COMBINED FINANCIAL STATEMENTS

NATIONAL ASSOCIATION OF HOUSING AND REDEVELOPMENT OFFICIALS AND AFFILIATE

FOR THE YEARS ENDED
DECEMBER 31, 2016 AND 2015

NATIONAL ASSOCIATION OF HOUSING AND REDEVELOPMENT OFFICIALS AND AFFILIATE

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INDEPENDENT AUDITOR'S REPORT

To the Board of Governors
National Association of Housing and Redevelopment
Officials and Affiliate
Washington, D.C.

We have audited the accompanying combined financial statements of the National Association of Housing and Redevelopment Officials and Affiliate (the Association), which comprise the combined statements of financial position as of December 31, 2016 and 2015, and the related combined statements of activities and changes in net assets, combined functional expenses and combined cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Association as of December 31, 2016 and 2015, and the combined changes in its net assets and its combined cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The Combining Schedule of Financial Position and Combining Schedule of Activities and Change in Net Assets on pages 17 and 18, respectively, are presented for purposes of additional analysis and are not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

Gelman Rozenberg & Freedman

May 10, 2017

NATIONAL ASSOCIATION OF HOUSING AND REDEVELOPMENT OFFICIALS AND AFFILIATE

COMBINED STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2016 AND 2015

ASSETS

	2016	2015
CURRENT ASSETS		
Cash and cash equivalents	$ 52,042	$ 121,640
Investments, short-term	415,484	602,108
Accounts receivable, net of allowance for doubtful accounts of $847 in 2016 and 2015	332,212	228,497
Prepaid expenses	55,136	42,358
Publications inventory	9,403	7,892
Total current assets	864,277	1,002,495
FIXED ASSETS		
Land	1,075,186	1,075,186
Building	3,298,977	3,298,977
Furniture and fixtures	461,798	461,798
Computer equipment and software	1,942,458	1,801,118
NPDS course products	369,127	369,127
	7,147,546	7,006,206
Less: Accumulated depreciation and amortization	(4,103,375)	(3,901,254)
Net fixed assets	3,044,171	3,104,952
OTHER ASSETS		
Investments, long-term	295,225	290,454
TOTAL ASSETS	**$ 4,203,673**	**$ 4,397,901**

LIABILITIES AND NET ASSETS

	2016	2015
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 399,963	$ 379,805
Accrued vacation and payroll benefits	80,149	89,135
Deferred income - membership	1,813,923	1,804,135
Deferred income - other	178,448	110,694
Total current liabilities	2,472,483	2,383,769
NET ASSETS		
Unrestricted:		
Undesignated	1,581,190	1,864,132
Board designated	150,000	150,000
Total net assets	1,731,190	2,014,132
TOTAL LIABILITIES AND NET ASSETS	**$ 4,203,673**	**$ 4,397,901**

See accompanying notes to combined financial statements.

NATIONAL ASSOCIATION OF HOUSING AND REDEVELOPMENT OFFICIALS AND AFFILIATE

COMBINED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Unrestricted	
	2016	2015
REVENUE		
Membership	$ 3,041,833	$ 3,046,985
Program services:		
Conferences	1,546,080	1,468,826
Member services	18,481	21,653
Professional development classes	803,006	1,012,251
Publications	255,814	257,784
Contract income	130,662	114,263
Other income	115,220	9,245
Interest and dividend income	1,219	1,418
Total revenue	5,912,315	5,932,425
EXPENSES		
Program Services:		
Conferences	1,280,570	1,214,066
Legislation and Program Development	703,002	629,794
Member Services	594,467	574,291
Professional Development	1,106,397	1,141,557
Publications	464,681	491,092
RSO Advantage	180,760	203,321
Transpire, Inc.	795	1,920
Total program services	4,330,672	4,256,041
Supporting Services:		
Administration, Executive and Occupancy	1,848,655	1,790,315
Total expenses	6,179,327	6,046,356
Changes in unrestricted net assets before other items	(267,012)	(113,931)
OTHER ITEMS		
Realized gain	25,503	526
Unrealized gain	9,144	1,263
Write-off of unreconciled discrepancies	(50,577)	(19,832)
Changes in unrestricted net assets	(282,942)	(131,974)
Unrestricted net assets at beginning of year	2,014,132	2,146,106
UNRESTRICTED NET ASSETS AT END OF YEAR	**$ 1,731,190**	**$ 2,014,132**

See accompanying notes to combined financial statements.

NATIONAL ASSOCIATION OF HOUSING AND REDEVELOPMENT OFFICIALS AND AFFILIATE

COMBINED STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2016

	Program Services			
	Conferences	Legislation and Program Development	Member Services	Professional Development
Salaries	$ 113,327	$ 415,121	$ 301,621	$ 325,623
Benefits	38,635	114,957	96,303	100,310
Printing and production	16,746	4,285	(6,447)	102,635
Professional fees	98,539	35,767	25,554	434,635
Building utilities	-	-	-	-
Insurance	-	-	-	-
Depreciation and amortization	-	-	-	31,703
Telephone	15,000	1,538	1,360	3,400
Travel and entertainment	51,213	12,736	50,130	12,301
Legal fees	-	-	-	-
Postage and delivery	999	18,823	8,813	13,774
Supplies	6,642	3,092	5,112	9,711
Subscriptions and publications	-	136	-	39,165
Meetings - Registrations	20,204	-	-	8,390
Meetings - Exhibits	73,315	-	-	5,786
Meetings - Facilities	798,126	102	88,734	16,754
Equipment	-	-	-	899
Data processing	-	-	-	-
Marketing - Printing	10,411	-	849	1,296
Marketing - Distribution	18,500	-	-	-
Marketing - Editorial Services	13,612	-	20,293	-
Other	595	645	2,145	15
Temporary help	4,706	95,800	-	-
Cost of goods sold	-	-	-	-
Taxes	-	-	-	-
TOTAL	**$ 1,280,570**	**$ 703,002**	**$ 594,467**	**$ 1,106,397**

				Supporting Services	
Publications	RSO Advantage	Transpire, Inc.	Total Program Services	Administration, Executive and Occupancy	Total Expenses
$ 140,108	$ 128,650	$ -	$ 1,424,450	$ 703,431	$ 2,127,881
48,674	42,939	-	441,818	172,556	614,374
155,153	-	-	272,372	859	273,231
47,316	2,828	-	644,639	304,298	948,937
-	-	-	-	32,438	32,438
-	-	-	-	29,981	29,981
-	-	-	31,703	170,418	202,121
680	280	-	22,258	41,614	63,872
1,056	4,752	-	132,188	4,475	136,663
-	-	-	-	21,164	21,164
68,914	916	-	112,239	2,067	114,306
-	-	-	24,557	22,411	46,968
888	-	-	40,189	10,570	50,759
-	-	-	28,594	-	28,594
-	-	-	79,101	-	79,101
-	-	-	903,716	-	903,716
-	-	-	899	170,947	171,846
-	-	-	-	5,363	5,363
-	-	-	12,556	-	12,556
-	-	-	18,500	-	18,500
-	-	-	33,905	-	33,905
72	395	795	4,662	-	4,662
-	-	-	100,506	142	100,648
1,820	-	-	1,820	-	1,820
-	-	-	-	155,921	155,921
$ 464,681	**$ 180,760**	**$ 795**	**$ 4,330,672**	**$ 1,848,655**	**$ 6,179,327**

NATIONAL ASSOCIATION OF HOUSING AND REDEVELOPMENT OFFICIALS AND AFFILIATE

COMBINED STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2015

	Program Services			
	Conferences	Legislation and Program Development	Member Services	Professional Development
Salaries	$ 114,222	$ 402,931	$ 275,746	$ 281,235
Benefits	33,548	94,538	84,075	88,654
Printing and production	22,600	16,290	13,478	106,344
Professional fees	141,926	33,064	15,376	468,216
Building utilities	-	-	-	-
Insurance	-	-	-	-
Depreciation and amortization	-	-	-	51,454
Telephone	28,542	2,290	1,358	3,128
Travel and entertainment	49,619	9,757	49,088	13,961
Legal fees	-	-	-	-
Postage and delivery	1,423	2,676	10,266	13,177
Supplies	7,144	2,426	6,156	12,742
Subscriptions and publications	-	6,132	-	54,807
Meetings - Registrations	21,514	-	-	17,780
Meetings - Exhibits	96,869	-	-	1,936
Meetings - Facilities	637,118	450	91,231	20,313
Equipment	-	-	-	1,315
Data processing	-	-	-	-
Marketing - Printing	8,030	-	8,005	-
Marketing - Distribution	18,000	-	-	-
Marketing - Editorial Services	24,620	-	14,980	-
Other	4,012	-	4,532	6,495
Temporary help	4,879	59,240	-	-
Cost of goods sold	-	-	-	-
Taxes	-	-	-	-
TOTAL	$ 1,214,066	$ 629,794	$ 574,291	$ 1,141,557

				Supporting Services	
Publications	RSO Advantage	Transpire, Inc.	Total Program Services	Administration, Executive and Occupancy	Total Expenses
$ 139,611	$ 161,814	$ -	$ 1,375,559	$ 752,147	$ 2,127,706
39,260	35,859	-	375,934	174,438	550,372
176,330	-	-	335,042	840	335,882
54,234	474	1,920	715,210	276,137	991,347
-	-	-	-	49,777	49,777
-	-	-	-	35,604	35,604
-	-	-	51,454	124,727	176,181
816	-	-	36,134	43,609	79,743
297	4,010	-	126,732	5,451	132,183
-	-	-	-	618	618
77,797	486	-	105,825	3,030	108,855
103	92	-	28,663	13,797	42,460
568	-	-	61,507	9,066	70,573
-	-	-	39,294	-	39,294
-	-	-	98,805	-	98,805
-	126	-	749,238	-	749,238
-	65	-	1,380	190,438	191,818
-	-	-	-	5,314	5,314
-	-	-	16,035	-	16,035
-	-	-	18,000	-	18,000
-	-	-	39,600	-	39,600
-	395	-	15,434	-	15,434
-	-	-	64,119	366	64,485
2,076	-	-	2,076	-	2,076
-	-	-	-	104,956	104,956
$ 491,092	$ 203,321	$ 1,920	$ 4,256,041	$ 1,790,315	$ 6,046,356

NATIONAL ASSOCIATION OF HOUSING AND REDEVELOPMENT OFFICIALS AND AFFILIATE

COMBINED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ (282,942)	$ (131,974)
Adjustments to reconcile changes in net assets to net cash (used) provided by operating activities:		
Depreciation and amortization	202,121	176,181
Realized gain	(25,503)	(526)
Unrealized gain	(9,144)	(1,263)
Change in allowance for bad debt	-	5,105
(Increase) decrease in:		
Accounts receivable	(103,715)	(59,823)
Prepaid expenses	(12,778)	50,136
Publications inventory	(1,511)	4,791
Increase (decrease) in:		
Accounts payable and accrued liabilities	20,159	117,447
Accrued vacation and payroll benefits	(8,986)	4,570
Deferred income - membership	9,788	6,780
Deferred income - other	67,754	(30,916)
Net cash (used) provided by operating activities	(144,757)	140,508
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(141,340)	(228,865)
Purchase of investments	(1,205)	(108,213)
Proceeds from sale of investments	217,704	206,810
Net cash provided (used) by investing activities	75,159	(130,268)
Net (decrease) increase in cash and cash equivalents	(69,598)	10,240
Cash and cash equivalents at beginning of year	121,640	111,400
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 52,042**	**$ 121,640**

See accompanying notes to combined financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

The National Association of Housing and Redevelopment Officials (NAHRO) is a non-profit organization whose mission is to improve the proficiency of agencies and persons engaged in administration in the field of housing and community development through serving as an educational, information, and career advancement center for state and local agencies and individuals.

Transpire, Inc. was organized under the laws of the District of Columbia on September 26, 2001, as a non-profit supporting organization to sponsor additional programs in cooperation with NAHRO. NAHRO has majority membership in the governing board of Transpire, Inc.

The combined financial statements reflect only the accounts of the National Office. The accounts of the Regional Offices, which are autonomous from the National Office are maintained at various locations and are not included in these financial statements.

Basis of presentation -

The accompanying combined financial statements are presented on the accrual basis of accounting and represent the combined activity of NAHRO and Transpire, Inc. (collectively, the Association), in accordance with FASB ASC 958-810, *Not-for-Profit Entities*, *Consolidation*. All material transactions have been eliminated.

Cash and cash equivalents -

The Association considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents. Money market funds held in investment accounts are reported as investments.

Bank deposit accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of $250,000. At times during the year, the Association maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

Investments -

Short-term investments consist of money market accounts and certificates of deposit with original maturities ranging from 91 to 365 days, and are reported at their original cost plus accrued interest, which approximates fair value. Long-term investments consist of mutual funds and are recorded at their readily determinable fair value. Realized and unrealized gains are shown as other items in the Combined Statements of Activities and Changes in Net Assets.

Accounts receivable -

Accounts receivable are recorded at their net realizable value, which approximates fair value. The allowance for doubtful accounts is determined based upon an annual review of account balances, including the age of the balance and the historical experience with the customer.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Fixed assets -

Fixed assets in excess of $1,500 are capitalized and stated at cost. Fixed assets are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally 5 to 39 years. The costs of purchases and externally developed NPDS course products are being amortized over their useful lives on a straight-line basis. The cost of maintenance and repairs is recorded as expenses are incurred. Depreciation and amortization expense for the years ended December 31, 2016 and 2015 totaled $202,121 and $176,181, respectively.

Impairment of long-lived assets -

Management reviews asset carrying amounts whenever events or circumstances indicate that such carrying amounts may not be recoverable. When considered impaired, the carrying amount of the assets is reduced, by a charge to Combined Statements of Activities and Changes in Net Assets, to its current fair value.

Income taxes -

NAHRO and Transpire, Inc. are exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and are not private foundations. Taxes are paid on net income earned from sources unrelated to NAHRO's exempt purpose. There were no income taxes for such unrelated business income for the years ended December 31, 2016 and 2015, respectively.

Uncertain tax positions -

For the years ended December 31, 2016 and 2015, the Association has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the combined financial statements.

Inventory -

Inventory consists of publications, which are recorded at the lower of cost or market value, using the first-in, first-out method of inventory.

Net asset classification -

Unrestricted net assets include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operations of the Association and include both internally designated and undesignated resources.

Membership dues and program services -

Membership dues are recognized as revenue over the applicable membership period. Membership dues, conference registrations and professional development fees collected in advance are included in deferred revenues.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Membership dues and program services (continued) -

Conference registrations, professional development fees and other income are recognized as revenue when the related event occurs.

Contract income -

Contracts are recorded as unrestricted revenue as reimbursable costs are incurred or on a percentage of completion method (if a fixed price agreement).

Use of estimates -

The preparation of the combined 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 at the date of the combined financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Combined Statements of Activities and Changes in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Risks and uncertainties -

The Association invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying combined financial statements.

Fair value measurement -

The Association adopted the provisions of FASB ASC 820, *Fair Value Measurement*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements. The Association accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

Reclassification -

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. These reclassifications had no effect on the previously reported changes in net assets.

2. INVESTMENTS

Investments consisted of the following at December 31, 2016 and 2015:

	2016 Fair Value	2015 Fair Value
Short-term investments:		
Money market	$ 315,484	$ 301,754
Certificates of deposit	100,000	300,354
Total short-term investments	415,484	602,108
Long-term investments:		
Mutual funds	295,225	290,454
TOTAL INVESTMENTS	**$ 710,709**	**$ 892,562**

3. BOARD DESIGNATED NET ASSETS

For the years ended December 31, 2016 and 2015, unrestricted net assets included $150,000 designated by the Board of Governors for reserve for the payment of sick leave benefits. These sick leave benefits can only be paid to a staff person who is disabled and who has an unused sick leave balance available.

4. RETIREMENT PLAN

The Association sponsors a defined contribution retirement plan, which includes a money purchase portion and a 401(k) portion. Employer contributions to the money purchase portion are based on the employees' compensation whereby the Association contributes an amount equal to 5% of the employees' annual compensation up the employees' tenth year of service. For each year after the tenth year of service, the Association will contribute an additional 1% of the employees' annual compensation, not to exceed an additional 5%. Under the 401(k) portion employees may contribute up to 15% of their annual compensation, subject to the IRS limitations. The Association's expense associated with this plan was $135,837 and $137,951 for the years ended December 31, 2016 and 2015, respectively.

Employees are immediately fully vested in their 401(k) contributions and earnings. Under the money purchase portion of the plan, participants are 20% vested after two-years of service are completed, and vests an additional 20% per year until fully vested after six years.

5. COMMITMENTS

The Association has entered into agreements with various vendors for future meetings and conferences. Many of these agreements contain contingency clauses whereby the Association is liable for cancellations. The monetary restitution varies among contracts, but generally, is based on expenses incurred by the vendor up to the date of cancellation as well as additional cancellation fees.

6. RELATED PARTY

The Housing and Development Law Institute (HDLI), a not-for-profit organization, began operations in 1984 with initial funding from NAHRO. NAHRO allows use of 280 square feet of office space, copy machines, common area facilities for a nominal (below market) fee of $780 per month. Additionally, NAHRO provided conference reimbursement and stipend to the HDLI Annual Fall Conference in the amount estimated to be $15,000 for each of the years ended December 31, 2016 and 2015. The arrangement may be terminated at any time without cause.

7. FAIR VALUE MEASUREMENT

In accordance with FASB ASC 820, *Fair Value Measurement*, the Association has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy.

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Investments recorded in the Combined Statements of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market the Association has the ability to access.

Level 2. These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

Level 3. These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used at December 31, 2016 and 2015.

- *Money market funds* - Fair value is equal to the reported net asset value of the fund.
- *Certificates of deposit* - Valued at original cost plus accrued interest, which approximates fair value.
- *Mutual funds* - Fair value represents the closing price reported on the active market in which the individual securities are traded and at which additional shares can be obtained.

The table below summarizes, by level within the fair value hierarchy, the Association's investments as of December 31, 2016:

	Level 1	Level 2	Level 3	Total December 31, 2016
Asset Class:				
Money market	$ 315,484	$ -	$ -	$ 315,484
Certificates of deposit	-	100,000	-	100,000
Mutual funds	295,225	-	-	295,225
TOTAL	**$ 610,709**	**$ 100,000**	**$ -**	**$ 710,709**

7. FAIR VALUE MEASUREMENT (Continued)

The table below summarizes, by level within the fair value hierarchy, the Association's investments as of December 31, 2015:

	Level 1	Level 2	Level 3	Total December 31, 2015
Asset Class:				
Money market	$ 301,754	$ -	$ -	$ 301,754
Certificates of deposit	-	300,354	-	300,354
Mutual funds	290,454	-	-	290,454
TOTAL	**$ 592,208**	**$ 300,354**	**$ -**	**$ 892,562**

8. SUBSEQUENT EVENTS

In preparing these combined financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through May 10, 2017, the date the combined financial statements were issued.

SUPPLEMENTAL INFORMATION

NATIONAL ASSOCIATION OF HOUSING AND REDEVELOPMENT OFFICIALS AND SUBSIDIARY

COMBINING SCHEDULE OF FINANCIAL POSITION
AS OF DECEMBER 31, 2016

	NAHRO	Transpire, Inc.	Eliminations	Total
CURRENT ASSETS				
Cash and cash equivalents	$ 34,431	$ 17,611	$ -	$ 52,042
Investments, short-term	415,484	-	-	415,484
Accounts receivable, net of allowance for doubtful accounts	349,574	21,489	(38,851)	332,212
Prepaid expenses	55,136	-	-	55,136
Publications inventory	9,403	-	-	9,403
Total current assets	864,028	39,100	(38,851)	864,277
FIXED ASSETS				
Land	1,075,186	-	-	1,075,186
Building	3,298,977	-	-	3,298,977
Furniture and fixtures	461,798	-	-	461,798
Computer equipment and software	1,942,458	-	-	1,942,458
NPDS course products	369,127	-	-	369,127
	7,147,546	-	-	7,147,546
Less: Accumulated depreciation and amortization	(4,103,375)	-	-	(4,103,375)
Net fixed assets	3,044,171	-	-	3,044,171
OTHER ASSETS				
Investments, long-term	295,225	-	-	295,225
TOTAL ASSETS	**$ 4,203,424**	**$ 39,100**	**$ (38,851)**	**$ 4,203,673**

LIABILITIES AND NET ASSETS

	NAHRO	Transpire, Inc.	Eliminations	Total
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	$ 400,749	$ 38,065	$ (38,851)	$ 399,963
Accrued leave and payroll benefits	80,149	-	-	80,149
Deferred income - membership	1,813,923	-	-	1,813,923
Deferred income - other	178,448	-	-	178,448
Total current liabilities	2,473,269	38,065	(38,851)	2,472,483
NET ASSETS				
Unrestricted:				
Undesignated	1,580,155	1,035	-	1,581,190
Board designated	150,000	-	-	150,000
Total net assets	1,730,155	1,035	-	1,731,190
TOTAL LIABILITIES AND NET ASSETS	**$ 4,203,424**	**$ 39,100**	**$ (38,851)**	**$ 4,203,673**

NATIONAL ASSOCIATION OF HOUSING AND REDEVELOPMENT OFFICIALS AND SUBSIDIARY

COMBINING SCHEDULE OF ACTIVITIES AND CHANGE IN NET ASSETS FOR THE YEAR ENDED DECEMBER 31, 2016

	NAHRO	Transpire, Inc.	Eliminations	Total
REVENUE				
Membership	$ 3,041,833	$ -	$ -	$ 3,041,833
Program services:				
Conferences	1,546,080	-	-	1,546,080
Member services	18,481	-	-	18,481
Professional development classes	803,006	-	-	803,006
Publications	255,814	-	-	255,814
Contract income	130,662	119,081	(119,081)	130,662
Other income	115,220	-	-	115,220
Interest and dividend income	1,219	-	-	1,219
Total revenue	5,912,315	119,081	(119,081)	5,912,315
EXPENSES				
Program Services:				
Conferences	1,280,570	-	-	1,280,570
Legislation and Program Development	703,002	-	-	703,002
Member Services	594,467	-	-	594,467
Professional Development	1,106,397	-	-	1,106,397
Publications	464,681	-	-	464,681
RSO Advantage	180,760	-	-	180,760
Transpire, Inc.	-	119,876	(119,081)	795
Total program services	4,329,877	119,876	(119,081)	4,330,672
Supporting Services:				
Administration, Executive and Occupancy	1,848,655	-	-	1,848,655
Total expenses	6,178,532	119,876	(119,081)	6,179,327
Change in unrestricted net assets before other items	(266,217)	(795)	-	(267,012)
OTHER ITEMS				
Realized gain	25,503	-	-	25,503
Unrealized gain	9,144	-	-	9,144
Write-off of unreconciled discrepancies	(50,577)	-	-	(50,577)
Change in unrestricted net assets	(282,147)	(795)	-	(282,942)
Unrestricted net assets at beginning of year	2,012,302	1,830	-	2,014,132
UNRESTRICTED NET ASSETS AT END OF YEAR	**$ 1,730,155**	**$ 1,035**	**$ -**	**$ 1,731,190**

GELMAN, ROSENBERG
& FREEDMAN
CERTIFIED PUBLIC ACCOUNTANTS

May 10, 2017

To the Board of Governors
National Association of Housing and Redevelopment
Officials and Affiliate
Washington, D.C.

We have audited the combined financial statements of the National Association of Housing and Redevelopment Officials and Affiliate (the Association) for the year ended December 31, 2016, and have issued our report thereon dated May 10, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 9, 2016.

Professional standards also require that we communicate to you the following information related to our audit.

- **Qualitative Aspects of Accounting Practices**

  Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Association are described in Note 1 to the combined financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2016. We noted no transactions entered into by the Association during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the combined financial statements in the proper period.

  Accounting estimates are an integral part of the combined financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the combined financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimate affecting the combined financial statements was management's estimate of the allocation of expenses to programs, which is based on an allocation of the actual time spent on each program. We evaluated the key factors and assumptions used to develop the allocation in determining that it is reasonable in relation to the combined financial statements taken as a whole.

Certain combined financial statement disclosures are particularly sensitive because of their significance to combined financial statement users.

The most sensitive disclosure affecting the combined financial statements was the disclosure of related party transactions in Note 6 to the combined financial statements.

The disclosures in the combined financial statements are neutral, consistent and clear.

- **Difficulties Encountered in Performing the Audit**

  There were no difficulties encountered while performing and completing our audit.

- **Discussions Prior to Retention**

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

- **Planned Scope and Timing of the Audit**

  We performed our audit according to the planned scope and timing previously communicated to you in our engagement letter and our other letter on planning of the engagement dated December 9, 2016.

- **Management Representations**

  We have requested certain representations from management that are included in the management representation letter dated May 10, 2017.

- **Corrected and Uncorrected Misstatements**

  Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management.

  We proposed three (3) adjusting journal entries that cumulatively increased the net assets by approximately $36,000. The most significant of these entries was to reconcile prepaid expenses which increased net assets by approximately $73,000.

- **Disagreements with Management**

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

- **Management Consultations with Other Independent Accountants**

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

- **Independence and Non-Audit Services Provided by Audit Firm**

  In accordance with professional standards, during the fiscal year and currently, all members of our firm were independent with respect to the Association.

  During the year under audit, we provided corporate tax preparation services (IRS Form 990) and additional tax advice. All other time and expenses incurred by us were in connection with our annual audit.

- **Supplementary Information**

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

This information is intended solely for the use of the Board of Governors and management of the National Association of Housing and Redevelopment Officials and Affiliate, and is not intended to be, and should not be, used by anyone other than these specified parties.

Gelman Rozenberg & Freedman

May 10, 2017

GELMAN, ROSENBERG & FREEDMAN
CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Governors
National Association of Housing and Redevelopment
Officials and Affiliate
Washington, D.C.

In planning and performing our audit of the combined financial statements of the National Association of Housing and Redevelopment Officials and Affiliate (the Association) as of and for the year ended December 31, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the Association's internal control over financial reporting (internal control) as a basis for designing our auditing procedures, for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

Our consideration of the Association's internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the Association's internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in the Association's internal control that we consider to be significant deficiencies.

A deficiency in the Association's 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 the Association's internal control, such that there is a reasonable possibility that a material misstatement of the Association's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in the Association's internal control that we consider to be material weaknesses.

SIGNIFICANT DEFICIENCIES

A significant deficiency is a deficiency, or a combination of deficiencies, in the Association's internal control, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We consider the following deficiencies in the Association's internal control to be significant deficiencies:

Account Reconciliations

2014 Comment: Our audit disclosed certain instances in which balance sheet accounts were not properly reconciled which ultimately resulted if following journal entries:

- Transpire Accounts Receivable and Accounts Payable - We noted instances in which payments received were applied to accounts payable as opposed to accounts receivable. This resulted in a $28,425 entry to reduce both the accounts receivable and accounts payable of Transpire to adjust those accounts to their actual balances.

- RSO Expenses - We noted that expenses related to the RSO contracts were not recorded for the entire month of May, which resulted in an adjustment of $9,375.

2015 Status: We continued to note instances in which the Transpire Accounts Receivable and Accounts Payable were not properly reconciled, which resulted in an $18,224 reclassification and a $1,514 write-off of unreconciled discrepancies. We recommend management implement procedures to review such accounts and properly reconcile, on a monthly basis.

2016 Status: We continued to note several instances in which balance sheet accounts were not properly reconciled, as follows:

- Prepaid Expenses - We noted the general prepaid expense account and the Akridge prepaid expense account were improperly over (under) stated by $54,000 and ($73,000), respectively. Accordingly, audit adjustments were made to properly reconcile the balances.

- Accounts Payable - We noted accounts payable was overstated by approximately $17,000 and, accordingly, audit adjustments were made to properly reconcile the account.

- Cash - As noted in our journal entry comment below, for the months of July 2016 through December 2016, cash was not being properly reconciled. Accordingly, the unreconciled amounts were written off against the bank fees expense account. For the two (2) months tested, we noted a total of approximately $37,500 in unreconciled variances that are presented in the accompanying financial statements as "Write-off of unreconciled discrepancies" in Other Items on the Combined Statements of Changes in Net Assets.

Management (and those charged with governance) should not rely upon internal financial statements that are prepared without all asset and liability accounts properly reconciled. We strongly suggest that supporting subsidiary schedules be maintained and reconciled to the corresponding general ledger account balances at the end of each month (or quarterly, at a minimum). All supporting schedules should be reviewed by an appropriate member of the management team prior to the issuance of internal financial statements.

Management Response: Monthly closing will involve a reconciliation of all accounts based on the detailed trial balance and with complete bank statement and merchant services scrutiny. It will also involve the reconciliation of Personify revenue to ensure invoicing is carried out under the appropriate batch dates and not carried. Prepaid expenses carried on the balance sheet will be matched to a separate ledger that tracks the periodic recognition dates for all advance payments.

Accounting Software

2014 Comment: During the course of our audit, there were instances in which we requested reports from the accounting software, and management was unable to obtain such information. The complexity of the current accounting software (Great Plains) may have caused, to some degree, the accounting records to be misreported and also caused a delay during the audit process. There was also an instance in which errors in the system caused a discrepancy of approximately $27,000. Regular training on the proper use of a computer system is crucial for effective internal controls and to minimize errors. We recommend that the Association continue to train all Accounting Department employees on the appropriate use of the software.

2015 Status: During 2015, the accounting module of the existing association management software (TIMS) was no longer able to interface with NAHRO's merchant services system and support the credit card receipt activities of NAHRO. Accordingly there was a transition to a new system (Personify 360), which was completed in December 2015. During this transition, the Association manually processed a majority of their receipt transactions and manually entered the data into the existing system.

At the time of full conversion, it was discovered that approximately $18,700 of the receipts could not be properly reconciled to the cash balance. Accordingly, this amount was written-off and included in unreconciled discrepancies on the accompanying combined financial statements. With the implementation of the new system, we encourage management to reconcile the database to the accounting records (on a monthly basis) to ensure future write-offs do not occur.

2016 Status: Great Plains and Personify were the applicable systems throughout the year under audit, and while we did not identify any reconciliation issues directly attributable to the systems, we noted several instances of unreconciled accounts as discussed in our "Account Reconciliations" and "Journal Entries" comments.

Journal Entries

2016 Comment: Per review of various journal entries in conjunction with our balance sheet test work, we noted not all entries are reviewed and approved for reasonableness and accuracy. Additionally, we noted that for the last six (6) months of the year, entries were made to write-off unreconciled differences in cash. Any journal entry (non-recurring) made within the accounting records should have documented review and approval, ideally from a member of management that could identify an issue with the underlying proposed entry.

The review of journal entries (non-recurring), by management, is a key control to prevent or detect potential errors or fraud within the financial statements and is considered a best practice within the non-profit industry.

We recommend all non-recurring journal entries to key accounts (such as cash) are reviewed and approved by the Executive Director or a member of the Board of Directors. Additionally, all other recurring journal entries should have a secondary review and approval by an appropriate member of management.

Management Response: As related to the revised closing procedures, all recurring Journal entries and well as individual journal entries to cash accounts will be reviewed and signed off on prior to entry by CFO and or CEO.

Internal Controls over Cash Disbursements

2016 Comment: As a result of our test of controls over the cash disbursements cycle, we noted the following exceptions from a randomly selected sample of 40 items:

- One instance in which supporting documentation for a shipping charge of $578 could not be located.
- One instance of $13,000 for conference expenses was incorrectly booked to prepaid.

While the individual exceptions are not material to the overall combined financial statements, the statistical sample is ideally representative of the larger population (all expenditures). Accordingly, when projected out against the population, we can conclude that controls are not operating effectively and could have a potentially larger affect. We recommend management re-evaluate the processes and procedures in place over cash disbursements and ensure all items have appropriate supporting documentation, authorization to pay, and are ultimately being recorded appropriately within the accounting system.

Management Response: Aside from the instance where a bill was misfiled, the observations under this comment are related to account reconciliation processes as well as the expense recognition processes identified above.

OTHER RECOMMENDATIONS

In addition to the aforementioned significant deficiencies, we noted the following other recommendations we believe merit the attention of management:

Accounting Policies and Procedures Manual

2016 Comment: NAHRO’s accounting manual was last updated in 2005 and in some instances, does not reflect the procedures being applied in practice.

The purpose of an accounting policies and procedures manual is to ensure that proper accounting principles are being applied, that similar transactions are treated consistently, and that financial reports are produced in the form desired by management. Additionally, the manual serves as an aid in training future employees, monitoring the performance of existing employees, and improving internal communications. Accordingly, we recommend NAHRO review and update its manual.

Management Response: Revision of the Manual was started in the early part of 2016 when the accounting department observed increasing instances of errors encountered within individual operating division and their usage of the Personify Accounting Module. The revision of the Personify Accounting Module manual is an immediate operational need. With the addition of new accounting staff, that project will be completed and the resulting document will become an addendum to Account Policy and Procedures Manual. The Personify Accounting Module manual will be completed in May and then work will begin on the Accounting Policies and Procedures Manual.

Fixed Assets Ledger

2016 Comment: Per our review of the fixed asset ledger, we noted a significant portion of the items listed (and included in the general ledger) were acquired between 1980 – 2000. While the items are fully depreciated, we suspect they are no longer in use and should be removed accordingly. Additionally, management should complete a periodic (i.e. annual) physical inventory count to provide the most accurate reflection of fixed assets within the accounting records.

Management Response: Going forward, the fully depreciated items no longer in use will be removed. This evaluation and any adjustments to the fixed assets schedule will be carried out at the end of each fiscal year. This action will have no net impact on the balance sheet but will serve to clean up the fixed asset schedule for future audits.

Allowance Analysis and Policy

2016 Comment: Our review of accounts receivable indicated a significant amount of the receivables have been aged beyond 120 days.

While a significant portion of the balance was subsequently collected (post-fiscal year-end), we encourage management to review the balances, over 120 days, and determine whether these are in fact, collectible. More importantly, NAHRO does not have a formal policy for establishing an allowance/reserve on the accounts receivable. We recommend NAHRO implement a formal policy to review, on a regular basis, accounts receivable balances that have been outstanding over 120 days and write-off any balances deemed collectible or determine a consistent percentage of uncollectible amounts and apply to the various aging categories, annually.

Management Response: To reduce accounts receivable going forward, NAHRO will not allow advance registration or purchase of most product without prepayment.

This will not only reduce the amount of accounts receivable but will also significantly reduce the level of effort and time spent on following up on collections.

Personnel Files

2016 Comment: During our review of personnel files (for four randomly selected employees); we did not note evidence of completed IRS Form I-9s. This form is required by the Department of Homeland Security to ensure that each employee is eligible to work in the United States. Accordingly, we recommend making sure all active employees have completed the form and it is kept on file within human resources.

Additionally, while NAHRO does have a Conflict of Interest Policy, we did not note that employees are required to sign a statement (and disclose any conflicts) on an annual basis. As a best practice, we recommend employees sign a conflict of interest statement on an annual basis.

Management Response: NAHRO Management has already begun the process of I9 verification of all current staff. Additionally HR will schedule annual deadlines for Conflict of Interest recertification.

Finance Office Management/Organizational Effectiveness

2016 Comment: During our audit, we had the opportunity to assess the current structure of NAHRO's Finance Office. Our evaluation did not constitute a format study of the Finance Office, but rather was based on our interaction with NAHRO's staff during the course of the audit. Although the Finance Office was able to complete and compile a lot of the required schedules and information for the audit with our guidance and assistance, a number of journal entries were required during the audit. We recommend NAHRO evaluate the makeup of the Finance Office and determine the optimal number and skill base/core competencies of the employees within the department to ensure the Finance Office can properly record transactions in accordance with generally accepted accounting principles, reconcile accounts in a timely manner and provide the support to other functions within NAHRO.

Management Response: To ensure that that NAHRO has the appropriate resources and skillsets to carry out the Accounting function of the organization, management will continue to evaluate the new accounting staff person with the intent transition him to a permanent status at the end of the evaluation period. In addition, Management has identified independent Accounting firms and will be contracting with one who will provide consulting and quarterly reviews of NAHRO Accounting functions. This will include internal controls monitoring and evaluation.

Authorized Signers

2015 Comment: Our audit process disclosed that the former CFO still has check signing authority on one of NAHRO's bank accounts.

It is our understanding that a change was requested back in 2010; however, it may not have been properly reflected in the financial institutions system. Accordingly, we recommend management change the signers as soon as possible to only current, authorized employees. In an effort to maintain strong controls, we suggest that management annually review the authorized check signers on record with the bank and make any necessary updates.

2016 Status: We noted that the former CEO was no longer included as an authorized signer per our audit confirm. Therefore, we consider this comment resolved.

SSAE No. 16 Reports

2014 Comment: The significant majority of NAHRO's revenue is maintained in the TIMS System (a third party service organization). Statement on Standards for Attestation Engagements (SSEA) No. 16 defines the professional standards used by a service auditor to assess the internal controls of a service organization and issue a service auditor's report.

We recommend that a member of management obtain such SSAE 16 reports for all third party service organizations and review the reports to gain an understanding of the service organization's internal controls and its effectiveness. Any deficiencies identified in these reports are considered a useful tool for management when making the decision whether or not to continue doing business with the service organizations.

2015 Status: As discussed in the previous comment, NAHRO transitioned from the TIMS system to Personify 360.

We continue to recommend that during the 2016 fiscal year, NAHRO receive and review the SSAE 16 report from Personify to ensure there are adequate controls in place at the service organization and any deficiencies identified could be mitigated with additional internal controls at the Association.

2016 Status: NAHRO did receive and review the SSAE No. 16 report from Personify, and accordingly, we consider this matter resolved.

Chief Executive Officer's Expenses

2012 Comment: Our audit revealed that the Accounting Director currently reviews the Chief Executive Officer's corporate credit card charges and other related expenses.

Since the Accounting Director is in a subordinate position to the Chief Executive Officer, we feel this represents a weakness in internal controls due to the inherent lack of authority of the Accounting Director over the Chief Executive Officer. In order to improve internal controls over the Chief Executive Officer's expenses, we recommend a member of the Board of Governors periodically (i.e. quarterly) review and approve the Chief Executive Officer's expenses for purpose and reasonableness. This review should be evidenced by initials or signature.

2013 Status: During the year under audit, the Association implemented a policy in which the Chair of the Budget and Administration Committee of the Board of Governors would review the Chief Executive Officer's expenses. However, we noted that the review did not occur within the year, due to the fact that the CEO did not submit any request for expense reimbursements. Therefore, we recommend that the Association follow the implemented policy and maintain the appropriate audit trail to ensure that the review process has taken place.

2014 Status: We noted that the amount (and number) of transactions that are incurred by the Executive Director are limited. However, for those charges that do occur, we recommend that the Chair of the Budget and Administration Committee review such expenses.

2015 Status: We continued to note that the amount and number of transactions submitted by the Executive Director for reimbursement are limited; however, those charges are not being formally reviewed and approved by a member of the Budget and Administration Committee. We continue to recommend that this is done on a periodic basis (i.e. semi-annually at a minimum).

2016 Status: We did not note any exceptions during our current year testwork, as NAHRO remained without a permanent Executive Director for the majority of the year under audit.

NAHRO's written response to the significant deficiencies and other recommendations identified in our audit have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of the Board of Governors, management and others within the National Association of Housing and Redevelopment Officials and Affiliate, and is not intended to be, and should not be, used by anyone other than these specified parties.

Gelman Rosenberg & Freedman

May 10, 2017