



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

**CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

SEPTEMBER 30, 2016 AND 2015

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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, 2016 and 2015, 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 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, 2016 and 2015, 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 18, 2017

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY
Consolidated Statements of Financial Position
September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,907,251	\$ 946,740
Grants and other receivables	501,662	624,182
Pledges receivable, current	699,766	606,776
Prepaid expenses and other assets	58,467	37,910
Total Current Assets	<u>3,167,146</u>	<u>2,215,608</u>
Property		
Office equipment	126,766	121,259
Less: Accumulated depreciation	80,316	62,238
Net Property	<u>46,450</u>	<u>59,021</u>
Other Assets		
Pledges receivable, noncurrent	178,344	6,485
Total Assets	<u>\$ 3,391,940</u>	<u>\$ 2,281,114</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 200,104	\$ 129,915
Accrued expenses	110,484	67,815
Payroll and income taxes payable	178,104	71,397
Deferred revenue	73,400	137,823
Current maturities of capital lease obligation	3,450	4,299
Other current liabilities	492	1,173
Total Current Liabilities	<u>566,034</u>	<u>412,422</u>
Non-Current Liabilities		
Deferred income taxes	3,460	3,867
Capital lease obligation, net of current maturities	-0-	3,450
Total Non-Current Liabilities	<u>3,460</u>	<u>7,317</u>
Total Liabilities	<u>569,494</u>	<u>419,739</u>
Commitments (Notes 3, 6 and 9)		
Net Assets		
Unrestricted	768,510	618,253
Temporarily restricted	2,053,936	1,243,122
Total Net Assets	<u>2,822,446</u>	<u>1,861,375</u>
Total Liabilities and Net Assets	<u>\$ 3,391,940</u>	<u>\$ 2,281,114</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, 2016 and 2015

	2016		
	Unrestricted	Temporarily Restricted	Total
Support and Revenue			
Grants and contracts	\$ 4,872,817	\$ -0-	\$ 4,872,817
Contributions	45,323	2,008,000	2,053,323
Interest income	1,535	-0-	1,535
Other revenue	13,413	-0-	13,413
	4,933,088	2,008,000	6,941,088
Net assets released from restriction	1,197,186	(1,197,186)	-0-
Total Support and Revenue	6,130,274	810,814	6,941,088
Expenses			
Program	5,709,521	-0-	5,709,521
General and administrative	19,434	-0-	19,434
Fundraising	21,521	-0-	21,521
Total Expenses	5,750,476	-0-	5,750,476
Change in Net Assets Before Provision for Income Taxes	379,798	810,814	1,190,612
Provision for Income Taxes	229,541	-0-	229,541
Change in Net Assets	150,257	810,814	961,071
Net Assets - Beginning of Year	618,253	1,243,122	1,861,375
Net Assets - End of Year	\$ 768,510	\$ 2,053,936	\$ 2,822,446

2015

Unrestricted	Temporarily Restricted	Total	Increase (Decrease)
\$ 4,891,725	\$ -0-	\$ 4,891,725	\$ (18,908)
57,090	543,554	600,644	1,452,679
309	-0-	309	1,226
16,058	-0-	16,058	(2,645)
4,965,182	543,554	5,508,736	1,432,352
425,266	(425,266)	-0-	-0-
5,390,448	118,288	5,508,736	1,432,352
5,126,346	-0-	5,126,346	583,175
18,787	-0-	18,787	647
71,780	-0-	71,780	(50,259)
5,216,913	-0-	5,216,913	533,563
173,535	118,288	291,823	898,789
146,300	-0-	146,300	83,241
27,235	118,288	145,523	<u>\$ 815,548</u>
591,018	1,124,834	1,715,852	
<u>\$ 618,253</u>	<u>\$ 1,243,122</u>	<u>\$ 1,861,375</u>	

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, 2016 and 2015

2016

	Program Services	General and Administrative	Fund- raising	Total
Consultants	\$ 2,651,702	\$ 171,375	\$ 6,370	\$ 2,829,447
Salaries and fringe benefits	1,408,745	619,200	7,821	2,035,766
Other costs and supplies	288,491	-0-	-0-	288,491
Professional fees	-0-	168,763	-0-	168,763
Rent	-0-	132,481	-0-	132,481
Travel	54,376	15,371	50	69,797
Meetings and conferences	11,107	24,282	1,400	36,789
Insurance	-0-	26,989	-0-	26,989
Miscellaneous	-0-	25,794	-0-	25,794
Telecommunications	1,675	23,174	-0-	24,849
Software	7,373	13,421	-0-	20,794
Depreciation	-0-	18,078	-0-	18,078
Office supplies	8,141	4,880	115	13,136
Equipment rental and maintenance	-0-	11,747	-0-	11,747
Dues and subscriptions	950	10,025	-0-	10,975
Trustee expenses	-0-	9,232	-0-	9,232
Payroll processing	-0-	6,888	-0-	6,888
Postage and delivery	5,278	949	-0-	6,227
Storage	-0-	5,629	-0-	5,629
Bank service fees	-0-	2,879	-0-	2,879
Temporary help	21	2,625	-0-	2,646
Training and professional development	-0-	2,510	-0-	2,510
Interest expense	-0-	511	-0-	511
Printing and reproduction	-0-	58	-0-	58
Recruiting	-0-	-0-	-0-	-0-
Charitable contributions	-0-	-0-	-0-	-0-
Bad debt expense	-0-	-0-	-0-	-0-
Indirect cost allocation	1,271,662	(1,277,427)	5,765	-0-
Total expenses	\$ 5,709,521	\$ 19,434	\$ 21,521	\$ 5,750,476

2015

Program Services	General and Administrative	Fund- raising	Total	Increase (Decrease)
\$ 2,041,881	\$ 122,138	\$ 64,410	\$ 2,228,429	\$ 601,018
1,450,367	510,166	3,851	1,964,384	71,382
344,947	-0-	-0-	344,947	(56,456)
-0-	155,481	-0-	155,481	13,282
-0-	124,390	-0-	124,390	8,091
132,876	12,990	390	146,256	(76,459)
4,950	5,787	-0-	10,737	26,052
-0-	24,846	-0-	24,846	2,143
-0-	12,680	-0-	12,680	13,114
1,044	22,081	-0-	23,125	1,724
1,500	14,860	-0-	16,360	4,434
-0-	19,192	-0-	19,192	(1,114)
27,427	8,790	-0-	36,217	(23,081)
-0-	11,913	-0-	11,913	(166)
2,860	10,948	-0-	13,808	(2,833)
-0-	17,649	-0-	17,649	(8,417)
-0-	3,954	-0-	3,954	2,934
2,832	1,583	35	4,450	1,777
-0-	5,028	-0-	5,028	601
-0-	2,749	-0-	2,749	130
133	2,295	-0-	2,428	218
-0-	2,398	-0-	2,398	112
-0-	1,444	-0-	1,444	(933)
528	428	-0-	956	(898)
-0-	38,527	-0-	38,527	(38,527)
-0-	2,500	-0-	2,500	(2,500)
-0-	2,065	-0-	2,065	(2,065)
1,115,001	(1,118,095)	3,094	-0-	-0-
\$ 5,126,346	\$ 18,787	\$ 71,780	\$ 5,216,913	\$ 533,563

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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities		
Change in net assets	\$ 961,071	\$ 145,523
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Bad debts	-0-	2,065
Depreciation	18,078	19,192
Deferred income taxes	(407)	-0-
Changes in operating assets and liabilities:		
Grants and other receivables	122,520	41,182
Pledges receivable	(264,849)	341,011
Prepaid expenses and other assets	(20,557)	6,453
Accounts payable and accrued expenses	112,858	(60,176)
Payroll and income taxes payable	106,707	(16,470)
Deferred revenue	(64,423)	137,823
Other current liabilities	(681)	(12,758)
Net Cash Provided by Operating Activities	<u>970,317</u>	<u>603,845</u>
Cash Flows From Investing Activities		
Purchase of property	(5,507)	(10,792)
Cash Flows From Financing Activities		
Payments on capital lease obligations	<u>(4,299)</u>	<u>(3,981)</u>
Net Increase in Cash and Cash Equivalents	960,511	589,072
Cash and Cash Equivalents at Beginning of Year	<u>946,740</u>	<u>357,668</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 1,907,251</u></u>	<u><u>\$ 946,740</u></u>
Supplemental Information:		
Interest paid	<u>\$ 511</u>	<u>\$ 1,444</u>
Income taxes paid	<u>\$ 63,747</u>	<u>\$ 138,291</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, 2016 and 2015

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:

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 Organization'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, 2016 and 2015

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, 2016 and 2015, since it is management's opinion that all outstanding receivables are collectible.

Pledges Receivable: Unconditional pledges receivable 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, 2016 and 2015, 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 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, 2016 and 2015 was \$18,078 and \$19,192, 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. Consulting services were contributed to the Center. The fair value of these services for the years ended September 30, 2016 and 2015 was \$45,079 and \$0, respectively, and have been included in total support and expenses in the financial statements.

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
September 30, 2016 and 2015

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, 2016 and 2015. 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.

Subsequent Events: In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through January 18, 2017, the date the financial statements were available to be issued. During the period from October 1, 2016 to January 18, 2017 the Organization did not have any material recognizable or disclosable subsequent events.

Note 2: Pledges Receivable

Pledges receivable consisted of the following as of September 30, 2016 and 2015:

	2016	2015
Pledges receivable	\$ 883,460	\$ 613,456
Less: Present value discount (2016 - 3%)	(5,350)	(195)
Unconditional pledges receivable, net	<u>\$ 878,110</u>	<u>\$ 613,261</u>
Gross amounts due in:		
Less than one year	\$ 699,766	\$ 606,776
One to five years	183,694	6,680
Total unconditional pledges receivable	<u>\$ 883,460</u>	<u>\$ 613,456</u>

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
September 30, 2016 and 2015

Note 2: Pledges Receivable (Continued)

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

	<u>2016</u>	<u>2015</u>
Current portion	\$ 699,766	\$ 606,776
Non-current portion	<u>178,344</u>	<u>6,485</u>
	<u>\$ 878,110</u>	<u>\$ 613,261</u>

Note 3: Short-Term Bank Borrowings

On August 19, 2016, the Center renewed a \$100,000 revolving line of credit with Wells Fargo Bank, which expires on August 1, 2017. Borrowings under the line of credit bear interest at the greater of the prime rate plus 1.00% (4.50% as of September 30, 2016) or 5.00%. There was no balance due under this line of credit as of September 30, 2016 and 2015.

On August 19, 2016, Solutions renewed a \$200,000 revolving line of credit with Wells Fargo Bank, expiring August 5, 2017, which 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% (4.50% as of September 30, 2016) or 5.00%. There was no balance due under this line of credit as of September 30, 2016 and 2015.

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 \$511 and \$1,444 for the years ended September 30, 2016 and 2015, respectively.

Future minimum lease payments required under the lease as of September 30, 2016 are as follows:

Year ending September 30, 2017 minimum lease payments	\$ 3,561
Less: Amount representing interest	<u>111</u>
Present value of future minimum lease payments	<u>\$ 3,450</u>

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
September 30, 2016 and 2015

Note 4: Capital Lease Obligation (Continued)

The following is an analysis of the leased asset included in office equipment at September 30, 2016 and 2015:

	2016	2015
Office equipment	\$ 19,643	\$ 19,643
Less: Accumulated depreciation	11,926	9,120
Net leased property	<u>\$ 7,717</u>	<u>\$ 10,523</u>

Note 5: Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following as of September 30, 2016 and 2015:

	2016	2015
Schwab Charitable Fund	\$ 561,860	\$ -0-
MacArthur Foundation	489,497	544,932
W.K. Kellogg Foundation	481,427	56,006
The Harry and Jeanette Weinberg Foundation, Inc.	286,367	-0-
The Archstone Foundation	122,755	131,399
The Retirement Research Foundation	88,319	-0-
Environmental Defense Fund	23,711	-0-
The Kresge Foundation	-0-	250,182
Wells Fargo Housing Foundation	-0-	183,899
Oak Hill Foundation	-0-	76,704
Total	<u>\$ 2,053,936</u>	<u>\$ 1,243,122</u>

Net assets were released from donor restrictions for the years ended September 30, 2016 and 2015 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.

	2016	2015
Schwab Charitable Fund	\$ 438,140	\$ -0-
The Kresge Foundation	250,182	249,566
Wells Fargo Housing Foundation	183,899	66,101
W.K. Kellogg Foundation	124,579	3,994
Oak Hill Foundation	76,704	23,296
MacArthur Foundation	55,435	55,154
The Harry and Jeanette Weinberg Foundation, Inc.	43,633	-0-
The Retirement Research Foundation	11,681	-0-
The Archstone Foundation	8,644	2,155
Environmental Defense Fund	4,289	-0-
NeighborWorks America	-0-	25,000
Total	<u>\$ 1,197,186</u>	<u>\$ 425,266</u>

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
September 30, 2016 and 2015

Note 6: Retirement Plan

The Organization has a 401(k) plan that permits voluntary contributions 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, 2016 and 2015, the Organization made matching contributions of \$45,636 and \$43,435 respectively, and discretionary contributions of \$10,000 and \$11,019, or one percent (1%) of eligible compensation, to the Plan.

Note 7: Income Tax Provision

The provision for income taxes for the years ended September 30, 2016 and 2015 consist of the following components:

	2016	2015
Federal and state income taxes currently payable	\$ 229,948	\$ 146,300
Change in deferred income taxes	(407)	-0-
Total provision for income taxes	\$ 229,541	\$ 146,300

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

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 the Company's deferred tax assets and deferred tax liabilities as of September 30, 2016 and 2015 relate to differences in depreciation. The deferred tax liability related to the difference was \$3,460 and \$3,867 as of September 30, 2016 and 2015, respectively.

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, 2016 and 2015, direct and indirect federal grants and contracts represented 63% and 79%, respectively, of the Organization's total revenue and support. Management does not anticipate any significant reduction in future funding from federal agencies.

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
September 30, 2016 and 2015

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 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 requires 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 \$132,481 and \$124,390 for the years ended September 30, 2016 and 2015, 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, 2016 and 2015 was \$4,187 and \$5,024, respectively.

The Center leased a postage meter under a non-cancelable operating lease that expired April 30, 2016. Lease expense under this agreement for the years ended September 30, 2016 and 2015 was \$260 and \$519, respectively.

The future minimum annual rental payments under the current leases as of September 30, 2016 are as follows:

Year ending September 30:	
2017	\$ 123,168
2018	9,509
	<hr/>
	\$ 132,677
	<hr/> <hr/>

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, 2016 AND 2015

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

Independent Auditor's Report on Supplementary Information

We have audited the consolidated financial statements of National Center for Healthy Housing, Inc. as of and for the years ended September 30, 2016 and 2015, and our report thereon dated January 18, 2017, which expressed unmodified opinion on those consolidated financial statements, appears on page 1. Our audit was 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 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.

Gross, Mendelsohn & Associates, P.A.

Baltimore, Maryland
January 18, 2017

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY
Consolidating Statements of Financial Position
September 30, 2016 and 2015

	2016			
Assets	National Center For Healthy Housing, Inc.	Healthy Housing Solutions, Inc.	Eliminations	Total
Current Assets				
Cash and cash equivalents	\$ 1,175,948	\$ 731,303	\$ -0-	\$ 1,907,251
Grants and other receivables	173,545	341,645	(13,528)	501,662
Pledges receivable, current	699,766	-0-	-0-	699,766
Prepaid expenses and other assets	49,952	8,515	-0-	58,467
Total Current Assets	<u>2,099,211</u>	<u>1,081,463</u>	<u>(13,528)</u>	<u>3,167,146</u>
Property				
Office equipment	93,702	33,064	-0-	126,766
Less: Accumulated depreciation	62,969	17,347	-0-	80,316
Net Property	<u>30,733</u>	<u>15,717</u>	<u>-0-</u>	<u>46,450</u>
Other Assets				
Pledges receivable, noncurrent	178,344	-0-	-0-	178,344
Investment in subsidiary	683,752	-0-	(683,752)	-0-
Total Other Assets	<u>862,096</u>	<u>-0-</u>	<u>(683,752)</u>	<u>178,344</u>
Total Assets	<u>\$ 2,992,040</u>	<u>\$ 1,097,180</u>	<u>\$ (697,280)</u>	<u>\$ 3,391,940</u>
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	\$ 71,227	\$ 142,405	\$ (13,528)	\$ 200,104
Accrued expenses	21,517	88,967	-0-	110,484
Payroll and income taxes payable	-0-	178,104	-0-	178,104
Deferred revenue	73,400	-0-	-0-	73,400
Current maturities of long-term debt	3,450	-0-	-0-	3,450
Other current liabilities	-0-	492	-0-	492
Total Current Liabilities	<u>169,594</u>	<u>409,968</u>	<u>(13,528)</u>	<u>566,034</u>
Non-Current Liabilities				
Deferred income taxes	-0-	3,460	-0-	3,460
Capital lease obligation, net of current maturities	-0-	-0-	-0-	-0-
Total Current Liabilities	<u>-0-</u>	<u>3,460</u>	<u>-0-</u>	<u>3,460</u>
Total Liabilities	<u>169,594</u>	<u>413,428</u>	<u>(13,528)</u>	<u>569,494</u>
Net Assets and Equity				
Unrestricted	768,510	-0-	-0-	768,510
Temporarily restricted	2,053,936	-0-	-0-	2,053,936
Retained earnings	-0-	683,652	(683,652)	-0-
Common stock	-0-	100	(100)	-0-
Total Net Assets and Equity	<u>2,822,446</u>	<u>683,752</u>	<u>(683,752)</u>	<u>2,822,446</u>
Total Liabilities and Net Assets	<u>\$ 2,992,040</u>	<u>\$ 1,097,180</u>	<u>\$ (697,280)</u>	<u>\$ 3,391,940</u>

2015

National Center For Healthy Housing, Inc.	Healthy Housing Solutions, Inc.	Eliminations	Total
\$ 629,149	\$ 317,591	\$ -0-	\$ 946,740
371,179	273,680	(20,677)	624,182
606,776	-0-	-0-	606,776
31,985	5,925	-0-	37,910
<u>1,639,089</u>	<u>597,196</u>	<u>(20,677)</u>	<u>2,215,608</u>
93,702	27,557	-0-	121,259
49,109	13,129	-0-	62,238
<u>44,593</u>	<u>14,428</u>	<u>-0-</u>	<u>59,021</u>
6,485	-0-	-0-	6,485
422,755	-0-	(422,755)	-0-
<u>429,240</u>	<u>-0-</u>	<u>(422,755)</u>	<u>6,485</u>
<u>\$ 2,112,922</u>	<u>\$ 611,624</u>	<u>\$ (443,432)</u>	<u>\$ 2,281,114</u>
\$ 85,247	\$ 65,345	\$ (20,677)	\$ 129,915
20,728	47,087	-0-	67,815
-0-	71,397	-0-	71,397
137,823	-0-	-0-	137,823
4,299	-0-	-0-	4,299
-0-	1,173	-0-	1,173
<u>248,097</u>	<u>185,002</u>	<u>(20,677)</u>	<u>412,422</u>
-0-	3,867	-0-	3,867
3,450	-0-	-0-	3,450
<u>3,450</u>	<u>3,867</u>	<u>-0-</u>	<u>7,317</u>
<u>251,547</u>	<u>188,869</u>	<u>(20,677)</u>	<u>419,739</u>
618,253	-0-	-0-	618,253
1,243,122	-0-	-0-	1,243,122
-0-	422,655	(422,655)	-0-
-0-	100	(100)	-0-
<u>1,861,375</u>	<u>422,755</u>	<u>(422,755)</u>	<u>1,861,375</u>
<u>\$ 2,112,922</u>	<u>\$ 611,624</u>	<u>\$ (443,432)</u>	<u>\$ 2,281,114</u>

NATIONAL CENTER FOR HEALTHY HOUSING, INC. AND SUBSIDIARY
Consolidating Statements of Activities
Years Ended September 30, 2016 and 2015

	2016			
	National Center For Healthy Housing, Inc.	Healthy Housing Solutions, Inc.	Eliminations	Total
Support and Revenue				
Grants and contracts	\$ 1,010,501	\$ 3,888,947	\$ (26,631)	\$ 4,872,817
Contributions	2,053,323	-0-	-0-	2,053,323
Interest income	520	1,015	-0-	1,535
Other revenue	65,176	1,673	(53,436)	13,413
Total Support and Revenue	<u>3,129,520</u>	<u>3,891,635</u>	<u>(80,067)</u>	<u>6,941,088</u>
Expenses				
Salaries and fringe benefits	1,283,133	752,633	-0-	2,035,766
Consultants	839,885	2,018,029	(28,467)	2,829,447
Professional fees	97,764	70,999	-0-	168,763
Rent	89,605	42,876	-0-	132,481
Interest expense	453	58	-0-	511
Others	193,606	441,502	(51,600)	583,508
Total Expenses	<u>2,504,446</u>	<u>3,326,097</u>	<u>(80,067)</u>	<u>5,750,476</u>
Change in Net Assets Before Earnings from Wholly Owned Subsidiary and Income Taxes	625,074	565,538	-0-	1,190,612
Provision for Income Taxes	-0-	229,541	-0-	229,541
Change in Net Assets Before Earnings from Subsidiary	625,074	335,997	-0-	961,071
Earnings from Subsidiary	335,997	-0-	(335,997)	-0-
Change in Net Assets	961,071	335,997	(335,997)	961,071
Net Assets - Beginning of Year	1,861,375	422,755	(422,755)	1,861,375
Dividends Paid	-0-	(75,000)	75,000	-0-
Net Assets - End of Year	<u>\$ 2,822,446</u>	<u>\$ 683,752</u>	<u>\$ (683,752)</u>	<u>\$ 2,822,446</u>

2015

National Center For Healthy Housing, Inc.	Healthy Housing Solutions, Inc.	Eliminations	Total
\$ 1,532,412	\$ 3,464,895	\$ (105,582)	\$ 4,891,725
600,644	-0-	-0-	600,644
248	61	-0-	309
67,037	1,365	(52,344)	16,058
<u>2,200,341</u>	<u>3,466,321</u>	<u>(157,926)</u>	<u>5,508,736</u>
1,211,536	752,848	-0-	1,964,384
603,314	1,733,830	(157,926)	2,179,218
134,022	59,986	-0-	194,008
82,858	41,532	-0-	124,390
807	638	-0-	1,445
245,468	508,000	-0-	753,468
<u>2,278,005</u>	<u>3,096,834</u>	<u>(157,926)</u>	<u>5,216,913</u>
(77,664)	369,487	-0-	291,823
-0-	146,300	-0-	146,300
(77,664)	223,187	-0-	145,523
<u>223,187</u>	<u>-0-</u>	<u>(223,187)</u>	<u>-0-</u>
145,523	223,187	(223,187)	145,523
1,715,852	199,568	(199,568)	1,715,852
-0-	-0-	-0-	-0-
<u>\$ 1,861,375</u>	<u>\$ 422,755</u>	<u>\$ (422,755)</u>	<u>\$ 1,861,375</u>

