

Transitional Housing Corporation DBA Housing Up And Affiliate

Consolidated Financial Statements

For the Years Ended December 31, 2019 and 2018 (As Restated)



HERTZBACH
certified public accountants · consultants

Transitional Housing Corporation DBA Housing Up And Affiliate

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Independent Auditor's Report

To the Board of Directors
Transitional Housing Corporation DBA Housing Up And Affiliate
5101 16th Street, NW
Washington, DC 20011

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Transitional Housing Corporation DBA Housing Up And Affiliate, which comprise the consolidated statements of financial position as of December 31, 2019 and 2018 (as restated), 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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.

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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Transitional Housing Corporation DBA Housing Up And Affiliate as of December 31, 2019 and 2018 (as restated), 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.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating supplementary information shown on pages 28-38 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 39-40, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis, and is also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2020 on our consideration of Transitional Housing Corporation DBA Housing Up And Affiliate's 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Transitional Housing Corporation DBA Housing Up And Affiliate's internal control over financial reporting and compliance.

Change in Accounting Principle

As discussed in Note 16 of the consolidated financial statement, during 2019, Transitional Housing Corporation DBA Housing Up And Affiliate adopted a change in accounting principle regarding recognition of development fee revenue. Accordingly, amounts reported for deferred development fee revenue and fee revenue have been restated in the 2018 consolidated financial statements now presented, and an adjustment has been made to net assets without donor restrictions as of January 1, 2018 to reflect adoption of the change. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As discussed in Note 2 of the consolidated financial statements, during the year ended December 31, 2019, Transitional Housing Corporation DBA Housing Up And Affiliate adopted Financial Accounting Standards Board Update (ASU) No. 2016-18 – *Statement of Cash Flows (Topic 230): Restricted Cash* and ASU No. 2014-09 – *Revenue from Contracts with Customers (Topic 606)*, and ASU No. 2018-08 – *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to this matter.

Hertzbach & Company, P.A.

Owings Mills, Maryland
October 15, 2020

Name of Audit Firm: Hertzbach & Company, P.A.

Address: Red Brook Corporate Center
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Owings Mills, MD 21117

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Transitional Housing Corporation DBA Housing Up And Affiliate

Consolidated Statements of Financial Position
As of December 31, 2019 and 2018 (As Restated)

	2019	2018 (As Restated)
Assets		
Current assets		
Cash	\$ 3,491,102	\$ 2,821,239
Rents receivable, net of allowance for doubtful accounts of \$30,891 - 2019 and \$2,475 - 2018	144,445	40,643
Grants receivable	796,111	984,189
Current portion of developer fees receivable	-	87,538
Resident services receivable	72,908	45,339
Prepaid insurance	232,750	57,154
Tenants' security deposits	17,776	16,139
Total current assets	<u>4,755,092</u>	<u>4,052,241</u>
Property and equipment		
Land	1,085,255	1,085,255
Buildings and improvements	11,875,933	11,822,357
Land improvements	271,746	271,746
Leasehold improvements	1,970,784	1,970,784
Furniture, fixtures, and equipment	575,524	569,424
Automobile	25,119	25,119
	15,804,361	15,744,685
Less: accumulated depreciation	<u>2,875,274</u>	<u>2,368,112</u>
Total property and equipment	<u>12,929,087</u>	<u>13,376,573</u>
Other assets		
Security deposit receivable	61,958	61,958
Sponsor loans receivable, including accrued interest receivable of \$25,554 - 2019 and \$25,554 - 2018	1,429,639	1,428,879
Developer fees receivable - less current portion	469,256	468,318
Project development costs	19,618	19,618
Reserves	255,330	240,930
Escrows	60,645	59,445
Tax credit fees, net of accumulated amortization of \$30,569 - 2019 and \$22,339 - 2018	41,153	48,209
Investments in LLCs	<u>(183)</u>	<u>(183)</u>
Total other assets	<u>2,337,416</u>	<u>2,327,174</u>
Total assets	<u>\$ 20,021,595</u>	<u>\$ 19,755,988</u>

See independent auditor's report and notes to consolidated financial statements.

Transitional Housing Corporation DBA Housing Up And Affiliate

Consolidated Statements of Financial Position (Continued)

As of December 31, 2019 and 2018 (As Restated)

	2019	2018 (As Restated)
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 372,434	\$ 230,903
Accounts payable - construction	-	314,246
Current portion of long-term debt	745,293	314,623
Asset management fee payable	17,662	11,783
Accrued interest - long-term debt	155,231	96,288
Prepaid rents	2,278	13,480
Security deposit payable	14,079	31,309
Total current liabilities	<u>1,306,977</u>	<u>1,012,632</u>
Long-term liabilities		
Deferred developer fee income	-	11,543
Long-term debt - less current portion and unamortized financing fees of \$164,230 - 2019 and \$172,826 - 2018	<u>4,592,105</u>	<u>4,558,153</u>
Total long-term liabilities	<u>4,592,105</u>	<u>4,569,696</u>
Total liabilities	<u>5,899,082</u>	<u>5,582,328</u>
Net assets		
Net assets without donor restrictions		
Controlling	7,538,242	7,389,626
Non-controlling	<u>6,050,903</u>	<u>6,333,392</u>
Total net assets without donor restrictions	13,589,145	13,723,018
Net assets with donor restrictions	<u>533,368</u>	<u>450,642</u>
Total net assets	<u>14,122,513</u>	<u>14,173,660</u>
Total liabilities and net assets	<u>\$ 20,021,595</u>	<u>\$ 19,755,988</u>

See independent auditor's report and notes to consolidated financial statements.

Transitional Housing Corporation DBA Housing Up And Affiliate

Consolidated Statements of Activities
For the Year Ended December 31, 2019

	Without donor restrictions	With donor restrictions	Total
Revenue			
Government contracts & grants	\$ 7,125,884	\$ -	\$ 7,125,884
Corporate/individual contributions	586,793	120,291	707,084
In-kind donations	24,830	-	24,830
Rental revenue	912,788	-	912,788
Investment and other income	15,834	-	15,834
Resident services fees	70,332	-	70,332
Developer fees	23,370	-	23,370
Net assets released from purpose related restrictions	37,565	(37,565)	-
Total revenue	<u>8,797,396</u>	<u>82,726</u>	<u>8,880,122</u>
Expenses			
Program services:			
Resident services	5,931,176	-	5,931,176
Building operations	840,683	-	840,683
Affordable housing	919,319	-	919,319
Total program services expenses	<u>7,691,178</u>	<u>-</u>	<u>7,691,178</u>
Supporting services:			
Management and general	1,037,083	-	1,037,083
Fundraising	203,008	-	203,008
Total supporting services expenses	<u>1,240,091</u>	<u>-</u>	<u>1,240,091</u>
Total expenses	<u>8,931,269</u>	<u>-</u>	<u>8,931,269</u>
Change in net assets before non-controlling interest	<u>\$ (133,873)</u>	<u>\$ 82,726</u>	<u>\$ (51,147)</u>
Change in net assets attributable to non-controlling interest	<u>282,489</u>	<u>-</u>	<u>282,489</u>
Change in net assets attributable to Housing Up	<u>\$ 148,616</u>	<u>\$ 82,726</u>	<u>\$ 231,342</u>

See independent auditor's report and notes to consolidated financial statements.

Transitional Housing Corporation DBA Housing Up And Affiliate

Consolidated Statements of Activities (Continued)
For the Year Ended December 31, 2018 (As Restated)

	Without donor restrictions	With donor restrictions	Total
Revenue			
Government contracts & grants	\$ 5,350,224	\$ -	\$ 5,350,224
Corporate/individual contributions	948,112	80,609	1,028,721
In-kind donations	19,847	-	19,847
Rental revenue	686,677	-	686,677
Investment and other income	31,342	-	31,342
Resident services fees	70,243	-	70,243
Developer fees	166,741	-	166,741
Net assets released from purpose related restrictions	233,746	(233,746)	-
Total revenue	<u>7,506,932</u>	<u>(153,137)</u>	<u>7,353,795</u>
Expenses			
Program services:			
Resident services	3,979,798	-	3,979,798
Building operations	748,722	-	748,722
Affordable housing	1,005,224	-	1,005,224
Total program services expenses	<u>5,733,744</u>	<u>-</u>	<u>5,733,744</u>
Supporting services:			
Management and general	653,386	-	653,386
Fundraising	255,960	-	255,960
Total supporting services expenses	<u>909,346</u>	<u>-</u>	<u>909,346</u>
Total expenses	<u>6,643,090</u>	<u>-</u>	<u>6,643,090</u>
Change in net assets before non-controlling interest	<u>\$ 863,842</u>	<u>\$ (153,137)</u>	<u>\$ 710,705</u>
Change in net assets attributable to non-controlling interest	<u>412,137</u>	<u>-</u>	<u>412,137</u>
Change in net assets attributable to Housing Up	<u>\$ 1,275,979</u>	<u>\$ (153,137)</u>	<u>\$ 1,122,842</u>

See independent auditor's report and notes to consolidated financial statements.

Transitional Housing Corporation DBA Housing Up And Affiliate

Consolidated Statements of Changes in Net Assets
For the Years Ended December 31, 2019 and 2018 (As Restated)

	Without donor restrictions			With donor restrictions	Total consolidated
	Controlling	Non-controlling	Total		
Net assets, January 1, 2018, as previously reported	\$ 5,840,846	\$ 6,745,529	\$ 12,586,375	\$ 603,779	\$ 13,190,154
Adjustment - change in accounting principle	<u>272,801</u>	<u>-</u>	<u>272,801</u>	<u>-</u>	<u>272,801</u>
Net assets, January 1, 2018, as restated	6,113,647	6,745,529	12,859,176	603,779	13,462,955
Change in net assets	<u>1,275,979</u>	<u>(412,137)</u>	<u>863,842</u>	<u>(153,137)</u>	<u>710,705</u>
Net assets, December 31, 2018	7,389,626	6,333,392	13,723,018	450,642	14,173,660
Change in net assets	<u>148,616</u>	<u>(282,489)</u>	<u>(133,873)</u>	<u>82,726</u>	<u>(51,147)</u>
Net assets, December 31, 2019	<u>\$ 7,538,242</u>	<u>\$ 6,050,903</u>	<u>\$ 13,589,145</u>	<u>\$ 533,368</u>	<u>\$ 14,122,513</u>

See independent auditor's report and notes to consolidated financial statements.

Transitional Housing Corporation DBA Housing Up And Affiliate

Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2019

	Program services				Supporting services		Total supporting services	Total expenses
	Resident services	Building operations	Affordable housing	Total program services	Management and general	Fundraising		
Salaries	\$ 3,411,854	\$ 34,847	\$ 216,003	\$ 3,662,704	\$ 117,040	\$ 126,745	\$ 243,785	\$ 3,906,489
Rent	1,482,257	8,400	-	1,490,657	38,940	-	38,940	1,529,597
Payroll taxes and fringe benefits	739,760	7,556	45,977	793,293	25,377	27,481	52,858	846,151
Depreciation and amortization	-	242,454	271,762	514,216	-	-	-	514,216
Repairs and maintenance	67,401	175,909	103,407	346,717	130,069	-	130,069	476,786
Other professional fees	65,227	145,392	48,465	259,084	160,478	4,995	165,473	424,557
Interest	-	139,369	132,940	272,309	-	-	-	272,309
Accounting and legal	-	-	-	-	245,404	-	245,404	245,404
Utilities	20,808	62,706	52,833	136,347	57,133	-	57,133	193,480
Office expense	12,796	22,275	20,275	55,346	110,669	2,654	113,323	168,669
Family services	85,371	-	-	85,371	-	-	-	85,371
Insurance	-	-	19,286	19,286	48,949	-	48,949	68,235
Miscellaneous	-	1,775	6,710	8,485	49,003	-	49,003	57,488
Travel	45,702	-	-	45,702	1,375	4,466	5,841	51,543
Special events	-	-	-	-	13,019	36,667	49,686	49,686
Information technology	-	-	-	-	30,403	-	30,403	30,403
Membership dues and fees	-	-	-	-	8,724	-	8,724	8,724
Other taxes and licenses	-	-	1,661	1,661	500	-	500	2,161
	<u>\$ 5,931,176</u>	<u>\$ 840,683</u>	<u>\$ 919,319</u>	<u>\$ 7,691,178</u>	<u>\$ 1,037,083</u>	<u>\$ 203,008</u>	<u>\$ 1,240,091</u>	<u>\$ 8,931,269</u>

See independent auditor's report and notes to consolidated financial statements.

Transitional Housing Corporation DBA Housing Up And Affiliate

Consolidated Statement of Functional Expenses (Continued)
For the Year Ended December 31, 2018 (As Restated)

	Program services				Supporting services		Total supporting services	Total expenses
	Resident services	Building operations	Affordable housing	Total program services	Management and general	Fundraising		
Salaries	\$ 2,716,989	\$ 33,298	\$ 223,664	\$ 2,973,951	\$ 146,978	\$ 135,711	\$ 282,689	\$ 3,256,640
Payroll taxes and fringe benefits	518,286	6,520	43,677	568,483	28,778	26,572	55,350	623,833
Rent	467,647	8,401	-	476,048	40,170	-	40,170	516,218
Depreciation and amortization	-	169,910	271,762	441,672	-	-	-	441,672
Other professional fees	68,408	146,447	20,282	235,137	74,461	33,583	108,044	343,181
Utilities	62,971	102,916	80,287	246,174	-	-	-	246,174
Interest	-	68,114	144,805	212,919	23,793	-	23,793	236,712
Repairs and maintenance	16,381	119,612	57,362	193,355	13,450	-	13,450	206,805
Accounting and legal	-	-	-	-	188,760	-	188,760	188,760
Office expense	21,345	3,244	38,345	62,934	92,911	8,567	101,478	164,412
Insurance	-	74,554	26,073	100,627	-	-	-	100,627
Bad debt	-	-	76,452	76,452	-	-	-	76,452
Family services	61,456	-	-	61,456	-	-	-	61,456
Miscellaneous	2,088	15,706	22,036	39,830	16,047	-	16,047	55,877
Travel	44,227	-	-	44,227	2,044	2,868	4,912	49,139
Special events	-	-	-	-	-	48,659	48,659	48,659
Information technology	-	-	-	-	17,517	-	17,517	17,517
Membership dues and fees	-	-	-	-	8,477	-	8,477	8,477
Other taxes and licenses	-	-	479	479	-	-	-	479
	<u>\$ 3,979,798</u>	<u>\$ 748,722</u>	<u>\$ 1,005,224</u>	<u>\$ 5,733,744</u>	<u>\$ 653,386</u>	<u>\$ 255,960</u>	<u>\$ 909,346</u>	<u>\$ 6,643,090</u>

See independent auditor's report and notes to consolidated financial statements.

Transitional Housing Corporation DBA Housing Up And Affiliate

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2019 and 2018 (As Restated)

	2019	2018 (As Restated)
Consolidated cash flows from operating activities		
Change in net assets	\$ (50,399)	\$ 710,705
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	513,470	441,672
(Increase) decrease in operating assets:		
Rents receivable	(103,802)	(17,548)
Grants receivable	188,078	112,775
Developer fees receivable	86,600	110,126
Prepaid insurance	(175,596)	(15,259)
Resident services receivable	(27,569)	17,559
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	206,353	40,891
Prepaid rents	(11,202)	10,021
Deposits	(17,230)	6,634
Deferred developer fee income	(23,370)	(166,741)
Net cash provided by operating activities	<u>585,333</u>	<u>1,250,835</u>
Consolidated cash flows from investing activities		
Construction costs paid	-	(1,395,359)
Purchase of fixed assets	(412,095)	-
Increase in sponsor loans receivable	(760)	-
Increase in project development costs	-	(295,792)
Increase in financing fees	-	(32,375)
Net cash used in investing activities	<u>(412,855)</u>	<u>(1,723,526)</u>

See independent auditor's report and notes to consolidated financial statements.

Transitional Housing Corporation DBA Housing Up And Affiliate

Consolidated Statements of Cash Flows (Continued)
For the Years Ended December 31, 2019 and 2018 (As Restated)

	2019	2018 (As Restated)
	<u>2019</u>	<u>(As Restated)</u>
Consolidated cash flows from financing activities		
Capital contributions	\$ -	\$ 1,329,593
Proceeds from long-term debt	1,117,504	-
Principal payments on long-term debt	<u>(602,882)</u>	<u>(68,084)</u>
Net cash provided by financing activities	<u>514,622</u>	<u>1,261,509</u>
Net increase in cash, cash equivalents and restricted cash	687,100	788,818
Cash, cash equivalents, and restricted cash, beginning of year	<u>3,137,753</u>	<u>2,348,935</u>
Cash, cash equivalents, and restricted cash, end of year	<u>\$ 3,824,853</u>	<u>\$ 3,137,753</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	<u>\$ 241,767</u>	<u>\$ 206,471</u>
<p>The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated statements of financial position that sum to the total of the same such amounts presented in cash, cash equivalents, and restricted cash, end of year, above:</p>		
Cash	\$ 3,491,102	\$ 2,821,239
Tenants' security deposits	17,776	16,139
Reserves	255,330	240,930
Escrows	<u>60,645</u>	<u>59,445</u>
Total cash, cash equivalents, and restricted cash, end of year	<u>\$ 3,824,853</u>	<u>\$ 3,137,753</u>

See independent auditor's report and notes to consolidated financial statements.

Transitional Housing Corporation DBA Housing Up And Affiliate

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2019 and 2018 (As Restated)

1) Nature of Business and Summary of Significant Accounting Policies

Nature of Business

Housing Up is a 501(c)(3) not-for-profit organization incorporated in February 1990. The mission of Housing Up 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. Housing Up 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. Housing Up's programs are funded by government and foundation grants, contributions from churches, corporations and individuals, and rental income from tenants. Housing Up was formerly known as Transitional Housing Corporation until June 2, 2016, when they changed their name to Transitional Housing Corporation DBA Housing Up.

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. All of the current board of directors of THCAH are also members of the board of Housing Up.

Partner Arms 4 LLC (PA 4 - also known as Weinberg Commons), formerly a wholly owned subsidiary of THCAH, was formed on January 29, 2013. THCAH purchased 3 buildings in Washington, DC for \$2,275,000, which were transferred to PA4 to be developed as affordable housing. The project has been awarded \$6,890,110 of Low Income Housing Tax Credits. On September 16, 2014, NEF Assignment Corporation (NEF) was admitted as a 99.99% investor member and is responsible for capital contributions of \$7,340,037. As of December 31, 2016 contributions of \$7,233,859, decreased due to a downward adjuster, have been received. THCAH remained in the partnership as a 0.01% managing member. The project consists of 36 low income units. The costs of the project were funded by a \$6,000,000 construction loan from TD Bank, various Sponsor Loans, and capital contributions from NEF.

Principles of Consolidation

The financial statements of Housing Up and THCAH (collectively, the Corporation) have been presented on a consolidated basis due to the presence of common control between the two entities. THCAH is the controlling member of PA4, which is also included in the consolidation. All significant transactions and balances between the entities have been eliminated in consolidation.

Basis of Presentation

Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Corporation are classified in the following two classes:

Net assets with donor restrictions consist of contributions that have been restricted by the donor for specific purposes or are time restricted, including contributions that have been restricted by the donor that stipulate the resources maintained in perpetuity, but permit the Corporation to use or expend part or all of the income derived from the donated assets for either specified or unspecified purposes.

Net assets without donor restrictions represents funds that are available for support of the operations of the Corporation, and that are not subject to donor stipulation.

See independent auditor's report.

Transitional Housing Corporation DBA Housing Up And Affiliate

Notes to Consolidated Financial Statements (Continued)
For the Years Ended December 31, 2019 and 2018 (As Restated)

1) Nature of Business and Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Expirations of donor-imposed restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between applicable classes of net assets.

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. During the year ended December 31, 2019 and 2018, Housing Up placed in service development costs of \$206,211 and \$1,848,488, respectively, related to its PA2 project. As of December 31, 2019 and 2018, \$19,618 remains on the statement of financial position.

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, 15 years for land improvements and 5 years for equipment. Leasehold improvements are depreciated over the lesser of the estimated useful life or the remaining life of the lease. Donated or contributed property and equipment is stated at fair market value and in-kind donations revenue is recognized.

Amortization

Tax credit fees are being amortized to operations over the tax credit compliance period using the straight-line method. The estimated amortization expense related to tax credit fees for each of the next five years is \$7,056.

Interest

The Corporation has adopted the Financial Accounting Standards Board (FASB) ASC Section 835, *Interest*, which states that debt issuance costs related to a note shall be reported on the consolidated statements of financial position as a direct deduction from the face amount of that note, and any amortization of debt issuance costs shall be reported as interest expense. Accordingly, the Corporation is reporting loan fees related to its mortgage payable as a direct deduction from the principal balance of the mortgage, and is reporting amortization of the loan fees as interest expense on the mortgage payable. See Note 7 for more information.

Method of Accounting

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

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, 2019 and 2018.

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Transitional Housing Corporation DBA Housing Up And Affiliate

Notes to Consolidated Financial Statements (Continued)
For the Years Ended December 31, 2019 and 2018 (As Restated)

1) Nature of Business and Summary of Significant Accounting Policies (Continued)

Income Taxes

Housing Up 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, 2019 and 2018. Taxable income or losses pass through to, and is reportable by its members for PA4. Accordingly, no provision for income taxes has been included in the accompanying consolidated financial statements.

Non-Controlling Interest

This amount represents the positive balance of the investor member's equity interest in PA4, which is included in the consolidated financial statements. The balance of the investor member's interest remains in the Corporation's net assets. Included in net assets at December 31, 2019 and 2018 is the equity in the capital balance of the investor member's interest of \$6,050,903 and \$6,333,392, respectively.

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, 2019 and 2018.

Investment in LLCs

The investment in LLCs 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.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of functional expenses. Indirect costs have been allocated to program services, management and general, and fundraising based on the proportion of staff salaries and fringe benefits expenses directly charged to those cost centers. Direct expenses are allocated based on the percentage of time spent on various programs. Estimates may be used in developing allocations of expenses by function.

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.

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 net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

The Corporation earns resident service fees from contracts for providing services for the benefit of residents of affordable housing properties. Resident service fees are recognized as revenue on a straight-line basis over the term of the annual service period.

See independent auditor's report.

Transitional Housing Corporation DBA Housing Up And Affiliate

Notes to Consolidated Financial Statements (Continued)
For the Years Ended December 31, 2019 and 2018 (As Restated)

1) Nature of Business and Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

Development fees are recognized as earned by the Corporation when paid at initial closing and during the construction period, based on percentage of completion of the construction contract, a cost-based input method. Developer fee receivable, developer fee income and deferred developer fee earned from affiliates and subsidiaries and payable from operational cash flow of the respective projects are eliminated in consolidation.

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.

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 2019 and 2018, the Corporation received in-kind donations of professional services, construction materials, services related to the refurbishing of apartment units and other goods valued at \$24,830 and \$19,847, respectively, which are reported as in-kind donations in the accompanying consolidated statements of activities and changes in net assets. During 2019 and 2018, the Corporation also received approximately 799 and 285 hours of donated services, respectively, from volunteers in support of its programs that do not meet the criteria for recognition under accounting principles generally accepted in the United States of America.

Housing Up receives its grant and contract support primarily from corporations, foundations, and local/federal organizations. The grants are typically in the form of reimbursable grants to be used to provide support for the homeless. Net assets with donor restrictions are reclassified to net assets without donor restrictions upon satisfaction of the time or purpose restrictions.

2) Accounting Pronouncements Adopted

On January 1, 2019, the Corporation adopted ASU No. 2016-18 – *Statement of Cash Flows (Topic 230): Restricted Cash*, which reduced diversity in practice in the classification and presentation of changes in restricted cash on the statement of cash flows by including restricted cash and restricted cash equivalents with cash and cash equivalents when reconciling the beginning of year and end of year total amounts shown on the statement of cash flows. The Corporation adopted the provisions under this ASU on January 1, 2019 on a retrospective basis which resulted in an increase in beginning of year and end of year cash. Restricted cash was \$333,751 and \$316,514 as of December 31, 2019 and 2018, respectively, and therefore resulted in an increase in cash and restricted cash of \$333,751 and \$316,514 as presented on the statements of cash flows as of December 31, 2019 and 2018, respectively.

On January 1, 2019, the Corporation adopted ASU No. 2018-08 – *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* ("ASU 2018-08"). ASU 2018-08 provides a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction. The guidance also helps determine whether a contribution is conditional and better distinguishes a donor-imposed condition from a donor-imposed restriction. The Corporation has determined that the adoption of ASU 2018-08 did not result in a change to the way the Corporation recognizes its revenue, and there was no cumulative effect adjustment to beginning net assets.

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Transitional Housing Corporation DBA Housing Up And Affiliate

Notes to Consolidated Financial Statements (Continued)
For the Years Ended December 31, 2019 and 2018 (As Restated)

2) Accounting Pronouncements Adopted (Continued)

On January 1, 2019, the Corporation adopted ASU No. 2014-09 – *Revenue from Contracts with Customers (Topic 606)*, using the modified retrospective method for contracts that were not substantially complete as of January 1, 2019. Results for the year ended December 31, 2019 have been presented under Topic 606, while prior years amounts have not been adjusted and continue to be reported under Topic 605, which was in effect for prior years. The ASU and all subsequently issued clarifying ASUs replaced most existing revenue recognition guidance in U.S. GAAP. The ASU also required expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The core principle of Topic 606 is that an entity should recognize revenue to depict the transfer of control for promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying the revenue principles, an entity is required to identify the contract(s) with a customer, identify the performance obligations, determine the transaction price, allocate the transaction price to the performance obligations and recognize revenue when the performance obligation is satisfied (i.e., either over time or point in time). Since the adoption of the standard did not result in a change to the way the Corporation recognizes its revenue, there was no cumulative effect adjustment to beginning net assets.

3) Rents Receivable

The Corporation provides for doubtful accounts based on anticipated collection losses. The estimated losses are determined from historical collection experience and a review of existing rents receivable as to their collectability.

4) Concentration of Credit Risk

The Corporation maintains its cash balances in several accounts at various financial institutions. At times, these balances may exceed the federal insured limits; however, the Corporation has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these cash balances at December 31, 2019 and 2018.

5) Liquidity Analysis

At December 31, 2019, the Corporation has \$3,895,958 of cash and equivalents available to meet needs for general expenditures consisting of cash of \$3,491,102 and \$1,013,464 of accounts and grants receivable. None of the financial assets are subject to donor or other contractual restrictions. Accordingly, all such funds are available to meet the cash needs of the Corporation in the next 12 months.

The Corporation manages its liquidity by developing annual operating budgets and utilizing quarterly cash flow projections. These disciplines ensure that sufficient funds are available for general expenditures as liabilities and obligations come due. The cash needs of the Corporation are expected to be met on a monthly basis from fees derived from government grants and corporate/individual contributors. As part of the Corporation's liquidity management plan, excess annual cash is designated by the board into the Armstrong Fund savings account for Housing Up and a savings account for THCAH, which are invested in various short-term CDs and money market funds. In general, the Corporation aims to maintain sufficient financial assets on hand to meet at least two months worth of operating expenses.

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Transitional Housing Corporation DBA Housing Up And Affiliate

Notes to Consolidated Financial Statements (Continued)
For the Years Ended December 31, 2019 and 2018 (As Restated)

6) Investment in Limited Liability Companies

THCAH acquired a membership interest in Abrams Hall GP Member, LLC (Abrams Hall) in 2017. THCAH owns a 51% membership interest in Abrams Hall, which owns a 0.01% general partner interest in Abrams Hall Senior LP, which was formed to acquire, develop, own, and operate a low-income residential rental housing project. While THCAH has economic interest in Abrams Hall, it does not have control. Therefore, its operations are not consolidated in the financial statements of the Corporation.

THCAH acquired a membership interest in Hedin House Preservation, LLC (Hedin House) in 2017. THCAH owns a 51% membership interest in Hedin House, which owns a 0.01% general partner interest in Hedin House Preservation LP, which was formed to acquire, develop, own, and operate a low-income residential rental housing project. While THCAH has economic interest in Hedin House, it does not have control. Therefore, its operations are not consolidated in the financial statements of the Corporation.

THCAH acquired a membership interest in Glenn Arms Preservation, LLC (Glenn Arms) in 2017. THCAH owns a 51% membership interest in Glenn Arms, which owns a 0.01% general partner interest in Glenn Arms Preservation LP, which was formed to acquire, develop, own, and operate a low-income residential rental housing project. While THCAH has economic interest in Glenn Arms, it does not have control. Therefore, its operations are not consolidated in the financial statements of the Corporation.

THCAH acquired a membership interest in the following LLCs 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 LLCs for which THCAH has an investment through the general partner entity at December 31, 2019 and 2018 and the summarized combined statements of operations for the years then ended are as follows:

See independent auditor's report.

Transitional Housing Corporation DBA Housing Up And Affiliate

Notes to Consolidated Financial Statements (Continued)
For the Years Ended December 31, 2019 and 2018 (As Restated)

6) Investment in Limited Liability Companies (Continued)

Combined Balance Sheets

	2019	2018
Assets		
Investment in real estate:		
Land and land improvements	\$ 2,667,365	\$ 2,667,365
Building and improvements	26,837,396	26,837,396
Furniture and equipment	163,181	163,181
	<u>29,667,942</u>	<u>29,667,942</u>
Accumulated depreciation	(6,510,468)	(5,806,499)
	<u>23,157,474</u>	<u>23,861,443</u>
Other assets:		
Cash	22,312	58,707
Accounts receivable	91,670	102,427
Prepaid expenses	25,602	29,601
Intangibles	46,386	44,499
Escrows and reserves	1,372,862	1,365,736
	<u>1,558,832</u>	<u>1,600,970</u>
Total assets	<u>\$ 24,716,306</u>	<u>\$ 25,462,413</u>
Liabilities and Partners' Equity		
Liabilities applicable to real estate:		
Mortgage and bonds payable	\$ 7,038,976	\$ 7,122,827
Notes and loans payable	14,565,645	14,565,645
Total liabilities applicable to real estate	<u>21,604,621</u>	<u>21,688,472</u>
Other liabilities:		
Accounts payable and accrued expenses	128,779	111,225
Tenant security deposit and other liabilities	737,413	614,868
Due to related party	934,550	915,825
Total other liabilities	<u>1,800,742</u>	<u>1,641,918</u>
Total liabilities	<u>23,405,363</u>	<u>23,330,390</u>
Partners' equity	<u>1,310,943</u>	<u>2,132,023</u>
Total liabilities and partners' equity	<u>\$ 24,716,306</u>	<u>\$ 25,462,413</u>
THCAH portion of equity	<u>\$ (183)</u>	<u>\$ (183)</u>

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Transitional Housing Corporation DBA Housing Up And Affiliate

Notes to Consolidated Financial Statements (Continued)
For the Years Ended December 31, 2019 and 2018 (As Restated)

6) Investment in Limited Liability Companies (Continued)

Combined Statements of Operations

	<u>2019</u>	<u>2018</u>
Revenue:		
Rents	\$ 1,784,138	\$ 1,746,845
Interest	3,204	4,046
Other	36,266	13,537
Total revenue	<u>1,823,608</u>	<u>1,764,428</u>
Expenses:		
Administrative	361,050	314,029
Operating and maintenance	452,321	410,755
Taxes and insurance	216,782	214,928
Utilities	240,681	195,650
Depreciation and amortization	707,968	707,968
Interest	518,852	526,021
Other expenses	147,034	145,951
Total expenses	<u>2,644,688</u>	<u>2,515,302</u>
Net loss	<u>\$ (821,080)</u>	<u>\$ (750,874)</u>
THCAH portion of net loss	<u>\$ (39)</u>	<u>\$ (36)</u>

7) Long-Term Debt

Notes and mortgages payable consisted of the following at December 31:

	<u>2019</u>	<u>2018</u>
Note payable of \$50,000 with Corporation for Supportive Housing (CSH). Does not accrue interest for the first 24 months, 6% thereafter until the maturity date; all remaining principal due July 31, 2019. The note is secured by the Mortgage and Security Agreement, if applicable, and the other Loan Documents.	\$ -	\$ 50,000
Mortgage loan of \$715,297 with DHCD collateralized by Partner Arms I. Interest accrues at 3% per annum; annual principal and interest payments are due from 50% of Available Cash Flow (see Footnote 14); any remaining principal and accrued interest is due March 31, 2055.	715,297	715,297

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Transitional Housing Corporation DBA Housing Up And Affiliate

Notes to Consolidated Financial Statements (Continued)
For the Years Ended December 31, 2019 and 2018 (As Restated)

7) Long-Term Debt (Continued)

	<u>2019</u>	<u>2018</u>
Mortgage loan of \$1,120,000 with LISC collateralized by Partner Arms I. Interest accrues at 7% per annum; any remaining principal and accrued interest is due May 1, 2021.	\$ 360,884	\$ 943,950
Mortgage loan of \$2,070,000 with LISC. Interest accrues at a nominal rate of 6.25% per annum and an effective interest rate of 6.60% per annum; monthly principal and interest payments are \$12,752; any remaining principal and accrued interest is due by July 1, 2046. The loan is secured by a first mortgage deed of trust, security interest and assignment of rents.	1,978,350	2,006,762
Construction loan of up to \$1,291,728 through LISC. Interest accrues at 6% per annum. The loan is secured by a Deed of Trust on the property. Loan matures October 1, 2029.	1,291,728	229,661
Mortgage loan of \$1,155,369 with DHCD through Housing Production Trust Fund (HPTF). Interest accrues at 3% per annum, principal and interest payments to begin on December 18, 2019 due from 75% of Available Cash Flow of PA2. The loan is secured by a Second Deed of Trust on the property. Loan matures 40 years from date of Loan Closing.	<u>1,155,369</u>	<u>1,099,932</u>
Total	5,501,628	5,045,602
Less: current portion	<u>745,293</u>	<u>314,623</u>
Long-term portion	<u>\$ 4,756,335</u>	<u>\$ 4,730,979</u>

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

2020	\$ 795,293
2021	273,132
2022	291,186
2023	231,555
2024	200,141
2025 and thereafter	<u>3,760,321</u>
Total	<u>\$ 5,551,628</u>

Unamortized financing fees for the years ended December 31, 2019 and 2018 were \$164,230 and \$172,826 respectively. Interest incurred on the notes and mortgages payable for the years ended December 31, 2019 and 2018 was \$287,365 and \$256,885, respectively, including capitalized interest of \$15,056 and \$20,173, respectively and amortizing financing fees of \$8,596 and \$9,337, respectively

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Transitional Housing Corporation DBA Housing Up And Affiliate

Notes to Consolidated Financial Statements (Continued)
For the Years Ended December 31, 2019 and 2018 (As Restated)

7) Long-term Debt (Continued)

Estimated financing fees being amortized to interest expense for each of the next five years are \$9,338.

8) Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods:

	<u>2019</u>	<u>2018</u>
Housing and services support	<u>\$ 533,368</u>	<u>\$ 450,642</u>

THCAH received grant income of \$250,000 from the Harry and Jeanette Weinberg Foundation, Inc. for both 2015 and 2014 in connection with PA4. The funds were credited to net assets without donor restrictions; however the contract states that the building cannot be sold for 40 years without consent of the Foundation. Therefore if THCAH violates the contract, the funds would have to be repaid from the proceeds.

9) Concentration of Funding Risk

During 2019, Housing Up received \$2,810,103, approximately 33 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. Housing Up also received \$4,290,780, approximately 50 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 Housing Up's ability to carry out its current program activities. Management does not consider this a significant risk in the near term.

10) Lease Obligations

Housing Up leases the Partner Arms I apartment building from the District of Columbia under a twenty year, non-cancellable operating lease that was to expire in January, 2013. The lease term was extended for an additional 40 years through January, 2053. The terms of the lease require Housing Up to make annual lease payments of \$8,400 and pay for all required repairs and maintenance.

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

2020	\$ 8,400
2021	8,400
2022	8,400
2023	8,400
2024	8,400
Thereafter	<u>243,600</u>
Total	<u>\$ 285,600</u>

See independent auditor's report.

Transitional Housing Corporation DBA Housing Up And Affiliate

Notes to Consolidated Financial Statements (Continued)
For the Years Ended December 31, 2019 and 2018 (As Restated)

10) Lease Obligations (Continued)

Housing Up also leases the second floor of the building located at 4406 Georgia Avenue, N.W. Washington, D.C. under a one year operating lease, with the option to extend one year until October, 2019. The terms of the lease require Housing Up to pay monthly installments of \$10,038 beginning with date of commencement through January 31, 2019 and \$10,239 per month thereafter. The lease ended on October 31, 2019 and was modified to a prorated amount on a monthly basis.

In addition, Housing Up leases office space at 5101 16th Street, N.W. Washington, D.C. under a one-year renewable lease. The lease was renewed in 2019. Rent expense for this office space was \$38,370 and \$38,370 for 2019 and 2018, respectively.

11) Retirement Plan

Housing Up 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. Housing Up makes matching contributions equal to 20 percent of eligible employees' contributions to the plan. For 2019 and 2018, Housing Up incurred expenses of \$16,544 and \$11,281, respectively.

12) 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, 2019 and 2018 are \$741,325 and \$17,004 for 2019, and \$741,325 and \$17,004 for 2018, respectively.

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, 2019 and 2018 are \$369,000 and \$8,550 for 2019, and \$369,000 and \$8,550 for 2018, respectively.

On September 16, 2014, THCAH entered into a loan agreement with Partner Arms 4 in the original amount of \$1,220,000. Interest begins accruing on the second anniversary of the date of the agreement at 6.5% per annum, compounding annually. All unpaid principal and accrued interest are due on September 16, 2049. The outstanding principal balance as of December 31, 2019 and 2018 was \$1,220,000, which were eliminated in the consolidation. Interest of \$261,148 and \$181,594 were accrued for the years ended December 31, 2019 and 2018, respectively, and was eliminated in the consolidation.

On June 15, 2018, THCAH entered into a loan agreement with an affiliate, Abrams Hall Senior LP. The principal amount of the note is \$293,000 and the loan does not bear interest. The outstanding principal balance as of December 31, 2019 and 2018 is \$293,000.

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Transitional Housing Corporation DBA Housing Up And Affiliate

Notes to Consolidated Financial Statements (Continued)
For the Years Ended December 31, 2019 and 2018 (As Restated)

12) Affiliate Transactions (Continued)

Developer Fees

THCAH earns developer fees from affiliated limited partnerships. The fees are to be paid from capital contributions and any unpaid amounts are payable from net cash flow, as defined in the affiliates' partnership agreements. As of December 31, 2019 and 2018, developer fees receivable totaled \$469,256, and \$555,856, respectively. Developer fees of \$23,370 and \$166,741 were earned for the years ended December 31, 2019 and 2018, respectively. For the years ended December 31, 2019 and 2018, \$0 and \$23,370, respectively, was deferred of which \$0 and \$11,827, respectively, was eliminated in the consolidation.

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 guarantee 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 guarantee agreement. As guarantors, they must guarantee 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.

Housing Up 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 guarantee agreement. As guarantors, they must guarantee 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 guarantee 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 guarantee 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.

Operating Deficit Guaranty

Pursuant to the Operating Agreement of PA4, the managing member shall be required, upon the reduction of the Operating Reserve Account to zero, to advance funds, to the Company, in the form of noninterest bearing unsecured loans up to \$202,500, to fund all operating deficits that exist beginning with the date on which the Project achieves Stabilized Occupancy and ending on the date on which the Company has achieved a Debt Service Coverage Ratio of 1.15 or better, measured on an annualized basis, for a period of two consecutive years commencing on or after the third anniversary of achievement of Stabilized Occupancy. During 2019 and 2018, no operating deficit loans were required.

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Transitional Housing Corporation DBA Housing Up And Affiliate

Notes to Consolidated Financial Statements (Continued)
For the Years Ended December 31, 2019 and 2018 (As Restated)

12) Affiliate Transactions (Continued)

Incentive Company Management Fee

PA4 is obligated to pay DC Partners an Incentive Company Management Fee under the terms of the Operating Agreement as an additional fee for managing the affairs of the Company. The fee shall be paid on an annual, non-cumulative basis and is payable from 90% of Cash Flow after the Development Fee and subordinate loans pursuant to Section 5.1.1. As of December 31, 2019 and 2018, no fee has been accrued or paid.

Asset Management Fee

PA4 is obligated to pay NEF Community Investments, Inc., an affiliate of the Investor Member, an Asset Management Fee under the terms of the Operating Agreement for property management oversight, tax credit compliance monitoring, and related services. The annual fee shall be \$3,600, commencing the month following the month in which Stabilized Occupancy is achieved, but in no event later than January, 2016, to be increased annually by three percent each year thereafter. The fee is payable from Cash Flow pursuant to Section 5.1.1. As of December 31, 2019 and 2018, \$15,736 and \$11,783, respectively, has been accrued.

Cross Indemnity Agreement

Housing Up 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 Housing Up entities and the co-general partner entities are each responsible for 50% of any payment required under a guaranty agreement. However, Housing Up is only obligated under the guaranty agreements to which it is a party.

13) Property Management Fee

PA4 was obligated under the terms of a property management agreement with Eagle Point Management, an unrelated party. The agreement provided for a fee of 5% of gross tenant rent collections. Effective May 28, 2019, PA4 is obligated under the terms of a property management agreement with Charles Tini & Associates, LLC, an unrelated party. The agreement provides for a fee of 6% of rent collections. Management fees of \$30,382 and \$21,975, respectively, were incurred during the years ended December 31, 2019 and 2018. As of December 31, 2019 and 2018, \$1,926 and \$0, respectively, remains payable.

14) Available Cash Flow

Per the DHCD loan agreement dated March 31, 2015, the Corporation is required to compute the annual Available Cash Flow relating to the Partner Arms 1 property. Available Cash Flow is defined as the sum of all cash received from ownership or operation of the property, less all cash expenditures, and all expenses unpaid but properly accrued.

The Calculation of Available Cash Flow for the year ended December 31, 2019 is as follows:

Cash received	\$	422,524
Cash expenditures		<u>286,629</u>
Available cash flow	\$	<u><u>135,895</u></u>

See independent auditor's report.

Transitional Housing Corporation DBA Housing Up And Affiliate

Notes to Consolidated Financial Statements (Continued)
For the Years Ended December 31, 2019 and 2018 (As Restated)

15) Commitments and Contingencies

Low-Income Housing Tax Credits

Partner Arms 4's low-income housing tax credits are contingent on its ability to maintain compliance with applicable sections of Section 42. Failure to maintain compliance with occupant eligibility and/or unit gross rent, among other requirements, or to correct noncompliance within a specified time period, could result in recapture of previously taken tax credits plus interest. In addition, such potential noncompliance may require an adjustment to the contributed capital by the limited partner.

16) Change in Accounting Principle

During 2019, Housing Up and THCAH adopted a change in accounting principle regarding recognition of developer fee revenue. Under the previous method, the revenue was recognized during construction, at breakeven, and across the first three years of the operating deficit period. Under the new method, the lesser of 25% or the amount paid at initial closing will be recognized at initial closing to reflect services provided during predevelopment and 75% (or the balance needed to reach 100% cumulatively by the end of construction) will be recognized during development based on percentage of completion to reflect services provided during construction. It was determined that this method was preferable as it better depicts the transfer of control during the predevelopment and development phases of construction. In addition, Housing Up and THCAH has determined that the exposure to loss of developer fee revenue due to operating deficits is low and the uncertain receipt of developer fees to be paid from cash flow can be addressed through establishing an allowance for doubtful accounts. Therefore, it was deemed unnecessary to continue deferring revenue recognition through the first three years of the operating deficit period.

The 2018 consolidated financial statements have been adjusted retrospectively, as shown below, due to the change in accounting principle. Net assets without donor restrictions as originally reported as of January 1, 2018 increased by \$272,801.

	As previously reported 2018	As restated 2018
	<u>2018</u>	<u>2018</u>
Consolidated statements of activities		
Developer fees	\$ 261,617	\$ 166,741
Consolidated statements of financial position		
Deferred developer fee	201,295	11,543
Net assets without donor restrictions	12,586,375	12,859,176

17) Business Risk Factor

The Corporation could potentially be affected by natural disasters, public health crisis, such as pandemics and epidemics, or other events outside of their control, which could cause their business and operating results to suffer.

See independent auditor's report.

Transitional Housing Corporation DBA Housing Up And Affiliate

Notes to Consolidated Financial Statements (Continued)
For the Years Ended December 31, 2019 and 2018 (As Restated)

18) Subsequent Events

Management has evaluated events and transactions subsequent to the consolidated statement of financial position date for potential recognition or disclosure through the independent auditor's report date, the date the consolidated financial statements were available to be issued. Except as noted below, there were no events that required recognition or disclosure in the consolidated financial statements.

The passage of the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act) created the Paycheck Protection Program (PPP), a new loan package designed to provide funding to small businesses for use in paying employee wages and other critical expenses during the COVID-19 pandemic. Under the terms of the PPP loans, once a borrower receives the funds, the amount spent during the covered period on payroll, mortgage interest, rent, and utilities is eligible to be completely forgiven tax free. Any portion of a PPP loan that is not forgiven must be repaid over the two or five year loan term; however, payments are deferred until the earlier of ten months following the covered period or the date the amount of forgiveness is determined at an interest rate of 1%. Subsequent to December 31, 2019, the Company applied for a PPP loan in the amount of \$937,187. On April 17, 2020, the Company's PPP loan proceeds were received.

See independent auditor's report.

Transitional Housing Corporation DBA Housing Up And Affiliate

Consolidating Statement of Financial Position
As of December 31, 2019

	THCAH	PA4	Eliminations	Consolidated THCAH	Housing up	Eliminations	Total
Current assets							
Cash	\$ 1,386,229	\$ 112,494	\$ -	\$ 1,498,723	\$ 1,992,379	\$ -	\$ 3,491,102
Rent receivables, net of allowance for doubtful accounts of \$30,891	-	127,508	-	127,508	16,937	-	144,445
Grants receivable	-	-	-	-	796,111	-	796,111
Developer fees receivable - current	-	-	-	-	-	-	-
Resident services receivable	-	-	-	-	72,908	-	72,908
Prepaid insurance	-	5,606	-	5,606	227,144	-	232,750
Tenants' security deposits	-	17,776	-	17,776	-	-	17,776
Total current assets	<u>1,386,229</u>	<u>263,384</u>	<u>-</u>	<u>1,649,613</u>	<u>3,105,479</u>	<u>-</u>	<u>4,755,092</u>
Property and equipment							
Land	-	1,000,000	-	1,000,000	85,255	-	1,085,255
Buildings and improvements	-	8,779,658	(11,827)	8,767,831	3,652,221	(544,119)	11,875,933
Land improvements	-	271,746	-	271,746	-	-	271,746
Leasehold improvements	-	-	-	-	1,970,784	-	1,970,784
Furniture, fixtures and equipment	-	316,282	-	316,282	259,242	-	575,524
Automobile	-	-	-	-	25,119	-	25,119
	-	10,367,686	(11,827)	10,355,859	5,992,621	(544,119)	15,804,361
Less: accumulated depreciation	-	(1,125,006)	-	(1,125,006)	(1,817,673)	67,405	(2,875,274)
Total property and equipment	<u>-</u>	<u>9,242,680</u>	<u>(11,827)</u>	<u>9,230,853</u>	<u>4,174,948</u>	<u>(476,714)</u>	<u>12,929,087</u>
Other assets							
Security deposit receivable	-	-	-	-	61,958	-	61,958
Sponsor loans receivable, including accrued interest receivable of \$286,702	2,910,787	-	(261,148)	2,649,639	-	(1,220,000)	1,429,639
Due from affiliate	30,632	-	(30,632)	-	736,596	(736,596)	-
Developer fees receivable - long-term	481,083	-	(11,827)	469,256	-	-	469,256
Tax credit fees, net of accumulated amortization of \$30,569	-	41,153	-	41,153	-	-	41,153
Reserves	-	255,330	-	255,330	-	-	255,330
Escrows	-	60,645	-	60,645	-	-	60,645
Project development costs	19,618	-	-	19,618	-	-	19,618
Investments in LLCs	(183)	-	-	(183)	-	-	(183)
Total other assets	<u>3,441,937</u>	<u>357,128</u>	<u>(303,607)</u>	<u>3,495,458</u>	<u>798,554</u>	<u>(1,956,596)</u>	<u>2,337,416</u>
Total assets	<u>\$ 4,828,166</u>	<u>\$ 9,863,192</u>	<u>\$ (315,434)</u>	<u>\$ 14,375,924</u>	<u>\$ 8,078,981</u>	<u>\$ (2,433,310)</u>	<u>\$ 20,021,595</u>

See independent auditor's report.

Transitional Housing Corporation DBA Housing Up And Affiliate

Consolidating Statement of Financial Position (Continued)

As of December 31, 2019

	THCAH	PA4	Eliminations	Consolidated THCAH	Housing up	Eliminations	Total
Current liabilities							
Accounts payable and accrued expenses	\$ -	\$ 12,500	\$ -	\$ 12,500	\$ 359,934	\$ -	\$ 372,434
Current portion of long-term debt	-	29,739	-	29,739	715,554	-	745,293
Asset management fee payable	-	17,662	-	17,662	-	-	17,662
Accrued interest - long-term debt	-	-	-	-	155,231	-	155,231
Prepaid rents	-	1,135	-	1,135	1,143	-	2,278
Security deposit payable	-	13,183	-	13,183	896	-	14,079
Total current liabilities	-	74,219	-	74,219	1,232,758	-	1,306,977
Long-term liabilities							
Due to affiliates	362,602	404,626	(30,632)	736,596	-	(736,596)	-
Developer fee payable	-	11,827	(11,827)	-	-	-	-
Sponsor loan	-	1,220,000	-	1,220,000	-	(1,220,000)	-
Accrued interest - sponsor loan	-	261,148	(261,148)	-	-	-	-
Long-term debt - less current portion, net of unamortized financing fees of \$164,230	-	1,832,188	-	1,832,188	2,759,917	-	4,592,105
Total long-term liabilities	362,602	3,729,789	(303,607)	3,788,784	2,759,917	(1,956,596)	4,592,105
Total liabilities	362,602	3,804,008	(303,607)	3,863,003	3,992,675	(1,956,596)	5,899,082
Net assets							
Net assets without donor restrictions							
Controlling	4,165,564	8,281	(11,827)	4,162,018	3,852,938	(476,714)	7,538,242
Non-controlling	-	6,050,903	-	6,050,903	-	-	6,050,903
Total net assets without donor restrictions	4,165,564	6,059,184	(11,827)	10,212,921	3,852,938	(476,714)	13,589,145
Net assets with donor restrictions							
Total net assets	300,000	-	-	300,000	233,368	-	533,368
Total net assets	4,465,564	6,059,184	(11,827)	10,512,921	4,086,306	(476,714)	14,122,513
Total liabilities and net assets	\$ 4,828,166	\$ 9,863,192	\$ (315,434)	\$ 14,375,924	\$ 8,078,981	\$ (2,433,310)	\$ 20,021,595

See independent auditor's report.

Transitional Housing Corporation DBA Housing Up And Affiliate

Consolidating Statement of Financial Position (Continued)

As of December 31, 2018 (As Restated)

	THCAH	PA4	Eliminations	Consolidated THCAH	Housing up	Eliminations	Total
Current assets							
Cash	\$ 1,365,904	\$ 155,273	\$ -	\$ 1,521,177	\$ 1,300,062	\$ -	\$ 2,821,239
Rent receivables, net of allowance for doubtful accounts of \$2,475	-	21,248	-	21,248	19,395	-	40,643
Grants receivable	-	-	-	-	984,189	-	984,189
Developer fees receivable - current	99,365	-	(11,827)	87,538	-	-	87,538
Resident services receivable	-	-	-	-	45,339	-	45,339
Prepaid insurance	-	4,446	-	4,446	52,708	-	57,154
Tenants' security deposits	-	16,139	-	16,139	-	-	16,139
Total current assets	<u>1,465,269</u>	<u>197,106</u>	<u>(11,827)</u>	<u>1,650,548</u>	<u>2,401,693</u>	<u>-</u>	<u>4,052,241</u>
Property and equipment							
Land	-	1,000,000	-	1,000,000	85,255	-	1,085,255
Buildings and improvements	-	8,779,658	(11,827)	8,767,831	3,496,210	(441,684)	11,822,357
Land improvements	-	271,746	-	271,746	-	-	271,746
Leasehold improvements	-	-	-	-	1,970,784	-	1,970,784
Furniture, fixtures and equipment	-	316,282	-	316,282	253,142	-	569,424
Automobile	-	-	-	-	25,119	-	25,119
	-	10,367,686	(11,827)	10,355,859	5,830,510	(441,684)	15,744,685
Less: accumulated depreciation	-	(860,299)	-	(860,299)	(1,552,070)	44,257	(2,368,112)
Total property and equipment	<u>-</u>	<u>9,507,387</u>	<u>(11,827)</u>	<u>9,495,560</u>	<u>4,278,440</u>	<u>(397,427)</u>	<u>13,376,573</u>
Other assets							
Security deposits receivable	-	-	-	-	61,958	-	61,958
Sponsor loans receivable, including accrued interest receivable of \$207,148	2,830,473	-	(181,594)	2,648,879	-	(1,220,000)	1,428,879
Due from affiliate	30,632	-	(30,632)	-	630,136	(630,136)	-
Developer fees receivable - long-term	468,318	-	-	468,318	-	-	468,318
Tax credit fees, net of accumulated amortization of \$22,339	-	48,209	-	48,209	-	-	48,209
Reserves	-	240,930	-	240,930	-	-	240,930
Escrows	-	59,445	-	59,445	-	-	59,445
Project development costs	19,618	-	-	19,618	-	-	19,618
Investment in LLCs	(183)	-	-	(183)	-	-	(183)
Total other assets	<u>3,348,858</u>	<u>348,584</u>	<u>(212,226)</u>	<u>3,485,216</u>	<u>692,094</u>	<u>(1,850,136)</u>	<u>2,327,174</u>
Total assets	<u>\$ 4,814,127</u>	<u>\$ 10,053,077</u>	<u>\$ (235,880)</u>	<u>\$ 14,631,324</u>	<u>\$ 7,372,227</u>	<u>\$ (2,247,563)</u>	<u>\$ 19,755,988</u>

See independent auditor's report.

Transitional Housing Corporation DBA Housing Up And Affiliate

Consolidating Statement of Financial Position (Continued)

As of December 31, 2018 (As Restated)

	THCAH	PA4	Eliminations	Consolidated THCAH	Housing up	Eliminations	Total
Current liabilities							
Accounts payable and accrued expenses	\$ -	\$ 15,169	\$ -	\$ 15,169	\$ 215,734	\$ -	\$ 230,903
Accounts payable - construction	-	-	-	-	314,246	-	314,246
Current portion of long-term debt	-	28,275	-	28,275	286,348	-	314,623
Asset management fee payable	-	11,783	-	11,783	-	-	11,783
Accrued interest - long-term debt	-	-	-	-	96,288	-	96,288
Prepaid rents	-	6,235	-	6,235	7,245	-	13,480
Security deposit payable	-	13,843	-	13,843	17,466	-	31,309
Total current liabilities	-	75,305	-	75,305	937,327	-	1,012,632
Long-term liabilities							
Due to affiliates	292,106	368,662	(30,632)	630,136	-	(630,136)	-
Developer fee payable	-	11,827	(11,827)	-	-	-	-
Sponsor loan	-	1,220,000	-	1,220,000	-	(1,220,000)	-
Accrued interest - sponsor loan	-	181,594	(181,594)	-	-	-	-
Deferred developer fee income	23,370	-	(11,827)	11,543	-	-	11,543
Long-term debt - less current portion, net of unamortized financing fees of \$172,826	-	1,853,988	-	1,853,988	2,704,165	-	4,558,153
Total long-term liabilities	315,476	3,636,071	(235,880)	3,715,667	2,704,165	(1,850,136)	4,569,696
Total liabilities	315,476	3,711,376	(235,880)	3,790,972	3,641,492	(1,850,136)	5,582,328
Net assets							
Net assets without donor restrictions							
Controlling	4,198,651	8,309	-	4,206,960	3,580,093	(397,427)	7,389,626
Non-controlling	-	6,333,392	-	6,333,392	-	-	6,333,392
Total net assets without donor restrictions	4,198,651	6,341,701	-	10,540,352	3,580,093	(397,427)	13,723,018
Net assets with donor restrictions							
	300,000	-	-	300,000	150,642	-	450,642
Total net assets	4,498,651	6,341,701	-	10,840,352	3,730,735	(397,427)	14,173,660
Total liabilities and net assets	\$ 4,814,127	\$ 10,053,077	\$ (235,880)	\$ 14,631,324	\$ 7,372,227	\$ (2,247,563)	\$ 19,755,988

See independent auditor's report.

Transitional Housing Corporation DBA Housing Up And Affiliate

Consolidating Statement of Activities
For the Year Ended December 31, 2019

	Without donor restrictions						With donor restrictions			Total consolidated	
	Consolidated			THCAH	Housing up	Eliminations	Total	THCAH	Housing up		Total
	THCAH	PA4	Eliminations								
Revenue											
Government contracts & grants	\$ -	\$ -	\$ -	\$ -	\$ 7,125,884	\$ -	\$ 7,125,884	\$ -	\$ -	\$ -	\$ 7,125,884
Corporate/individual contributions	358	-	-	358	586,435	-	586,793	-	120,291	120,291	707,084
In-kind donations	-	-	-	-	24,830	-	24,830	-	-	-	24,830
Rental revenue	-	482,662	-	482,662	430,126	-	912,788	-	-	-	912,788
Investment and other income	80,403	8,191	(79,300)	9,294	6,540	-	15,834	-	-	-	15,834
Resident services fees	-	-	-	-	70,332	-	70,332	-	-	-	70,332
Management fees	-	-	-	-	184,846	(184,846)	-	-	-	-	-
Developer fee income	137,632	-	-	137,632	-	(114,262)	23,370	-	-	-	23,370
Net assets released from purpose related restrictions	-	-	-	-	37,565	-	37,565	-	(37,565)	(37,565)	-
Total revenue	218,393	490,853	(79,300)	629,946	8,466,558	(299,108)	8,797,396	-	82,726	82,726	8,880,122
Expenses											
Program services:											
Resident services	-	-	-	-	5,931,176	-	5,931,176	-	-	-	5,931,176
Building operations	-	-	-	-	863,831	(23,148)	840,683	-	-	-	840,683
Affordable housing	184,846	773,370	(79,300)	878,916	225,249	(184,846)	919,319	-	-	-	919,319
Total program services expenses	184,846	773,370	(79,300)	878,916	7,020,256	(207,994)	7,691,178	-	-	-	7,691,178
Supporting services:											
Management and general	66,634	-	-	66,634	970,449	-	1,037,083	-	-	-	1,037,083
Fundraising	-	-	-	-	203,008	-	203,008	-	-	-	203,008
Total supporting services expenses	66,634	-	-	66,634	1,173,457	-	1,240,091	-	-	-	1,240,091
Total expenses	251,480	773,370	(79,300)	945,550	8,193,713	(207,994)	8,931,269	-	-	-	8,931,269
Change in net assets	\$ (33,087)	\$ (282,517)	\$ -	\$ (315,604)	\$ 272,845	\$ (91,114)	\$ (133,873)	\$ -	\$ 82,726	\$ 82,726	\$ (51,147)

See independent auditor's report.

Transitional Housing Corporation DBA Housing Up And Affiliate

Consolidating Statement of Activities (Continued)
For the Year Ended December 31, 2018 (As Restated)

	Without donor restrictions						With donor restrictions			Total consolidated	
	THCAH	PA4	Eliminations	Consolidated THCAH	Housing up	Eliminations	Total	THCAH	Housing up		Total
Revenue											
Government contracts & grants	\$ -	\$ -	\$ -	\$ -	\$ 5,350,224	\$ -	\$ 5,350,224	\$ -	\$ -	\$ -	\$ 5,350,224
Corporate/individual contributions	168,100	-	-	168,100	780,012	-	948,112	-	80,609	80,609	1,028,721
In-kind donations	-	-	-	-	19,847	-	19,847	-	-	-	19,847
Rental revenue	-	445,544	-	445,544	241,133	-	686,677	-	-	-	686,677
Investment and other income	82,054	1,840	(79,300)	4,594	26,748	-	31,342	-	-	-	31,342
Resident services fees	-	-	-	-	70,243	-	70,243	-	-	-	70,243
Management fees	-	-	-	-	249,308	(249,308)	-	-	-	-	-
Developer fee income	395,265	-	-	395,265	-	(228,524)	166,741	-	-	-	166,741
Net assets released from purpose related restrictions	125,000	-	-	125,000	108,746	-	233,746	(125,000)	(108,746)	(233,746)	-
Total revenue	770,419	447,384	(79,300)	1,138,503	6,846,261	(477,832)	7,506,932	(125,000)	(28,137)	(153,137)	7,353,795
Expenses											
Program services:											
Resident services	-	-	-	-	3,979,798	-	3,979,798	-	-	-	3,979,798
Building operations	-	-	-	-	762,779	(14,057)	748,722	-	-	-	748,722
Affordable housing	249,308	859,934	(79,300)	1,029,942	224,590	(249,308)	1,005,224	-	-	-	1,005,224
Total program services expenses	249,308	859,934	(79,300)	1,029,942	4,967,167	(263,365)	5,733,744	-	-	-	5,733,744
Supporting services:											
Management and general	6,895	-	-	6,895	646,491	-	653,386	-	-	-	653,386
Fundraising	-	-	-	-	255,960	-	255,960	-	-	-	255,960
Total supporting services expenses	6,895	-	-	6,895	902,451	-	909,346	-	-	-	909,346
Total expenses	256,203	859,934	(79,300)	1,036,837	5,869,618	(263,365)	6,643,090	-	-	-	6,643,090
Change in net assets	\$ 514,216	\$ (412,550)	\$ -	\$ 101,666	\$ 976,643	\$ (214,467)	\$ 863,842	\$ (125,000)	\$ (28,137)	\$ (153,137)	\$ 710,705

See independent auditor's report.

Transitional Housing Corporation DBA Housing Up And Affiliate

Consolidating Statement of Changes in Net Assets
For the Years Ended December 31, 2019 and 2018 (As Restated)

	Without donor restrictions							With donor restrictions			Total consolidated	
	PA4			Eliminations	Consolidated			Total	THCAH	Housing up		Total
	THCAH	Non-controlling	Controlling		THCAH	Housing up	Eliminations					
Net assets, December 31, 2017												
- as previously reported	\$ 3,399,807	\$ 6,745,529	\$ 8,722	\$ -	\$ 10,154,058	\$ 2,603,450	\$ (171,133)	\$ 12,586,375	\$ 425,000	\$ 178,779	\$ 603,779	\$ 13,190,154
Adjustment - change in accounting principle	284,628	-	-	(11,827)	272,801	-	-	272,801	-	-	-	272,801
Net assets, January 1, 2018												
- as restated	3,684,435	6,745,529	8,722	(11,827)	10,426,859	2,603,450	(171,133)	12,859,176	425,000	178,779	603,779	13,462,955
Change in net assets	514,216	(412,137)	(413)	-	101,666	976,643	(214,467)	863,842	(125,000)	(28,137)	(153,137)	710,705
Net assets, December 31, 2018												
as restated	4,198,651	6,333,392	8,309	(11,827)	10,528,525	3,580,093	(385,600)	13,723,018	300,000	150,642	450,642	14,173,660
Change in net assets	(33,087)	(282,489)	(28)	-	(315,604)	272,845	(91,114)	(133,873)	-	82,726	82,726	(51,147)
Net assets, December 31, 2019	<u>\$ 4,165,564</u>	<u>\$ 6,050,903</u>	<u>\$ 8,281</u>	<u>\$ (11,827)</u>	<u>\$ 10,212,921</u>	<u>\$ 3,852,938</u>	<u>\$ (476,714)</u>	<u>\$ 13,589,145</u>	<u>\$ 300,000</u>	<u>\$ 233,368</u>	<u>\$ 533,368</u>	<u>\$ 14,122,513</u>

See independent auditor's report.

Transitional Housing Corporation DBA Housing Up And Affiliate

Consolidating Statement of Cash Flows
For the Year Ended December 31, 2019

	THCAH	PA4	Eliminations	Consolidated THCAH	Housing up	Eliminations	Total
Consolidating cash flows from operating activities							
Change in net assets	\$ (33,087)	\$ (282,517)	\$ -	\$ (315,604)	\$ 355,571	\$ (90,366)	\$ (50,399)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities							
Depreciation and amortization	-	271,763	-	271,763	265,603	(23,896)	513,470
(Increase) decrease in operating assets:							
Rents receivable	-	(106,260)	-	(106,260)	2,458	-	(103,802)
Grants receivable	-	-	-	-	188,078	-	188,078
Developer fees receivable	86,600	-	-	86,600	-	-	86,600
Prepaid insurance	-	(1,160)	-	(1,160)	(174,436)	-	(175,596)
Resident services receivable	-	-	-	-	(27,569)	-	(27,569)
Increase (decrease) in operating liabilities:							
Accounts payable and accrued expenses	-	82,764	(79,554)	3,210	203,143	-	206,353
Prepaid rent	-	(5,100)	-	(5,100)	(6,102)	-	(11,202)
Deposits	-	(660)	-	(660)	(16,570)	-	(17,230)
Deferred developer fee income	(23,370)	-	-	(23,370)	-	-	(23,370)
Net cash provided by (used in) operating activities	30,143	(41,170)	(79,554)	(90,581)	790,176	(114,262)	585,333
Consolidating cash flows from investing activities							
Purchase of fixed assets	-	-	-	-	(526,357)	114,262	(412,095)
Increase in sponsor loans receivable	(80,314)	-	79,554	(760)	-	-	(760)
(Increase) decrease in due from affiliates	-	35,964	-	35,964	(106,460)	70,496	-
Net cash provided by (used in) investing activities	(80,314)	35,964	79,554	35,204	(632,817)	184,758	(412,855)

See independent auditor's report.

Transitional Housing Corporation DBA Housing Up And Affiliate

Consolidating Statement of Cash Flows (Continued)
For the Year Ended December 31, 2019

	THCAH	PA4	Eliminations	Consolidated THCAH	Housing up	Eliminations	Total
Consolidating cash flows from financing activities							
Proceeds on long-term debt	\$ -	\$ -	\$ -	\$ -	\$ 1,117,504	\$ -	\$ 1,117,504
Principal payments on long-term debt	-	(20,336)	-	(20,336)	(582,546)	-	(602,882)
Increase in due to affiliates	70,496	-	-	70,496	-	(70,496)	-
Net cash provided by (used in) financing activities	70,496	(20,336)	-	50,160	534,958	(70,496)	514,622
Net increase in cash, cash equivalents and restricted cash	20,325	(25,542)	-	(5,217)	692,317	-	687,100
Cash, cash equivalents, and restricted cash, beginning of year	1,365,904	471,787	-	1,837,691	1,300,062	-	3,137,753
Cash, cash equivalents, and restricted cash, end of year	\$ 1,386,229	\$ 446,245	\$ -	\$ 1,832,474	\$ 1,992,379	\$ -	\$ 3,824,853
Supplemental disclosure of cash flow information							
Cash paid during the year for:							
Interest	\$ -	\$ 124,616	\$ -	\$ 124,616	\$ 117,151	\$ -	\$ 241,767

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated and combined statements of financial position that sum to the total of the same such amounts presented in cash, cash equivalents, and restricted cash, end of year, above:

Cash	\$ 1,386,229	\$ 112,494	\$ -	\$ 1,498,723	\$ 1,992,379	\$ -	\$ 3,491,102
Tenants' security deposits	-	17,776	-	17,776	-	-	17,776
Reserves	-	255,330	-	255,330	-	-	255,330
Escrows	-	60,645	-	60,645	-	-	60,645
Total cash, cash equivalents, and restricted cash, end of year	\$ 1,386,229	\$ 446,245	\$ -	\$ 1,832,474	\$ 1,992,379	\$ -	\$ 3,824,853

See independent auditor's report.

Transitional Housing Corporation DBA Housing Up And Affiliate

Consolidating Statement of Cash Flows (Continued)
For the Year Ended December 31, 2018 (As Restated)

	THCAH	PA4	Eliminations	Consolidated THCAH	Housing up	Eliminations	Total
Consolidating cash flows from operating activities							
Change in net assets	\$ 389,216	\$ (412,550)	\$ -	\$ (23,334)	\$ 948,506	\$ (214,467)	\$ 710,705
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities							
Depreciation and amortization	-	271,763	-	271,763	183,966	(14,057)	441,672
(Increase) decrease in operating assets:							
Rents receivable	-	662	-	662	(18,210)	-	(17,548)
Grants receivable	-	-	-	-	112,775	-	112,775
Developer fees receivable	110,126	-	-	110,126	-	-	110,126
Prepaid insurance	-	(650)	-	(650)	(14,609)	-	(15,259)
Resident services receivable	-	-	-	-	17,559	-	17,559
Miscellaneous current assets	-	-	-	-	-	-	-
Increase (decrease) in operating liabilities:							
Accounts payable and accrued expenses	-	88,308	(79,248)	9,060	31,831	-	40,891
Prepaid rent	-	2,776	-	2,776	7,245	-	10,021
Deposits	-	(1,906)	-	(1,906)	8,540	-	6,634
Deferred developer fee income	(166,741)	-	-	(166,741)	-	-	(166,741)
Net cash provided by (used in) operating activities	<u>332,601</u>	<u>(51,597)</u>	<u>(79,248)</u>	<u>201,756</u>	<u>1,277,603</u>	<u>(228,524)</u>	<u>1,250,835</u>
Consolidating cash flows from investing activities							
Purchase of fixed assets	-	-	-	-	(1,623,883)	228,524	(1,395,359)
Increase in sponsor loans receivable	(375,040)	-	79,248	(295,792)	-	-	(295,792)
Financing fees	-	-	-	-	(32,375)	-	(32,375)
(Increase) decrease in due from affiliates	<u>187,788</u>	<u>54,131</u>	<u>-</u>	<u>241,919</u>	<u>(315,579)</u>	<u>73,660</u>	<u>-</u>
Net cash provided by (used in) investing activities	<u>(187,252)</u>	<u>54,131</u>	<u>79,248</u>	<u>(53,873)</u>	<u>(1,971,837)</u>	<u>302,184</u>	<u>(1,723,526)</u>

See independent auditor's report.

Transitional Housing Corporation DBA Housing Up And Affiliate

Consolidating Statement of Cash Flows (Continued)
For the Year Ended December 31, 2018 (As Restated)

	THCAH	PA4	Eliminations	Consolidated THCAH	Housing up	Eliminations	Total
Consolidating cash flows from financing activities							
Proceeds on long-term debt	\$ -	\$ -	\$ -	\$ -	\$ 1,329,593	\$ -	\$ 1,329,593
Principal payments on long-term debt	-	(20,914)	-	(20,914)	(47,170)	-	(68,084)
Increase in due to affiliates	73,660	-	-	73,660	-	(73,660)	-
Net cash provided by (used in) financing activities	73,660	(20,914)	-	52,746	1,282,423	(73,660)	1,261,509
Net increase in cash, cash equivalents and restricted cash	219,009	(18,380)	-	200,629	588,189	-	788,818
Cash, cash equivalents, and restricted cash, beginning of year	1,146,895	490,167	-	1,637,062	711,873	-	2,348,935
Cash, cash equivalents, and restricted cash, end of year	<u>\$ 1,365,904</u>	<u>\$ 471,787</u>	<u>\$ -</u>	<u>\$ 1,837,691</u>	<u>\$ 1,300,062</u>	<u>\$ -</u>	<u>\$ 3,137,753</u>
Supplemental disclosure of cash flow information							
Cash paid during the year for:							
Interest	<u>\$ -</u>	<u>\$ 136,782</u>	<u>\$ -</u>	<u>\$ 136,782</u>	<u>\$ 69,689</u>	<u>\$ -</u>	<u>\$ 206,471</u>

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated and combined statements of financial position that sum to the total of the same such amounts presented in cash, cash equivalents, and restricted cash, end of year, above:

Cash	\$ 1,365,904	\$ 155,273	\$ -	\$ 1,521,177	\$ 1,300,062	\$ -	\$ 2,821,239
Tenants' security deposits	-	16,139	-	16,139	-	-	16,139
Reserves	-	240,930	-	240,930	-	-	240,930
Escrows	-	59,445	-	59,445	-	-	59,445
Total cash, cash equivalents, and restricted cash, end of year	<u>\$ 1,365,904</u>	<u>\$ 471,787</u>	<u>\$ -</u>	<u>\$ 1,837,691</u>	<u>\$ 1,300,062</u>	<u>\$ -</u>	<u>\$ 3,137,753</u>

See independent auditor's report.

Transitional Housing Corporation DBA Housing Up And Affiliate

Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2019

<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	
	Non-ARRA Expenditures	<u>\$ 2,208,122</u>
	Total Expenditures	<u>2,208,122</u>
Pass Through Awards from the District of Columbia:		
U.S. Department of Health and Human Services Temporary Assistance for Needy Families ²	93.558	
	Non-ARRA Expenditures	<u>\$ 3,540,067</u>
	Total Expenditures	<u>3,540,067</u>
Total		<u>\$ 5,748,189</u>

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Transitional Housing Corporation DBA Housing Up And Affiliate under programs of the federal government for the year ended December 31, 2019. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. Because the Schedule presents only a selected portion of the operations of Transitional Housing Corporation DBA Housing Up And Affiliate, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Transitional Housing Corporation DBA Housing Up And Affiliate.

Note 2 – Summary of Significant Accounting Policies

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

The Corporation has elected to use the ten percent (10%) de minimis indirect cost rate allowed under the Uniform Guidance.

See independent auditor's report.

Transitional Housing Corporation DBA Housing Up And Affiliate

Schedule of Expenditures of Federal Awards (Continued)

For the Year Ended December 31, 2019

1 Continuum of care homeless assistance program – PA I contract	\$ 216,557
Community partnership for the prevention of homelessness – PA II contract	170,700
Community partnership for the prevention of homelessness – Housing with care	501,346
Community partnership for the prevention of homelessness – Veterans connection	610,577
Community partnership for the prevention of homelessness – Youth families	336,305
Community partnership for the prevention of homelessness – Family connections	<u>372,636</u>
	\$ 2,208,122
2 Community partnership for the prevention of homelessness – DHS PA III contract	\$ 601,981
Community partnership for the prevention of homelessness – DHS FRSP	<u>2,938,086</u>
	\$ 3,540,067

See independent auditor's report.



Independent Auditor's 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 DBA Housing Up And Affiliate
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 DBA Housing Up And Affiliate, which comprise the consolidated statement of financial position as of December 31, 2019, 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 dated October 15, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Transitional Housing Corporation DBA Housing Up And Affiliate'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 opinions on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Transitional Housing Corporation DBA Housing Up And Affiliate's internal control. Accordingly, we do not express an opinion on the effectiveness of the Transitional Housing Corporation DBA Housing Up And Affiliate's internal control over financial reporting.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of Transitional Housing Corporation DBA Housing Up And Affiliate's 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.

Transitional Housing Corporation DBA Housing Up And Affiliate
Independent Auditor's 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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Transitional Housing Corporation DBA Housing Up And Affiliate's 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 DBA Housing Up And Affiliate's 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 DBA Housing Up And Affiliate's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hertzbach & Company, P.A.

Owings Mills, Maryland
October 15, 2020



Independent Auditor's Report
on Compliance for Each Major Program and on Internal Control
Over Compliance Required by The Uniform Guidance

To the Board of Directors
Transitional Housing Corporation DBA Housing Up And Affiliate
5101 16th Street, NW
Washington, DC 20011

Report on Compliance for Each Major Program

We have audited Transitional Housing Corporation DBA Housing Up And Affiliate's compliance with the types of compliance requirements described in *OMB Compliance Supplement* that could have a direct and material effect on each of Transitional Housing Corporation DBA Housing Up And Affiliate's major federal program for the year ended December 31, 2019. Transitional Housing Corporation DBA Housing Up And Affiliate's major federal programs are 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Transitional Housing Corporation DBA Housing Up And Affiliate's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Transitional Housing Corporation DBA Housing Up And Affiliate's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with each major federal program. However, our audit does not provide a legal determination of Transitional Housing Corporation DBA Housing Up And Affiliate's compliance.

Opinion on Each Major Federal Program

In our opinion, Transitional Housing Corporation DBA Housing Up And Affiliate 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 program for the year ended December 31, 2019.

Report on Internal Control Over Compliance

Management of Transitional Housing Corporation DBA Housing Up And Affiliate 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 DBA Housing Up And Affiliate's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Transitional Housing Corporation DBA Housing Up And Affiliate's 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 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 that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Hertzbach & Company, P.A.

Owings Mills, Maryland
October 15, 2020

Transitional Housing Corporation DBA Housing Up And Affiliate

Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2019

Summary of Auditor's Results

- 1) The auditor's report expresses an unmodified opinion on the consolidated financial statements of Transitional Housing Corporation DBA Housing Up And Affiliate.
- 2) No significant deficiencies in internal control 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 DBA Housing Up And Affiliate which would be required to be reported in accordance with Government Auditing Standards were disclosed during the audit.
- 4) No material weaknesses or significant deficiencies in internal controls over the major federal award program were identified during the audit.
- 5) The auditor's report on compliance for the major federal award programs for Transitional Housing Corporation DBA Housing Up And Affiliate expresses an unmodified opinion on the major federal program.
- 6) There are no audit findings relative to the major federal award program for Transitional Housing Corporation DBA Housing Up And Affiliate.
- 7) The program tested as a major program was: Temporary Assistance for Needy Families #93.558.
- 8) The threshold for distinguishing Type A and B programs was \$750,000.
- 9) Transitional Housing Corporation DBA Housing Up And Affiliate was determined to be a low-risk auditee.

Findings – Consolidated Financial Statement Audit

None

Findings and Questioned Costs – Major Federal Awards Program

None