Abrams
Foster
Nole &
Williams, P.A.

September 10, 2015

Board of Directors
Healthy Neighborhoods, Inc.

We have audited the financial statements of the Healthy Neighborhoods, Inc. (the Organization) for the year ended December 31, 2014, and have issued our report thereon dated September 10, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 20, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Organization are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We identified no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There are no estimates which are particularly significant to the financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Material misstatements detected as a result of audit procedures were corrected by management through adjusting journal entries. The most material adjusting journal entries were related to reclassifications of NSP2 receivables, revenue and loan balances.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 10, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

<u>Other Matters</u>

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Directors, Audit and Finance Committee and management of Healthy Neighborhoods, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

ABRAMS, FOSTER, NOLE & WILLIAMS, P.A.
Certified Public Accountants

Arnold Williams

Arnold Williams, CPA
Managing Director

HEALTHY NEIGHBORHOODS, INC.

Financial Statements
and
Independent Auditor's Reports

Years Ended December 31, 2014 and 2013

TABLE OF CONTENTS

Abrams
Foster
Nole &
Williams, P.A.

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Healthy Neighborhoods, Inc.
Baltimore, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of Healthy Neighborhoods, Inc. (a nonprofit organization) (the Organization), which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities and changes in net assets and cash flows for the years 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 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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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 financial statements referred to above present fairly, in all material respects, the financial position of Healthy Neighborhoods, Inc., as of December 31, 2014 and 2013, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* is presented for purposes of additional analysis and is not a required part of the basic 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. Such 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 September 10, 2015 on our consideration of the Organization'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Abrams, Foster, Nole & Williams, P.A.

Abrams, Foster, Nole & Williams, P.A.
Certified Public Accountants
Baltimore, Maryland

September 10, 2015

HEALTHY NEIGHBORHOODS, INC.
Statements of Financial Position
December 31, 2014 and 2013

	2014	2013
ASSETS		
Current Assets		
Cash and cash equivalents	$ 2,686,964	$ 2,978,911
Cash - restricted	289,624	303,971
Investments	251,812	107,981
City grants receivable	596,208	394,245
Notes receivable (net of allowance of $0 for 2014 and 2013)	273,730	-
Loans receivable	257,633	240,399
Grants receivable	960,794	-
Contributions receivable	420,000	49,104
NSP2 property acquisition and rehabilitation advances	1,233,730	1,982,525
NSP2 direct purchase program receivable	59,843	59,843
NSP2 settlement loans receivable	141,305	118,145
Prepaid expenses	1,784	1,784
NSP2 and other receivables	167,005	184,424
Total current assets	7,340,432	6,421,332
Property and Equipment		
Equipment	18,677	16,700
Less: accumulated depreciation	(15,580)	(14,903)
Net property and equipment	3,097	1,797
Other Non Current Assets		
Loans receivable	507,814	485,669
NSP2 property acquisitions and rehabilitation advances	3,701,191	5,947,575
NSP2 settlement loans receivable	569,162	594,667
NSP2 direct purchase program receivable	339,007	398,850
Total other non current assets	5,117,174	7,426,761
Total Assets	$ 12,460,703	$ 13,849,890

HEALTHY NEIGHBORHOODS, INC.
Statements of Financial Position, Cont.
December 31, 2014 and 2013

	2014	2013
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	$ 22,177	$ 14,443
NSP2 accounts payable	4,664	31,477
Interest payable	2,628	-
Accrued expense	73,982	23,969
Line of credit	792,647	-
Grants payable	282,856	72,166
NSP2 grant advances	1,233,508	1,982,303
NSP2 deferred revenue- direct purchase program	59,843	59,843
NSP2 deferred revenue - settlement loans	141,305	118,145
NSP2 deferred revenue- prepaid expense	-	1,333
NSP2 deferred program income	967,539	1,750,545
Total current liabilities	3,581,149	4,054,224
Non Current Liabilities		
NSP2 grant advances	3,700,525	5,946,909
NSP2 deferred revenue- direct purchase program	339,907	399,750
NSP2 deferred revenue - settlement loans	569,162	594,667
NSP2 deferred revenue - NCI loans	273,730	-
Deferred revenue- loan guarantees	181,000	181,000
Total non current liabilities	5,064,324	7,122,326
Total Liabilities	8,645,473	11,176,550
Net Assets		
Unrestricted net assets	1,705,073	1,893,904
Temporarily restricted net assets	2,110,157	779,436
Total net assets	3,815,230	2,673,340
Total Liabilites and Net Assets	$ 12,460,703	$ 13,849,890

“See Accompanying Notes”

HEALTHY NEIGHBORHOODS, INC.
Statement of Activities and Changes in Net Assets
Year Ended December 31, 2014

	Unrestricted	Temporarily Restricted	Total
Changes in Net Assets			
Revenue and Support			
Federal grants	$ -	$ 5,019,347	$ 5,019,347
State and local grants	-	5,351,967	5,351,967
Contributions and gifts	373,000	220,000	593,000
Investment income	1,750	398	2,148
Other income	22,794	50,784	73,578
Total	397,544	10,642,496	11,040,040
Net assets released from restrictions:			
Satisfaction of program restrictions	9,311,775	(9,311,775)	-
Total revenue and support	9,709,319	1,330,721	11,040,040
Expenses			
Program activity			
Program development & grant administration	942,862	-	942,862
NSP2 administrative costs	736,722	-	736,722
Grants	1,976,939	-	1,976,939
NSP2 project development expenditures	6,150,354	-	6,150,354
Total program activity	9,806,877	-	9,806,877
Supporting expenses			
Management and general	78,735	-	78,735
Development and marketing	12,538	-	12,538
Total supporting expenses	91,273	-	91,273
Total expenses	9,898,150	-	9,898,150
(Decrease) Increase in net assets	(188,831)	1,330,721	1,141,890
Net assets at beginning of year	1,893,904	779,436	2,673,340
Net Assets at End of Year	$ 1,705,073	$ 2,110,157	$ 3,815,230

"See Accompanying Notes"

HEALTHY NEIGHBORHOODS, INC.
Statement of Activities and Changes in Net Assets
Year Ended December 31, 2013

	Unrestricted	**Temporarily Restricted**	**Total**
Changes in Net Assets			
Revenue and Support			
Federal grants	$ -	$ 10,522,971	$ 10,522,971
State and local grants	-	270,991	270,991
Contributions and gifts	299,667	-	299,667
Investment income	2,122	166	2,288
Other income	14,748	-	14,748
Total	316,537	10,794,128	11,110,665
Net assets released from restrictions:			
Satisfaction of program restrictions	11,632,685	(11,632,685)	-
Total revenue and support	11,949,222	(838,557)	11,110,665
Expenses			
Program activity			
Program development & grant administration	772,984	-	772,984
NSP2 administrative costs	898,883	-	898,883
Grants	198,111	-	198,111
NSP2 project development expenditures	9,590,477	-	9,590,477
Total program activity	11,460,455	-	11,460,455
Supporting expenses			
Management and general	68,958	-	68,958
Development and marketing	8,794	-	8,794
Total supporting expenses	77,752	-	77,752
Total expenses	11,538,207	-	11,538,207
Increase (Decrease) in net assets	411,015	(838,557)	(427,542)
Net assets at beginning of year	1,482,889	1,617,993	3,100,882
Net Assets at End of Year	$ 1,893,904	$ 779,436	$ 2,673,340

"See Accompanying Notes"

HEALTHY NEIGHBORHOODS, INC.
Statements of Cash Flows
Years Ended December 31, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities		
Change in net assets	$ 1,141,890	$ (427,542)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	677	1,008
Changes in assets and liabilities		
(Increase) decrease in assets		
City grants receivable	(201,963)	361,214
Notes receivable	(273,730)	15,000
Loan receivable	(39,379)	9,568
Grants receivable	(960,794)	-
Contributions receivable	(370,896)	25,896
NSP2 property acquisition & rehabilitation advances	2,995,179	36,790
NSP2 direct purchase receivable	59,843	(93,063)
NSP2 settlement loans receivable	2,345	(712,812)
Prepaid expenses	-	1,321
NSP2 and other receivables	17,419	(102,927)
Increase (decrease) in liabilities		
Accounts payable	7,734	(9,082)
NSP2 accounts payable	(26,813)	(112,108)
Interest payable	2,628	-
Accrued liabilities	50,013	20,823
Grants payable	210,690	(459,687)
NSP2 grant advances	(2,995,179)	(68,139)
NSP2 accrued developer interest receivable	-	-
NSP2 deferred revenue - prepaid expense	(1,333)	(2,334)
NSP2 deferred revenue - direct purchase payable	(59,843)	93,063
NSP2 deferred revenue - settlement loans	(2,345)	712,812
NSP2 deferred revenue - NCI loans	273,730	-
NSP2 deferred program income	(783,006)	1,475,810
Total adjustments	(2,095,023)	1,193,153
Net cash (used) provided by operating activities	(953,133)	765,611

"See Accompanying Notes"

HEALTHY NEIGHBORHOODS, INC.
Statements of Cash Flows, Cont.
Years Ended December 31, 2014 and 2013

	2014	2013
Cash Flows from Investing Activities		
Purchase of property and equipment	(1,977)	(820)
Purchase of investments	(143,831)	(641)
Net cash used by investing activities	(145,808)	(1,461)
Cash Flow from Financing Activities		
Borrowing from line of credit	792,647	-
Net (decrease) increase in cash and cash equivalents	(306,294)	764,150
Cash and cash equivalents at beginning of year	3,282,882	2,518,732
Cash and Cash Equivalents at End of Year	$ 2,976,588	$ 3,282,882
Supplemental Disclosure		
Interest paid	$ 3,919	$ -

1. BACKGROUND

Healthy Neighborhoods, Inc. (the Organization) is a non-profit corporation formed to help strong but undervalued neighborhoods increase home values, market their communities, create high standards for property improvement and forge strong connections among neighbors. Healthy Neighborhoods began as a pilot program of the Baltimore Community Foundation, Inc. (the Supported Organization) in 2000. Its purpose was to develop market and asset driven strategies to benefit neighborhoods with significant assets but stagnant real estate values. The pilot recognized the critical importance of making these neighborhoods once again attractive to home purchasers and renovators. Based upon significant measurable performance over three years, the Supported Organization organized a new non-profit corporation, Healthy Neighborhoods, Inc., in 2004 to promote these strategies and bring the program to scale.

The Organization has raised and manages in excess of $100 million below market loans for purchase and rehabilitation, refinance and rehabilitation and home improvement by homeowners, provides free professional advice for rehabbers, offers grants for community projects which support positive images, neighborhood marketing, performance measures, and partnerships which support other community development action. The Organization supports the marketing and organizing of 41 neighborhood organizations active in 35 Baltimore neighborhoods. The Organization is performance driven. Success of the Organization is measured by home values, tax base, time on market, the value of other neighborhood investments and neighborhood organizations and activity. Data are collected and reported to the Organization’s board and partners quarterly.

In February 2010, the Organization was awarded a $26,092,880 grant from the U.S. Department of Housing and Urban Development (HUD).

2. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

A. Basis of Accounting

The Organization records it transactions on the accrual basis of accounting with a calendar year ending December 31.

B. Basis of Presentation

The financial statement presentation follows the guidance of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC); ASC-958-205, *Financial Statements of Not-for-Profit Organizations.* Under ASC-958-205, the Organization is required to report information regarding its

2. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)

B. Basis of Presentation (Continued)

financial position and activities according to three classes of net assets: (1) unrestricted, (2) temporarily restricted, and (3) permanently restricted.

The net assets of the Organization are reported as follows:

- Unrestricted net assets represent the portion of expendable funds that are available for support of the Organization's operations, at the discretion of its Board of Directors.

- Temporarily restricted net assets represent funds which are specifically restricted by donors or grants for future use or restricted for a specific purpose. The Organization reports contributions of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor-imposed restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions.

- Permanently restricted net assets are funds subject to donor-imposed stipulations that they be maintained permanently by the Organization. The Organization had no permanently restricted net assets as of December 31, 2014 and 2013.

C. Revenue and Receivables

Revenue is recorded as earned. No allowance for doubtful accounts is recorded for grants and loans as management believes all receivables are fully collectible. No allowance for uncollectible amounts was recorded for notes receivable for fiscal years 2014 and 2013.

D. Federal Income Taxes

Under the provisions of Section 501(c)(3) of the Internal Revenue Code, the Organization is exempt from Federal and state income taxes, except for unrelated business income, if any. Accordingly, no provision for income taxes

2. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)

D. Federal Income Taxes (continued)

has been made in the accompanying financial statements. An informational return (Federal Form 990) is filed annually. The internal revenue service has not examined (audited) any income tax returns of the Organization thus the previous three years are subject to examination. The Organization has not taken any questionable tax positions.

E. Cash and Cash Equivalents

The Organization considers all highly liquid investments with maturity of three months or less, at the date of acquisition to be cash equivalents. The Organization's cash and cash equivalents includes money market funds that are invested in a pool with other funds under the Supported Organization. The Organization maintains several accounts which are restricted for the use of loan guarantees.

F. Property and Equipment

Property and equipment purchases are recorded at cost and are depreciated on a straight-line basis over the life of the asset. It is the Organization's policy to capitalize assets with a cost of $500 or greater, with a life greater than one year. Depreciation is calculated using depreciable lives of three years for computer equipment and five years for office equipment. Depreciation expense for the years ended December 31, 2014 and 2013 totaled $677 and $1,008, respectively.

G. Grants

Unconditional promises by the Organization to give (grant commitments) are recognized as payables and corresponding grant expenses in the year the promises or commitments are made.

H. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

3. FINANCIAL INSTRUMENTS WITH CONCENTRATIONS OF CREDIT RISK

The Organization maintains its cash in three pooled investment accounts under its Supported Organization. Funds received from HUD are maintained in a separate non-interest bearing checking account. Periodically during the year, cash has exceeded the Federal Deposit Insurance Corporation (FDIC) insurance limitation. The FDIC Transaction Account Guarantee Program guaranteed 100 percent coverage for certain non-interest bearing transaction accounts. The standard insurance amount is $250,000 per depositor, per insured bank, for each account ownership category. The Organization has not experienced any losses in any of its accounts.

4. FAIR VALUE MEASUREMENTS

FASB ASC 820-10-35-37 establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets; Inputs other than quoted prices that are observable for the asset or liabilities;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If an asset or liability has a specified (contractual) term, Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

HEALTHY NEIGHBORHOODS, INC.
Notes to Financial Statements
December 31, 2014 and 2013

4. FAIR VALUE MEASUREMENTS (Continued)

The following is a description of the valuation methodology used for assets measured at fair value.

Certificate of Deposit: Valued at the closing price reported on the active market on which the individual securities are traded. Such investments are classified within level 1 of the hierarchy.

The method described above may produce a fair value calculation that may not be indicative of net realized value or reflective of future fair values. Furthermore, while the Organization believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Organization's investments are reported at fair value in the accompanying statements of financial position and are available for the years ending December 31, 2014 and 2013 as follows:

		Fair Value Measurement at Reporting Date Using:		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2014				
Certificate of Deposit	$ 251,812	$ 251,812	$ -	$ -
Total	$ 251,812	$ 251,812	$ -	$ -

4. FAIR VALUE MEASUREMENTS (Continued)

		Fair Value Measurement at Reporting Date Using:		
December 31, 2013	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Certificate of Deposit	$ 107,981	$ 107,981	$ -	$ -
Total	$ 107,981	$ 107,981	$ -	$ -

5. CITY GRANTS RECEIVABLE

Baltimore City (the City) awards grants to the Organization for its operating support on a cost reimbursement basis. Unrestricted state/local grants revenue is accrued when expenses are committed. Draw packages are submitted to the City as expenses are paid. Reimbursements from the City are recorded as decreases in City grants receivable. As of December 31, 2014 and 2013, the City grants receivable balance was $596,208 and $394,245, respectively.

6. LOANS RECEIVABLE

The City granted $1,550,000 in funds to be provided to qualified borrowers for rehabilitation or purchase of homes in qualified neighborhoods.

The City loan funds are matched $1 for $1 up to $10,000 for qualified borrowers. The loans are forgivable based on the homeowner's satisfaction of certain requirements, including ownership, for a length of five years. For each year that a borrower satisfies the requirements, 20% of the loan is forgiven and expensed by the Organization. Upon the utilization of the full $1,550,000 the remaining balance of the loans will be donated back to the City. As of December 31, 2014 and 2013, the loan receivable balance was $765,447 and $726,068, respectively. Current loans receivable were $257,633 and $240,399 as of December 31, 2014 and 2013, respectively.

6. LOANS RECEIVABLE (Continued)

The scheduled amortization of the forgiven loans receivable are as follows:

Year	Amount Satisfied
2015	$ 257,633
2016	203,691
2017	146,104
2018	101,698
2019	56,321
Total	$ 765,447

7. CONTRIBUTIONS RECEIVABLE

The Organization received unconditional pledges which are recognized as contribution receivables and as corresponding contribution revenue in the year the pledges were made. Conditional pledges to give, which depend on the occurrence of a specified future and uncertain event, are not recognized as revenue until the conditions have been met. As of December 31, 2014 and 2013, the Organization recorded contributions receivable of $420,000 and $49,104, respectively.

8. NSP2 PROPERTY ACQUISTION AND REHABILITATION ADVANCES AND DEFERRED REVENUE

In February 2010, the Organization received a grant totaling $26,092,880 from HUD Neighborhood Stabilization Program 2 (NSP2) under the American Recovery and Reinvestment Act (ARRA). Of the total amount received, 90% of the funds must be used for the purchase and redevelopment of abandoned, foreclosed or vacant residential properties that will be used to house individuals or families earning less than 120% of the area medium income. The NSP2 grant allows for 10% of the funds to be used for administrative expenses.

8. NSP2 PROPERTY ACQUISTION AND REHABILITATION ADVANCES AND DEFERRED REVENUE (Continued)

The NSP2 grant allows the Organization to draw funds for costs incurred under the grant to loan development partners funds to acquire or rehabilitate foreclosed, abandoned, or vacant homes. The draws are recorded as deferred revenue until the homes are sold.

The Organization entered into several agreements with its development partners to purchase and develop properties. The agreements with the development partners provide for a revolving loan in varying amounts from $546,000 to $3,000,000. The source of the loan funds are from the NSP2 grant advances and are to be used for NSP2 acquisition and rehabilitation activities. As of December 31, 2014 and 2013, the grant advances amounted to $4,934,921 and $7,930,100 respectively. The outstanding NSP2 Grant Advances are due from development partners as of December 31, 2014 and 2013 are as follows:

	2014	2013
Women's Housing Coalition	$ 1,349,365	$ 1,349,365
French Development	531,914	148,442
Govans Ecumenical Development Corporation	225,488	286,870
Community Solutions	292,628	120,614
Druid Heights Community Development Corporation	499,414	684,830
Habitat for Humanity of the Chesapeake	1,004,105	1,154,654
Telesis	184,271	3,254,554
St. Ambrose Housing Aid Center	842,236	925,271
Eutaw Commons	5,500	5,500
Total NSP2 Grant Advances	$ 4,934,921	$ 7,930,100

Because sales of rehabilitated homes may take longer than one year, the grant advances are estimated as current or non current for financial statement purposes. Grant advances are recognized as current and non current based on a 25% and 75% ratio which approximates management’s best expectations of the expected timing of property settlements. Management expects total property acquisition and rehabilitation advances to be relieved according to the following schedule:

NSP2 Grant Advance

Current	$ 1,233,730	$ 1,982,525
Non-Current	3,701,191	5,947,575
Total	$ 4,934,921	$ 7,930,100

9. NSP2 DIRECT PURCHASE PROGRAM RECEIVABLE AND DEFERRED REVENUE

The Organization may provide a subsidy to qualified homebuyers to assist the homebuyer with purchasing a home. The subsidies are provided by the NSP2 program and are forgivable based on the satisfaction of certain requirements over a length of time. The subsidy amount declines in equal increments over the affordability period as defined in the grant agreement; therefore, each year the borrower satisfies the requirements, a percentage of the loan is forgiven and expensed by the Organization.

The period of affordability varies from five years, ten years or fifteen years. The Organization recognizes revenue in the same year that the expense is recognized. The direct purchase program deferred revenue is recorded based on draw downs from HUD and the direct purchase receivable is recorded as funds are paid to homeowners. Revenue is to be recognized each year that expenses are recognized. As of December 31, 2014, the direct purchase program receivable was $398,850 of which $59,843 was recorded as current direct purchase program receivable. As of December 31, 2014, the direct purchase program deferred revenue was $399,750 of which $59,843 was recorded as a current liability.

The scheduled direct purchase program receivable amortization is as follows:

Year	Amount Satisfied
2015	$ 59,843
2016	59,843
2017	56,275
2018	49,752
2019	47,184
Thereafter	125,953
Total	$ 398,850

10. NSP2 SETTLEMENT LOANS RECEIVABLE AND DEFERRED REVENUE

The Organization may provide a subsidy to qualified homebuyers to assist the homebuyer with purchasing a home. The subsidies are provided by the NSP2 program and are forgivable based on the satisfaction of certain requirements over a length of time. The subsidy amount declines in equal increments over the affordability period as defined in the grant agreement; therefore, each year the borrower satisfies the requirements, a percentage of the loan is forgiven and expensed by the Organization.

10. NSP2 SETTLEMENT LOANS RECEIVABLE AND DEFERRED REVENUE (Continued)

The period of affordability varies from five years, ten years or fifteen years. The Organization recognizes revenue in the same year that the expense is recognized. The settlement loans deferred revenue and settlement loans receivable are recorded as funds are paid to the homebuyers as a reduction of proceeds due to the Organization at the time of settlement. Revenue is to be recognized each year that expenses are recognized. As of December 31, 2014, the settlement loans receivable was $710,467 of which $141,305 was recorded as current settlement loans receivable. As of December 31, 2013, the settlement loans deferred revenue was $712,812 of which $118,145 was recorded as a current liability.

The schedule of settlement loans receivable amortization is as follows:

Year	Amount Satisfied
2015	$ 141,305
2016	141,305
2017	122,157
2018	86,562
2019	52,159
Thereafter	166,979
Total	$ 710,467

11. NSP2 DEFERRED PROGRAM REVENUE

Program income is derived from the sale of properties acquired under the NSP2 program. Program income represents cash received from the sale of an acquired home. The Organization is required to use the program income for allowable program expenditures as funds are received. Program income is recorded as deferred program income until used by the Organization. The amount of deferred program income was $967,539 and $1,750,545 as of December 31, 2014 and 2013, respectively. Program income expended in fiscal year 2014 amount to $2,141,600.

12. DEFERRED LOAN GUARANTEE

The Organization has funds in separate cash accounts reserved as loan guarantees. The funds would only be used in the event that a homebuyer defaults on loans whereby the Organization has agreed to cover a portion of the default. The funds may be returned to the grantors if the funds are not used by the Organization within a specified period of time. The balance of deferred revenue loan guarantee was $181,000 as of December 31, 2014 and 2013, respectively.

13. EMPLOYEE PENSION PLAN

The Organization's employees are granted benefits under its Supported Organization's retirement savings plan. Employees are eligible after a full month of employment following their hire date and may voluntarily contribute into the retirement plan up to the current allowable IRS maximum limits.

For employees with a full year of service, the Organization will contribute 5% of the employee's annual salary to the employee's 401K account. Additionally, after one year of service, the Organization may at its discretion match voluntary employee contributions, up to an additional 5% of the employee's annual salary. Pension expense for the years ending December 31, 2014 and 2013 totaled $54,411 and $56,930, respectively.

14. RELATED PARTY TRANSACTIONS

A. Operating Lease

The Organization leases office space on the 2nd floor of 2 East Read Street under a sublease agreement with its Supported Organization. In 2011, the Organization increased the rental space to include office space located on the 5th floor to compensate for additional staffing related to the NSP2 grant program. The 5th floor lease expired in December 2013.

In March 2014, the Organization renewed their sublease agreement for the 2nd floor with its Supported Organization. The sublease has a term of five years and four months, beginning on December 1, 2013 (the Commencement Date), and expiring on March 31, 2019. The parties may mutually agree to extend the term for three additional periods of five years each. Monthly rent is $4,165, payable on the first day of each month. Rent payments shall increase each anniversary of the Commencement Date by 3%.

Annual rent expense totaled $49,980 and $59,165 for the years ending December 31, 2014 and 2013, respectively. Future minimum rentals at December 31, 2014 are as follows:

14. RELATED PARTY TRANSACTIONS (Continued)

A. Operating Lease (continued)

Year Ending	
2015	$ 51,105
2016	52,641
2017	54,225
2018	55,857
2019	14,067
Total	$ 227,895

B. Administrative Fee

The Organization has an agreement to pay administrative expenses to its Supported Organization. The administrative services provided by the supporting organization include accounting, payroll services, human resources, information technology and other administrative duties. Administrative expenses paid for the years ending December 31, 2014 and 2013 were $21,000 and $27,000, respectively.

15. TEMPORARILY RESTRICTED NET ASSETS

Net assets released from restrictions included $621,435 pertaining to program expenses incurred in fiscal years 2011 and 2012 but not released from restrictions for financial statement purposes. The reclassification was recognized in 2013 as satisfaction of program restrictions.

16. COMMITMENT AND CONTINGENCIES

A major portion of funds utilized by the Organization was received from HUD under the ARRA NSP2 grant. (See note 11). The grant is to be used for neighborhood stabilization activities over a specified period of time.

Another significant portion of the Organization's revenue and support is provided through grants from the Department of Housing and Community Development of Baltimore City. A reduction in the funding level of these grants could have a material impact on the Organization.

17. SUBSEQUENT EVENTS

FASB ASC 855, *Subsequent Events*, requires organizations to evaluate events and transactions that occur after the statement of financial position date but before the date the financial statements are available to be issued.

ASC 855 requires entities to recognize in the financial statements the effect of all events or transactions that provide additional evidence of conditions that existed at the statement of financial position date, including the estimates inherent in the financial preparation process. Subsequent events that provide evidence about conditions that arose after the statement of financial position date should be disclosed if the financial statements would otherwise be misleading.

The Organization has evaluated subsequent events through the date the financial statements were available to be issued on September 10, 2015 and determined there were no subsequent events to be disclosed.

18. LINE OF CREDIT

The Organization maintains a $1,000,000 line of credit with M&T Bank dated November 3, 2014. The line provides that the entire principal balance with all accrued and unpaid interest and all other amounts thereunder shall be due and payable immediately upon demand by the Bank. Interest shall accrue each day on any LIBOR rate, from and including the draw date.

SUPPLEMENTARY INFORMATION

HEALTHY NEIGHBORHOODS, INC.
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2014

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Expenditures
Major		
Direct Program		
U.S. Department of Housing and Urban Development		
ARRA – Neighborhood Stabilization Program 2 (NSP2)	14.256	$ 2,141,600
Total Federal Expenditures*		$ 2,141,600

*** These Federal expenditures are related to program income.**

"See Accompanying Notes to Schedule of Expenditures of Federal Awards"

1. Scope of Audit Pursuant to OMB Circular A-133

All Federal grant operations of the Organization are included in the scope of the Office of Management and Budget (OMB) Circular A-133 audit (the Single Audit). The Single Audit was performed in accordance with the provisions of the OMB Circular A-133, Compliance Supplement (the Compliance Supplement). Compliance testing of all requirements, as described in the Compliance Supplement, was performed for the major grant program noted on the Schedule of Expenditures of Federal Awards (the Schedule).

2. Basis of Presentation

The accompanying Schedule includes the federal grant activity of the Organization under programs of the federal government for the year ended December 31, 2014. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.

3. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts, if any, shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

4. NSP2 Federal Expenditures

The SEFA expenditures in the amount of $2,141,600 was related to program income expenditures in 2014.

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

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 Auditor's Report

Board of Directors
Healthy Neighborhoods, Inc.
Baltimore, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Healthy Neighborhoods, Inc. (a nonprofit organization) (the Organization), which comprise the statement of financial position as of December 31, 2014, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 10, 2015.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

Abrams, Foster, Nole & Williams, P.A.

Abrams, Foster, Nole & Williams, P.A.
Certified Public Accountants
Baltimore, Maryland

September 10, 2015

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Abrams
Foster
Nole &
Williams, P.A.

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Independent Auditor's Report

Board of Directors
Healthy Neighborhoods. Inc.
Baltimore, Maryland

Report on Compliance for Each Major Federal Program

We have audited the compliance of Healthy Neighborhoods, Inc. (the Organization) with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2014. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2014.

Report on Internal Control Over Compliance

Management of the Organization 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 on compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Abrams, Foster, Nole & Williams, P.A.

Abrams, Foster, Nole & Williams, P.A.
Certified Public Accountants
Baltimore, Maryland

September 10, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

HEALTHY NEIGHBORHOODS, INC.
Schedule of Findings and Questioned Costs
Year Ended December 31, 2014

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unmodified		
Internal control over financial reporting:			
• Material weakness(es) identified?	_____ yes	X	no
• Significant deficiency(ies) identified?	_____ yes	X	none reported
Noncompliance material to financial statements noted?	_____ yes	X	no

Federal Awards

Internal control over major programs:			
• Material weakness(es) identified?	_____ yes	X	no
• Significant deficiency(ies) identified?	_____ yes	X	none reported
Type of auditor's report issued on compliance for major programs	Unmodified		
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	_____ yes	X	no

HEALTHY NEIGHBORHOODS, INC.
Schedule of Findings and Questioned Costs
Year Ended December 31, 2014

Section I – Summary of Auditor's Results (Continued)

Identification of major program:

CFDA Number(s)	*Name of Federal Program or Cluster*
14.256	Neighborhood Stabilization Program 2 (Recovery Act Funded)

Dollar threshold used to distinguish between Type A and Type B programs: $300,000

Auditee qualified as low-risk auditee? __X__ Yes ____ no

Section II – Financial Statement Findings

No Findings

Section III – Federal Award Findings and Questioned Costs

No Findings

Section IV – Summary Schedule of Prior Audit Findings

No Findings