

Community Housing Innovations, Inc.

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

December 31, 2015

Community Housing Innovations, Inc.

Uniform Guidance Schedules
Together with Independent Auditors' Report

Consolidating Financial Statements

December 31, 2015

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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. (the "CHI"), which comprise the consolidating statement of financial position as of December 31, 2015, 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.

Management's Responsibility for the 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, 2015 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2016 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 29, 2016

Community Housing Innovations, Inc.
Consolidating Statement of Financial Position
December 31, 2015

ASSETS	CHI Not-for-Profit Entity-Total	CHI For-Profit Subsidiaries	CHI Realty Division	Eliminations	CHI Consolidated Totals
Current Assets					
Cash and cash equivalents	\$ 1,766,548	\$ 1,387	\$ -	\$ -	\$ 1,767,935
Accounts receivable and accrued revenues, net of allowance of \$222,000	3,555,347	9,788	-	-	3,565,135
Due from consolidated organizations	-	-	181,481	(181,481)	-
Prepaid expenses	<u>110,574</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>110,574</u>
Total Current Assets	5,432,469	11,175	181,481	(181,481)	5,443,644
Noncurrent Assets					
Security deposits and other assets	297,412	-	-	-	297,412
Deferred fees, net	119,859	-	-	-	119,859
Property and equipment, net	23,808,963	-	-	-	23,808,963
Investments in partnership, at cost	<u>471</u>	<u>-</u>	<u>-</u>	<u>(471)</u>	<u>-</u>
	<u>\$ 29,659,174</u>	<u>\$ 11,175</u>	<u>\$ 181,481</u>	<u>\$ (181,952)</u>	<u>\$ 29,669,878</u>
LIABILITIES AND NET ASSETS (DEFICIT)					
Current Liabilities					
Accounts payable and accrued expenses	\$ 2,676,552	\$ 2,159	\$ -	\$ -	\$ 2,678,711
Deposits payable	246,062	-	-	-	246,062
Due to consolidated organizations	166,011	15,470	-	(181,481)	-
Current portion of notes payable	53,943	-	-	-	53,943
Current portion of mortgages payable	<u>444,605</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>444,605</u>
Total Current Liabilities	3,587,173	17,629	-	(181,481)	3,423,321
Noncurrent Liabilities					
Grants payable	13,763,345	-	-	-	13,763,345
Notes payable	219,251	-	-	-	219,251
Line of credit	1,766,606	-	-	-	1,766,606
Mortgages payable	<u>4,972,467</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,972,467</u>
Total Liabilities	<u>24,308,842</u>	<u>17,629</u>	<u>-</u>	<u>(181,481)</u>	<u>24,144,990</u>
Net Assets (Deficit), Unrestricted	<u>5,350,332</u>	<u>(6,454)</u>	<u>181,481</u>	<u>(471)</u>	<u>5,524,888</u>
	<u>\$ 29,659,174</u>	<u>\$ 11,175</u>	<u>\$ 181,481</u>	<u>\$ (181,952)</u>	<u>\$ 29,669,878</u>

See notes to consolidating financial statements

Community Housing Innovations, Inc.

Consolidating Statement of Activities
Year Ended December 31, 2015

	CHI Not-for-Profit Entity-Total	CHI For-Profit Subsidiaries	CHI Realty Division	Eliminations	CHI Consolidated Totals
UNRESTRICTED NET ASSETS					
Support and Revenue					
Rental income	\$ 4,616,708	\$ -	\$ -	\$ -	\$ 4,616,708
Scattered site housing	15,124,448	-	-	-	15,124,448
Revenue from government contracts	2,022,139	-	-	-	2,022,139
Management and social service fees	-	-	51,397	-	51,397
Interest	1,366	-	-	-	1,366
Special events	27,782	-	-	-	27,782
Contributions	421,308	-	-	-	421,308
Development fee income	2,000	-	-	-	2,000
Other	36,126	-	32,242	-	68,368
Net assets released from restrictions	<u>186,985</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>186,985</u>
Total Support and Revenue	<u>22,438,862</u>	<u>-</u>	<u>83,639</u>	<u>-</u>	<u>22,522,501</u>
Expenses					
Program Services					
County funded	16,211,489	-	-	-	16,211,489
Permanent housing	3,515,812	-	-	-	3,515,812
Home grant programs	1,452,978	-	-	-	1,452,978
Other programs	<u>290,076</u>	<u>6,442</u>	<u>28,453</u>	<u>-</u>	<u>324,971</u>
Total Program Services	21,470,355	6,442	28,453	-	21,505,250
Supporting Services					
Management and general	1,527,573	-	6,212	-	1,533,785
Fundraising	<u>36,085</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,085</u>
Total Expenses	<u>23,034,013</u>	<u>6,442</u>	<u>34,665</u>	<u>-</u>	<u>23,075,120</u>
Change in Net Assets Before Other Changes	(595,151)	(6,442)	48,974	-	(552,619)
Other Changes					
Release of restrictions on grants payable	<u>487,439</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>487,439</u>
Change in Unrestricted Net Assets (Deficit)	(107,712)	(6,442)	48,974	-	(65,180)
Unrestricted Net Assets					
Beginning of year	<u>5,458,044</u>	<u>(12)</u>	<u>132,507</u>	<u>-</u>	<u>5,590,539</u>
End of year	<u>\$ 5,350,332</u>	<u>\$ (6,454)</u>	<u>\$ 181,481</u>	<u>\$ -</u>	<u>\$ 5,525,359</u>
TEMPORARILY RESTRICTED NET ASSETS					
Net assets released from restrictions	\$ (186,985)	\$ -	\$ -	\$ -	\$ (186,985)
Temporarily Restricted Net Assets					
Beginning of year	<u>186,985</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>186,985</u>
End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Change in Net Assets (Deficit)	\$ (294,697)	\$ (6,442)	\$ 48,974	\$ -	\$ (252,165)
NET ASSETS (DEFICIT)					
Beginning of year	<u>5,645,029</u>	<u>(12)</u>	<u>132,507</u>	<u>-</u>	<u>5,777,524</u>
End of year	<u>\$ 5,350,332</u>	<u>\$ (6,454)</u>	<u>\$ 181,481</u>	<u>\$ -</u>	<u>\$ 5,525,359</u>

See notes to consolidating financial statements

Community Housing Innovations, Inc.
Consolidating Statement of Functional Expenses
Year Ended December 31, 2015

	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
Special events														
Salaries	\$ 5,080,766	\$ 574,830	\$ 187,878	\$ 163,251	\$ 6,006,725	\$ 803,394	\$ 25,994	\$ 6,836,113	\$ -	\$ 17,581	\$ 3,331	\$ 20,912	\$ -	\$ 6,857,025
Fringe benefits	1,227,675	219,157	100,900	41,858	1,589,590	96,294	5,432	1,691,316	-	603	547	1,150	-	1,692,466
Advertising	231	2,038	819	-	3,088	6,922	-	10,010	-	-	-	-	-	10,010
Continuing education	2,400	-	-	-	2,400	-	-	2,400	-	-	-	-	-	2,400
Depreciation and amortization	275,461	752,786	6,704	64,832	1,099,783	16,644	-	1,116,427	-	315	70	385	-	1,116,812
Conference, dues and subscriptions	805	3,573	12,539	-	16,917	3,257	75	20,249	-	5,476	-	5,476	-	25,725
Food	559,963	-	98	-	560,061	-	-	560,061	-	-	-	-	-	560,061
Interest expense	131,537	120,096	1,067	-	252,700	84,614	-	337,314	-	-	358	358	-	337,672
Insurance	203,197	291,426	-	2,304	496,927	37,630	-	534,557	-	1,794	156	1,950	-	536,507
Licenses and permits	3,577	7,990	-	-	11,567	137	-	11,704	-	970	-	970	-	12,674
Office expense	53,496	1,353	1,900	542	57,291	59,253	60	116,604	-	49	260	309	-	116,913
Professional fees	25,753	84,104	24,289	2,010	136,156	146,814	-	282,970	6,442	-	618	618	-	290,030
Rent	7,216,593	39,302	14,025	8,790	7,278,710	48,465	670	7,327,845	-	670	202	872	-	7,328,717
Equipment rental	29,374	1,840	1,120	-	32,334	19,982	-	52,316	-	-	-	-	-	52,316
Repairs and maintenance	836,732	619,029	437	-	1,456,198	103,904	2,065	1,562,167	-	-	390	390	-	1,562,557
Security	5,748	3,130	-	-	8,878	-	-	8,878	-	-	-	-	-	8,878
Real estate taxes	27,167	293,721	5,559	-	326,447	-	-	326,447	-	-	-	-	-	326,447
Telephone	69,616	18,631	1,896	1,458	91,601	17,577	-	109,178	-	198	72	270	-	109,448
Training	5,200	1,685	(2,220)	-	4,665	3,106	80	7,851	-	-	-	-	-	7,851
Travel	73,147	29,213	16,514	3,804	122,678	13,857	86	136,621	-	213	58	271	-	136,892
Utilities	354,560	444,782	1,662	906	801,910	35,049	480	837,439	-	480	150	630	-	838,069
Closing costs	-	-	27,000	-	27,000	-	-	27,000	-	-	-	-	-	27,000
Grant expenses pass through	-	-	1,034,987	-	1,034,987	-	-	1,034,987	-	-	-	-	-	1,034,987
Other expenses	28,491	7,126	15,804	321	51,742	30,674	1,143	83,559	-	104	-	104	-	83,663
Total Expenses	\$ 16,211,489	\$ 3,515,812	\$ 1,452,978	\$ 290,076	\$ 21,470,355	\$ 1,527,573	\$ 36,085	\$ 23,034,013	\$ 6,442	\$ 28,453	\$ 6,212	\$ 34,665	\$ -	\$ 23,075,120

Community Housing Innovations, Inc.

Consolidating Statement of Cash Flows

Year Ended December 31, 2015

	CHI Not-for Profit Entity-Total	CHI For-Profit Subsidiaries	CHI Realty Division	CHI Consolidated Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Change in net assets, (deficit) net of eliminations	\$ (294,697)	\$ (6,442)	\$ 48,974	\$ (252,165)
Adjustment to reconcile change in net assets (deficit) to net cash from operating activities				
Depreciation and amortization	1,116,427	-	385	1,116,812
Release of restrictions on grants payable	(487,439)	-	-	(487,439)
Changes in operating assets and liabilities				
Accounts receivable and accrued revenues	(425,715)	-	-	(425,715)
Due to/from related organizations	49,015	-	(49,359)	(344)
Prepaid expenses	(7,805)	-	-	(7,805)
Security deposits and other assets	66,054	-	-	66,054
Accounts payable and accrued expenses	467,801	-	-	467,801
Deposits payable	9,354	-	-	9,354
Net Cash from Operating Activities	<u>492,995</u>	<u>(6,442)</u>	<u>-</u>	<u>486,553</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of fixed assets	(4,645,890)	-	-	(4,645,890)
Disposal of property and equipment	<u>(63,480)</u>	<u>-</u>	<u>-</u>	<u>(63,480)</u>
Net Cash from Investing Activities	<u>(4,709,370)</u>	<u>-</u>	<u>-</u>	<u>(4,709,370)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from lines of credit	330,000	-	-	330,000
Proceeds from notes payable	108,855	-	-	108,855
Proceeds from grants payable	4,185,862	-	-	4,185,862
Payments on mortgages payable	(195,931)	-	-	(195,931)
Notes payable payments	<u>(34,272)</u>	<u>-</u>	<u>-</u>	<u>(34,272)</u>
Net Cash from Financing Activities	<u>4,394,514</u>	<u>-</u>	<u>-</u>	<u>4,394,514</u>
Net Change in Cash and Cash Equivalents	178,139	(6,442)	-	171,697
CASH AND CASH EQUIVALENTS				
Beginning of year	<u>1,588,409</u>	<u>7,829</u>	<u>-</u>	<u>1,596,238</u>
End of year	<u>\$ 1,766,548</u>	<u>\$ 1,387</u>	<u>\$ -</u>	<u>\$ 1,767,935</u>
SUPPLEMENTAL CASH FLOW INFORMATION				
Cash paid for interest	\$ 337,672	\$ -	\$ -	\$ 337,672

See notes to consolidating financial statements

Community Housing Innovations, Inc.

Notes to Consolidating Financial Statements
December 31, 2015

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 2015 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 2015 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.

Community Housing Innovations, Inc.

Notes to Consolidating Financial Statements
December 31, 2015

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

Basis of Presentation

Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Unrestricted amounts are those currently available at the discretion of the Board for use in the organization's operations. Temporarily restricted amounts are those which are restricted by donor stipulation to be used for a specific purpose or time. When a donor restriction expires, that is, when a stipulated time restriction and or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions. Permanently restricted amounts are gifts which are established by donor restriction in perpetuity to provide a permanent endowment. There were no temporary or permanently restricted net assets at December 31, 2015.

Use of Estimates

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

Cash and Cash Equivalents

For purposes of the consolidating statement of cash flows, CHI considers all highly liquid debt instruments with a maturity of three months or less, at time of purchase, to be cash equivalents.

Allowance for Uncollectible Receivables

An allowance for uncollectible receivables is estimated based on a combination of write-off history, aging analysis and any specific known troubled accounts.

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.

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.

Community Housing Innovations, Inc.

Notes to Consolidating Financial Statements
December 31, 2015

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

Amortization

Deferred fees 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.

Contributions

All contributions are considered available for unrestricted use, unless specifically restricted by the donor or subject to other legal restrictions. CHI's policy is to report as unrestricted support, contributions with donor imposed restrictions when these restrictions are met in the same year the contributions are received.

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.

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, 2012.

Community Housing Innovations, Inc.

Notes to Consolidating Financial Statements
December 31, 2015

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

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 29, 2016.

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.

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. Deferred Financing Fees

Included in deferred financing fees for mortgage expenses, which are being amortized over the life of the mortgage and fees related to the refinancing of debt.

Deferred fees consist of the following at December 31, 2015:

Refinancing fees	\$ 335,653
Accumulated amortization	<u>(215,794)</u>
	<u>\$ 119,859</u>

Amortization expense charged during the years ended December 31, 2015 and 2014 were \$60,803 and \$99,839. Amortization expense will continue through the year 2023.

Community Housing Innovations, Inc.

Notes to Consolidating Financial Statements
December 31, 2015

6. Property and Equipment

Property and equipment consist of the following at December 31, 2015:

Land	\$ 2,457,069
Buildings and building improvements	31,016,289
Furniture and fixtures	489,376
Computer equipment	198,538
Motor vehicles	<u>139,822</u>
	34,301,094
Accumulated depreciation and amortization	<u>(10,492,131)</u>
	<u>\$ 23,808,963</u>

There were property and equipment disposals of \$63,480 during the year ending December 31, 2015.

7. 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, 2015 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, 2015

7. 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 \$1,295,349

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 \$2,493,113

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 \$2,493,113 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:

2016	386,912
2017	386,912
2018	360,563
2019	323,112
2020	267,926
Thereafter	767,688
	<u>\$ 2,493,113</u>

Federal Home Loan Bank Grant

Grants from the Federal Home Loan Bank (“FHLB”) of \$140,000 to fund permanent housing in Suffolk County, New York. This grant was forgiven during 2015.

Community Housing Innovations, Inc.

Notes to Consolidating Financial Statements
December 31, 2015

7. 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.

New York State Urban Initiatives Grant \$103,681

Rehabilitation grant used for one apartment building owned by CHI. No principal or interest payments are required. The grant on this property will be forgiven, barring default, on January 1, 2020. The property must be used to provide affordable housing for a period of 5 years.

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 2016. 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 2016.

New York State Office of Mental Health Grant \$2,497,237

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.

Community Housing Innovations, Inc.

Notes to Consolidating Financial Statements
December 31, 2015

7. Grants Payable (continued)

United Way Property Acquisition Grant \$1,135,056

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:

2016	\$ 1,157,168
2017	801,466
2018	689,092
2019	3,138,934
2020	267,926
Thereafter	<u>7,708,759</u>
	<u>\$ 13,763,345</u>

8. Notes Payable

Notes payable consists of the following at December 31, 2015:

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 2015 was \$11,747. The properties financed by this note serve as collateral for this note.	\$ 142,368
M&T car loan with interest at 4.20%, with monthly principal and interest payments beginning on September 2014 through 2019. Interest expense for 2015 was \$301. The motor vehicles financed by this note serves as collateral for this note.	21,971
M&T car loan with interest at 5.57%, with monthly principal and interest payments beginning on January 2016 through 2020. Interest expense for 2015 was \$0. The motor vehicles financed by this note serves as collateral for this note.	<u>108,855</u>
	<u>\$ 273,194</u>

The future scheduled maturities of notes payable at December 31, 2015 are due as follows:

2016	\$ 53,943
2017	60,539
2018	64,367
2019	67,090
2020	<u>27,255</u>
	<u>\$ 273,194</u>

Community Housing Innovations, Inc.

Notes to Consolidating Financial Statements December 31, 2015

9. 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 9.80% with maturity dates from October 2014 through July 2028. The amount outstanding as of December 31, 2015 was \$5,417,072. Interest expense for 2015 was \$229,796. The property financed by each loan serves as collateral for those loans.

The future scheduled maturities of mortgages payable at December 31, 2015 are due as follows:

2016	\$ 444,605
2017	195,855
2018	201,436
2019	206,014
2020	216,246
Thereafter	<u>4,152,916</u>
	<u>\$ 5,417,072</u>

10. Line of Credit

At December 31, 2015, CHI has one revolving loan commitment from People's Bank (the "Bank") totaling \$1,900,000 with an expiration date of June 15, 2017. 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, 2015 was \$1,766,606. Interest expense for 2015 was \$41,837. CHI has granted the Bank a first priority continuing lien on and security in all of its assets.

11. Temporarily Restricted Net Assets

Temporarily restricted net assets and net assets released during 2015:

	<u>Balance</u>	<u>Net Asset Releases</u>
Foreclosure Program	\$ -	\$ 6,128
Operating expenses	-	170,857
GED Program	-	10,000
	<u>\$ -</u>	<u>\$ 186,985</u>

Community Housing Innovations, Inc.

Notes to Consolidating Financial Statements
December 31, 2015

12. Capital Assets Released from Regulatory Lien

In 2015, \$487,439 of grants payable for HUD Supporting Housing Projects was recognized as revenue in satisfaction of the terms of the underlying debt.

13. Retirement Plan

CHI has an IRS approved 401(k) profit sharing plan and trust for all eligible employees. In 2015, CHI has recorded an expense of \$172,440 which has been accrued.

14. Commitments and Contingencies

Operating Leases

CHI leases numerous sites of real property. As of December 31, 2015, 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, 2015, are payable as follows for the years ending December 31:

2016	\$ 244,227
2017	272,696
2018	275,138
2019	149,573
2020	141,695
Thereafter	<u>157,252</u>
	<u>\$ 1,240,581</u>

15. Subsequent Event

On May 19, 2016, CHI sold a property located in Port Ewen, New York for \$110,000. CHI used the proceeds from the sale and operating funds to pay off the remaining balance on the loan associated with this property. The loan balance as of December 31, 2015 was \$257,718.

In addition, on June 9, 2016, CHI sold four properties, located in Yonkers, New York for a total of \$1,415,000. There was no debt associated with these properties.

* * * * *

Community Housing Innovations, Inc.

Uniform Guidance Reports and Schedules

December 31, 2015

Community Housing Innovations, Inc.

Schedule of Expenditures of Federal Awards and Accompanying Notes Year Ended December 31, 2015

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed through to subrecipients	Federal Expenditures
U.S. Department of Health and Human Services:				
Temporary Assistance for Needy Families				
Pass-through Westchester County	93.558	DSS-310-15	\$ -	\$ 939,019
Pass-through Orange County DSS	93.558	2014-0883/2015	-	328,135
Total U.S. Department of Health and Human Services			-	1,267,154
U.S. Department of Housing and Urban Development:				
Housing Counseling Assistance Program				
Direct funds to Community Housing Innovations, Inc.	14.169	N/A	-	6,615
Supportive Housing Program	14.235	N/A	-	57,280
Supportive Housing Program	14.235	N/A	-	56,316
Supportive Housing Program	14.235	N/A	-	107,998
Supportive Housing Program	14.235	N/A	-	56,546
Supportive Housing Program	14.235	N/A	-	149,707
Supportive Housing Program	14.235	N/A	-	51,360
Supportive Housing Program	14.235	N/A	25,848	-
Supportive Housing Program	14.235	N/A	8,295	-
Supportive Housing Program	14.235	N/A	61,294	-
Supportive Housing Program	14.235	N/A	17,420	-
Pass-through South Shore Association for Independent Living, Inc.	14.235	NY0532L2T031306 & NY0532L2T031407	-	22,757
Pass-through Family Residences and Essential Enterprises, Inc.	14.235	NY0453L2T031306 & NY0453L2T031407	-	13,425
Total Supportive Housing Program			112,857	515,389
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			112,857	1,657,059
Total Expenditures of Federal Awards			\$ 112,857	\$ 2,924,213

Note 1 - 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, 2015. 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"). This 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 (deficit) or cash flows of CHI.

Note 2 - 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 - For the year ended December 31, 2015, CHI does have a mortgage or loan funds that is included in the federal expenditures presented in the Schedule.

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, 2015, 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 29, 2016.

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 preceding 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 29, 2016



Report on Compliance for Each Major Federal Program, 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, 2015. Community Housing Innovations, Inc.'s ("CHI") 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, 2015.

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 29, 2016

Community Housing Innovations, Inc.

Schedule of Findings and Questioned Costs
Year Ended December 31, 2015

Section I - Summary of Auditors' Results

Financial Statements

Type of report the auditor issued on whether the
Financial statements 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, 2015.

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 Findings

None