GROSS MENDELSOHN

ACCOUNTING | TECHNOLOGY | WEALTH ADVISORY

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2018 AND 2017

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Independent Auditor's Report

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

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, 2018 and 2017, 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. 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 consolidated 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.

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, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Gross, Mendelsohn & Associates, P.A.

Baltimore, Maryland
January 31, 2019

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY
Consolidated Statements of Financial Position
September 30, 2018 and 2017

	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	**$ 670,536**	$ 1,231,971
Grants and other receivables, net of allowance for doubtful accounts of (2018 - $-0- and 2017 - $5,995)	**478,760**	403,771
Pledges receivable, current	**256,680**	490,374
Prepaid expenses and other assets	**33,898**	112,767
Total Current Assets	**1,439,874**	2,238,883
Property		
Office equipment	**132,094**	129,910
Less: Accumulated depreciation	**114,094**	97,807
Net Property	**18,000**	32,103
Other Assets		
Pledges receivable, noncurrent	**-0-**	242,718
Deferred tax asset	**38,478**	-0-
Total Other Assets	**38,478**	242,718
Total Assets	**$ 1,496,352**	$ 2,513,704
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	**$ 107,000**	$ 244,969
Accrued expenses	**71,228**	62,288
Deferred revenue	**7,980**	29,740
Other current liabilities	**2,532**	588
Total Current Liabilities	**188,740**	337,585
Non-Current Liabilities		
Deferred income taxes	**-0-**	2,341
Total Liabilities	**188,740**	339,926
Commitments (Notes 3, 4, 6 and 9)		
Net Assets		
Unrestricted	**491,230**	633,544
Temporarily restricted	**816,382**	1,540,234
Total Net Assets	**1,307,612**	2,173,778
Total Liabilities and Net Assets	**$ 1,496,352**	$ 2,513,704

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

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY
Consolidated Statements of Activities
Years Ended September 30, 2018 and 2017

	2018		
	Unrestricted	Temporarily Restricted	Total
Support and Revenue			
Grants and contracts	$ 2,276,284	$ -0-	$ 2,276,284
Contributions	13,563	350,000	363,563
Interest income	266	-0-	266
Other revenue	28,325	-0-	28,325
	2,318,438	350,000	2,668,438
Net assets released from restriction	1,073,852	(1,073,852)	-0-
Total Support and Revenue	3,392,290	(723,852)	2,668,438
Expenses			
Program	3,351,123	-0-	3,351,123
General and administrative	170,435	-0-	170,435
Fundraising	51,245	-0-	51,245
Total Expenses	3,572,803	-0-	3,572,803
Change in Net Assets Before Recovery of Income Taxes	(180,513)	(723,852)	(904,365)
Recovery of Income Taxes	(38,199)	-0-	(38,199)
Change in Net Assets	(142,314)	(723,852)	(866,166)
Net Assets - Beginning of Year	633,544	1,540,234	2,173,778
Net Assets - End of Year	$ 491,230	$ 816,382	$ 1,307,612

2017			
Unrestricted	Temporarily Restricted	Total	Increase (Decrease)
$ 2,726,449	$ -0-	$ 2,726,449	$ (450,165)
9,176	569,730	578,906	(215,343)
376	-0-	376	(110)
26,648	-0-	26,648	1,677
2,762,649	569,730	3,332,379	(663,941)
1,083,432	(1,083,432)	-0-	-0-
3,846,081	(513,702)	3,332,379	(663,941)
3,920,985	-0-	3,920,985	(569,862)
86,795	-0-	86,795	83,640
40,144	-0-	40,144	11,101
4,047,924	-0-	4,047,924	(475,121)
(201,843)	(513,702)	(715,545)	(188,820)
(66,877)	-0-	(66,877)	28,678
(134,966)	(513,702)	(648,668)	$ (217,498)
768,510	2,053,936	2,822,446	
$ 633,544	$ 1,540,234	$ 2,173,778	

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

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY
Consolidated Statements of Functional Expenses
Years Ended September 30, 2018 and 2017

	2018			
	Program Services	General and Administrative	Fund-raising	Total
Salaries and fringe benefits	$ 1,227,787	$ 408,210	$ 26,038	$ 1,662,035
Consultants	933,886	108,711	8,010	1,050,607
Other costs and supplies	262,453	-0-	-0-	262,453
Professional fees	-0-	159,905	-0-	159,905
Rent	-0-	115,945	-0-	115,945
Travel	70,131	10,809	-0-	80,940
Meetings and conferences	16,613	21,183	2,480	40,276
Software	12,846	17,058	-0-	29,904
Insurance	-0-	25,213	-0-	25,213
Grants	25,000	-0-	-0-	25,000
Telecommunications	375	21,135	-0-	21,510
Miscellaneous	-0-	16,618	-0-	16,618
Depreciation	-0-	16,287	-0-	16,287
Trustee expenses	-0-	12,937	-0-	12,937
Equipment rental and maintenance	-0-	9,771	-0-	9,771
Dues and subscriptions	1,225	7,440	99	8,764
Postage and delivery	6,747	1,459	163	8,369
Payroll processing	-0-	6,902	-0-	6,902
Office supplies	550	5,325	-0-	5,875
Storage	-0-	5,341	-0-	5,341
Temporary help	-0-	2,878	-0-	2,878
Training and professional development	-0-	2,333	-0-	2,333
Bank service fees	-0-	1,780	-0-	1,780
Printing and reproduction	-0-	750	-0-	750
Interest expense	-0-	410	-0-	410
Bad debt expense	-0-	-0-	-0-	-0-
Charitable contributions	-0-	-0-	-0-	-0-
Indirect cost allocation	793,510	(807,965)	14,455	-0-
Total Expenses	$ 3,351,123	$ 170,435	$ 51,245	$ 3,572,803

2017				
Program Services	General and Administrative	Fund-raising	Total	Increase (Decrease)
$ 1,370,205	$ 390,332	$ 16,165	$ 1,776,702	$ (114,667)
1,237,552	97,206	14,963	1,349,721	(299,114)
327,601	-0-	-0-	327,601	(65,148)
545	173,161	-0-	173,706	(13,801)
-0-	120,731	-0-	120,731	(4,786)
81,329	10,617	-0-	91,946	(11,006)
5,498	3,988	-0-	9,486	30,790
8,838	12,408	-0-	21,246	8,658
-0-	26,603	-0-	26,603	(1,390)
-0-	-0-	-0-	-0-	25,000
1,202	22,413	-0-	23,615	(2,105)
-0-	21,060	-0-	21,060	(4,442)
-0-	17,491	-0-	17,491	(1,204)
-0-	13,918	-0-	13,918	(981)
-0-	12,314	-0-	12,314	(2,543)
497	8,450	99	9,046	(282)
7,114	865	-0-	7,979	390
-0-	5,978	-0-	5,978	924
165	9,039	-0-	9,204	(3,329)
-0-	5,353	-0-	5,353	(12)
-0-	223	-0-	223	2,655
-0-	11,025	-0-	11,025	(8,692)
-0-	3,331	-0-	3,331	(1,551)
-0-	298	-0-	298	452
-0-	111	-0-	111	299
-0-	6,036	-0-	6,036	(6,036)
-0-	3,200	-0-	3,200	(3,200)
880,439	(889,356)	8,917	-0-	-0-
$ 3,920,985	$ 86,795	$ 40,144	$ 4,047,924	$ (475,121)

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

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows
Years Ended September 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Change in net assets	**$ (866,166)**	$ (648,668)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Bad debts	**-0-**	6,036
Depreciation	**16,287**	17,491
Deferred income taxes	**(40,819)**	(1,119)
Changes in operating assets and liabilities:		
Grants and other receivables	**(74,989)**	91,855
Pledges receivable	**476,412**	145,018
Prepaid expenses and other assets	**78,869**	(54,300)
Accounts payable and accrued expenses	**(129,029)**	(3,332)
Payroll and income taxes payable	**-0-**	(178,104)
Deferred revenue	**(21,760)**	(43,660)
Other current liabilities	**1,944**	96
Net Cash Used in Operating Activities	**(559,251)**	(668,687)
Cash Flows from Investing Activities		
Purchase of property	**(2,184)**	(3,143)
Cash Flows from Financing Activities		
Payments on capital lease obligations	**-0-**	(3,450)
Net Decrease in Cash and Cash Equivalents	**(561,435)**	(675,280)
Cash and Cash Equivalents at Beginning of Year	**1,231,971**	1,907,251
Cash and Cash Equivalents at End of Year	**$ 670,536**	$ 1,231,971

Supplemental Information:

	2018	2017
Interest paid	**$ 410**	$ 111
Income taxes paid	**$ -0-**	$ 161,781

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

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. The Center and Solutions are collectively referred to as the Organization. The accounting and reporting policies of the Organization conform to accounting principles generally accepted in the United States of America. Following is a description of the most significant of those policies:

<u>Use of Estimates</u>: The preparation of consolidated 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.

<u>Basis of Accounting and Principles of Consolidation</u>: 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.

<u>Revenue and Expense Recognition</u>: 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.

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.

<u>Basis of Presentation</u>: 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.

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 Organization's actions. The Organization has no permanently restricted net assets.

Cash and Cash Equivalents: The Organization 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 receivables at year end. The Organization 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 receivables. Receivables are written off by management when, in their determination, all appropriate collection efforts have been taken. The Organization has not recorded an allowance for uncollectible receivables as of September 30, 2018, since it is management's opinion that all outstanding receivables were collectible. The Organization recorded an allowance for uncollectible receivables as of September 30, 2017 in the amount of $5,995.

Pledges Receivable: Unconditional promises to give are recorded as pledges receivable and recognized as revenue in the period received. Unconditional pledges to be received in a future period are discounted to their net present value at the time the revenue is recorded. A 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, 2018 and 2017, since it is 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 5 to 7 years. 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, 2018 and 2017 was $16,287 and $17,491, 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. There were no donated materials or services for the years ended September 30, 2018 and 2017.

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, 2018 and 2017. The Center's federal exempt organization 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. Certain transactions of Solutions may be subject to accounting methods for 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 income tax purposes may differ from net income reflected in these financial statements. Deferred income taxes are provided to reflect the tax effect of these temporary differences between financial and income tax reporting. The federal and state income tax returns of Solutions are subject to examination by the Internal Revenue Service and state tax authorities generally for a period of three years after the returns are filed.

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.

Recently Issued Accounting Pronouncements: In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Lease (Topic 842)*, which will be effective for fiscal years beginning after December 15, 2019. The distinction between finance leases (previously capital leases) and operating leases is substantially similar to the distinction between capital leases and operating leases in the previous leases guidance. Lessor accounting is also largely unchanged. For lessees, leases under both categories will be reported on the consolidated statement of financial position as a depreciable right-to-use asset and a liability to make lease payments. The asset and liability should be initially measured at the present value of the lease payments, including payments to be made in optional periods only if the lessee is reasonably certain to exercise an option to extend the lease or not to exercise an option to terminate the lease. The asset will be depreciated and the liability will be reduced by lease payments. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and liabilities. Management has not elected to adopt ASU 2016-02 early, and will assess the impact on any future consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities* which is effective for fiscal years beginning after December 15, 2017. The primary impact of this standard is as follows:

a) *Net Asset Classification*: The three categories of net assets will be condensed to two categories: Without Donor Restrictions and With Donor Restrictions. Not-for-profit entities may choose to disaggregate net assets further within the two categories.

b) *Board-Designated Net Assets*: Not-for-profits will need to disclose the amount, purpose and type of board designation either on the face of the financials or in the notes to the consolidated financial statements. Board-designated net assets remain a subgroup of net assets without donor restrictions.

Note 1: Summary of Significant Accounting Policies (Continued)

c) *Underwater Endowment Assets*: Although the underwater calculation remains unchanged, instead of classifying the underwater portion against net assets without donor restrictions, it will go against the net assets with donor restrictions. There are also certain additional disclosures such as any board policy or actions taken regarding appropriation from such funds.

d) *Cash Flow Statement*: Not-for-profits will still have the option of presenting operating cash flows using the direct method or the indirect method. If the direct method is chosen, the indirect reconciliation is not required.

e) *Expenses*: Expenses will be required to be presented both by function and by nature, but is flexible as to how (in statement form or in the footnotes). A qualitative disclosure about how costs are allocated by function will also be required. External and internal direct investment expenses will be netted against investment return on the consolidated statement of activities. Disclosure of investment return components will no longer be required.

f) *Liquidity and Availability*: The standard will require (1) quantitative disclosure about availability of financial assets to meet cash needs for general expenditures within one year of the consolidated statement of financial position date, and (2) qualitative disclosure about liquidity, presented in the notes, including information about liquidity risk and how the liquid available resources are managed.

Management has chosen not to early adopt this standards but will assess this impact on future consolidated financial statements.

Subsequent Events: In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through January 31, 2019, the date the consolidated financial statements were available to be issued. During the period from October 1, 2018 to January 31, 2019, the Organization did not have any material recognizable subsequent events.

Note 2: Pledges Receivable

Pledges receivable consisted of the following as of September 30, 2018 and 2017:

	2018	2017
Pledges receivable	$ 256,680	$ 740,374
Less: Present value discount (3%)	-0-	(7,282)
Unconditional pledges receivable, net	$ 256,680	$ 733,092
Gross amounts due in:		
Less than one year	$ 256,680	$ 490,374
One to five years	-0-	250,000
Total unconditional pledges receivable	$ 256,680	$ 740,374

Note 2: Pledges Receivable (Continued)

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

	2018	2017
Current portion	$ 256,680	$ 490,374
Non-current portion	-0-	242,718
	$ 256,680	$ 733,092

Note 3: Short-Term Bank Borrowings

On September 29, 2017, the Center renewed a $100,000 revolving line of credit with Wells Fargo Bank, which expired on October 1, 2018. Borrowings under the line of credit bear interest at the greater of the prime rate plus 1.00% (5.25% as of September 30, 2018; 4.25% as of September 30, 2017) or 6.00%. There was no balance due under this line of credit as of September 30, 2018 and 2017.

On September 29, 2017, Solutions renewed a $200,000 revolving line of credit with Wells Fargo Bank, which expired on October 5, 2018. The line of credit is secured by substantially all of Solutions' assets and is guaranteed by the Center. Borrowings under the line of credit bear interest at the greater of the prime rate plus 1.00% (5.25% as of September 30, 2018; 4.25% as of September 30, 2017) or 6.00%. There was no balance due under this line of credit as of September 30, 2018 and 2017. Interest expense amounted to |$-0- and $410 for the years ended September 30, 2018 and 2017, respectively.

Note 4: Capital Lease Obligation

During 2012, the Center entered into a capital lease agreement for the purchase of a telephone system. The lease expired in July 2017 and the title to the equipment was transferred to the Center. Interest expense amounted to $-0- and $111 for the years ended September 30, 2018 and 2017, respectively.

Note 5: Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following as of September 30, 2018 and 2017:

	2018	2017
The JPB Foundation	$ 324,120	$ -0-
The Kresge Foundation	249,996	500,000
W.K. Kellogg Foundation	103,653	318,762
The Harry and Jeanette Weinberg Foundation	69,517	208,021
The Archstone Foundation	69,096	116,641
Schwab Charitable Fund	-0-	206,209
Wells Fargo Housing Foundation	-0-	174,888
Environmental Defense Fund	-0-	15,713
Total	$ 816,382	$ 1,540,234

Note 5: Temporarily Restricted Net Assets (Continued)

Net assets were released from donor restrictions for the years ended September 30, 2018 and 2017 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.

	2018	2017
The Kresge Foundation	$ 250,004	$ 250,000
W.K. Kellogg Foundation	215,109	162,666
Schwab Charitable Fund	206,209	355,651
Wells Fargo Housing Foundation	174,888	125,112
The Harry and Jeanette Weinberg Foundation	138,504	78,346
The Archstone Foundation	47,545	6,114
The JPB Foundation	25,880	-0-
Environmental Defense Fund	15,713	7,998
The Retirement Research Foundation	-0-	88,319
MacArthur Foundation	-0-	9,226
Total	$ 1,073,852	$ 1,083,432

Note 6: Retirement Plan

The Organization has a 401(k) plan (the Plan) that permits voluntary contributions to this Plan by employees of the Center and Solutions. The plan covers all employees who meet its eligibility requirements. The Plan provides for employer matching contributions 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, 2018 and 2017, the Organization made matching contributions of $44,328 and $52,631 respectively, and discretionary contributions of $-0- and $14,412 respectively, or one percent (1%) of eligible compensation, to the Plan.

Note 7: Income Tax Provision

The recovery of income taxes for the years ended September 30, 2018 and 2017 consist of the following components:

	2018	2017
Federal and state income taxes currently payable (receivable)	$ 2,620	$ (65,758)
Change in deferred income taxes	(40,819)	(1,119)
Total recovery of income taxes	$ (38,199)	$ (66,877)

The recovery of income taxes reflect effective tax rates which result from the applicability of federal and state statutory rates.

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.

The tax effects of the temporary differences between financial and income tax accounting that give rise to Solutions' deferred tax assets and deferred tax liabilities as of September 30, 2018 and 2017 relate to differences in depreciation. The refundable tax asset related to the difference was $38,478 as of September 30, 2018. The deferred tax liability related to the difference was $2,341 as of September 30, 2017.

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, 2018 and 2017, direct and indirect federal grants and contracts represented 61% and 60%, 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 April 3, 2017, the Center amended its lease agreement for its main office in Columbia, MD through October 31, 2020. The lease provides for monthly payments of $9,676 through October 31, 2018 with an increase of 3% per annum for the period November 1, 2018 through October 31, 2020. The lease also calls for the tenant to pay for its share of operating costs and real estate taxes.

On March 15, 2016, the Center renewed its agreement with another non-profit organization in Washington, D.C. for an office space sharing agreement through March 31, 2017. The agreement required monthly payments of $1,144. The Center gave 30 days' notice to terminate this lease effective February 15, 2017.

Rent expense for office space totaled to $115,945 and $120,731 for the years ended September 30, 2018 and 2017, respectively.

The Center leases a copier under a non-cancelable operating lease expiring in September 2022. Lease expense under this agreement for the years ended September 30, 2018 and 2017 was $4,560 and $1,140, respectively.

The Center leased a copier under a non-cancelable operating lease which expired on July 2017. Lease expense under this agreement for the years ended September 30, 2018 and 2017 was $-0- and $3,768 respectively.

Note 9: Operating Leases (Continued)

The Center leased a postage meter under a non-cancelable operating lease that expired April 30, 2016 and was renewed as a month-to-month lease thereafter. Lease expense under this agreement for the years ended September 30, 2018 and 2017 was $336, respectively.

The future minimum annual rental payments under the current leases as of September 30, 2018 are as follows:

Year ending September 30:	
2019	$ 123,328
2020	126,304
2021	14,726
2022	4,560
Total	$ 268,918

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 Organization maintains its cash balances at various financial institutions. Periodically during the year, the Organization's cash balances may exceed federally insured limits. The Organization 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, 2018 AND 2017

Independent Auditor's Report on Supplementary Information

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

We have audited the consolidated financial statements of National Center for Healthy Housing, Inc. and Subsidiary as of and for the years ended September 30, 2018 and 2017, have issued our report thereon dated January 31, 2019, which contained an unmodified opinion on those consolidated financial statements. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information on the following pages is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidating information is fairly stated in all material respects in relation to the consolidated financial statements for the years ended September 30, 2018 and 2017, as a whole.

Gross, Mendelsohn & Associates, P.A.

Baltimore, Maryland
January 31, 2019

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY
Consolidating Statements of Financial Position
September 30, 2018 and 2017

	2018			
Assets	**National Center For Healthy Housing, Inc.**	**Healthy Housing Solutions, Inc.**	**Eliminations**	**Total**
Current Assets				
Cash and cash equivalents	$ 593,175	$ 77,361	$ -0-	$ 670,536
Grants and other receivables, net	227,482	267,084	(15,806)	478,760
Pledges receivable, current	256,680	-0-	-0-	256,680
Prepaid expenses and other assets	32,752	1,146	-0-	33,898
Total Current Assets	1,110,089	345,591	(15,806)	1,439,874
Property				
Office equipment	96,899	35,195	-0-	132,094
Less: Accumulated depreciation	86,618	27,476	-0-	114,094
Net Property	10,281	7,719	-0-	18,000
Other Assets				
Pledges receivable, noncurrent	-0-	-0-	-0-	-0-
Deferred tax asset	-0-	38,478	-0-	38,478
Investment in subsidiary	335,187	-0-	(335,187)	-0-
Total Other Assets	335,187	38,478	(335,187)	38,478
Total Assets	$ 1,455,557	$ 391,788	$ (350,993)	$ 1,496,352
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	$ 81,666	$ 41,140	$ (15,806)	$ 107,000
Accrued expenses	57,376	13,852	-0-	71,228
Deferred revenue	7,980	-0-	-0-	7,980
Other current liabilities	923	1,609	-0-	2,532
Total Current Liabilities	147,945	56,601	(15,806)	188,740
Non-Current Liabilities				
Deferred income taxes	-0-	-0-	-0-	-0-
Total Liabilities	147,945	56,601	(15,806)	188,740
Net Assets and Equity				
Unrestricted	491,230	-0-	-0-	491,230
Temporarily restricted	816,382	-0-	-0-	816,382
Retained earnings	-0-	335,087	(335,087)	-0-
Common stock	-0-	100	(100)	-0-
Total Net Assets and Equity	1,307,612	335,187	(335,187)	1,307,612
Total Liabilities and Net Assets	$ 1,455,557	$ 391,788	$ (350,993)	$ 1,496,352

2017			
National Center For Healthy Housing, Inc.	Healthy Housing Solutions, Inc.	Eliminations	Total
$ 845,961	$ 386,010	$ -0-	$ 1,231,971
312,344	94,970	(3,543)	403,771
490,374	-0-	-0-	490,374
40,634	72,133	-0-	112,767
1,689,313	553,113	(3,543)	2,238,883
95,589	34,321	-0-	129,910
75,357	22,450	-0-	97,807
20,232	11,871	-0-	32,103
242,718	-0-	-0-	242,718
-0-	-0-	-0-	-0-
495,476	-0-	(495,476)	-0-
738,194	-0-	(495,476)	242,718
$ 2,447,739	$ 564,984	$ (499,019)	$ 2,513,704
$ 193,210	$ 55,302	$ (3,543)	$ 244,969
51,011	11,277	-0-	62,288
29,740	-0-	-0-	29,740
-0-	588	-0-	588
273,961	67,167	(3,543)	337,585
-0-	2,341	-0-	2,341
273,961	69,508	(3,543)	339,926
633,544	-0-	-0-	633,544
1,540,234	-0-	-0-	1,540,234
-0-	495,376	(495,376)	-0-
-0-	100	(100)	-0-
2,173,778	495,476	(495,476)	2,173,778
$ 2,447,739	$ 564,984	$ (499,019)	$ 2,513,704

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY
Consolidating Statements of Activities
Years Ended September 30, 2018 and 2017

	2018			
	National Center For Healthy Housing, Inc.	Healthy Housing Solutions, Inc.	Eliminations	Total
Support and Revenue				
Grants and contracts	$ 1,085,438	$ 1,224,848	$ (34,002)	$ 2,276,284
Contributions	363,563	-0-	-0-	363,563
Interest income	190	76	-0-	266
Other revenue	60,157	19,768	(51,600)	28,325
Total Support and Revenue	1,509,348	1,244,692	(85,602)	2,668,438
Expenses				
Salaries and fringe benefits	1,190,173	471,862	-0-	1,662,035
Consultants	682,695	453,514	(85,602)	1,050,607
Professional fees	93,878	66,027	-0-	159,905
Rent	69,571	46,374	-0-	115,945
Interest expense	0	410	-0-	410
Others	228,908	354,993	-0-	583,901
Total Expenses	2,265,225	1,393,180	(85,602)	3,572,803
Change in Net Assets Before Earnings from Wholly Owned Subsidiary and Income Taxes	(755,877)	(148,488)	-0-	(904,365)
Recovery of Income Taxes	-0-	(38,199)	-0-	(38,199)
Change in Net Assets Before Earnings from Subsidiary	(755,877)	(110,289)	-0-	(866,166)
Earnings from Subsidiary	(110,289)	-0-	110,289	-0-
Change in Net Assets	(866,166)	(110,289)	110,289	(866,166)
Net Assets - Beginning of Year	2,173,778	495,476	(495,476)	2,173,778
Dividends Paid	-0-	(50,000)	50,000	-0-
Net Assets - End of Year	$ 1,307,612	$ 335,187	$ (335,187)	$ 1,307,612

2017			
National Center For Healthy Housing, Inc.	Healthy Housing Solutions, Inc.	Eliminations	Total
$ 1,259,605	$ 1,483,752	$ (16,908)	$ 2,726,449
578,906	-0-	-0-	578,906
324	52	-0-	376
62,949	15,299	(51,600)	26,648
1,901,784	1,499,103	(68,508)	3,332,379
1,243,811	532,891	-0-	1,776,702
811,486	606,743	(68,508)	1,349,721
107,872	65,834	-0-	173,706
75,199	45,532	-0-	120,731
111	-0-	-0-	111
223,697	403,256	-0-	626,953
2,462,176	1,654,256	(68,508)	4,047,924
(560,392)	(155,153)	-0-	(715,545)
-0-	(66,877)	-0-	(66,877)
(560,392)	(88,276)	-0-	(648,668)
(88,276)	-0-	88,276	-0-
(648,668)	(88,276)	88,276	(648,668)
2,822,446	683,752	(683,752)	2,822,446
-0-	(100,000)	100,000	-0-
$ 2,173,778	$ 495,476	$ (495,476)	$ 2,173,778

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