



**NATIONAL CENTER FOR HEALTHY HOUSING, INC.
AND SUBSIDIARY**

**CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

SEPTEMBER 30, 2015 and 2014

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To the Board of Directors
National Center for Healthy Housing, Inc. and Subsidiary

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of National Center for Healthy Housing, Inc. and Subsidiary (the "Center") (a nonprofit organization), which comprise the consolidated statements of financial position as of September 30, 2015 and 2014, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Independent Auditor's Report (Continued)

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Center for Healthy Housing, Inc. and Subsidiary as of September 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements of financial position and consolidating statements of activities are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated 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 January 29, 2016, on our consideration of the Center's internal control over financial reporting and on our tests of its 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 Center's internal control over financial reporting and compliance.

Gross, Mendelsohn & Associates, P.A.

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY
Consolidated Statements of Financial Position
September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 946,740	\$ 357,668
Grants and other receivables	624,182	667,429
Pledges receivable, current	606,776	430,000
Prepaid expenses and other assets	37,910	44,363
Total Current Assets	<u>2,215,608</u>	<u>1,499,460</u>
Property		
Office equipment	121,259	110,466
Less: Accumulated depreciation	62,238	43,046
Net Property	<u>59,021</u>	<u>67,420</u>
Other Assets		
Pledges receivable, noncurrent	<u>6,485</u>	<u>524,272</u>
Total Assets	<u>\$ 2,281,114</u>	<u>\$ 2,091,152</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 129,915	\$ 173,991
Accrued expenses	67,815	83,914
Payroll and income taxes payable	71,397	87,867
Deferred revenue	137,823	-0-
Other current liabilities	1,173	13,931
Current maturities of capital lease obligation	4,299	3,981
Total Current Liabilities	<u>412,422</u>	<u>363,684</u>
Non-Current Liabilities		
Deferred income taxes	3,867	3,867
Capital lease obligation, net of current maturities	3,450	7,749
Total Non-Current Liabilities	<u>7,317</u>	<u>11,616</u>
Total Liabilities	<u>419,739</u>	<u>375,300</u>
Commitments (Notes 4, 6 and 9)		
Net Assets		
Unrestricted	618,253	591,018
Temporarily restricted	1,243,122	1,124,834
Total Net Assets	<u>1,861,375</u>	<u>1,715,852</u>
Total Liabilities and Net Assets	<u>\$ 2,281,114</u>	<u>\$ 2,091,152</u>

The accompanying notes are an integral part of these financial statements.

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY
Consolidated Statements of Activities
Years Ended September 30, 2015 and 2014

	2015		
	Unrestricted	Temporarily Restricted	Total
Support and Revenue			
Grants and contracts	\$ 4,891,725	\$ -0-	\$ 4,891,725
Contributions	57,090	543,554	600,644
Interest income	309	-0-	309
Other revenue	16,058	-0-	16,058
	<u>4,965,182</u>	<u>543,554</u>	<u>5,508,736</u>
Net assets released from restriction	425,266	(425,266)	-0-
Total Support and Revenue	<u>5,390,448</u>	<u>118,288</u>	<u>5,508,736</u>
Expenses			
Program	5,126,346	-0-	5,126,346
General and administrative	18,787	-0-	18,787
Fundraising	71,780	-0-	71,780
	<u>5,216,913</u>	<u>-0-</u>	<u>5,216,913</u>
Change in Net Assets Before Provision for Income Taxes	173,535	118,288	291,823
Provision for Income Taxes	<u>146,300</u>	<u>-0-</u>	<u>146,300</u>
Change in Net Assets	27,235	118,288	145,523
Net Assets - Beginning of Year	<u>591,018</u>	<u>1,124,834</u>	<u>1,715,852</u>
Net Assets - End of Year	<u>\$ 618,253</u>	<u>\$ 1,243,122</u>	<u>\$ 1,861,375</u>

2014

Unrestricted	Temporarily Restricted	Total	Increase (Decrease)
\$ 3,574,212	\$ -0-	\$ 3,574,212	\$ 1,317,513
133,721	1,425,000	1,558,721	(958,077)
636	-0-	636	(327)
2,860	-0-	2,860	13,198
3,711,429	1,425,000	5,136,429	372,307
460,236	(460,236)	-0-	-0-
4,171,665	964,764	5,136,429	372,307
4,087,316	-0-	4,087,316	1,039,030
2,820	-0-	2,820	15,967
88,104	-0-	88,104	(16,324)
4,178,240	-0-	4,178,240	1,038,673
(6,575)	964,764	958,189	(666,366)
76,408	-0-	76,408	69,892
(82,983)	964,764	881,781	\$ (736,258)
674,001	160,070	834,071	
\$ 591,018	\$ 1,124,834	\$ 1,715,852	

The accompanying notes are an integral part of these financial statements.

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY
Consolidated Statements of Functional Expenses
Years Ended September 30, 2015 and 2014

	2015			
	Program Services	General and Administrative	Fund- raising	Total
Consultants	\$ 2,041,881	\$ 122,138	\$ 64,410	\$ 2,228,429
Salaries and fringe benefits	1,450,367	510,166	3,851	1,964,384
Other costs and supplies	344,947	-0-	-0-	344,947
Professional fees	-0-	155,481	-0-	155,481
Travel	132,876	12,990	390	146,256
Rent	-0-	124,390	-0-	124,390
Recruiting	-0-	38,527	-0-	38,527
Office supplies	27,427	8,790	-0-	36,217
Insurance	-0-	24,846	-0-	24,846
Telecommunications	1,044	22,081	-0-	23,125
Depreciation	-0-	19,192	-0-	19,192
Trustee expenses	-0-	17,649	-0-	17,649
Software	1,500	14,860	-0-	16,360
Dues and subscriptions	2,860	10,948	-0-	13,808
Miscellaneous	-0-	12,680	-0-	12,680
Equipment rental and maintenance	-0-	11,913	-0-	11,913
Meetings and conferences	4,950	5,787	-0-	10,737
Storage	-0-	5,028	-0-	5,028
Postage and delivery	2,832	1,583	35	4,450
Payroll processing	-0-	3,954	-0-	3,954
Bank service fees	-0-	2,749	-0-	2,749
Charitable contributions	-0-	2,500	-0-	2,500
Temporary help	133	2,295	-0-	2,428
Training and professional development	-0-	2,398	-0-	2,398
Bad debt expense	-0-	2,065	-0-	2,065
Interest expense	-0-	1,444	-0-	1,444
Printing and reproduction	528	428	-0-	956
Indirect cost allocation	1,115,001	(1,118,095)	3,094	-0-
Total expenses	\$ 5,126,346	\$ 18,787	\$ 71,780	\$ 5,216,913

2014

Program Services	General and Administrative	Fund- raising	Total	Increase (Decrease)
\$ 1,206,452	\$ 131,606	\$ 1,139	\$ 1,339,197	\$ 889,232
1,528,100	454,098	50,979	2,033,177	(68,793)
139,121	-0-	-0-	139,121	205,826
-0-	168,849	-0-	168,849	(13,368)
126,375	32,969	-0-	159,344	(13,088)
-0-	114,101	-0-	114,101	10,289
-0-	-0-	-0-	-0-	38,527
25,888	11,793	-0-	37,681	(1,464)
-0-	29,602	-0-	29,602	(4,756)
1,040	18,864	-0-	19,904	3,221
-0-	14,461	-0-	14,461	4,731
-0-	20,479	-0-	20,479	(2,830)
2,186	14,994	-0-	17,180	(820)
3,303	9,260	258	12,821	987
-0-	2,823	-0-	2,823	9,857
-0-	11,282	-0-	11,282	631
19,188	9,626	-0-	28,814	(18,077)
-0-	3,726	-0-	3,726	1,302
2,056	1,596	-0-	3,652	798
-0-	-0-	-0-	-0-	3,954
-0-	3,975	-0-	3,975	(1,226)
-0-	1,064	-0-	1,064	1,436
-0-	-0-	-0-	-0-	2,428
-0-	2,508	-0-	2,508	(110)
-0-	8,075	-0-	8,075	(6,010)
-0-	1,432	-0-	1,432	12
4,090	882	-0-	4,972	(4,016)
1,029,517	(1,065,245)	35,728	-0-	-0-
\$ 4,087,316	\$ 2,820	\$ 88,104	\$ 4,178,240	\$ 1,038,673

The accompanying notes are an integral part of these financial statements.

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows
Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash Flows From Operating Activities		
Change in net assets	\$ 145,523	\$ 881,781
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Bad debts	2,065	8,075
Depreciation and amortization	19,192	14,461
Deferred income taxes	-0-	2,757
Changes in operating assets and liabilities:		
Grants and other receivables	41,182	178,330
Pledges receivable	341,011	(954,272)
Prepaid expenses and other assets	6,453	393
Accounts payable and accrued expenses	(60,176)	(10,091)
Payroll and income taxes payable	(16,470)	66,211
Deferred revenue	137,823	-0-
Other current liabilities	(12,758)	6,034
Net Cash Provided by Operating Activities	<u>603,845</u>	<u>193,679</u>
Cash Flows From Investing Activities		
Purchase of property	(10,792)	(29,509)
Cash Flows From Financing Activities		
Payments on capital lease obligations	<u>(3,981)</u>	<u>(3,981)</u>
Net Increase in Cash and Cash Equivalents	589,072	160,189
Cash and Cash Equivalents at Beginning of Year	<u>357,668</u>	<u>197,479</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 946,740</u></u>	<u><u>\$ 357,668</u></u>
Supplemental Information:		
Interest paid	<u><u>\$ 1,444</u></u>	<u><u>\$ 1,432</u></u>

The accompanying notes are an integral part of these financial statements.

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
September 30, 2015 and 2014

Note 1: Summary of Significant Accounting Policies

National Center for Healthy Housing, Inc. (The Center) was formed under the laws of Maryland in 1992 for charitable, educational, and scientific purposes to conduct research, demonstrations, training and capacity building, and public policy regarding healthy housing. The Center's wholly-owned subsidiary, Healthy Housing Solutions, Inc. (Solutions), was incorporated as a Maryland for-profit stock corporation in 2003. Solutions is engaged in activities similar to that of the Center and was organized to support the Center's mission through fee-for-service work.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Basis of Accounting and Principles of Consolidation: The accompanying consolidated financial statements are presented in accordance with the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred. The consolidated financial statements include the accounts of National Center for Healthy Housing, Inc. and Healthy Housing Solutions, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

Revenue and Expense Recognition: Government and private grants are recognized based on the terms of the specific grant document. Grant revenue received in advance of the grant period is recorded as deferred revenue. Contributions are recognized when the donor makes an unconditional promise to give. Additionally, recognition of contributions is evaluated based on historical trends of collection by specific type of promise to give.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. An unconditional pledge to give support is recognized as a receivable and contribution in the year the pledge is made. Conditional pledges to give which depend on the occurrence of a specified future and uncertain event are not recognized as revenue until the condition has been met.

Contributions which are restricted by the donor are reported as increases in unrestricted net assets if the restriction expires in the same year in which the contributions are recognized. All other donor-imposed restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Expenses are reported as decreases in unrestricted net assets. Program expenses include costs that are specifically identified with a particular program and an allocation of costs associated with the administration of all the Center's programs.

Basis of Presentation: Generally accepted accounting principles require that the Center report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted net assets are assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
September 30, 2015 and 2014

Note 1: Summary of Significant Accounting Policies (Continued)

Temporarily restricted net assets result from contributions whose use is limited by donor-imposed stipulations that expire by the passage of time or can be fulfilled and removed by actions of the Center pursuant to those stipulations. Net assets may be temporarily restricted for various purposes, such as use in future periods or use for specified purposes.

Permanently restricted net assets result from contributions whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by the Center's actions. The Center has no permanently restricted net assets.

Cash and Cash Equivalents: The Center classifies all investments that are readily convertible to cash and that have a maturity of three months or less when purchased as cash equivalents.

Grants and Other Receivables: Grants and other receivables are recorded net of an allowance for uncollectible receivables, based on management's evaluation of outstanding accounts receivable at year end. The Center has grants and cooperative agreements with U.S. Government agencies, various state agencies, and other private sources. Estimated losses are generally determined from historical collection experience and a review of outstanding grants receivable. Grants receivable are written off by management when, in their determination, all appropriate collection efforts have been taken. The Center has not recorded an allowance for uncollectible contributions as of September 30, 2015 and 2014, since it is management's opinion that all outstanding contributions are collectible.

Pledges Receivable: Unconditional pledges receivables in a future period are discounted to their net present value at the time the revenue is recorded. Provision is made for uncollectible pledges based on anticipated collection losses. Estimated losses are generally determined from historical collection experience and a review of outstanding pledges receivable. Pledges receivable are written off by management when, in their determination, all appropriate collection efforts have been taken. The Center has not recorded an allowance for uncollectible pledges as of September 30, 2015 and 2014, since in management's opinion all outstanding pledges receivable are collectible.

Property and Depreciation: Property is stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance and routine repairs are charged to expense as incurred. Expenditures for improvements and major repairs that materially extend the useful lives of assets are capitalized. Depreciation expense for the years ended September 30, 2015 and 2014 was \$19,192 and \$14,461, respectively.

Donated Materials and Services: Donated materials are reflected in the accompanying financial statements at their estimated fair value at date of receipt. Donated services are recorded only if the services provided require specialized skills provided by individuals possessing those skills, or if the services create or enhance a nonfinancial asset. Marketing services were contributed to the Center. The fair value of these items has been included in total support and expenses in the financial statements. The value of these in kind services was \$-0- and \$3,849 for the years ended September 30, 2015 and 2014, respectively.

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
September 30, 2015 and 2014

Note 1: Summary of Significant Accounting Policies (Continued)

Income Taxes: The Center is exempt from federal and state income taxes under Internal Revenue Code §501(c) (3). Income that is not related to exempt purposes, less applicable reductions, is subject to federal and state income taxes. The Center had no unrelated business income for the years ended September 30, 2015 and 2014. The Center's federal exempt tax returns are subject to examination by the Internal Revenue Service, generally for a period of three years after the returns are filed.

Solutions is taxed as a for-profit corporation under the Internal Revenue Code and applicable state statutes. The income of Solutions is subject to examination by federal and state taxing authorities, generally for a period of three years after they were filed. In the event of an examination of the income tax returns, the tax liability could be changed if an adjustment of income is ultimately determined by the taxing authorities. Certain transactions of Solutions may be subject to accounting methods for federal income tax purposes that differ significantly from the accounting methods used in preparing the financial statements in accordance with generally accepted accounting principles. Accordingly, the taxable income of Solutions reported for federal income tax purposes may differ from net income in these financial statements.

Functional Allocation of Expenses: The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying consolidated financial statements. Costs that cannot be specifically identified with a particular function and that benefit more than one functional category are allocated on the basis of estimates of the portion of time expended by the staff on various functions.

Reclassifications: Certain amounts in the financial statements for the year ended September 30, 2014 have been reclassified to conform to the financial statement presentation for the year ended September 30, 2015.

Subsequent Events: In preparing these financial statements, the Center has evaluated events and transactions for potential recognition or disclosure through January 29, 2016, the date the financial statements were available to be issued. During the period from October 1, 2015 to January 29, 2016, the Center did not have any material recognizable or disclosable subsequent events.

Note 2: Short-Term Bank Borrowings

On July 24, 2015, The Center renewed a \$100,000 revolving line of credit with Wells Fargo Bank, which expires on August 5, 2016. Borrowings under the line of credit bear interest at the prime rate plus 1.00% (4.25% as of September 30, 2015). There was no balance due under this line of credit as of September 30, 2015 and 2014.

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
September 30, 2015 and 2014

Note 2: Short-Term Bank Borrowings (Continued)

On July 24, 2015, Solutions renewed a \$200,000 revolving line of credit with Wells Fargo Bank, expiring August 5, 2016, which is secured by substantially all of Solutions' assets and is guaranteed by the Center. Borrowings under the line of credit will bear interest at the prime rate plus 1.00% (4.25% as of September 30, 2015). There was no balance due under this line of credit as of September 30, 2015 and 2014.

Note 3: Pledges Receivable

Pledges receivable consisted of the following as of September 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Pledges receivable	\$ 613,456	\$ 970,000
Less: Present value discount (2015 - 3%)	<u>(195)</u>	<u>(15,728)</u>
Unconditional pledges receivable, net	<u>\$ 613,261</u>	<u>\$ 954,272</u>
Gross amounts due in:		
Less than one year	\$ 606,776	\$ 430,000
One to five years	<u>6,680</u>	<u>540,000</u>
Total unconditional pledges receivable	<u>\$ 613,456</u>	<u>\$ 970,000</u>

The discounted pledges receivable are reflected in the statements of financial position as follows:

	<u>2015</u>	<u>2014</u>
Current portion	\$ 606,776	\$ 430,000
Non-current portion	<u>6,485</u>	<u>524,272</u>
	<u>\$ 613,261</u>	<u>\$ 954,272</u>

Note 4: Capital Lease Obligation

During 2012, the Center entered into a capital lease agreement for the purchase of a telephone system. The lease began in July 2012 and requires 60 equal monthly payments of \$396. Interest expense amounted to \$1,444 and \$1,432 for the years ended September 30, 2015 and 2014, respectively.

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
September 30, 2015 and 2014

Note 4: Capital Lease Obligation (Continued)

Future minimum lease payments required under the lease for the year ended September 30, 2015 are as follows:

Year ending September 30:		
2016	\$	4,747
2017		<u>3,561</u>
Total approximate minimum lease payments		8,308
Less: approximate amount representing interest		<u>559</u>
Future minimum lease payment		7,749
Less: current maturity		<u>4,299</u>
Non-current maturity	\$	<u><u>3,450</u></u>

The following is an analysis of the leased asset included in office equipment at September 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Office equipment	\$ 19,643	\$ 19,643
Less: Accumulated depreciation	<u>9,120</u>	<u>6,314</u>
Net leased property	<u>\$ 10,523</u>	<u>\$ 13,329</u>

Note 5: Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following as of September 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
MacArthur Foundation	\$ 544,932	\$ 600,086
The Kresge Foundation	250,182	499,748
Wells Fargo Housing Foundation	183,899	-0-
The Archstone Foundation	131,399	-0-
Oak Hill Foundation	76,704	-0-
W.K. Kellogg Foundation	56,006	-0-
NeighborWorks America	<u>-0-</u>	<u>25,000</u>
Total	<u>\$ 1,243,122</u>	<u>\$ 1,124,834</u>

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
September 30, 2015 and 2014

Note 5: Temporarily Restricted Net Assets (Continued)

Net assets were released from donor restrictions for the years ended September 30, 2015 and 2014 by incurring expenses satisfying the restricted purposes, by occurrence of other events or by satisfaction of time restrictions. Below are the details of these net assets that were released from restriction.

	2015	2014
The Kresge Foundation	\$ 249,566	\$ 250,252
Wells Fargo Housing Foundation	66,101	160,070
MacArthur Foundation	55,154	49,914
NeighborWorks America	25,000	-0-
Oak Hill Foundation	23,296	-0-
W.K. Kellogg Foundation	3,994	-0-
The Archstone Foundation	2,155	-0-
Total	<u>\$ 425,266</u>	<u>\$ 460,236</u>

Note 6: Retirement Plan

The Organization has a 401(k) plan that permits voluntary contributions by employees of the Center and its Subsidiary. The plan covers all eligible employees who meet its eligibility requirements. The Plan provides for employer matching contribution of one hundred percent (100%) of elective deferrals up to three percent (3%) of eligible compensation and fifty percent (50%) of elective deferrals from three percent (3%) to five percent (5%) of eligible compensation. In addition, the plan allows discretionary contributions on an annual basis in amounts determined by the Organization's management. For the years ended September 30, 2015 and 2014, the Organization made matching contributions of \$43,435 and \$44,953 respectively, and discretionary contributions of \$11,019 and \$11,726, or two percent (2%) of eligible compensation to the Plan.

Note 7: Income Tax Provision

The provisions for income taxes for the years ended September 30, 2015 and 2014 consist of the following components:

	2015	2014
Federal and state income taxes currently payable	\$ 146,300	\$ 73,651
Change in deferred income taxes	-0-	2,757
Total provision for income taxes	<u>\$ 146,300</u>	<u>\$ 76,408</u>

The provision for income taxes reflects effective tax rates which result from the applicability of federal statutory graduated rates.

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
September 30, 2015 and 2014

Note 7: Income Tax Provision (Continued)

Solutions computes deferred income taxes using the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Solutions provides for the recognition and measurement of deferred income tax benefits based on the likelihood of their realization in future years. A valuation allowance must be established to reduce deferred income tax benefits if it is more likely than not that a portion of the benefits will not be realized. It is management's opinion that the entire deferred tax benefit will be recognized in future years. Therefore, no valuation allowance has been established.

The tax effects of the temporary differences between financial and income tax accounting that give rise to the Company's deferred tax assets and deferred tax liabilities as of September 30, 2015 and 2014 relate to differences in depreciation. The deferred tax liability related to the difference was unchanged at \$3,867 as of September 30, 2015 and 2014.

Note 8: Concentration of Credit Risk

The Organization receives a substantial portion of its revenue from federal grants and contracts, primarily from the U.S. Department of Health and Human Services and the U.S. Department of Housing and Urban Development. If a significant reduction of funding occurs, it may have a significant impact on the Organization's programs. For the years ended September 30, 2015 and 2014, direct and indirect federal grants and contracts represented 79% and 61%, respectively, of the Organization's total revenue and support. Management does not anticipate any significant reduction in future funding from federal agencies.

Note 9: Operating Leases

On March 11, 2015, The Center amended its lease agreement for its main office in Columbia, MD through October 31, 2017. The lease provides for monthly payments of \$9,232 through October 31, 2016 with an increase of 3% for the period November 1, 2016 through October 31, 2017. The lease also calls for the tenant to pay for its share of operating costs and real estate taxes.

On August 1, 2015, The Center renewed its agreement with another non-profit organization in Washington, D.C. for an office space sharing agreement through April 30, 2016. The agreement calls for monthly payments of \$2,618.

Lease expense for office space amounted to \$124,390 and \$114,101 for the years ended September 30, 2015 and 2014, respectively.

The Center leases a copier under a non-cancelable operating lease expiring in July, 2017. Lease expense under this agreement for the years ended September 30, 2015 and 2014 was \$5,024.

The Center leases a postage meter under a non-cancelable operating lease expiring April 30, 2016. Lease expense under this agreement for the years ended September 30, 2015 and 2014 was \$519.

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
September 30, 2015 and 2014

Note 9: Operating Leases (Continued)

The minimum annual rental payments under the current leases as of September 30, 2015 are as follows:

Year ending September 30:	
2016	\$ 133,505
2017	118,020
2018	18,721
2019 and after	<u>-0-</u>
	<u>\$ 270,246</u>

Note 10: Compliance with Grantor or Donor Restrictions

Financial assistance from federal, state, and local governmental entities in the form of grants are subject to special audit. Such audits could result in claims against the Organization for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this date.

Note 11: Uninsured Balances

The Center maintains its cash balances at various financial institutions. Periodically during the year, The Center's cash balances may exceed federally insured limits. The Center has not experienced any losses in such accounts and believes it is not exposed to significant risk on cash balances.

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY
SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2015 and 2014

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY
Consolidating Statements of Financial Position
September 30, 2015 and 2014

2015

Assets	National Center For Healthy Housing, Inc.	Healthy Housing Solutions, Inc.	Eliminations	Total
Current Assets				
Cash and cash equivalents	\$ 629,149	\$ 317,591	\$ -0-	\$ 946,740
Grants and other receivables	371,179	273,680	(20,677)	624,182
Pledges receivable, current	606,776	-0-	-0-	606,776
Prepaid expenses and other assets	31,985	5,925	-0-	37,910
Total Current Assets	<u>1,639,089</u>	<u>597,196</u>	<u>(20,677)</u>	<u>2,215,608</u>
Property				
Office equipment	93,702	27,557	-0-	121,259
Less: Accumulated depreciation	49,109	13,129	-0-	62,238
Net Property	<u>44,593</u>	<u>14,428</u>	<u>-0-</u>	<u>59,021</u>
Other Assets				
Pledges receivable, noncurrent	6,485	-0-	-0-	6,485
Investment in subsidiary	422,755	-0-	(422,755)	-0-
Total Other Assets	<u>429,240</u>	<u>-0-</u>	<u>(422,755)</u>	<u>6,485</u>
Total Assets	<u>\$ 2,112,922</u>	<u>\$ 611,624</u>	<u>\$ (443,432)</u>	<u>\$ 2,281,114</u>
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	\$ 85,247	\$ 65,345	\$ (20,677)	\$ 129,915
Accrued expenses	20,728	47,087	-0-	67,815
Payroll and income taxes payable	-0-	71,397	-0-	71,397
Deferred revenue	137,823	-0-	-0-	137,823
Other current liabilities	-0-	1,173	-0-	1,173
Current maturities of long-term debt	4,299	-0-	-0-	4,299
Total Current Liabilities	<u>248,097</u>	<u>185,002</u>	<u>(20,677)</u>	<u>412,422</u>
Non-Current Liabilities				
Deferred income taxes	-0-	3,867	-0-	3,867
Capital lease obligation, net of current maturities	3,450	-0-	-0-	3,450
Total Current Liabilities	<u>3,450</u>	<u>3,867</u>	<u>-0-</u>	<u>7,317</u>
Total Liabilities	<u>251,547</u>	<u>188,869</u>	<u>(20,677)</u>	<u>419,739</u>
Net Assets and Equity				
Unrestricted	618,253	-0-	-0-	618,253
Temporarily restricted	1,243,122	-0-	-0-	1,243,122
Retained earnings	-0-	422,655	(422,655)	-0-
Common stock	-0-	100	(100)	-0-
Total Net Assets and Equity	<u>1,861,375</u>	<u>422,755</u>	<u>(422,755)</u>	<u>1,861,375</u>
Total Liabilities and Net Assets	<u>\$ 2,112,922</u>	<u>\$ 611,624</u>	<u>\$ (443,432)</u>	<u>\$ 2,281,114</u>

2014

National Center For Healthy Housing, Inc.	Healthy Housing Solutions, Inc.	Eliminations	Total
\$ 175,011	\$ 182,657	\$ -0-	\$ 357,668
417,844	351,521	(101,936)	667,429
430,000	-0-	-0-	430,000
36,923	7,440	-0-	44,363
<u>1,059,778</u>	<u>541,618</u>	<u>(101,936)</u>	<u>1,499,460</u>
82,909	27,557	-0-	110,466
34,354	8,692	-0-	43,046
<u>48,555</u>	<u>18,865</u>	<u>-0-</u>	<u>67,420</u>
524,272	-0-	-0-	524,272
199,568	-0-	(199,568)	-0-
<u>723,840</u>	<u>-0-</u>	<u>(199,568)</u>	<u>524,272</u>
<u>\$ 1,832,173</u>	<u>\$ 560,483</u>	<u>\$ (301,504)</u>	<u>\$ 2,091,152</u>
\$ 50,600	\$ 224,259	\$ (100,868)	\$ 173,991
30,379	53,535	-0-	83,914
16,225	71,642	-0-	87,867
-0-	-0-	-0-	-0-
7,387	7,612	(1,068)	13,931
3,981	-0-	-0-	3,981
<u>108,572</u>	<u>357,048</u>	<u>(101,936)</u>	<u>363,684</u>
-0-	3,867	-0-	3,867
7,749	-0-	-0-	7,749
<u>7,749</u>	<u>3,867</u>	<u>-0-</u>	<u>11,616</u>
<u>116,321</u>	<u>360,915</u>	<u>(101,936)</u>	<u>375,300</u>
591,018	-0-	-0-	591,018
1,124,834	-0-	-0-	1,124,834
-0-	199,468	(199,468)	-0-
-0-	100	(100)	-0-
<u>1,715,852</u>	<u>199,568</u>	<u>(199,568)</u>	<u>1,715,852</u>
<u>\$ 1,832,173</u>	<u>\$ 560,483</u>	<u>\$ (301,504)</u>	<u>\$ 2,091,152</u>

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY
Consolidating Statements of Activities
Years Ended September 30, 2015 and 2014

	2015			
	National Center For Healthy Housing, Inc.	Healthy Housing Solutions, Inc.	Eliminations	Total
Support and Revenue				
Grants and contracts	\$ 1,532,412	\$ 3,464,895	\$ (105,582)	\$ 4,891,725
Contributions	600,644	-0-	-0-	600,644
Interest income	248	61	-0-	309
Other revenue	67,037	1,365	(52,344)	16,058
Total Support and Revenue	<u>2,200,341</u>	<u>3,466,321</u>	<u>(157,926)</u>	<u>5,508,736</u>
Expenses				
Salaries and fringe benefits	1,211,536	752,848	-0-	1,964,384
Consultants	603,314	1,733,830	(157,926)	2,179,218
Professional fees	134,022	59,986	-0-	194,008
Rent	82,858	41,532	-0-	124,390
Interest expense	807	638	-0-	1,445
Others	245,468	508,000	-0-	753,468
Total Expenses	<u>2,278,005</u>	<u>3,096,834</u>	<u>(157,926)</u>	<u>5,216,913</u>
Change in Net Assets Before Earnings from Wholly Owned Subsidiary and Income Taxes	(77,664)	369,487	-0-	291,823
Provision for Income Taxes	-0-	146,300	-0-	146,300
Change in Net Assets Before Earnings from Subsidiary	(77,664)	223,187	-0-	145,523
Earnings from Subsidiary	<u>223,187</u>	<u>-0-</u>	<u>(223,187)</u>	<u>-0-</u>
Change in Net Assets	145,523	223,187	(223,187)	145,523
Net Assets - Beginning of Year	1,715,852	199,568	(199,568)	1,715,852
Dividends Paid	-0-	-0-	-0-	-0-
Net Assets - End of Year	<u>\$ 1,861,375</u>	<u>\$ 422,755</u>	<u>\$ (422,755)</u>	<u>\$ 1,861,375</u>

2014

National Center For Healthy Housing, Inc.	Healthy Housing Solutions, Inc.	Eliminations	Total
\$ 1,443,618	\$ 2,368,849	\$ (238,255)	\$ 3,574,212
1,558,721	-0-	-0-	1,558,721
535	101	-0-	636
50,777	975	(48,892)	2,860
<u>3,053,651</u>	<u>2,369,925</u>	<u>(287,147)</u>	<u>5,136,429</u>
1,379,873	653,304	-0-	2,033,177
477,017	1,149,327	(287,147)	1,339,197
100,614	68,235	-0-	168,849
80,163	33,938	-0-	114,101
1,426	6	-0-	1,432
273,103	248,381	-0-	521,484
<u>2,312,196</u>	<u>2,153,191</u>	<u>(287,147)</u>	<u>4,178,240</u>
741,455	216,734	-0-	958,189
-0-	76,408	-0-	76,408
741,455	140,326	-0-	881,781
140,326	-0-	(140,326)	-0-
881,781	140,326	(140,326)	881,781
834,071	89,242	(89,242)	834,071
-0-	(30,000)	30,000	-0-
<u>\$ 1,715,852</u>	<u>\$ 199,568</u>	<u>\$ (199,568)</u>	<u>\$ 1,715,852</u>

Independent Auditor's 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*

To the Board of Directors
National Center for Healthy Housing, Inc. and Subsidiary

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 financial statements of the National Center for Healthy Housing, Inc. and Subsidiary (the "Center," a nonprofit organization), which comprise the statement of financial position as of September 30, 2015, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 29, 2016.

Internal Control over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's 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 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*.

Independent Auditor's 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 (Continued)*

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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gross, Mendelsohn & Associates, P.A.

Baltimore, Maryland
January 29, 2016

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over
Compliance Required by OMB Circular A-133

To the Board of Directors
National Center for Healthy Housing, Inc. and Subsidiary

Report on Compliance for Each Major Federal Program

We have audited the National Center for Healthy Housing, Inc. and Subsidiary's (the "Center's") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs for the year ended September 30, 2015. The Center's 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 requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Center's 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Center's 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 Center's compliance.

Opinion on Each Major Federal Program

In our opinion, the Center 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 September 30, 2015.

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133 (Continued)

Report on Internal Control over Compliance

Management of the Center 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 Center's 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 OMB Circular A-133, 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 Center's 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Gross, Mendelsohn & Associates, P. A.

Baltimore, Maryland
January 29, 2016

NATIONAL CENTER FOR HEALTHY HOUSING, INC.
Schedule of Expenditures of Federal Awards
Year ended September 30, 2015

Federal Grantor / Pass-through Grantor / Program Title	Federal	Pass-Through	Federal
Environmental Protection Agency			
Direct:			
Surveys, Studies, Research, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	66.034		<u>\$ 138,340</u>
U.S. Department of Housing and Urban Development			
Direct:			
Healthy Homes Technical Studies Grants	14.906		149,054
Pass-through programs from:			
The University of Illinois-Healthy Homes Technical Studies Grants	14.906	ILHHT0230-10	64,976
Health Research, Inc. / New York State Department of Health-Healthy Homes Technical Studies Grants	14.906	NYHHU000412	<u>108,844</u>
Total Healthy Homes Technical Studies Grants			322,874
Pass-through programs from:			
The University of Illinois-Green and Healthy Homes Technical Studies Program	14.911	ILHHU0012-13	64,473
The University of Illinois-Lead Technical Studies Grant	14.902	ILHHT0173-10	<u>119,965</u>
Total U.S. Department of Housing and Urban Development			<u>507,312</u>
U.S. Department of Health and Human Services			
Pass-through program from:			
American Public Health Association NON-ACA/PPHF - Building Capacity of the Public Health System to Improve Population Health Through National Nonprofit Organizations	93.424	5U38OT000131-02	<u>63,864</u>
Total Expenditures of Federal Awards			<u><u>\$ 709,516</u></u>

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY
Notes to Schedule of Expenditures of Federal Awards
For the year ended September 30, 2015

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Center under programs of the federal government for the year ended September 30, 2015. The information in this Schedule is presented in accordance with requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Center, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Center.

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 OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, where in certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying numbers are presented where available.

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY
Schedule of Findings and Questioned Costs
For the year ended September 30, 2015

Summary of Auditor's Results

- 1) The auditor's report expresses an unmodified opinion on the financial statements of National Center for Healthy Housing, Inc. and Subsidiary.
- 2) No significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditor's 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*.
- 3) No instances of noncompliance material to the financial statements of National Center for Healthy Housing, Inc. and Subsidiary which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
- 4) No reportable conditions relating to the audit of the major federal award programs are reported in the auditor's report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
- 5) The auditor's report on compliance for the major federal award programs of National Center for Healthy Housing, Inc. and Subsidiary expresses an unmodified opinion on all major federal programs.
- 6) There were no audit findings relative to the major federal award programs for National Center for Healthy Housing, Inc. and Subsidiary.
- 7) The Healthy Homes Technical Studies Grant (CFDA No.14.906) was tested as a major program.
- 8) The threshold used for distinguishing between Type A and B programs was \$300,000.
- 9) National Center for Healthy Housing, Inc. and Subsidiary was determined to be a low-risk auditee.

Major Federal Award Programs Audit – Findings and Questioned Costs

Summary of Current Year Findings

There were no current year findings relative to the major federal awards.

Summary of Prior Year Findings

There were no prior year findings relative to the major federal awards.

