

Transitional Housing Corporation And Affiliates

Consolidated Financial Statements

For The Years Ended
December 31, 2012 And 2011



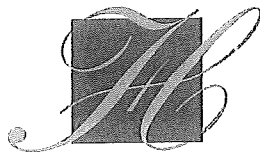
HERTZBACH
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COMPANY, P.A.
Certified Public Accountants & Consultants

Transitional Housing Corporation And Affiliates

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Certified Public Accountants & Consultants

Independent Auditors' Report

**To The Board Of Directors
Transitional Housing Corporation And Affiliates**
5101 16th Street, NW
Washington, DC 20011

We have audited the accompanying consolidated financial statements of Transitional Housing Corporation And Affiliates which comprise the consolidated statements of financial position as of December 31, 2012 and 2011, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audit and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Transitional Housing Corporation And Affiliates as of December 31, 2012 and 2011, and results of its activities, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating supplementary information shown on pages 19 to 24 is presented for purposes of additional analysis of the consolidated financial statements rather than to present financial positions, results of activities, and cash flows of the individual companies, and is not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards on pages 25-26 is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Government, and Non-Profit Organizations* and is also not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards

generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Reports Issued in Accordance with Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated June 4, 2013 on our consideration of Transitional Housing Corporation And Affiliates internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Transitional Housing Corporation And Affiliates internal control over financial reporting and compliance.

~~Hertzbach & Company P.A.~~

Certified Public Accountants

Baltimore, Maryland
June 4, 2013

Name of Audit Firm: Hertzbach & Company, P.A.
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**CONSOLIDATED
FINANCIAL
STATEMENTS**

Transitional Housing Corporation And Affiliates
Consolidated Statements Of Financial Position

December 31,	2012	2011
Assets		
CURRENT ASSETS		
Cash	\$ 1,797,946	\$ 902,052
Grants Receivable	249,110	300,670
Developer Fees Receivable - Current	32,271	474,714
Resident Services Receivable	17,193	-
Prepaid Expenses	-	17,047
Total Current Assets	<u>2,096,520</u>	<u>1,694,483</u>
PROPERTY AND EQUIPMENT		
Land	85,000	85,000
Buildings And Improvements	1,359,208	1,359,208
Leasehold Improvements	176,630	169,259
Furniture, Fixtures And Equipment	176,462	152,263
Automobile	25,119	25,119
	<u>1,822,419</u>	<u>1,790,849</u>
Less: Accumulated Depreciation	<u>768,169</u>	<u>648,478</u>
Total Property And Equipment	<u>1,054,250</u>	<u>1,142,371</u>
OTHER ASSETS		
Security Deposits Receivable	61,208	28,751
Sponsor Loans Receivable	1,116,446	1,113,670
Developer Fees Receivable - Long-Term	726,585	758,856
Project Development Costs	95,588	-
Total Other Assets	<u>1,999,827</u>	<u>1,901,277</u>
TOTAL ASSETS	<u><u>\$ 5,150,597</u></u>	<u><u>\$ 4,738,131</u></u>

Transitional Housing Corporation And Affiliates
Consolidated Statements Of Financial Position

December 31,	2012	2011
Liabilities And Net Assets		
CURRENT LIABILITIES		
Accounts Payable And Accrued Expenses	\$ 135,214	\$ 69,882
Current Portion Of Long-Term Debt	5,143	8,547
Deposits	<u>10,670</u>	<u>6,400</u>
Total Current Liabilities	<u>151,027</u>	<u>84,829</u>
LONG-TERM LIABILITIES		
Long-Term Debt - Less Current Portion	<u>3,665</u>	<u>8,686</u>
Total Long-Term Liabilities	<u>3,665</u>	<u>8,686</u>
TOTAL LIABILITIES	<u>154,692</u>	<u>93,515</u>
NET ASSETS		
Unrestricted	4,021,909	4,223,927
Temporarily Restricted	<u>973,996</u>	<u>420,689</u>
Total Net Assets	<u>4,995,905</u>	<u>4,644,616</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,150,597</u>	<u>\$ 4,738,131</u>

Transitional Housing Corporation And Affiliates
Consolidated Statement Of Activities And
Changes In Net Assets

For The Year Ended December 31, 2012

	Unrestricted	Temporarily Restricted	Total
REVENUE			
Government Contracts & Grants	\$ 3,232,585	\$ -	\$ 3,232,585
Corporate/Individual Contributions	222,337	973,995	1,196,332
In-Kind Donations	55,302	-	55,302
Rental Revenue	26,237	-	26,237
Special Events Revenue	54,091	-	54,091
Investment And Other Income	47,789	-	47,789
Reimbursement Revenue	44,824	-	44,824
Net Assets Released From Purpose Related Restrictions	420,688	(420,688)	-
Total Revenue	4,103,853	553,307	4,657,160
EXPENSES			
Program Services:			
Resident Services	2,151,908	-	2,151,908
Building Operations	1,086,910	-	1,086,910
Affordable Housing	166,703	-	166,703
Outreach	58,030	-	58,030
Total Program Services Expenses	3,463,551	-	3,463,551
Supporting Services:			
Management And General	655,946	-	655,946
Fundraising	186,374	-	186,374
Total Supporting Services Expenses	842,320	-	842,320
Total Expenses	4,305,871	-	4,305,871
Change In Net Assets	(202,018)	553,307	351,289
Net Assets At December 31, 2011	4,223,927	420,689	4,644,616
Net Assets At December 31, 2012	\$ 4,021,909	\$ 973,996	\$ 4,995,905

Transitional Housing Corporation And Affiliates
Consolidated Statement Of Activities And
Changes In Net Assets

For The Year Ended December 31, 2011

	Unrestricted	Temporarily Restricted	Total
REVENUE			
Government Contracts & Grants	\$ 2,560,903	\$ -	\$ 2,560,903
Corporate/Individual Contributions	267,836	390,885	658,721
In-Kind Donations	58,005	-	58,005
Rental Revenue	21,836	-	21,836
Special Events Revenue	46,445	-	46,445
Investment And Other Income	7,794	-	7,794
Developer Fees	517,902	-	517,902
Reimbursement Revenue	2,265	-	2,265
Net Assets Released From Purpose Related Restrictions	642,414	(642,414)	-
Total Revenue	4,125,400	(251,529)	3,873,871
EXPENSES			
Program Services:			
Resident Services	1,583,659	-	1,583,659
Building Operations	837,520	-	837,520
Affordable Housing	204,002	-	204,002
Outreach	40,772	-	40,772
Total Program Services Expenses	2,665,953	-	2,665,953
Supporting Services:			
Management And General	545,574	-	545,574
Fundraising	132,634	-	132,634
Total Supporting Services Expenses	678,208	-	678,208
Total Expenses	3,344,161	-	3,344,161
Change In Net Assets	781,239	(251,529)	529,710
Net Assets At December 31, 2010	3,442,688	672,218	4,114,906
Net Assets At December 31, 2011	\$ 4,223,927	\$ 420,689	\$ 4,644,616

See Accompanying Notes To The Consolidated Financial Statements

Transitional Housing Corporation And Affiliates
Consolidated Statement Of Functional Expenses

For The Year Ended December 31, 2012

	Program Services				Supporting Services			Total Expenses	
	Resident Services	Building Operations	Affordable Housing	Outreach	Total Program Services	Management and General	Fundraising		Total Supporting Services
Salaries	\$ 1,535,321	\$ 72,222	\$ 99,267	\$ 48,819	\$ 1,755,629	\$ 322,062	\$ 122,503	\$ 444,565	\$ 2,200,194
Accounting And Legal	-	-	-	-	-	23,700	-	23,700	23,700
Payroll Taxes And Fringe Benefits	117,547	5,405	8,832	3,603	135,387	73,649	8,970	82,619	218,006
Repairs And Maintenance	-	355,476	-	-	355,476	7,421	-	7,421	362,897
Depreciation And Amortization	-	119,692	-	-	119,692	-	-	-	119,692
Utilities	-	54,523	-	-	54,523	-	-	-	54,523
Rent	89,343	293,978	-	-	383,321	33,386	-	33,386	416,707
Insurance	165,144	103,455	-	-	268,599	62,197	-	62,197	330,796
Telephone And Internet Access	-	71,437	-	-	71,437	-	-	-	71,437
Supplies	-	8,036	-	-	8,036	13,737	-	13,737	21,773
Enrichment Activities	-	-	-	-	-	12,967	-	12,967	12,967
Taxes, Licenses And Fees	-	2,686	45	-	2,731	600	-	600	3,331
Youth Services	57,928	-	-	-	57,928	-	-	-	57,928
Family Services	99,345	-	-	-	99,345	-	-	-	99,345
Miscellaneous	-	-	54,176	-	54,176	13,952	6,999	20,951	75,127
Other Professional Fees	87,280	-	4,383	5,608	97,271	51,209	-	51,209	148,480
Marketing	-	-	-	-	-	810	-	810	810
Printing And Duplicating	-	-	-	-	-	14,573	-	14,573	14,573
Postage And Shipping	-	-	-	-	-	2,677	-	2,677	2,677
Operating Costs	-	-	-	-	-	-	-	-	-
Travel	-	-	-	-	-	17,819	-	17,819	17,819
Membership Dues And Fees	-	-	-	-	-	4,745	-	4,745	4,745
Special Events	-	-	-	-	-	-	47,902	47,902	47,902
Interest	-	-	-	-	-	442	-	442	442
	<u>\$ 2,151,908</u>	<u>\$ 1,086,910</u>	<u>\$ 166,703</u>	<u>\$ 58,030</u>	<u>\$ 3,463,551</u>	<u>\$ 655,946</u>	<u>\$ 186,374</u>	<u>\$ 842,320</u>	<u>\$ 4,305,871</u>

Transitional Housing Corporation And Affiliates
Consolidated Statement Of Functional Expenses

For The Year Ended December 31, 2011

	Program Services				Supporting Services			Total Expenses	
	Resident Services	Building Operations	Affordable Housing	Outreach	Total Program Services	Management and General	Fundraising		Total Supporting Services
Salaries	\$ 1,134,792	\$ 69,493	\$ 121,593	\$ 37,961	\$ 1,363,839	\$ 259,410	\$ 91,724	\$ 351,134	\$ 1,714,973
Accounting And Legal	-	-	-	-	-	22,000	-	22,000	22,000
Payroll Taxes And Fringe Benefits	84,180	5,235	8,805	2,811	101,031	53,028	5,594	58,622	159,653
Repairs And Maintenance	-	179,849	621	-	180,470	6,705	-	6,705	187,175
Depreciation And Amortization	10,794	123,012	-	-	133,806	-	-	-	133,806
Utilities	-	52,872	-	-	52,872	-	-	-	52,872
Rent	32,285	268,753	-	-	301,038	29,895	-	29,895	330,933
Insurance	166,086	80,956	-	-	247,042	68,219	-	68,219	315,261
Telephone And Internet Access	-	48,603	-	-	48,603	-	-	-	48,603
Supplies	-	5,491	-	-	5,491	15,582	-	15,582	21,073
Enrichment Activities	-	-	-	-	-	8,335	-	8,335	8,335
Taxes, Licenses And Fees	-	3,256	25	-	3,281	-	-	-	3,281
Youth Services	18,316	-	35,932	-	54,248	-	-	-	54,248
Family Services	48,525	-	-	-	48,525	-	-	-	48,525
Miscellaneous	-	-	27,704	-	27,704	5,977	3,270	9,247	36,951
Other Professional Fees	88,681	-	9,300	-	97,981	37,597	-	37,597	135,578
Marketing	-	-	-	-	-	2,363	-	2,363	2,363
Printing And Duplicating	-	-	-	-	-	16,828	-	16,828	16,828
Postage And Shipping	-	-	-	-	-	1,233	-	1,233	1,233
Travel	-	-	22	-	22	12,595	-	12,595	12,617
Membership Dues And Fees	-	-	-	-	-	4,242	-	4,242	4,242
Special Events	-	-	-	-	-	-	32,046	32,046	32,046
Interest	-	-	-	-	-	1,565	-	1,565	1,565
	\$ 1,583,659	\$ 837,520	\$ 204,002	\$ 40,772	\$ 2,665,953	\$ 545,574	\$ 132,634	\$ 678,208	\$ 3,344,161

Transitional Housing Corporation And Affiliates
Consolidated Statements Of Cash Flows
Increase (Decrease) In Cash

For The Years Ended December 31,	2012	2011
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change In Net Assets	\$ 351,289	\$ 529,710
Adjustments To Reconcile Change In Net Assets To		
Net Cash Provided By Operating Activities		
Depreciation And Amortization	119,692	133,806
(Increase) Decrease In Operating Assets		
Grants Receivable	51,560	90,519
Developer Fees Receivable	474,714	(364,173)
Employee Receivable	-	1,692
Resident Services Receivable	(17,193)	-
Prepaid Expenses	17,047	(17,047)
Security Deposits Receivable	(32,457)	(5,423)
Increase (Decrease) In Operating Liabilities		
Accounts Payable And Accrued Expenses	65,332	(33,039)
Deposits	4,270	1,820
Net Cash Provided By Operating Activities	<u>1,034,254</u>	<u>337,865</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition Of Property And Equipment	(31,571)	(110,917)
Increase In Sponsor Loans Receivable	(2,776)	(121,475)
Increase In Project Development Costs	(95,588)	-
Net Cash Used In Investing Activities	<u>(129,935)</u>	<u>(232,392)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Change In Line Of Credit	-	(14,677)
Proceeds From Long-Term Borrowings	-	13,929
Principal Payments On Long-Term Debt	(8,425)	(2,532)
Net Cash Used In Financing Activities	<u>(8,425)</u>	<u>(3,280)</u>
Net Increase In Cash	895,894	102,193
Cash - Beginning Of Year	<u>902,052</u>	<u>799,859</u>
Cash - End Of Year	<u>\$ 1,797,946</u>	<u>\$ 902,052</u>

See Accompanying Notes To The Consolidated Financial Statements

Transitional Housing Corporation And Affiliates
Consolidated Statements Of Cash Flows
Increase (Decrease) In Cash
(Continued)

For The Years Ended December 31,	2012	2011
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SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash Paid During The Year For:

Interest	<u>\$ 442</u>	<u>\$ 1,565</u>
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During 2011, equipment with an original cost of \$23,363 and accumulated depreciation of \$23,363 was disposed.

Transitional Housing Corporation And Affiliates

Notes To Consolidated Financial Statements

For The Years Ended December 31, 2012 And 2011

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF BUSINESS – Transitional Housing Corporation (THC) is a 501(c)(3) not-for-profit organization incorporated in February 1990. The mission of THC is to combat homelessness by providing affordable housing and supportive services to the poor and underprivileged families in the District of Columbia while assisting them in developing life skills that enable independent living. THC operates three apartment buildings located in the District of Columbia. Partner Arms I is a 14-unit apartment building located on Kennedy Street in Washington, D.C. Partner Arms II is a 13-unit apartment building located on Georgia Avenue in Washington, D.C. Partner Arms III is a 13-unit apartment building in Ward 7. THC's programs are funded by government and foundation grants, contributions from churches, corporations and individuals, and rental income from tenants.

On June 17, 2005, THC Affordable Housing (THCAH) was incorporated in the District of Columbia as a 501(c)(3) not-for-profit organization. THCAH was formed to develop affordable housing through renovation, new construction or preservation to meet the housing needs of very low, low and moderate income individuals and families in the Washington, D.C. metropolitan area. A majority of the current board of directors of THCAH are also members of the board of THC.

PRINCIPLES OF CONSOLIDATION – The financial statements of THC and THCAH (collectively, the Corporation) have been presented on a consolidated basis due to the presence of common control between the two entities. All significant transactions and balances between the entities have been eliminated in consolidation.

METHOD OF ACCOUNTING – The Corporation's financial statements are prepared on the accrual method of accounting which recognizes income when it is earned and expenses when they are incurred.

BASIS OF PRESENTATION – The Corporation complies with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-For-Profit Entities*, and is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. Due to purpose restrictions, seven of the grants to the Corporation are temporarily restricted as of December 31, 2012 and ten of the grants to the Corporation were temporarily restricted as of December 31, 2011. All other net assets of the Corporation are unrestricted as of December 31, 2012 and 2011.

Contributions received, if any, are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. Donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support in the accompanying statements of activities and changes in net assets.

PROPERTY AND EQUIPMENT – Property and equipment are stated at cost. The cost of repairs and maintenance is charged to operations as incurred. Major renewals, betterments and additions are capitalized. When assets are sold or otherwise disposed of, the cost of the asset and related accumulated depreciation are removed from the accounts and the resulting gain or loss is credited or charged to revenue. Depreciation is computed using the straight-line method over 30 years for buildings and 2-7 years for equipment. Leasehold improvements are depreciated over the lesser of the estimated useful life or the remaining life of the lease.

Transitional Housing Corporation And Affiliates

Notes To Consolidated Financial Statements

(Continued)

For The Years Ended December 31, 2012 And 2011

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT OF LONG-LIVED ASSETS – The Corporation reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. There have been no asset impairments as of December 31, 2012 and 2011.

PROJECT DEVELOPMENT COSTS – The Corporation capitalizes all direct and indirect costs related to the development of the project, which includes, among others, pre-development costs, constructions costs, and interest. The development costs exclude certain ordinary operating expenses, which are expensed as incurred. THCAH incurred project development costs of \$95,588 during the year ended December 31, 2012.

INCOME TAXES – THC and THCAH are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, except for unrelated business income as defined in the Code. The corporations did not have any unrelated business income during the years ended December 31, 2012 and 2011. Accordingly, no provision for income taxes has been included in the accompanying consolidated financial statements.

The Corporation has adopted FASB ASC 740, Income Taxes, which clarifies the accounting for uncertainty in income taxes. Based on its evaluation, the Corporation has concluded that there are no significant uncertain tax positions requiring recognition in the consolidated financial statements. No interest or penalties have been recorded as a result of tax uncertainties. The tax years ended December 31, 2009 through December 31, 2012 remain open to examination by tax jurisdictions to which the Corporation is subject.

CASH AND CASH EQUIVALENTS – The Corporation considers all highly liquid investments with a maturity of three months or less at the date of acquisition and money market funds to be cash equivalents. There were no cash equivalents as of December 31, 2012 and 2011.

GRANTS AND CONTRIBUTIONS RECEIVABLE – Grants and contributions receivable are stated at net realizable value. In the opinion of management, all receivables outstanding are considered collectible, based on review of historical collections. Accordingly, an allowance for doubtful accounts has not been recorded.

INVESTMENT IN LIMITED LIABILITY COMPANIES – The investment in investing entities are accounted for under the equity method with the investment stated at cost, adjusted for subsequent contributions and distributions and equity in income and losses recognized by the Companies.

DONATED GOODS AND SERVICES – The Corporation receives donated services, furniture, appliances, and other items from various donors in support of its programs and records these items at their estimated fair value at the date of donation. During 2012 and 2011, the Corporation received in-kind donations of professional services, construction materials, services related to the refurbishing of apartment units and other goods valued at \$55,302 and \$58,005, respectively, which are reported as in-kind donations in the accompanying consolidated statements of activities and changes in net assets. During 2012 and 2011, the Corporation also received approximately 2,765 and 916 hours of donated services, respectively, from volunteers in support of its programs that do not meet the criteria for recognition under U.S. generally accepted accounting principles.

ESTIMATES – The preparation of consolidated 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 at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Transitional Housing Corporation And Affiliates

Notes To Consolidated Financial Statements

(Continued)

For The Years Ended December 31, 2012 And 2011

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION – Contributions are recognized as revenue when an unconditional promise to give is received by the Corporation. All contributions and other types of revenue with restrictions imposed by the donor are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Developer fees are earned in connection with the construction and oversight of the development of residential complexes and are recognized as revenue based on the percentage of completion method as it relates to the completion of the project.

Rental income is recognized as rentals become due. Rental payments received in advance are deferred until earned. All leases between the Corporation and tenants are operating leases.

FUNCTIONAL EXPENSES – The costs of providing the various programs and supporting services have been summarized on a functional basis in the accompanying consolidated statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Estimates may be used in developing allocations of expenses by function.

2. CONCENTRATION OF CREDIT RISK

The Corporation maintains cash accounts at various financial institutions located in the Washington, DC metropolitan area and, at times, balances may exceed federally insured limits. The Corporation has never experienced any losses related to these balances. All of the Corporation's non-interest bearing cash balances were fully insured at December 31, 2012 due to a temporary federal program in effect from December 31, 2010 through December 31, 2012. Under the program, there is no limit to the amount of insurance for eligible accounts. At December 31, 2012, interest-bearing amounts on deposit exceeded the federally insured limits by \$231,413.

3. INVESTMENT IN INVESTING ENTITIES

THCAH acquired a membership interest in the following Investing Entities during 2010, which were formed to invest in Operating Partnerships that acquire, develop, own, and operate low-income residential rental housing projects through an entity that is the general partner of the entity that directly owns the property:

THCAH owns a 45.5% membership interest in WG Partners, LLC which owns a 0.01% general partner interest in Webster Gardens, LP which was formed to acquire, develop, own, and operate a low-income residential rental housing project. While THCAH has economic interest in WG Partners, LLC, it does not have control. Therefore, its operations are not consolidated in the financial statements of the Corporation.

THCAH owns a 49% membership interest in FV Partners, LLC which owns a 0.01% general partner interest in Fort View, LP which was formed to acquire, develop, own, and operate a low-income residential rental housing project. While THCAH has economic interest in FV Partners, LLC, it does not have control. Therefore, its operations are not consolidated in the financial statements of the Corporation.

The summarized combined balance sheets of the Operating Partnerships for which THCAH has an investment through the general partner entity at December 31, 2012 and 2011 and the summarized combined statements of operations for the years then ended are as follows.

Transitional Housing Corporation And Affiliates
Notes To Consolidated Financial Statements
(Continued)

For The Years Ended December 31, 2012 And 2011

3. INVESTMENT IN INVESTING ENTITIES (CONTINUED)

COMBINED BALANCE SHEETS

ASSETS

	<u>2012</u>	<u>2011</u>
Investment In Real Estate:		
Land And Land Improvements	\$ 2,667,365	\$ 2,638,572
Building And Improvements	26,892,769	26,892,769
Furniture And Equipment	156,056	156,014
	<u>29,716,190</u>	<u>29,687,355</u>
Accumulated Depreciation	<u>(1,492,801)</u>	<u>(761,536)</u>
	<u>28,223,389</u>	<u>28,925,819</u>
Other Assets:		
Cash	190,821	142,483
Accounts Receivable	24,051	23,505
Prepaid Expenses	42,673	57,582
Intangibles	1,103,474	1,142,843
Escrows And Reserves	1,501,691	-
Construction In Process	<u>-</u>	<u>845,542</u>
	<u>2,862,710</u>	<u>2,211,955</u>
 TOTAL ASSETS	 <u><u>\$ 31,086,099</u></u>	 <u><u>\$ 31,137,774</u></u>

Transitional Housing Corporation And Affiliates
Notes To Consolidated Financial Statements
(Continued)

For The Years Ended December 31, 2012 And 2011

3. INVESTMENT IN INVESTING ENTITIES (CONTINUED)

LIABILITIES AND PARTNERS' EQUITY

	<u>2012</u>	<u>2011</u>
Liabilities Applicable To Real Estate:		
Accounts Payable - Construction	\$ -	\$ 131,249
Mortgage And Bonds Payable	8,522,627	15,100,000
Notes And Loans Payable	<u>14,565,645</u>	<u>11,660,280</u>
	<u>23,088,272</u>	<u>26,891,529</u>
Other Liabilities:		
Accounts Payable	4,391	8,779
Accrued Expenses	33,011	51,763
Tenant Security Deposit	64,164	53,601
Due To Related Party	1,618,818	2,699,251
Other Liabilities	<u>342,341</u>	<u>392,450</u>
	<u>25,150,997</u>	<u>30,097,373</u>
Partners' Equity	<u>5,935,102</u>	<u>1,040,401</u>
TOTAL LIABILITIES AND PARTNERS' EQUITY	<u>\$ 31,086,099</u>	<u>\$ 31,137,774</u>

COMBINED STATEMENTS OF OPERATIONS

Revenue:		
Rents	\$ 1,504,142	\$ 878,850
Interest	78,816	14,406
Other	<u>97,045</u>	<u>65,353</u>
Total Revenue	<u>1,680,003</u>	<u>958,609</u>
Expenses:		
Administrative	296,305	260,732
Operating And Maintenance	152,238	88,037
Taxes And Insurance	179,626	136,289
Utilities	61,739	36,066
Depreciation And Amortization	779,417	721,434
Interest	480,385	636,068
Other Expenses	<u>224,643</u>	<u>4,333</u>
Total Expenses	<u>2,174,353</u>	<u>1,882,959</u>
NET LOSS	<u>\$ (494,350)</u>	<u>\$ (924,350)</u>
THCAH PORTION OF NET LOSS	<u>\$ (23)</u>	<u>\$ (44)</u>

Transitional Housing Corporation And Affiliates
Notes To Consolidated Financial Statements
(Continued)

For The Years Ended December 31, 2012 And 2011

4. LONG-TERM DEBT

Notes payable consisted of the following at December 31:

	2012	2011
Mortgage loan of \$20,000 collateralized by building and land located at 4506 Georgia Avenue (Partner Arms II). Interest accrues at 1% per annum; monthly principal and interest payments are \$175; any remaining principal is due January 31, 2013.	\$ 20	\$ 3,734
Mortgage loan of \$13,929 collateralized by building and Land located at 4506 Georgia Avenue (Partner Arms II). Interest accrues at 3.5% per annum; monthly principal and interest payments are \$471; any remaining principal is due July 1, 2014.	8,788	13,499
	8,808	17,233
Less: Current portion	5,143	8,547
Long-term portion	\$ 3,665	\$ 8,686

Future principal payments required under the loans are as follows for the years ending December 31:

2013	\$ 5,143
2014	3,665
Total	\$ 8,808

5. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes as of December 31:

	2012	2011
Housing and Services Support	\$ 973,996	\$ 420,689
	\$ 973,996	\$ 420,689

Transitional Housing Corporation And Affiliates
Notes To Consolidated Financial Statements
(Continued)

For The Years Ended December 31, 2012 And 2011

6. CONCENTRATION OF FUNDING RISK

During 2012, THC received \$2,018,891, approximately 44 percent of its revenue, from the U.S. Department of Housing and Urban Development (HUD) either directly or as a sub-recipient of a pass-through award from the District of Columbia. THC also received \$1,096,000, approximately 24 percent of its revenue, directly from the District of Columbia. A significant reduction in the level of funding from these sources in the future could significantly affect THC's ability to carry out its current program activities. Management does not consider this a significant risk in the near term.

7. LEASE OBLIGATIONS

THC leases the Partner Arms I apartment building from the District of Columbia under a twenty year, non-cancellable operating lease that expires in January, 2013. The lease term will be extended for an additional 20 years through January, 2033. The terms of the lease require THC to make annual lease payments of \$8,400 and pay for all required repairs and maintenance.

THC also leases the second floor of the building located at 4406 Georgia Avenue, N.W. Washington, D.C. under a two year operating lease expiring in October, 2014. The terms of the lease require THC to pay monthly installments of \$7,400 and \$7,548 in the first and second year of the lease term, respectively.

Estimated future minimum lease payments for the years ending December 31 are as follows:

2013	\$	97,496
2014		83,880
2015		8,400
2016		8,400
2017		8,400
Thereafter		126,000
Total	\$	332,576

In addition, THC leases office space under a one-year renewable lease. The lease was renewed in 2012. Rent expense for this office space was \$33,386 and \$32,285 for 2012 and 2011, respectively.

8. RETIREMENT PLAN

THC maintains a tax deferred annuity retirement plan qualified under section 403(b) of the Internal Revenue Code. Eligible employees may contribute to the plan up to the limits established by law. THC makes matching contributions equal to 25 percent of eligible employees' contributions to the plan. For 2012 and 2011, THC incurred expenses of \$3,815 and \$5,391, respectively.

9. AFFILIATE TRANSACTIONS

SPONSOR LOANS RECEIVABLE – On April 14, 2010, THCAH entered into a loan agreement with an affiliate, Fort View, LP. The principal amount of the note is \$713,500, of which \$659,325 was disbursed during the year ended December 31, 2010. On October 1, 2010, an additional promissory note was issued to increase the principal amount of the note by \$28,000 to \$741,500. An additional \$82,000 was disbursed during 2011. Interest accrues at .25% per annum, compounding annually. All unpaid principal and accrued interest are due on April 14, 2045. The outstanding principal and accrued interest balances as of December 31, 2012 and 2011 are \$741,325 and \$4,032 for 2012, and \$741,325 and \$2,178 for 2011, respectively.

Transitional Housing Corporation And Affiliates
Notes To Consolidated Financial Statements
(Continued)

For The Years Ended December 31, 2012 And 2011

9. AFFILIATE TRANSACTIONS (CONTINUED)

SPONSOR LOANS RECEIVABLE (CONTINUED) – On April 14, 2010, THCAH entered into a loan agreement with an affiliate, Webster Gardens, LP. The principal amount of the note is \$369,000, of which \$332,100 was disbursed during the year ended December 31, 2010. An additional \$36,900 was disbursed during 2011. Interest accrues at .25% per annum, compounding annually. All unpaid principal and accrued interest are due on April 14, 2045. The outstanding principal and accrued interest balances as of December 31, 2012 and 2011 are \$369,000 and \$2,089 for 2012, and \$369,000 and \$1,167 for 2011, respectively.

DEVELOPER FEES – THCAH earns developer fees from affiliated limited partnerships. The amount earned during the years ended December 31, 2012 and 2011 was \$0 and \$517,902, respectively. As of December 31, 2012 and 2011, developer fees receivable totaled \$758,856 and \$1,233,570, respectively.

GUARANTEES – THCAH is party to a guaranty agreement with the District of Columbia Housing Finance Agency in connection with the bond issuances of Fort View, LP and Webster Gardens, LP. In addition, the co-general partner and other parties are a party to the guaranty agreement. As guarantors, they must 1) guarantee payment of agency fees and expenses, 2) guarantee Fort View, LP's performance of the bankruptcy undertaking in the event of default, 3) guarantee payment of replacement reserve deposits, 4) guarantee the nonrecourse exceptions and 5) guarantee all environmental obligations.

THCAH is party to a separate guaranty agreement with the District of Columbia Housing Finance Agency in connection with the bond issuances of Fort View, LP and Webster Gardens, LP. In addition, the co-general partner and other parties are a party to the guaranty agreement. As guarantors, they must guaranty that if the owner or the general partner of Fort View, LP or Webster Gardens, LP defaults in the payment or performance of the environmental obligations, the guarantor will pay for the environmental obligations.

THC is party to a guaranty agreement with Bank of America, N.A. in connection with the letter of credit agreements of Fort View, LP and Webster Gardens, LP. In addition, the co-general partner and other parties are a party to the guaranty agreement. As guarantors, they must 1) guarantee the completion and cost of completing construction in accordance with the letter of credit documents and project schedule, 2) guarantee payment of all expenses, charges, costs and fees of or relating to construction, including hard costs, soft costs, permitting fees, licensing fees and amounts due under all contracts, 3) guarantee the removal of any mechanic's lien or other lien or encumbrance in connection with the construction, 4) guarantee to make all deposits required under the terms of the letter of credit agreement and 5) guarantee payment of all property assessments and insurance premiums. This guarantee expired during 2012.

THC and THCAH are a party to a guaranty agreement with the limited partners of Fort View, LP and Webster Gardens, LP in connection with the partnership agreements. In addition, the co-general partner and other parties are a party to the guaranty agreement. As guarantors, they must guaranty to the limited partners the due and punctual performance by the general partners of all of its obligations under the partnership agreements. Such guarantees include, without limitation, operating deficit, development completion and tax credit guarantees. The operating deficit guaranty requires the general partner to contribute funds, when an operating deficit exists after substantial completion, to the partnership through stabilization date. After the stabilization date, operating deficit contributions are limited and terminate under certain conditions. Operating deficit contributions are repayable from cash flow of the partnership. The development completion guaranty requires the general partner to pay for all amounts necessary to complete construction and convert to permanent status in the case that the partnership has insufficient funds. Any required payments are not repayable. The tax credit guaranty requires the general partner to hold 100% the credit units as qualified low-income units during the extended use period.

Transitional Housing Corporation And Affiliates
Notes To Consolidated Financial Statements
(Continued)

For The Years Ended December 31, 2012 And 2011

9. AFFILIATE TRANSACTIONS (CONTINUED)

CROSS INDEMNITY AGREEMENT – THC and THCAH are a party to a cross indemnity agreement with the co-general partner and other parties of Fort View, LP and Webster Gardens LP. The agreement states that the THC entities and the co-general partner entities are each responsible for 50% of any payment required under a guaranty agreement. However, THC is only obligated under the guaranty agreements to which it is a party.

10. SUBSEQUENT EVENTS

Management has evaluated events and transactions subsequent to the consolidated statement of financial position date for potential recognition or disclosure through the auditors' report date, the date the consolidated financial statements were available to be issued.

The following event required recognition or disclosure in the consolidated financial statements: On February 26, 2013, Partners Arms 4 LLC, of which THCAH is the sole member, purchased 3 buildings in Washington, DC for \$2,275,000 to be used for future supportive housing.

**SUPPLEMENTARY
INFORMATION**

Transitional Housing Corporation And Affiliates
Consolidating Statement Of Financial Position

December 31, 2012

	THC	THCAH	Eliminations	Total
CURRENT ASSETS				
Cash	\$ 1,415,093	\$ 382,853	\$ -	\$ 1,797,946
Grants Receivable	229,110	20,000	-	249,110
Developer Fees Receivable	-	32,271	-	32,271
Resident Services Receivable	17,193	-	-	17,193
Total Current Assets	1,661,396	435,124	-	2,096,520
PROPERTY AND EQUIPMENT				
Land	85,000	-	-	85,000
Buildings And Improvements	1,359,208	-	-	1,359,208
Leasehold Improvements	176,630	-	-	176,630
Furniture, Fixtures And Equipment	176,462	-	-	176,462
Automobile	25,119	-	-	25,119
	1,822,419	-	-	1,822,419
Less: Accumulated Depreciation	768,169	-	-	768,169
Total Property And Equipment	1,054,250	-	-	1,054,250
OTHER ASSETS				
Security Deposits Receivable	61,208	-	-	61,208
Sponsor Loans Receivable	-	1,116,446	-	1,116,446
Developer Fees Receivable - Long-Term	-	726,585	-	726,585
Project Development Costs	-	95,588	-	95,588
Total Other Assets	61,208	1,938,619	-	1,999,827
TOTAL ASSETS	\$ 2,776,854	\$ 2,373,743	\$ -	\$ 5,150,597

Transitional Housing Corporation And Affiliates
Consolidating Statement Of Financial Position

December 31, 2012

	THC	THCAH	Eliminations	Total
CURRENT LIABILITIES				
Accounts Payable And Accrued Expenses	\$ 135,214	\$ -	\$ -	\$ 135,214
Current Portion Of Long-Term Debt	5,143	-	-	5,143
Deposits	10,670	-	-	10,670
Total Current Liabilities	151,027	-	-	151,027
LONG-TERM LIABILITIES				
Long-Term Debt - Less Current Portion	3,665	-	-	3,665
Total Long-Term Liabilities	3,665	-	-	3,665
TOTAL LIABILITIES	154,692	-	-	154,692
NET ASSETS				
Unrestricted	1,672,666	2,349,243	-	4,021,909
Temporarily Restricted	949,495	24,501	-	973,996
Total Net Assets	2,622,161	2,373,744	-	4,995,905
TOTAL LIABILITIES AND NET ASSETS	\$ 2,776,853	\$ 2,373,744	\$ -	\$ 5,150,597

Transitional Housing Corporation And Affiliates
Consolidating Statement Of Financial Position

December 31, 2011

	THC	THCAH	Eliminations	Total
CURRENT ASSETS				
Cash	\$ 729,261	\$ 172,791	\$ -	\$ 902,052
Grants Receivable	278,670	22,000	-	300,670
Developer Fees Receivable - Current	-	474,714	-	474,714
Prepaid Expenses	17,047	-	-	17,047
Due From Affiliate	116,147	-	(116,147)	-
Total Current Assets	1,141,125	669,505	(116,147)	1,694,483
PROPERTY AND EQUIPMENT				
Land	85,000	-	-	85,000
Buildings And Improvements	1,359,208	-	-	1,359,208
Leasehold Improvements	169,259	-	-	169,259
Furniture, Fixtures And Equipment	152,263	-	-	152,263
Automobile	25,119	-	-	25,119
	1,790,849	-	-	1,790,849
Less: Accumulated Depreciation	648,478	-	-	648,478
Total Property And Equipment	1,142,371	-	-	1,142,371
OTHER ASSETS				
Security Deposits Receivable	28,751	-	-	28,751
Sponsor Loans Receivable	-	1,113,670	-	1,113,670
Developer Fees Receivable - Long-Term	-	758,856	-	758,856
Total Other Assets	28,751	1,872,526	-	1,901,277
TOTAL ASSETS	\$ 2,312,247	\$ 2,542,031	\$ (116,147)	\$ 4,738,131

Transitional Housing Corporation And Affiliates
Consolidating Statement Of Financial Position

December 31, 2011

	THC	THCAH	Eliminations	Total
CURRENT LIABILITIES				
Accounts Payable And Accrued Expenses	\$ 69,642	\$ 240	\$ -	\$ 69,882
Current Portion Of Long-Term Debt	8,547	-	-	8,547
Deposits	6,400	-	-	6,400
Due To Affiliate	-	116,147	(116,147)	-
Total Current Liabilities	84,589	116,387	(116,147)	84,829
LONG-TERM LIABILITIES				
Long-Term Debt - Less Current Portion	8,686	-	-	8,686
Total Long-Term Liabilities	8,686	-	-	8,686
TOTAL LIABILITIES	93,275	116,387	(116,147)	93,515
NET ASSETS				
Unrestricted	1,834,009	2,389,918	-	4,223,927
Temporarily Restricted	384,963	35,726	-	420,689
Total Net Assets	2,218,972	2,425,644	-	4,644,616
TOTAL LIABILITIES AND NET ASSETS	\$ 2,312,247	\$ 2,542,031	\$ (116,147)	\$ 4,738,131

Transitional Housing Corporation And Affiliates
Consolidating Statement Of Activities And
Changes In Net Assets

For The Year Ended December 31, 2012

	Unrestricted			Temporarily Restricted			Total	Consolidated
	THC	THCAH	Eliminations	Total	THC	THCAH		
REVENUE								
Government Contracts & Grants	\$ 3,187,585	\$ 45,000	\$ -	\$ 3,232,585	\$ -	\$ -	\$ -	\$ 3,232,585
Corporate/Individual Contributions	210,737	11,600	-	222,337	-	24,500	973,995	1,196,332
In-Kind Donations	55,302	-	-	55,302	-	-	-	55,302
Rental Revenue	26,237	-	-	26,237	-	-	-	26,237
Special Events Revenue	54,091	-	-	54,091	-	-	-	54,091
Investment And Other Income	2,908	44,881	-	47,789	-	-	-	47,789
Resident Services Fees	44,824	-	-	44,824	-	-	-	44,824
Management Fees	169,926	-	(169,926)	-	-	-	-	-
Net Assets Released From Purpose Related Restrictions	384,963	35,725	-	420,688	(384,963)	(35,725)	(420,688)	-
Total Revenue	4,136,573	137,206	(169,926)	4,103,853	564,532	(11,225)	553,307	4,657,160
EXPENSES								
Program Services:								
Resident Services	2,151,908	169,926	(169,926)	2,151,908	-	-	-	2,151,908
Building Operations	1,084,320	2,590	-	1,086,910	-	-	-	1,086,910
Affordable Housing Outreach	162,128	4,575	-	166,703	-	-	-	166,703
	58,030	-	-	58,030	-	-	-	58,030
Total Program Services Expenses	3,456,386	177,091	(169,926)	3,463,551	-	-	-	3,463,551
Supporting Services:								
Management And General Fundraising	655,156	790	-	655,946	-	-	-	655,946
	186,374	-	-	186,374	-	-	-	186,374
Total Supporting Services Expenses	841,530	790	-	842,320	-	-	-	842,320
Total Expenses	4,297,916	177,881	(169,926)	4,305,871	-	-	-	4,305,871
Change In Net Assets	(161,343)	(40,675)	-	(202,018)	564,532	(11,225)	553,307	351,289
Net Assets At December 31, 2011	1,834,009	2,389,918	-	4,223,927	384,963	35,726	420,689	4,644,616
Net Assets At December 31, 2012	\$ 1,672,666	\$ 2,349,243	\$ -	\$ 4,021,909	\$ 949,495	\$ 24,501	\$ 973,996	\$ 4,995,905

Transitional Housing Corporation And Affiliates
Consolidating Statement Of Activities And
Changes In Net Assets

For The Year Ended December 31, 2011

	Unrestricted			Temporarily Restricted			Total	Consolidated
	THC	THCAH	Eliminations	Total	THC	THCAH		
REVENUE								
Government Contracts & Grants	\$ 2,496,903	\$ 64,000	\$ -	\$ 2,560,903	\$ -	\$ -	\$ -	\$ 2,560,903
Corporate/Individual Contributions	235,541	32,295	-	267,836	355,160	35,725	390,885	658,721
In-Kind Donations	58,005	-	-	58,005	-	-	-	58,005
Rental Revenue	21,836	-	-	21,836	-	-	-	21,836
Special Events Revenue	46,445	-	-	46,445	-	-	-	46,445
Investment And Other Income	4,937	2,857	-	7,794	-	-	-	7,794
Developer Fees	-	517,902	-	517,902	-	-	-	517,902
Reimbursement Revenue	-	2,265	-	2,265	-	-	-	2,265
Management Fees	195,156	-	(195,156)	-	-	-	-	-
Net Assets Released From Purpose Related Restrictions	470,394	172,020	-	642,414	(470,394)	(172,020)	(642,414)	-
Total Revenue	3,529,217	791,339	(195,156)	4,125,400	(115,234)	(136,295)	(251,529)	3,873,871
EXPENSES								
Program Services:								
Resident Services	1,583,659	195,156	(195,156)	1,583,659	-	-	-	1,583,659
Building Operations	837,520	-	-	837,520	-	-	-	837,520
Affordable Housing Outreach	178,980	25,022	-	204,002	-	-	-	204,002
	40,772	-	-	40,772	-	-	-	40,772
Total Program Services Expenses	2,640,931	220,178	(195,156)	2,665,953	-	-	-	2,665,953
Supporting Services:								
Management And General Fundraising	543,088	2,486	-	545,574	-	-	-	545,574
	132,634	-	-	132,634	-	-	-	132,634
Total Supporting Services Expenses	675,722	2,486	-	678,208	-	-	-	678,208
Total Expenses	3,316,653	222,664	(195,156)	3,344,161	-	-	-	3,344,161
Change In Net Assets	212,564	568,675	-	781,239	(115,234)	(136,295)	(251,529)	529,710
Net Assets At December 31, 2010	1,621,445	1,821,243	-	3,442,688	500,197	172,021	672,218	4,114,906
Net Assets At December 31, 2011	\$ 1,834,009	\$ 2,389,918	\$ -	\$ 4,223,927	\$ 384,963	\$ 35,726	\$ 420,689	\$ 4,644,616

Transitional Housing Corporation And Affiliates
Consolidating Statements Of Cash Flows
Increase (Decrease) In Cash

For The Year Ended December 31, 2012

	THC	THCAH	Eliminations	Total
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Change In Net Assets	\$ 403,189	\$ (51,900)	\$ -	\$ 351,289
Adjustments To Reconcile Change In Net Assets To Net Cash Provided By Operating Activities				
Depreciation And Amortization	119,692	-	-	119,692
(Increase) Decrease In Operating Assets				
Grants Receivable	49,560	2,000	-	51,560
Developer Fees Receivable	-	474,714	-	474,714
Resident Services Receivable	(17,193)	-	-	(17,193)
Prepaid Expenses	17,047	-	-	17,047
Due From Affiliate	116,147	-	(116,147)	-
Security Deposits Receivable	(32,457)	-	-	(32,457)
Increase (Decrease) In Operating Liabilities				
Accounts Payable And Accrued Expenses	65,572	(240)	-	65,332
Deposits	4,270	-	-	4,270
Due To Affiliate	-	(116,147)	116,147	-
	<u>725,827</u>	<u>308,427</u>	<u>-</u>	<u>1,034,254</u>
Net Cash Provided By Operating Activities				
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition Of Property And Equipment	(31,571)	-	-	(31,571)
Increase In Sponsor Loans Receivable	-	(2,776)	-	(2,776)
Increase In Project Development Costs	-	(95,588)	-	(95,588)
	<u>(31,571)</u>	<u>(98,364)</u>	<u>-</u>	<u>(129,935)</u>
Net Cash Used In Investing Activities				
CASH FLOWS FROM FINANCING ACTIVITIES				
Principal Payments On Long-Term Debt	(8,425)	-	-	(8,425)
	<u>(8,425)</u>	<u>-</u>	<u>-</u>	<u>(8,425)</u>
Net Cash Used In Financing Activities				
Net Increase In Cash	685,831	210,063	-	895,894
Cash - Beginning Of Year	729,261	172,791	-	902,052
Cash - End Of Year	<u>\$ 1,415,092</u>	<u>\$ 382,854</u>	<u>\$ -</u>	<u>\$ 1,797,946</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Cash Paid During The Year For:				
Interest	<u>\$ 442</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 442</u>

See Accompanying Notes To The Consolidated Financial Statements

Transitional Housing Corporation And Affiliates
Consolidating Statements Of Cash Flows
Increase (Decrease) In Cash

For The Year Ended December 31, 2011

	THC	THCAH	Eliminations	Total
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Change In Net Assets	\$ 97,330	\$ 432,380	\$ -	\$ 529,710
Adjustments To Reconcile Change In Net Assets To Net Cash Provided By Operating Activities				
Depreciation And Amortization	133,806	-	-	133,806
(Increase) Decrease In Operating Assets				
Grants Receivable	(25,502)	116,021	-	90,519
Developer Fees Receivable	-	(364,173)	-	(364,173)
Prepaid Expenses	(17,047)	-	-	(17,047)
Employee Receivable	1,692	-	-	1,692
Security Deposits Receivable	(5,423)	-	-	(5,423)
Increase (Decrease) In Operating Liabilities				
Accounts Payable And Accrued Expenses	(25,399)	(7,640)	-	(33,039)
Deposits	1,820	-	-	1,820
Net Cash Provided By Operating Activities	161,277	176,588	-	337,865
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition Of Property And Equipment	(110,917)	-	-	(110,917)
Increase In Sponsor Loans Receivable	-	(121,475)	-	(121,475)
Net Cash Used In Investing Activities	(110,917)	(121,475)	-	(232,392)
CASH FLOWS FROM FINANCING ACTIVITIES				
Change In Line Of Credit	(14,677)	-	-	(14,677)
Proceeds From Long-Term Borrowings	13,929	-	-	13,929
Principal Payments On Long-Term Debt	(2,532)	-	-	(2,532)
Net Cash Used In Financing Activities	(3,280)	-	-	(3,280)
Net Increase In Cash	47,080	55,113	-	102,193
Cash - Beginning Of Year	682,181	117,678	-	799,859
Cash - End Of Year	<u>\$ 729,261</u>	<u>\$ 172,791</u>	<u>\$ -</u>	<u>\$ 902,052</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Cash Paid During The Year For:				
Interest	<u>\$ 1,565</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,565</u>

Transitional Housing Corporation And Affiliates
Schedule Of Expenditures Of Federal Awards

December 31, 2012

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
Direct Awards:		
U.S. Department of Housing and Urban Development Supportive Housing Programs ¹	14.235	
ARRA Expenditures		\$ -
Non-ARRA Expenditures		<u>964,652</u>
Total Expenditures		964,652
U.S. Department of Housing and Urban Development Homeless Prevention and Rapid Re-Housing Program Technical Assistance ²	14.262	
ARRA Expenditures		\$ 111,889
Non-ARRA Expenditures		<u>-</u>
Total Expenditures		111,889
Supportive Services for Veteran Families Program Veterans Affairs Supportive Services for Veteran Families Program ³	64.033	
ARRA Expenditures		\$ -
Non-ARRA Expenditures		<u>40,149</u>
Total Expenditures		40,149
Pass Through Awards from the District of Columbia:		
U.S. Department of Health and Human Services Temporary Assistance for Needy Families ⁴	93.558	
ARRA Expenditures		\$ 67,215
Non-ARRA Expenditures		<u>834,985</u>
Total Expenditures		<u>902,200</u>
Total		<u>\$ 2,018,890</u>

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Transitional Housing Corporation And Affiliates under programs of the federal government for the year ended December 31, 2012. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of State, Local Governments, and Non-Profit Organizations." Because the Schedule presents only a selected portion of the operations of Transitional Housing Corporation And Affiliates, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Transitional Housing Corporation And Affiliates.

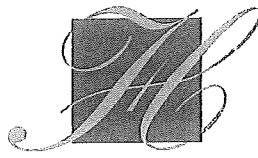
NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, Cost Principles for Non-profit Organizations, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Transitional Housing Corporation And Affiliates Schedule Of Expenditures Of Federal Awards

December 31, 2012

¹ Continuum of Care Homeless Assistance Program – PA I Contract	\$ 127,720
Community Partnership for the Prevention of Homelessness – PA II Contract	132,122
Community Partnership for the Prevention of Homelessness – Housing with Care	397,343
Community Partnership for the Prevention of Homelessness – Homeward FRP	296,147
Community Partnership for the Prevention of Homelessness – Hannah House (VETS)	<u>11,320</u>
	\$ 964,652
² Community Partnership for the Prevention of Homelessness – DHCD HPRP	<u>\$ 111,889</u>
	\$ 111,889
³ Community Partnership for the Prevention of Homelessness – SSVF VA	<u>\$ 40,149</u>
	\$ 40,149
⁴ Community Partnership for the Prevention of Homelessness – DHS PA III Contract	\$ 464,824
Community Partnership for the Prevention of Homelessness – DHS STI	315,283
Community Partnership for the Prevention of Homelessness – DHS HPRP	67,215
Community Partnership for the Prevention of Homelessness – Homeward FRP	<u>54,878</u>
	\$ 902,200



H E R T Z B A C H
C O M P A N Y , P . A .
Certified Public Accountants & Consultants

Independent Auditors' 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

To The Board Of Directors
Transitional Housing Corporation And Affiliates
5101 16th Street, NW
Washington, DC 20011

We have audited, 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, the consolidated financial statements of Transitional Housing Corporation And Affiliates, which comprise the consolidated statement of financial position as of December 31, 2012, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements and have issued our report thereon June 4, 2013.

Internal Control Over Financial Reporting

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

Transitional Housing Corporation And Affiliates
Independent Auditors' 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*
Page Two

deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of Transitional Housing Corporation And Affiliates' consolidated 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 Transitional Housing Corporation And Affiliates' consolidated 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 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*.

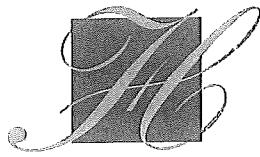
Purpose of this Report

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 Transitional Housing Corporation And Affiliates' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Transitional Housing Corporation And Affiliates' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hertzbach & Company P.A.

Certified Public Accountants

Baltimore, Maryland
June 4, 2013



H E R T Z B A C H
C O M P A N Y, P. A.
Certified Public Accountants & Consultants

Independent Auditors' Report

On Compliance For Each Major Program And On Internal Control

Over Compliance Required By OMB Circular A-133

**To The Board Of Directors
Transitional Housing Corporation And Affiliates
5101 16th Street, NW
Washington, DC 20011**

Report on Compliance for Each Major Program

We have audited Transitional Housing Corporation And Affiliates' compliance 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 Transitional Housing Corporation And Affiliates' major programs for the year ended December 31, 2012. Transitional Housing Corporation And Affiliates' major 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 requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Transitional Housing Corporation And Affiliates' major 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

Transitional Housing Corporation And Affiliates
Independent Auditors' Report On Compliance
For Each Major Program And On Internal Control
Over Compliance Required By *OMB Circular A-133*
Page Two

States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (OMB Circular A-133)*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the major federal programs occurred. An audit includes examining, on a test basis, evidence about Transitional Housing Corporation And Affiliates' 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 with each major program. However, our audit does not provide a legal determination of Transitional Housing Corporation And Affiliates' compliance.

Opinion on Each Major Program

In our opinion, Transitional Housing Corporation And Affiliates complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs identified above for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of Transitional Housing Corporation And Affiliates 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 Transitional Housing Corporation And Affiliates' internal control over compliance with the types of requirements that could have a direct and material effect on each major 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 *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 Transitional Housing Corporation And Affiliates' internal control over compliance.

A deficiency in internal control over compliance 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, noncompliance with a type of compliance requirements 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 compliance requirement will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of

Transitional Housing Corporation And Affiliates
Independent Auditors' Report On Compliance
For Each Major Program And On Internal Control
Over Compliance Required By *OMB Circular A-133*
Page Three

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 the 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, as defined above. 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 our testing based on the requirements of *OMB Circular A-133*. Accordingly, this report is not suitable for any other purpose.

Hertzbach & Company P.A.

Certified Public Accountants

Baltimore, Maryland
June 4, 2013

**Transitional Housing Corporation And Affiliates
Schedule Of Findings And Questioned Costs**

December 31, 2012

SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unmodified opinion on the consolidated financial statements of Transitional Housing Corporation And Affiliates.
2. No significant deficiencies in internal controls were identified during the audit of the consolidated financial statements.
3. No instances of noncompliance material to the consolidated financial statements of Transitional Housing Corporation And Affiliates which would be required to be reported in accordance with Government Auditing Standards were disclosed during the audit.
4. No significant deficiencies in internal controls over major federal award programs were identified during the audit.
5. The auditors' report on compliance for the major federal award programs for Transitional Housing Corporation And Affiliates expresses an unqualified opinion on all major federal programs.
6. There are no audit findings relative to the major federal award programs for Transitional Housing Corporation And Affiliates.
7. The program tested as a major program was: HUD Supportive Housing Programs CFDA #14.235.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Transitional Housing Corporation And Affiliates was determined to be a low-risk auditee.

FINDINGS – CONSOLIDATED FINANCIAL STATEMENT AUDIT

None

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAMS

None