

Community Housing Innovations, Inc.

Consolidating Financial Statements and Uniform Guidance Schedules
Together With Independent Auditors' Report

December 31, 2016

Community Housing Innovations, Inc.

Financial Statements and Uniform Guidance Schedules Together With Independent Auditors' Reports

December 31, 2016

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Independent Auditors' Report

**Board of Directors
Community Housing Innovations, Inc.**

Report on the Financial Statements

We have audited the accompanying consolidating financial statements of Community Housing Innovations, Inc. ("CHI"), which comprise the consolidating statement of financial position as of December 31, 2016, and the related consolidating statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidating financial statements.

Management's Responsibility for the Consolidating Financial Statements

Management is responsible for the preparation and fair presentation of these consolidating 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidating financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidating 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 auditors' judgment, including the assessment of the risks of material misstatement of the consolidating financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to CHI's preparation and fair presentation of the consolidating 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 CHI'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 consolidating 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 consolidating financial statements referred to above present fairly, in all material respects, the consolidating financial position of CHI as of December 31, 2016 and the changes in its net assets (deficit) and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our 2016 audit was conducted for the purpose of forming an opinion on the consolidating financial statements as a whole. The accompanying schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 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 June 27, 2017 on our consideration of CHI'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 CHI's internal control over financial reporting and compliance.

PKF O'Connor Davies, LLP

Harrison, New York
June 27, 2017

Community Housing Innovations, Inc.
Consolidating Statement of Financial Position
December 31, 2016

ASSETS	CHI Not-for-Profit Entity-Total	CHI For-Profit Subsidiaries	CHI Realty Division	Eliminations	CHI Consolidated Total
Current Assets					
Cash and cash equivalents	\$ 1,991,489	\$ 1,387	\$ -	\$ -	\$ 1,992,876
Accounts receivable and accrued revenues, net	4,181,216	9,788	-	-	4,191,004
Due from consolidated organizations	-	-	201,170	(201,170)	-
Prepaid expenses and other current assets	<u>360,229</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>360,229</u>
Total Current Assets	6,532,934	11,175	201,170	(201,170)	6,544,109
Noncurrent Assets					
Security deposits and other assets	336,222	-	-	-	336,222
Property and equipment, net	21,635,625	-	-	-	21,635,625
Investments in partnership, at cost	<u>471</u>	<u>-</u>	<u>-</u>	<u>(471)</u>	<u>-</u>
Total Noncurrent Assets	<u>21,972,318</u>	<u>-</u>	<u>-</u>	<u>(471)</u>	<u>21,971,847</u>
	<u>\$ 28,505,252</u>	<u>\$ 11,175</u>	<u>\$ 201,170</u>	<u>\$ (201,641)</u>	<u>\$ 28,515,956</u>
LIABILITIES AND NET ASSETS (DEFICIT)					
Current Liabilities					
Accounts payable and accrued expenses	\$ 2,635,024	\$ 2,159	\$ -	\$ -	\$ 2,637,183
Deposits payable	195,452	-	-	-	195,452
Due to consolidated organizations	185,700	15,470	-	(201,170)	-
Current portion of grants payable	123,174	-	-	-	123,174
Current portion of notes payable	60,539	-	-	-	60,539
Current portion of mortgages payable	<u>246,851</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>246,851</u>
Total Current Liabilities	3,446,740	17,629	-	(201,170)	3,263,199
Noncurrent Liabilities					
Grants payable	13,811,391	-	-	-	13,811,391
Notes payable	155,707	-	-	-	155,707
Line of credit	1,651,198	-	-	-	1,651,198
Mortgages payable, net	<u>4,633,933</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,633,933</u>
Total Liabilities	23,698,969	17,629	-	(201,170)	23,515,428
Net Assets (Deficit), Unrestricted	<u>4,806,283</u>	<u>(6,454)</u>	<u>201,170</u>	<u>(471)</u>	<u>5,000,528</u>
	<u>\$ 28,505,252</u>	<u>\$ 11,175</u>	<u>\$ 201,170</u>	<u>\$ (201,641)</u>	<u>\$ 28,515,956</u>

See notes to consolidating financial statements

Community Housing Innovations, Inc.

Consolidating Statement of Activities
Year Ended December 31, 2016

	CHI Not-for-Profit Entity-Total	CHI For-Profit Subsidiaries	CHI Realty Division	Eliminations	CHI Consolidated Total
UNRESTRICTED NET ASSETS					
Support and Revenue					
Rental income	\$ 4,467,300	\$ -	\$ -	\$ -	\$ 4,467,300
Scattered site housing	15,977,352	-	-	-	15,977,352
Revenue from government contracts	1,072,217	-	-	-	1,072,217
Management and social service fees	-	-	56,884	-	56,884
Interest	1,044	-	-	-	1,044
Contributions	79,233	-	-	-	79,233
Gain on disposal of property and equipment	600,527	-	-	-	600,527
Other	<u>230,206</u>	-	<u>12,763</u>	-	<u>242,969</u>
Total Support and Revenue	<u>22,427,879</u>	-	<u>69,647</u>	-	<u>22,497,526</u>
Expenses					
Program Services					
County funded	16,747,632	-	-	-	16,747,632
Permanent housing	3,461,592	-	-	-	3,461,592
Home grant programs	897,663	-	-	-	897,663
Other programs	<u>321,209</u>	-	<u>44,107</u>	-	<u>365,316</u>
Total Program Services	21,428,096	-	44,107	-	21,472,203
Supporting Services					
Management and general	1,858,105	-	5,851	-	1,863,956
Fundraising	<u>72,639</u>	-	-	-	<u>72,639</u>
Total Expenses	<u>23,358,840</u>	-	<u>49,958</u>	-	<u>23,408,798</u>
Change in Net Assets Before Other Changes	(930,961)	-	19,689	-	(911,272)
Other Changes					
Release of restrictions on grants payable	<u>386,912</u>	-	-	-	<u>386,912</u>
Change in Unrestricted Net Assets (Deficit)	(544,049)	-	19,689	-	(524,360)
NET ASSETS (DEFICIT)					
Beginning of year	<u>5,350,332</u>	<u>(6,454)</u>	<u>181,481</u>	<u>(471)</u>	<u>5,524,888</u>
End of year	<u>\$ 4,806,283</u>	<u>\$ (6,454)</u>	<u>\$ 201,170</u>	<u>\$ (471)</u>	<u>\$ 5,000,528</u>

Community Housing Innovations, Inc.
Consolidating Statement of Functional Expenses
Year Ended December 31, 2016

	CHI Not-for-Profit Entity							CHI Realty Division			Eliminations	Total Agency		
	County Funded	Permanent Housing	Home Grant Programs	Other Programs	Total Program	Management and General	Fundraising	CHI Not-for-Profit Entity Total	CHI For-Profit Subsidiaries Total	Other Programs			Management and General	CHI Realty Division Total
Salaries	\$ 4,949,201	\$ 490,052	\$ 288,838	\$ 121,145	\$ 5,849,236	\$ 1,044,341	\$ 23,522	\$ 6,917,099	\$ -	\$ 12,176	\$ 3,456	\$ 15,632	\$ -	\$ 6,932,731
Fringe benefits	1,040,370	158,342	58,191	36,148	1,293,051	190,183	4,131	1,487,365	-	2,118	691	2,809	-	1,490,174
Advertising	839	368	7,735	-	8,942	5,874	1,686	16,502	-	19,247	-	19,247	-	35,749
Depreciation and amortization	249,434	748,158	6,704	29,705	1,034,001	17,024	-	1,051,025	-	315	-	315	-	1,051,340
Conference, dues and subscriptions	821	5,583	13,702	-	20,106	4,593	2,357	27,056	-	1,303	-	1,303	-	28,359
Food	1,098,427	-	-	-	1,098,427	-	-	1,098,427	-	-	-	-	-	1,098,427
Interest expense	117,668	94,588	839	-	213,095	70,586	-	283,681	-	-	234	234	-	283,915
Interest expense - debt issuance costs	-	-	-	60,803	60,803	-	-	60,803	-	-	-	-	-	60,803
Insurance	244,483	283,466	-	4,575	532,524	67,243	-	599,767	-	2,738	214	2,952	-	602,719
Licenses and permits	2,548	5,094	2,100	-	9,742	875	-	10,617	-	150	-	150	-	10,767
Office expense	93,839	36,696	5,974	705	137,214	71,288	383	208,885	-	-	235	235	-	209,120
Professional fees	18,800	140,090	45,347	777	205,014	136,569	38,165	379,748	-	3,600	452	4,052	-	383,800
Rent	7,478,370	52,711	14,227	30,790	7,576,098	51,359	670	7,628,127	-	670	170	840	-	7,628,967
Equipment rental	27,649	3,312	1,260	-	32,221	22,487	-	54,708	-	-	-	-	-	54,708
Repairs and maintenance	771,026	708,570	1,466	10,092	1,491,154	77,439	-	1,568,593	-	-	256	256	-	1,568,849
Security	2,573	1,816	15	-	4,404	1,361	-	5,765	-	-	-	-	-	5,765
Real estate taxes	25,159	322,372	-	-	347,531	984	-	348,515	-	-	-	-	-	348,515
Telephone	86,390	16,702	2,175	1,102	106,369	16,118	691	123,178	-	-	-	-	-	123,178
Training	18,470	60	585	-	19,115	7,866	-	26,981	-	-	-	-	-	26,981
Travel	78,736	25,376	24,534	4,963	133,609	7,568	-	141,177	-	1,350	-	1,350	-	142,527
Utilities	343,291	355,559	1,100	770	700,720	43,188	440	744,348	-	440	143	583	-	744,931
Bad debt expense	-	38,775	-	-	38,775	-	-	38,775	-	-	-	-	-	38,775
Grant expenses pass through	-	-	407,000	-	407,000	-	-	407,000	-	-	-	-	-	407,000
Other HUD pass through	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other expenses	46,189	27,251	15,871	19,634	108,945	21,159	594	130,698	-	-	-	-	-	130,698
Total Expenses	\$ 16,694,283	\$ 3,514,941	\$ 897,663	\$ 321,209	\$ 21,428,096	\$ 1,858,105	\$ 72,639	\$ 23,358,840	\$ -	\$ 44,107	\$ 5,851	\$ 49,958	\$ -	\$ 23,408,798

Community Housing Innovations, Inc.

Consolidating Statement of Cash Flows

Year Ended December 31, 2016

	CHI Not-for Profit Entity-Total	CHI For-Profit Subsidiaries	CHI Realty Division	CHI Consolidated Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Change in net assets, (deficit) net of eliminations	\$ (544,049)	\$ -	\$ 19,689	\$ (524,360)
Adjustment to reconcile change in net assets (deficit) to net cash from operating activities				
Depreciation and amortization	1,051,025	-	315	1,051,340
Interest expense - debt issuance costs	60,803	-	-	60,803
Release of restrictions on grants payable	(386,912)	-	-	(386,912)
Gain on disposal of property and equipment	(600,527)	-	-	(600,527)
Changes in operating assets and liabilities				
Accounts receivable and accrued revenues	(625,869)	-	-	(625,869)
Due to/from consolidated organizations	19,689	-	(20,004)	(315)
Prepaid expenses and other current assets	(240,655)	-	-	(240,655)
Security deposits and other assets	(38,810)	-	-	(38,810)
Accounts payable and accrued expenses	(41,528)	-	-	(41,528)
Deposits payable	(50,610)	-	-	(50,610)
Net Cash from Operating Activities	<u>(1,397,443)</u>	<u>-</u>	<u>-</u>	<u>(1,397,443)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of property	2,640,427	-	-	2,640,427
Purchase of property and equipment	<u>(926,587)</u>	<u>-</u>	<u>-</u>	<u>(926,587)</u>
Net Cash from Investing Activities	<u>1,713,840</u>	<u>-</u>	<u>-</u>	<u>1,713,840</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from grants payable	661,813	-	-	661,813
Repayment of grants payable	(103,681)	-	-	(103,681)
Repayment of notes payable	(56,948)	-	-	(56,948)
Repayment of line of credit	(115,408)	-	-	(115,408)
Repayment of mortgages payable	<u>(477,232)</u>	<u>-</u>	<u>-</u>	<u>(477,232)</u>
Net Cash from Financing Activities	<u>(91,456)</u>	<u>-</u>	<u>-</u>	<u>(91,456)</u>
Net Change in Cash and Cash Equivalents	224,941	-	-	224,941
CASH AND CASH EQUIVALENTS				
Beginning of year	<u>1,766,548</u>	<u>1,387</u>	<u>-</u>	<u>1,767,935</u>
End of year	<u>\$ 1,991,489</u>	<u>\$ 1,387</u>	<u>\$ -</u>	<u>\$ 1,992,876</u>
SUPPLEMENTAL CASH FLOW INFORMATION				
Cash paid for interest	\$ 283,915	\$ -	\$ -	\$ 283,915

See notes to consolidating financial statements

Community Housing Innovations, Inc.

Notes to Consolidating Financial Statements
December 31, 2016

1. Organization

Community Housing Innovations, Inc. (“CHI”) was organized in New York in 1991 as a non-profit corporation for the purpose of establishing, maintaining, and operating transitional housing and to develop permanent housing for homeless and low-income individuals and families. CHI is exempt from federal income taxes under Section 501(c)(3) of the internal revenue code.

The consolidating financial statements of CHI include the assets, liabilities, net assets and results of operations of CHI and its subsidiaries as shown below:

CHI Mount Vernon, Inc.

Non-profit organization established to undertake activities that provides low and moderate income families and individuals with affordable rental and homeownership opportunities in the City of Mount Vernon. All 2016 transactions for CHI Mt. Vernon, are included under CHI.

CHI Yonkers, Inc.

Non-profit organization established to undertake activities that provide low and moderate income families and individuals with affordable rental and homeownership opportunities in the City of Yonkers. All 2016 transactions for CHI Yonkers, are included under CHI.

CHI Development Corporation

Wholly owned for-profit corporate subsidiary of CHI.

CHI Realty Division

Provides property management services for other corporations and may engage in real estate services that help facilitate CHI in carrying out its mission and objectives.

2. Summary of Significant Accounting Policies

Principles of Consolidation

In preparation of the accompanying consolidating financial statements, all material inter-entity balances and transactions have been eliminated.

Basis of Presentation and Use of Estimates

The accompanying consolidating financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly actual results could differ from those estimates.

Community Housing Innovations, Inc.

Notes to Consolidating Financial Statements
December 31, 2016

2. Summary of Significant Accounting Policies (*continued*)

Net Asset Presentation

Resources for various purposes are classified for accounting and reporting purposes into net asset categories established according to nature and purpose as follows:

Unrestricted - consist of resources available for the general support of CHI's operations. Unrestricted net assets may be used at the discretion of CHI's management and Board of Directors.

Temporarily restricted - represent amounts restricted by donors for specific activities of CHI or to be used at some future date. CHI records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When a donor restriction expires, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, when restrictions on donor-restricted contributions and investment return are met in the same accounting period in which they are received, such amounts are reported as unrestricted net assets.

Permanently restricted - consist of net assets that are subject to donor imposed restrictions that require CHI to maintain them permanently, including funds that are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity and the income be used for specific or general purposes. Income and gains earned on endowment fund investments are available to be used in the unrestricted or temporarily restricted net asset classes based upon stipulations by the donors.

Cash and Cash Equivalents

Cash and cash equivalents include cash balances held in bank accounts and highly liquid debt instruments with maturities of three months or less at the time of purchase.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that remain outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a reduction in accounts receivable. As of December 31, 2016, the total allowance for doubtful accounts was \$38,927.

Property and Equipment

Furniture and equipment as well as improvements to the buildings with a cost of \$750 or more are capitalized. Depreciation is calculated utilizing the straight-line method over the estimated useful life of the related assets. Useful lives are determined based on the Suffolk County reimbursable cost manual and other appropriate schedules as follows which, in the opinion of management approximates the economic life of the assets.

Community Housing Innovations, Inc.

Notes to Consolidating Financial Statements
December 31, 2016

2. Summary of Significant Accounting Policies (continued)

Property and Equipment (continued)

Building and improvements	10-40 years
Furniture and fixtures	5-7 years
Computer equipment	3-5 years
Motor vehicles	5 years

Many of the CHI's governmental contracts permit the expensing of up to \$25,000 of capital additions annually and accordingly such purchases are charged to expense.

Amortization

Debt issuance costs are being amortized utilizing the straight-line method which approximates the effective interest method over the terms of the new debt which ranges from 3 to 10 years.

Debt Issuance Costs

In 2016 CHI adopted new U.S. GAAP guidance for the presentation of debt issuance costs and related amortization. Debt issuance costs are now reported on the statement of financial position as a direct deduction from the face amount of the debt. Previously, such costs were shown as deferred financing costs. The debt issuance costs are being amortized over the term of the debt on a method that approximates the effective interest method. CHI reflects amortization of debt issuance costs within interest expense, in accordance with the new guidance. This change had no effect on previously reported changes in net assets.

Contributions

Contributions, including unconditional promises to give, are reported as revenues in the period received. Unconditional promises to give that are due beyond one year are discounted to reflect the present value of future cash flows using a risk adjusted discount rate assigned in the year the respective pledge originates. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any. Conditional promises to give are recognized when the conditions upon which they depend have been substantially met.

Rental Income and Prepaid Rent

Rental income is recognized for apartment rentals as it accrues. Advance receipts of rental income are deferred and classified as liabilities until earned.

In-kind Contributions

Donated services are reported in the consolidating financial statements at fair value, if those services create or enhance non-financial assets or require specialized skills are provided by individuals possessing those skills and that would typically be purchased if not provided by donation.

Community Housing Innovations, Inc.

Notes to Consolidating Financial Statements
December 31, 2016

2. Summary of Significant Accounting Policies (*continued*)

Functional Allocation of Expenses

The costs of providing CHI's various programs and other activities have been summarized on a functional basis in the accompanying consolidating financial statements. Accordingly, certain costs have been allocated among programs and supporting services benefited based on management's assessment of the benefit derived.

Advertising Costs

Advertising costs are expensed as incurred.

Accounting for Uncertainty in Income Taxes

CHI recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that CHI had no uncertain tax positions that would require financial statement recognition or disclosure. CHI is no longer subject to examinations by the applicable taxing jurisdictions for years prior to December 31, 2013.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the consolidating financial statements through the date that the consolidating financial statements were available to be issued, which date is June 27, 2017.

3. Concentration of Credit Risk

CHI's bank accounts and short-term investments, at times, exceed federally insured limits. CHI has not experienced any losses in such accounts. CHI believes it is not exposed to any significant credit risk on cash and cash equivalents.

CHI has minimal credit risk with respect to its accounts receivable.

The operations of CHI's affiliates are concentrated in the multifamily and low and moderate income real estate markets. These projects operate in a heavily regulated environment. The operations of these projects are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by such regulatory agencies. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

Community Housing Innovations, Inc.

Notes to Consolidating Financial Statements
December 31, 2016

4. Accounts Receivable

Accounts receivable consist of amounts owed to CHI for the provision of transitional housing and other types of housing for the homeless in Suffolk, Nassau, Dutchess, Westchester and Orange counties and various other receivables.

5. Property and Equipment

Property and equipment consist of the following at December 31, 2016:

Land	\$ 2,283,727
Buildings and building improvements	28,839,253
Furniture and fixtures	482,326
Computer equipment	210,827
Motor vehicles	<u>126,711</u>
	31,942,844
Accumulated depreciation and amortization	<u>(10,307,219)</u>
	<u>\$ 21,635,625</u>

There were property and equipment disposals of \$3,275,837 during the year ending December 31, 2016.

6. Grants Payable

Suffolk County HHAP Grants \$3,236,724

CHI obtained four mortgages from the New York State Homeless Housing and Assistance Corporation ("HHAC") to be used to purchase and renovate nineteen buildings. Obligations under the agreement at December 31, 2016 are as follows:

1995:	
HC00112	
9 Buildings	\$ 769,114
1999:	
HC00302	
Park Avenue - 1 Building with 15 units	780,000
2001:	
HC00428	
EAC Housing - 5 Buildings	837,500
2003:	
HC00516	
4 Buildings	<u>850,110</u>
	<u>\$ 3,236,724</u>

Community Housing Innovations, Inc.

Notes to Consolidating Financial Statements
December 31, 2016

6. Grants Payable (continued)

Suffolk County HHAP Grants \$3,236,724 (continued)

Each of the above Homeless Housing and Assistance Program (“HHAP”) loan agreements require that the properties be used to provide affordable housing in accordance with agreed occupancy and rent restrictions. CHI is required to operate the homeless housing projects for twenty-five years. If for any reason CHI should default, the mortgage will become due in total. After twenty-five years the mortgage will expire and be forgiven.

HC00264 - 678 Mamaroneck Avenue \$412,305

CHI obtained a mortgage from HHAC to be used to purchase and renovate a building. The loan on this property will be forgiven, barring default, on April 1, 2020.

HC00225 - 46 Dekalb \$575,000

CHI obtained a mortgage from HHAC to be used to purchase and renovate a building. The loan on this property will be forgiven, barring default, on July 1, 2022.

2010-022 – 629 West Main Street \$1,328,316

CHI obtained a mortgage from HHAC to be used to purchase and renovate a building. The loan on this property will be forgiven, barring default, on May 15, 2039

HUD Supportive Housing Projects \$2,106,201

Grants from the United States Department of Housing and Urban Development (“HUD”) are to provide scattered site housing in Suffolk County and Nassau County under the Stewart B, McKinney Homeless Assistance Act. Currently, there is \$2,106,201 of acquisition grants outstanding with Suffolk and Nassau Counties. No principal or interest payments are required. The loans on these properties will be forgiven, barring default over the last ten years of the loans as follows as of December 31:

2017	\$ 386,912
2018	360,563
2019	323,112
2020	267,926
2021	241,439
Thereafter	<u>526,249</u>
	<u>\$2,106,201</u>

Community Housing Innovations, Inc.

Notes to Consolidating Financial Statements
December 31, 2016

6. Grants Payable (continued)

Nassau County Supportive Housing Grants \$1,061,668

Property acquisition grants are used for scattered site supportive housing in Nassau County. No principal or interest payments are required. The loans on these properties will be forgiven, barring default, from October 2017 to January 2020.

Suffolk County Community Development Grants \$160,295

Property acquisition or rehabilitation grants are used for scattered site supportive housing in Suffolk County. No principal or interest payments are required. The loans on these properties will be forgiven, barring default, on January 1, 2020 in the amount of \$34,545 and on January 1, 2025 in the amount of \$125,750.

Mount Vernon Urban Renewal Agency Grants thru CHI Mt. Vernon, Inc. \$614,818

Rehabilitation grant used for 3 apartment buildings owned by CHI in Mount Vernon. The loan on these properties will be forgiven, barring default in 2019. The properties must be used to provide affordable housing for a period of 5 years.

City of Yonkers Home Investment Partnership Program thru CHI Yonkers, Inc. \$126,342

Rehabilitation grant used for one apartment building owned by CHI in Yonkers. The loan on this property will be forgiven, barring default in 2043. The properties must be used to provide affordable housing for a period of 30 years.

Hudson River Housing, Inc. New York Main Street Program Grant \$51,757

Building renovation grant totaling \$63,500 to CHI to reimburse portions of the costs of the improvement project at 8 Rose Street. Upon full completion of the work, CHI must provide a three to one match to the grant funds, so as the funds provided do not exceed 75% of the total project costs. CHI's estimates all work will be completed during 2020.

New York State Office of Mental Health Grant \$3,002,910

Grant from New York State off of Mental Health to provide funding for the establishment and operation of program services, design or the execution and performance of construction projects in Westchester County. No principal or interest payments are required. The loans on these properties will be forgiven, barring default in 2019.

Westchester County Grants \$33,174 and \$90,000

Property acquisition grants are used to purchase and develop a vacant lot located in Westchester County. CHI will construct two two-bedroom single family homes, which will be made available to families with incomes at or below 80% of the Westchester County area median income. Grant funds transfer to the home buyer through a note, mortgage and deed restriction for a period of not less than fifty years.

Community Housing Innovations, Inc.

Notes to Consolidating Financial Statements
December 31, 2016

6. Grants Payable (continued)

The two Westchester county grants of \$33,174 and \$90,000 will be transferred to the new home buyers at closing.

United Way Property Acquisition Grant \$1,135,055

Property acquisition and rehabilitation grant for housing opportunities for persons with AIDS. The loan on this property will be forgiven, barring default in 2021.

For the next five years and thereafter, these grants payable will be forgiven, barring default as follows:

2017	\$ 853,223
2018	689,092
2019	4,259,425
2020	714,776
2021	1,376,494
Thereafter	<u>5,918,381</u>
	<u>\$ 13,811,391</u>

7. Notes Payable

Notes payable consists of the following at December 31, 2016:

Leviticus 25:23 Alternative Fund, Inc. interest only payments at 7% until October 2011. Beginning November 1, 2011 interest at 6% with monthly interest and principal payments through October 2019. Interest expense for 2016 was \$8,517. The properties financed by this note serve as collateral for this note.	\$ 110,189
M&T car loan with interest at 4.20%, with monthly principal and interest payments beginning on September 2014 through 2019. Interest expense for 2016 was \$839. The motor vehicle financed by this note serves as collateral for this note.	16,455
M&T car loan with interest at 5.57%, with monthly principal and interest payments beginning on January 2016 through 2020. Interest expense for 2016 was \$5,670. The motor vehicles financed by this note serves as collateral for this note.	<u>89,602</u>
	<u>\$ 216,246</u>

Community Housing Innovations, Inc.

Notes to Consolidating Financial Statements December 31, 2016

7. Notes Payable

The future scheduled maturities of notes payable at December 31, 2016 are due as follows:

2017	\$ 60,539
2018	64,367
2019	67,090
2020	<u>24,250</u>
	<u>\$ 216,246</u>

8. Mortgages Payable

CHI and its subsidiaries have purchased properties, which were financed with mortgage liabilities from various financial institutions. Interest rates on these obligations range from 2.83% to 7.50% with maturity dates from June 2017 through June 2028. The amount outstanding as of December 31, 2016 was \$4,939,840. Interest expense for 2016 was \$218,470. The property financed by each loan serves as collateral for those loans.

Annual maturities of the mortgage principals for the years ending December 31 are as payable as follows:

2017	\$ 246,851
2018	269,028
2019	290,567
2020	317,519
2021	334,861
Thereafter	<u>3,481,014</u>
	4,939,840
Less unamortized debt issuance costs	<u>(59,056)</u>
	<u>\$ 4,880,784</u>

Amortization of debt issuance costs for the next five years and thereafter as of December 31 are as follows:

2017	\$ 34,055
2018	7,304
2019	7,304
2020	7,304
2021	<u>3,089</u>
	<u>\$ 59,056</u>

Debt issuance costs consist of the following at December 31, 2016:

Debt issuance costs	\$ 335,653
Accumulated amortization	<u>(276,597)</u>
	<u>\$ 59,056</u>

Community Housing Innovations, Inc.

Notes to Consolidating Financial Statements
December 31, 2016

9. Line of Credit

At December 31, 2016, CHI has one secured revolving loan commitment from People's Bank (the "Bank") totaling \$1,900,000 with an original expiration date of June 15, 2017. On June 13, 2017, the Bank temporarily extended the maturity date to September 13, 2017. It is the intention of the Bank to renew the line of credit with a new maturity date of September 13, 2020. The revolving loan bears interest on the outstanding principal amount at a rate per annum selected by Bank equal to the greater of LIBOR plus 2% or 3.25% or the greater of the Prime Rate or 3.25%. Total amount outstanding at December 31, 2016 was \$1,516,606. Interest expense for 2016 was \$49,432. CHI has granted the Bank a first priority continuing lien on and security in all of its assets.

On September 7, 2016, Leviticus Fund ("Leviticus") extended a secured line of credit to CHI in the amount of \$950,000. The proceeds of the line of credit shall be used by CHI to finance the placement of manufactured homes in Westchester County New York to households earning up to 89% of the area median income. The terms of the line of credit are for three years or September 7, 2019, with draws permitted in the first thirty months. The line of credit bears interest on the outstanding principal amount at a rate of 6% per annum, requiring interest-only payments from CHI's own resources. Principal balance is due at the earlier of closing on the sale of the last unsold manufactured home funded under the line of credit, or loan maturity. Interim principal payments shall be due as each home sells. Total amount outstanding at December 31, 2016 was \$134,592. Interest expense for 2016 was \$987.

10. Capital Assets Released from Regulatory Lien

In 2016, \$386,912 of grants payable for HUD Supporting Housing Projects was recognized as revenue in satisfaction of the terms of the underlying debt.

11. Retirement Plan

CHI has an IRS approved 401(k) profit sharing plan and trust for all eligible employees. In 2016, CHI has recorded an expense of \$161,660.

12. Commitments and Contingencies

Operating Leases

CHI leases numerous sites of real property. As of December 31, 2016, the majority of rental commitments under these leases were cancelable by CHI upon thirty days written notice.

Future minimum lease commitments for non-cancelable leases at December 31, 2016, are payable as follows for the years ending December 31:

2017	\$ 271,880
2018	275,137
2019	149,573
2020	141,695
2021	145,029
Thereafter	<u>12,224</u>
	<u>\$ 995,538</u>

* * * * *

Community Housing Innovations, Inc.

Uniform Guidance Reports and Schedules

December 31, 2016

Community Housing Innovations, Inc.

Schedule of Expenditures of Federal Awards and Accompanying Notes Year Ended December 31, 2016

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed through to subrecipients	Total Federal Expenditures
<u>U.S. Department of Health and Human Services</u>				
Temporary Assistance for Needy Families				
Pass-through Westchester County	93.558	DSS-310-15	\$ -	\$ 1,031,066
Pass-through Orange County DSS	93.558	2015-0883 & 2017-0058	-	351,344
Total U.S. Department of Health and Human Services			-	1,382,410
<u>U.S. Department of Housing and Urban Development</u>				
Supportive Housing Program	14.235	N/A	-	53,295
Supportive Housing Program	14.235	N/A	-	188,389
Supportive Housing Program	14.235	N/A	-	70,576
Supportive Housing Program	14.235	N/A	-	64,729
Supportive Housing Program	14.235	N/A	-	38,419
Supportive Housing Program	14.235	N/A	-	73,827
Pass-through South Shore Association for Independent Living, Inc.				
Supportive Housing Program	14.235	NY0532L2T031407 & NY0532L2T031508	-	15,224
Pass-through Family Residences and Essential Enterprises, Inc.				
Supportive Housing Program	14.235	NY0453L2T031407 & NY0453L2T031508	-	8,775
Total Supportive Housing Program			-	513,234
Housing Opportunities for Persons with AIDS				
Pass-through Town of Islip Community Development Agency	14.241	NYH09F001 & NYH10F001	-	1,135,055
Total U.S. Department of Housing and Urban Development			-	1,648,289
Total Expenditures of Federal Awards			\$ -	\$ 3,030,699

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of Community Housing Innovations, Inc. ("CHI") under programs of the federal government for the year ended December 31, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of CHI, it is not intended to and does not present the financial position, changes in net assets or cash flows of CHI.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 - Nonmonetary Assistance

For the year ended December 31, 2016, CHI received no nonmonetary assistance.

Note 4 - Indirect Cost Rate

CHI has elected not to use the 10-percent de minimus indirect cost rate allowed under the Uniform Guidance.

Note 5 - Grant Payable

CHI has received a grant payable. The grant balance outstanding at the beginning of the year plus any additional amounts received during the year are included in the federal expenditures presented in the Schedule. The balance of the grant outstanding at December 31, 2016 was \$1,135,055.



Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Independent Auditors' Report

**Board of Directors
Community Housing Innovations, Inc.**

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 consolidating financial statements of Community Housing Innovations, Inc. ("CHI"), which comprise the consolidating statement of financial position as of December 31, 2016, and the related consolidating statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 27, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered CHI'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 CHI's internal control. Accordingly, we do not express an opinion on the effectiveness of CHI'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 and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CHI's consolidating 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

PKF O'Connor Davies, LLP

Harrison, New York
June 27, 2017



Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

Independent Auditors' Report

**Board of Directors
Community Housing Innovations, Inc.**

Report on Compliance for Each Major Federal Program

We have audited Community Housing Innovations, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of CHI's major federal programs for the year ended December 31, 2016. CHI's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of CHI'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 the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about CHI'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 CHI's compliance.

Opinion on Each Major Federal Program

In our opinion, CHI complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

Report on Internal Control over Compliance

Management of CHI 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 CHI'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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of CHI'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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

PKF O'Connor Davies, LLP

Harrison, New York
June 27, 2017

Community Housing Innovations, Inc.

Schedule of Findings and Questioned Costs
December 31, 2016

Section I - Summary of Auditors' Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with U.S. GAAP: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? yes no

Significant deficiency(ies) identified? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major Federal programs:

Material weakness (es) identified? yes no

Significant deficiency (ies) identified? yes none reported

Type of auditors' report issued on compliance for major Federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a)? yes no

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.558	Temporary Assistance for Needy Families

Dollar threshold used to distinguish between Type A and Type B programs \$750,000

Auditee qualified as low-risk auditee? yes no

Section II - Financial Statement Findings

During our audit, we noted no material findings for the year ended December 31, 2016.

Section III - Federal Award Findings and Questioned Costs

During our audit, we noted no material instances of noncompliance and none of the costs reported in the federal financially assisted programs are questioned or recommended to be disallowed.

Section IV – Prior Year Federal Award Findings and Questioned Costs

There were no prior year audit findings.