2 in the aggregate principal amount of $19,600,000, and secured by deeds of trust encumbering the MC Expansion Projects (the QLICI Loan). The QLICI Loan was divided into five separate notes: Note A was in the amount of $1,670,575; Note B was in the amount of $6,618,475; Note C was in the amount of $2,490,950; Note D was in the amount of $6,781,950; and Note E was in the amount of $2,038,050. The interest rate on all notes was at 1.141%, Note A was to mature August 1, 2017 and Notes B-E were to mature on August 1, 2040.

The Center and MC2 provided guaranties and/or indemnities in favor of the Lenders and their affiliates relating to the losses that could arise from the failure of the NMTC Financing to satisfy the requirements of the New Markets Tax Credits program, including the failure of MC2 to maintain its status as a “qualified active low income community business”.

In September 2017, after the end of the NMTC compliance period (which began prior to the February 8, 2011 closing), the NMTC Financing was “unwound” in two steps. In the first step, which closed on September 27, 2017, the USB NMTC Investor and the Sub-CDE lenders “exited” the NMTC Financing arrangement through the following series of integrated transactions:

- The two Sub-CDE lenders exited the NMTC Financing arrangement on September 27, 2017, by making an in-kind distribution of the QLICI loans noted above to the Investment Fund in exchange for a complete redemption of the 99.99% ownership interests in the Sub-CDE lenders held by the Investment Fund. The in-kind redemptions and associated transfers and assignments of the QLICI loans were effected pursuant to the terms of two parallel “Membership Interest Redemption Agreements” and “Assignments of Loan Documents”.

- Immediately after the in-kind redemption of the Investment Fund, the USB NMTC Investor exited the NMTC Financing arrangement by selling to the Center all (100%) of the ownership interests in the Investment Fund for a cash payment of $1,000. The sale of the ownership interests in the Investment Fund was effected pursuant to the terms of an “Option Agreement” dated February 8, 2011 between the Center and the USB NMTC Investor and a “Membership Interest Purchase Agreement” and “Membership Interest Assignment” between the Center and the USB NMTC Investor dated September 27, 2017.

- As a result of the foregoing transactions, on September 27, 2017, the Investment Fund became the sole holder of the outstanding QLICI Loans and the Center became the sole member of the Investment Fund.

In the second step of the NMTC Financing unwind, the QLICI Loans and Leverage Loan were satisfied and discharged through the following series of inter-company transactions, all effected under the terms of an NMTC Financing Unwind Agreement among the Center, MC2 and the Investment Fund dated as of September 28, 2017:

- Pursuant to the terms of an “Assignment of QLICI Notes”, the Investment Fund transferred and assigned QLICI Notes A, B, and D (representing the aggregate outstanding principal amount of $15,071,000) to the Center as an in-kind repayment of the Leverage Loan. As a result, all obligations of the Investment Fund under the Leverage Loan documents were satisfied and discharged.

5. NEW MARKETS TAX CREDIT (Continued)

- Immediately after the satisfaction and discharge of the Leverage Loan and pursuant to the terms of an "Assignment in Cancellation of QLICI Loans", the Investment Fund and the Center jointly transferred and assigned the QLICI Loans, QLICI Notes and other QLICI Loan Documents to MC2, and all obligations of MC2 under the QLICI Loans were satisfied and discharged. Since the Investment Fund is wholly owned (100%) by the Center and MC2 is a supporting organization of the Center, the cancellation of the QLICI Loans to MC2 was treated and accounted for as the transfer and assignment by the Investment Fund of QLICI Notes C and E to the Center as an in-kind distribution in liquidation of the Investment Fund and the transfer and assignment by the Center of the QLICI Loans to MC2 was treated as an in-kind contribution by the Center to MC2.

- As part of the NMTC Financing Unwind Agreement, the Investment Fund adopted a plan of liquidation. The transactions described above were undertaken consistent with that plan, and resulted in the Investment Fund no longer owning any assets and not being obligated under any liabilities. The Center is in the process of terminating the legal existence of the Investment Fund.

6. TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2017, temporarily restricted net assets consisted of the following:

Medical Services	$ 2,441,827
Social and Educational Services	4,105,674
Time Restricted	2,545,197
Cumulative endowment earnings	18,279
TOTAL TEMPORARILY RESTRICTED NET ASSETS	**$ 9,110,977**

The following is a summary of net assets which were released from restrictions by incurring expenses, which satisfied the restricted purposes specified by the donors or passage of time for the year ended December 31, 2017:

Medical Services	$ 2,342,809
Social and Educational Services	7,105,978
Georgia Avenue Project	7,315,114
Passage of Time	418,831
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	**$ 17,182,732**

7. PERMANENTLY RESTRICTED NET ASSETS

The Organizations' endowment consists of donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the Organizations to appropriate for expenditures or accumulate so much of an endowment fund as the Organizations determine is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument.

7. PERMANENTLY RESTRICTED NET ASSETS (Continued)

Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Board of Directors.

As a result of this interpretation, the Organizations have not changed the way permanently restricted net assets are classified. See Note 1 for further information on net asset classification. The remaining portion of the donor-restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Organizations consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purpose of the Organizations and the donor-restricted endowment fund;
- General economic conditions and the possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments; and
- Investment policies of the organization.

Endowment net asset composition by type of fund as of December 31, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	$ -	$ 18,279	$ 215,000	$ 233,279

Changes in endowment net assets for the year ended December 31, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 24,588	$ 205,000	$ 229,588
Investment loss	-	(6,309)	-	(6,309)
Contributions	-	-	10,000	10,000
ENDOWMENT NET ASSETS, END OF YEAR	**$ -**	**$ 18,279**	**$ 215,000**	**$ 233,279**

Funds with Deficiencies -

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organizations to retain as fund of perpetual duration. There were no such deficiencies of this nature reported in unrestricted net assets as of December 31, 2017.

7. PERMANENTLY RESTRICTED NET ASSETS (Continued)

Return Objectives and Risk Parameters -

The Organizations have adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in accordance with the investment policies and procedures of the Organizations.

Strategies Employed for Achieving Objectives -

To satisfy its long-term rate-of-return objectives, the Organizations rely on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organizations target a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy -

The Organizations have a spending policy which considers the long-term expected return on its endowment. This is consistent with the Organizations' objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

8. TENANT LEASES

The Organizations sublease a portion of their office space under various leases expiring throughout 2041.

Future minimum rental payments to be received are:

Year Ending December 31,	
2018	$ 104,336
2019	105,379
2020	106,433
2021	107,497
2022	108,572
Thereafter	2,294,008
	$ 2,826,225

Rental income received during the year totaled $588,099, and is included in the accompanying Combined Statement of Activities and Change in Net Assets

9. IN-KIND CONTRIBUTIONS

Included in contributions revenue in the accompanying Combined Statement of Activities and Change in Net Assets are contributions of supplies, medical equipment and services.

9. IN-KIND CONTRIBUTIONS (Continued)

These contributions approximate fair value at the date supplies, medical equipment and services were received.

For the year ended December 31, 2017, the Organizations received in-kind contributions as follows:

Donated vaccines	$ 2,897,427
Legal services	37,800
Other supplies and medical equipment	57,336
Other professional services	13,200
TOTAL IN-KIND CONTRIBUTIONS	**$ 3,005,763**

The following programs have benefited from these donated services:

Patient Services	$ 2,897,427
General and Administrative	59,000
Social and Educational Services	49,336
	$ 3,005,763

10. LEASE COMMITMENT

The Organizations entered into a lease agreement for space on Flower Avenue in Maryland, commencing June 1, 2007 and expiring October 31, 2018.

On March 22, 2016, the Center entered into a 30-year agreement to lease 12,000 square feet of space at 100 Gallatin Street in Washington, D.C. The agreement began on June 1, 2016 and is set to expire on May 31, 2046. The base use fee is $25 per square foot, with the first six months free, and the subsequent six months at a 2.5% discounted rate (approximately $24,300 per month). Effective July 1, 2017, the Organizations started paying the full base use fee of $25 per square foot, which increases by 2.5%, annually.

Additionally, the Organizations received an allowance up to $3,762,956 for various leasehold improvements, furniture and equipment. Accordingly, these amounts have been recorded as an asset (leasehold improvements, furniture and equipment) and liability (deferred improvement allowance) in the accompanying Combined Statement of Financial Position, and will be amortized over the life of the related lease and assets.

Accounting principles generally accepted in the United States of America require that the total rent commitment should be recognized on a straight-line basis over the term of the lease. Accordingly, the difference between the actual monthly payments and the rent expense being recognized for financial statement purposes is recorded as a deferred rent liability on the Combined Statement of Financial Position.

Rental expense, including operating costs, for the year ended December 31, 2017 totaled $508,769 and is included in the Combined Statement of Functional Expenses as part of occupancy costs. The deferred rent liability was $371,557 at December 31, 2017.

10. LEASE COMMITMENT (Continued)

Future minimum payments under the leases are as follows:

Year Ending December 31,	
2018	$ 366,401
2019	311,346
2020	319,128
2021	327,102
2022	335,280
Thereafter	10,760,330
	$ 12,419,587

11. CONTINGENCY

The Organizations receive grants from various agencies of the United States Government. Beginning for fiscal year ended December 31, 2015, such grants are subject to audit under the provisions of *Title 2 U.S. Code of Federal Regulations (CFR) Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. The ultimate determination of amounts received under the United States Government grants is based upon the allowance of costs reported to and accepted by the United States Government as a result of the audits.

Audits in accordance with the applicable provisions have been completed for all required fiscal years through 2017. Until such audits have been accepted by the United States Government, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

12. PENSION PLAN

The Organizations maintain a 403(b) retirement plan for all eligible employees. The Organizations match contributions up to two percent of salaries of all eligible employees. An employee becomes eligible after 90-days and is 100% vested after the second year of employment.

The pension expense for the year ended December 31, 2017 was $314,096 and is included in the Combined Statement of Functional Expenses as part of salaries and personnel related expenses.

13. FAIR VALUE MEASUREMENT

In accordance with FASB ASC 820, *Fair Value Measurement*, the Organizations have categorized their financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

13. FAIR VALUE MEASUREMENT (Continued)

Investments recorded in the Combined Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market the Organizations have the ability to access.

Level 2. These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

Level 3. These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used as of December 31, 2017.

- *Money market funds* - Valued at the daily closing price as reported by the fund. The money market fund is an open-end mutual fund that is registered with the Securities and Exchange Commission (SEC). This fund is required to publish its daily net asset value to transact at that price. The money market fund is deemed to be actively traded.

- *Government and corporate bonds* - Fair value is based upon current yields available on comparable securities of issuers with similar ratings, the security's terms and conditions, and interest rate and credit risk.

- *Certificates of deposit* - Generally valued at original cost plus accrued interest, which approximates fair value.

- *Common stocks* - Valued at the closing price reported on the active market in which the individual securities are traded.

The table below summarizes, by level within the fair value hierarchy, the Organizations' investments as of December 31, 2017:

	Level 1	Level 2	Level 3	Total
Asset Class - Investments:				
Money market funds	$ 1,892,575	$ -	$ -	$ 1,892,575
Government and corporate bonds	-	121,829	-	121,829
Certificates of deposit	-	318,909	-	318,909
Common stocks	853	-	-	853
TOTAL	**$ 1,893,428**	**$ 440,738**	**$ -**	**$ 2,334,166**

There were no transfers between levels in the fair value hierarchy during the year ended December 31, 2017. Transfers between levels are recorded at the end of the reporting period, if applicable.

14. CONTRACTUAL AGREEMENTS

The Organizations have entered into an agreement with the Briya Public Charter School (BPCS), a not-for-profit public charter school located in the District of Columbia. The Organizations provide assistance with managing the human resources and personnel related administrative functions for BPCS. For the year ended December 31, 2017, the Organizations received $4,811,297 for services provided, which is included in other income in the Combined Statement of Activities and Change in Net Assets. The contract is renewed annually.

The Organizations entered into an agreement in September 2016 with Maxor National Pharmacy Services, LLC (Maxor). As part of the agreement, Maxor will provide all comprehensive professional and management services necessary to establish and operate retail/outpatient pharmacy at the pharmacy location servicing its patient population in a manner consistent with accepted medical, quality and utilization standards. Maxor will receive seven dollars per full prescription sold in the pharmacy location as its management fee for its services rendered under this agreement. For the year ended December 31, 2017, the Organizations paid Maxor $36,078 as management fee, which is included in the Combined Statement of Functional Expenses as part of consultants and outside services.

As part of the agreement, Maxor will pay or otherwise provide initial operating capita! needed for start-up costs associated with the Pharmacy including construction, equipment, initial Inventory, salary and operating expenses up to the amount of $750,000. In return for the Operational Support Services, the Organizations will pay Maxor a fee of $6,250 per month during the term of the agreement. As of December 31, 2017, the Organizations owed Maxor $501,288 which is included as contract payable in the accompanying Combined Statement of Financial Position.

Future minimum payments under the contract are as follows:

Year Ending December 31,	
2018	$ 75,000
2019	75,000
2020	75,000
2021	75,000
2022	75,000
Thereafter	126,288
	$ 501,288

The Organizations entered into an agreement in April 2017 with HBW Properties, Inc (HBW Group) which is a duly licensed real state broker and is authorized to manage real property and to engage real estate business. As part of the agreement, HWB Group will devote its time, attention, skill, experience and best efforts to the management, operation, maintenance and supervision of the property so as to conduct the operation of the property. As full compensation for performing the above services, the Organizations will pay $3,000 monthly to HBW Group. For the year ended December 31, 2017, the Organizations paid HWB Group $21,000 for services received, which is included in the Combined Statement of Functional Expenses as part of consultants and outside services.

15. SUBSEQUENT EVENTS

In preparing these combined financial statements, the Organizations have evaluated events and transactions for potential recognition or disclosure through May 24, 2018, the date the combined financial statements were issued.

15. SUBSEQUENT EVENTS (Continued)

344 Four Corners Project:

On April 25, 2017, Mary's Center became the legal owner of the 344 University Boulevard West property located in Silver Spring, Maryland (the "Property"). This Property will replace the existing Montgomery County facility located at 8709 Flower Avenue. This relocation will allow Mary's Center to provide its Social Determinant Model in Montgomery County. Mary's Center entered into an Agreement of Sale to purchase the Property on December 20th, 2016. The purchase of the Property was financed with a $3.483 million loan from PNC Bank. The loan type is Convertible Line of Credit Note. The loan collateral involves: First Deed of Trust on 344 University Boulevard ($3,438,000), Second Deed of Trust on Kalorama Road Property ($438,000), and Assignment of Rents Leases and Profits of the Property.

Mary's Center plans on improving the available space at different stages for its use and lease the remaining space to third party medical service providers. The first stage consists of the renovation of part of the first floor to make it suitable for a Behavioral Health clinic.

It is estimated to be completed by the end of June 2018. The second stage consists of the renovation of the second floor to make it suitable for a medical clinic. It is estimated to be completed by the end of October 2018. The improvement costs will be funded with a capital grant of $1,013,000 from the State of Maryland Department of Health and Mental Hygiene ("DHMH") and a matching grant of $350,000 from Adventist Hospital. In addition, Mary's Center has secured funds from the Weinberg Foundation, The Morris and Gwendolyn Cafritz Foundation, and Meltzer.

Mary's Center has received a cost estimate of $2,522,911 and $933,327 from Balfour Beatty to improve the Property for Mary's Center's medical and mental health services, respectively. This estimate does not include the capital needed for the dental clinic. Mary's Center has submitted a grant application for Capital funds to the State of MD DHMD to fund the dental clinic. The dental clinic will be completed once those funds are available. As of May 1, 2018, Mary's Center received a letter from the State of Maryland awarding $818,086 for the construction and equipment of the dental clinic.

SUPPLEMENTAL INFORMATION

MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION

COMBINING SCHEDULE OF FINANCIAL POSITION
AS OF DECEMBER 31, 2017

ASSETS

	Mary's Center	MC2	Eliminations	Total
CURRENT ASSETS				
Cash and cash equivalents	$ 3,021,879	$ 87,575	$ -	$ 3,109,454
Investments	2,334,166	-	-	2,334,166
Accounts receivable, net of allowance for doubtful accounts of $1,137,275	4,096,327	335,664	(335,664)	4,096,327
Grants receivable, net of allowance for doubtful accounts of $50,000	9,758,660	-	-	9,758,660
Pledges receivable	177,650	-	-	177,650
Inventory	690,934	-	-	690,934
Prepaid expenses	391,150	-	-	391,150
Total current assets	20,470,766	423,239	(335,664)	20,558,341
FIXED ASSETS				
Land	4,870,000	373,216	-	5,243,216
Buildings and leasehold improvements	10,019,217	15,706,462	-	25,725,679
Equipment	1,666,131	1,554,137	-	3,220,268
Furniture	524,533	702,165	-	1,226,698
Computer equipment	92,159	236,071	-	328,230
Vehicles	510,017	-	-	510,017
	17,682,057	18,572,051	-	36,254,108
Less: Accumulated depreciation and amortization	(3,368,734)	(5,063,285)	-	(8,432,019)
Net fixed assets	14,313,323	13,508,766	-	27,822,089
OTHER ASSETS				
Security deposits	106,485	-	-	106,485
Pledges receivable, net of current portion	293,238	-	-	293,238
Total other assets	399,723	-	-	399,723
TOTAL ASSETS	**$ 35,183,812**	**$ 13,932,005**	**$ (335,664)**	**$ 48,780,153**

LIABILITIES AND NET ASSETS

	Mary's Center	MC2	Eliminations	Total
CURRENT LIABILITIES				
Line of credit	$ 140,000	$ -	$ -	$ 140,000
Current portion of long-term debt	490,776	-	-	490,776
Accounts payable and accrued liabilities	5,761,912	-	(335,664)	5,426,248
Deferred improvement allowance, current	310,655	-	-	310,655
Contract payable	75,000	-	-	75,000
Refundable advances	18,687	-	-	18,687
Total current liabilities	6,797,030	-	(335,664)	6,461,366
LONG-TERM LIABILITIES				
Long-term debt, net of current portion	10,171,461	-	-	10,171,461
Tenant security deposits	351,246	-	-	351,246
Deferred improvement allowance, net of current portion	2,851,193	-	-	2,851,193
Deferred rent abatement	371,557	-	-	371,557
Contract payable, net of current portion	426,288	-	-	426,288
Total long-term liabilities	14,171,745	-	-	14,171,745
Total liabilities	20,968,775	-	(335,664)	20,633,111
NET ASSETS				
Unrestricted	4,889,060	13,932,005	-	18,821,065
Temporarily restricted	9,110,977	-	-	9,110,977
Permanently restricted	215,000	-	-	215,000
Total net assets	14,215,037	13,932,005	-	28,147,042
TOTAL LIABILITIES AND NET ASSETS	**$ 35,183,812**	**$ 13,932,005**	**$ (335,664)**	**$ 48,780,153**

MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION

COMBINING SCHEDULE OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

	Mary's Center	MC2	Eliminations	Total
UNRESTRICTED REVENUE AND SUPPORT				
Patient services	$ 30,320,021	$ -	$ -	$ 30,320,021
Contributions	4,218,585	19,600,000	(19,600,000)	4,218,585
Grants and contracts	3,355,912	-	-	3,355,912
Other income	5,364,088	-	-	5,364,088
Rental income	588,099	260,001	(260,001)	588,099
Investment income	138,077	-	-	138,077
Net assets released from donor restrictions	17,182,732	-	-	17,182,732
Total unrestricted revenue and support	61,167,514	19,860,001	(19,860,001)	61,167,514
EXPENSES				
Program Services:				
Patient Services	24,887,501	-	-	24,887,501
Medical Services	8,670,975	-	-	8,670,975
Social and Educational Services	12,573,322	-	-	12,573,322
Pharmacy	396,974	-	-	396,974
Total program services	46,528,772	-	-	46,528,772
Supporting Services:				
Leased Employees	4,711,297	-	-	4,711,297
Fundraising	1,174,532	-	-	1,174,532
General and Administrative	20,878,242	743,464	(19,860,001)	1,761,705
Total supporting services	26,764,071	743,464	(19,860,001)	7,647,534
Total expenses	73,292,843	743,464	(19,860,001)	54,176,306
Change in unrestricted net assets before other item	(12,125,329)	-	-	(12,125,329)
OTHER ITEM				
Contribution due to unwind of NMTC	4,529,000	-	-	4,529,000
CHANGE IN UNRESTRICTED NET ASSETS	**$ (7,596,329)**	**$ 19,116,537**	**$ -**	**$ 11,520,208**
TEMPORARILY RESTRICTED REVENUE				
Grants and contracts	$ 12,530,564	$ -	$ -	$ 12,530,564
Investment loss	(6,309)	-	-	(6,309)
Net assets released from donor restrictions	(17,182,732)	-	-	(17,182,732)
CHANGE IN TEMPORARILY RESTRICTED REVENUE	**$ (4,658,477)**	**$ -**	**$ -**	**$ (4,658,477)**
PERMANENTLY RESTRICTED REVENUE				
Contributions	**$ 10,000**	**$ -**	**$ -**	**$ 10,000**

MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION

COMBINING SCHEDULE OF CHANGE IN NET ASSETS
FOR THE YEAR DECEMBER 31, 2017

	Mary's Center	MC2	Eliminations	Total
UNRESTRICTED NET ASSETS				
Net assets at beginning of year	$ 12,485,389	$ (5,184,532)	$ -	$ 7,300,857
Change in unrestricted net assets	(7,596,329)	19,116,537	-	11,520,208
NET ASSETS AT END OF YEAR	**$ 4,889,060**	**$ 13,932,005**	**$ -**	**$ 18,821,065**
TEMPORARILY RESTRICTED NET ASSETS				
Net assets at beginning of year	$ 13,769,454	$ -	$ -	$ 13,769,454
Change in temporarily restricted net assets	(4,658,477)	-	-	(4,658,477)
NET ASSETS AT END OF YEAR	**$ 9,110,977**	**$ -**	**$ -**	**$ 9,110,977**
PERMANENTLY RESTRICTED NET ASSETS				
Net assets at beginning of year	$ 205,000	$ -	$ -	$ 205,000
Change in permanently restricted net assets	10,000	-	-	10,000
NET ASSETS AT END OF YEAR	**$ 215,000**	**$ -**	**$ -**	**$ 215,000**

MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed-Through to Subrecipients	Total Federal Expenditures
Department of Health and Human Services				
Affordable Care Act Cluster — Maternal, Infant, and Early Childhood Home Visiting Program Formula, Expansion, and Development Grants to States-Cluster				
DC Department of Health - Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	4 D89MC25207-01-02	$ -	$ 312,194
DC Department of Health - Maternal, Infant and Early Childhood Home Visiting Grant Program	93.870	1X10MC29477-01-11; 4 D89MC25207-01-02	-	764,855
Sub-total Affordable Care Act Cluster— Maternal, Infant, and Early Childhood Home Visiting Program Formula, Expansion, and Development Grants to States-Cluster			-	1,077,049
La Clinica Del Pueblo/HIV/AIDS, Hepatitis, STD and TB Administration - Acquired Immunodeficiency Syndrome (AIDS) Activity	93.118	16Y126	-	39,288
Family Planning Services				
Unity Health Care, Inc. - Family Planning Services	93.217	FPHPA036197-01-00	-	194,445
Maryland Department of Health Mental Hygiene - Family Planning Services	93.217	PHPA-G2295	-	119,480
Total Family Planning Services-CFDA # 93.217			-	313,925
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224	3 H80CS042021124	-	3,264,528
Maryland Department of Mental Health Hygiene - State Partnership Grant Program to Improve Minority Health	93.296	FHE76EMB	12,444	78,041
Advocates for Justice and Education Inc. - Affordable Care Act (ACA) - Family to Family Health Information Centers	93.504	H84MC21661	-	14,400
DC Health Benefit Exchange Authority - State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	93.525	DCHBX-2016-RQ908734, DCHBX-2017	-	95,037

MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed-Through to Subrecipients	Total Federal Expenditures
Department of Health and Human Services (Continued)				
DC Office of State Superintendent of Education - Head Start/Early Head Start	93.600	03HP0017/01	$ -	$ 552,202
Department of Health, HIV/AID, Hepatitis,STD, Tuberculosis Administration (HAHSTA)- HIV Emergency Relief Project Grants	93.914	17A025/17A414	-	23,398
District of Columbia Department of Health - Healthy Start Initiative	93.926	FO-CHA-PG-00183-000	-	500,265
DC Department of Behavioral Health - Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	DCSEED-03	-	31,447
DC Department of Human Services - Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	93.671	G-0601DCFVPS	-	52,178
US Committee for Refugees and Immigrants - Unaccompanied Alien Children Program	93.676	90ZU0081-02	-	547,717
Medical Assistance Program				
Prince George's County, Maryland/Affordable Care Act - Medical Assistance Program	93.778	521594116	196,790	546,190
DC Mayor's Office on Latino Affairs - Medical Assistance Program	93.778	521594116, 22615-15	-	201,187
Total Medical Assistance Program- CFDA # 93.778			196,790	747,377
DC Dept of Behavioral Health - Block Grants for Community Mental Health Services	93.958	3B09SM0100008-16S3	-	24,373
Total Department of Health and Human Services			209,234	7,361,225
United States Department of Agriculture				
District of Columbia Department of Health - Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	16161DC700W1003, 171DC700W1003	-	789,940
District of Columbia Department of Health - State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	15151DC452Q3903	-	131,138
Total United States Department of Agriculture			-	921,078

MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed-Through to Subrecipients	Total Federal Expenditures
United States Department of Justice				
Prevention - Crime Victim Assistance	16.575	2015-VA-GX-0036	$ -	$ 3,919
Total United States Department of Justice			-	3,919
Department of Education				
DC Office of State Superintendent of Education - Special Education-Grants for Infants and Families	84.181	DCGD-2012-H-0003	-	689,976
DC Office of State Superintendent of Education - Adult Education - Basic Grants to States	84.002	62002A	-	60,680
Total Department of Education			-	750,656
SUB-TOTAL EXPENDITURES OF FEDERAL AWARDS			209,234	9,036,878
Non-Cash Federal Awards				
Department of Health and Human Services				
DC Department of Health - Immunization Cooperative Agreements	93.268	2280;2280A; P00253; AHR0253; 000024; AHR024	-	2,897,427
Total Department of Health and Human Services			-	2,897,427
TOTAL EXPENDITURES NON-CASH FEDERAL AWARDS			-	2,897,427
TOTAL EXPENDITURES OF FEDERAL AWARDS			**$ 209,234**	**$ 11,934,305**

MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Organizations under programs of the Federal government for the year ended December 31, 2017. The information in this Schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Schedule presents only a selected portion of the operations of the Organizations; accordingly, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organizations.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Organizations have elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3. Donated Vaccines for Children

Donated vaccines are reported at the amount representing the market valuation as noted by the Center for Disease Control and Prevention. Donated vaccines in the amount of $2,897,427 were received during the fiscal year 2017 and are included in the accompanying Schedule of Expenditures of Federal Awards under CFDA # 93.268.

MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Section I - Summary of Auditor's Results

Financial Statements

1). Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP on the accrual basis of accounting: **Unmodified**

2). Internal control over financial reporting:

- Material weakness(es) identified? ☐ **Yes** ☒ **No**
- Significant deficiency(ies) identified? ☐ **Yes** ☒ **None Reported**

3). Noncompliance material to financial statements noted? ☐ **Yes** ☒ **No**

Federal Awards

4). Internal control over major federal programs:

- Material weakness(es) identified? ☐ **Yes** ☒ **No**
- Significant deficiency(ies) identified? ☒ **Yes** ☐ **None Reported**

5). Type of auditor's report issued on compliance for major programs: **Unmodified**

6). Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ☒ **Yes** ☐ **No**

7). Identification of major federal programs:

CFDA Number	Name of Federal Program or Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
93.268	Immunization Cooperative Agreements
93.778	Medical Assistance Program
93.505, 93.870	Affordable Care Act Cluster — Maternal, Infant, and Early Childhood Home Visiting Program Formula, Expansion, and Development Grants to States Cluster

8). Dollar threshold used to distinguish between Type A and Type B programs: **$750,000**

9). Auditee qualified as a low-risk auditee? ☒ **Yes** ☐ **No**

MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Section II - Financial Statement Findings

There were no reportable findings.

Section III - Federal Award Findings and Questioned Costs (2 CFR 200.516 (a))

Finding : 2017-001 - Suspension and Debarment

Federal Programs: All Federal Programs

Criteria: As stated in 2 CFR 200.212 and the 2017 Compliance Supplement, recipients of U.S. Government funds must adhere to specific requirements on screening all potential vendors, suppliers, employees and sub-contractors/grantees to ensure the organizations are not conducting business with excluded parties (as defined by the U.S. Government); the screening must be documented in writing.

Condition: During the year under audit, the Organizations did not establish policies and procedures to perform the screening process for payments made to employees and vendors/contractors with Federal funds. Our audit procedures consisted of substantive testwork over a sample of expenditures paid during the year that were selected based on a representative sample of the population. The condition appeared to be systematic in nature.

Context: Payments were made throughout the year by the Organizations without performing the screening process.

Effect: Failure to screen potential vendors, suppliers, employees, fellows or other non-contracted federal transactions against the suspended and debarred list increases the possibility that U.S. Government funds may inadvertently be provided to individuals or organizations deemed to be excluded parties by the U.S. Government.

Cause: The Organizations did not have polices and procedures in place throughout the year to perform the screening process.

Questioned Costs: Undetermined

Identification as a Repeat Finding, if applicable: Not applicable

Recommendation: We recommend management of the Organizations develop a policy to address the screening process for all contracted and non-contracted transactions including, but not limited to, with vendors, suppliers, employees, and fellows. Furthermore, we recommend that management communicate these policies and procedures to employees of the organizations, and it should stress the importance of documenting compliance with the “Suspension and Debarment” provisions. Finally, the screening of potential vendors, employees and suppliers should be completed (and documented) prior to entering into the transactions or making payments.

Views of Responsible Officials and Planned Corrective Actions: The Organizations will implement policies and procedures to perform screening of all existing and new vendors prior to engagement of contractual agreements and making payments. In addition, screenings of employees will be performed and will be part of the onboarding hiring process. Also, all employees will be trained on the policies and procedures.

Anticipated Completion Date: August, 2018

Responsible Official: Josephine Morris-Young, Chief Financial Officer

GELMAN, ROSENBERG
& FREEDMAN
CERTIFIED PUBLIC ACCOUNTANTS

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Independent Auditor's Report

To the Board of Directors
Mary's Center for Maternal and Child Care, Inc.
MC2 Community Development Corporation
Washington, D.C.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of Mary's Center for Maternal and Child Care, Inc. and MC2 Community Development Corporation (the Organizations) as of and for the year ended December 31, 2017, and the related notes to the combined financial statements, which collectively comprise the Organizations' basic combined financial statements, and have issued our report thereon dated May 24, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered the Organizations' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances, for the purpose of expressing our opinions on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organizations' internal control. Accordingly, we do not express an opinion on the effectiveness of the Organizations' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organizations' combined financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organizations' combined financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of combined financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gelman Rosenberg & Freedman

May 24, 2018

GELMAN, ROSENBERG
& FREEDMAN
CERTIFIED PUBLIC ACCOUNTANTS

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY TITLE 2 U.S. CODE OF FEDERAL REGULATIONS (CFR) PART 200, UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS (UNIFORM GUIDANCE)

Independent Auditor's Report

To the Board of Directors
Mary's Center for Maternal and Child Care, Inc.
MC2 Community Development Corporation
Washington, D.C.

Report on Compliance for Each Major Federal Program

We have audited Mary's Center for Maternal and Child Care, Inc. and MC2 Community Development Corporation (the Organizations) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organizations' major federal programs for the year ended December 31, 2017. The Organizations' major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organizations' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organizations' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organizations' compliance.

Opinion on Each Major Federal Program

In our opinion, the Organizations complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

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Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as Finding 2017-001. Our opinion on each major federal program is not modified with respect to these matters.

The Organizations' response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The Organizations' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Organizations is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organizations' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organizations' internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as Finding 2017-001, that we consider to be a significant deficiency.

The Organizations' response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The Organizations' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Gelman Rosenberg & Freedman

May 24, 2018