Project Renewal, Inc. and Affiliates

Consolidated Financial Statements and
OMB Circular A-133 Financial Report
Together With Independent Auditors' Report

June 30, 2014

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O'CONNOR DAVIES

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Independent Auditors' Report

Board of Trustees
Project Renewal, Inc. and Affiliates

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Project Renewal, Inc. and Affiliates (the "Corporation"), which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 auditors' 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 entity'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 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 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 consolidated financial position of Project Renewal, Inc. and Affiliates as of June 30, 2014, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplemental financial information on pages 21 and 22 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards on pages 23 and 24, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is also not a required part of the consolidated financial statements. The supplemental financial information and the schedule of expenditures of federal awards 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 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 information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Report on Comparative Information

We have previously audited the Corporation's June 30, 2013 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 23, 2013. In our opinion, the comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2014 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

O'Connor Davies, LLP

October 23, 2014

Project Renwal, Inc. and Affiliates

Consolidated Statement of Financial Position
June 30, 2014
(with comparative amounts for 2013)

	2014	2013
ASSETS		
Cash and cash equivalents	$ 1,565,481	$ 2,408,205
Investments	44,389	33,722
Restricted cash	408,159	-
Accounts and grants receivables, net	7,200,767	6,208,990
Pledges receivable, net	1,195,620	455,636
Rent receivable, net	127,927	118,238
Due from affiliates, net	133,430	-
Prepaid expenses	319,894	248,186
Tax credit monitoring fees, net	12,294	13,294
Security deposits and other assets, net	329,281	328,355
Mortgage receivable	12,500,000	12,500,000
Assets held for others	239,835	559,119
Investments in rental property, net	21,052,639	22,011,236
Deferred debt issuance costs, net	538,909	563,580
Property and equipment, net	16,488,697	12,507,519
Total Assets	$ 62,157,322	$ 57,956,080
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 4,875,839	$ 4,242,366
Accrued payroll and related liabilities	1,096,664	904,489
Accrued interest	792,690	528,759
Construction payable	457,717	508,357
Developer's fee payable	2,300,000	2,300,000
Due to affiliates	1,226,333	1,023,186
Deferred revenue	3,335,725	4,117,392
Deferred rent	760,076	810,443
Loans payable	26,147,364	21,944,164
Enforcement note payable	12,500,000	12,500,000
Total Liabilities	53,492,408	48,879,156
Net Assets		
Unrestricted		
Operating	1,533,241	2,571,107
Non-operating	526,701	289,816
Non-controlling limited partners' interests in consolidated affiliates	4,716,060	4,809,021
Total Unrestricted Net Assets	6,776,002	7,669,944
Temporarily restricted	1,888,912	1,406,980
Total Net Assets	8,664,914	9,076,924
	$ 62,157,322	$ 57,956,080

See notes to consolidated financial statements

Project Renewal, Inc. and Affiliates

Consolidated Statement of Activities
Yar Ended June 30, 2014
(with summarized totals for the year ended June 30, 2013)

	2014					
	Operating	Non-Operating	Total Unrestricted	Temporarily Restricted	Total	2013 Total
REVENUE AND SUPPORT						
Grants	$ 44,113,942	$ 516,021	$ 44,629,963	$ -	$ 44,629,963	$ 43,085,092
Rental income	2,598,690	-	2,598,690	-	2,598,690	2,499,426
Special events, net of direct benefit to donors of $97,991 and $99,243	1,040,394	-	1,040,394	-	1,040,394	765,830
Contributions	509,515	-	509,515	1,400,637	1,910,152	1,303,659
Developer's fee income	500,000	-	500,000	-	500,000	142,500
Miscellaneous income	372,381	-	372,381	-	372,381	704,366
Net assets released from restrictions	918,705	-	918,705	(918,705)	-	-
Total Revenue and Support	50,053,627	516,021	50,569,648	481,932	51,051,580	48,500,873
EXPENSES						
Program Services						
Outreach	395,463	-	395,463	-	395,463	393,362
Treatment and transitional housing	25,091,265	279,136	25,370,401	-	25,370,401	23,923,018
Medical services	6,705,509	-	6,705,509	-	6,705,509	6,495,897
Employment services	5,602,039	-	5,602,039	-	5,602,039	4,570,347
Permanent housing	7,959,307	-	7,959,307	-	7,959,307	8,109,906
Total Program Services	45,753,583	279,136	46,032,719	-	46,032,719	43,492,530
Supporting Services						
Management and general	5,785,529	-	5,785,529	-	5,785,529	5,288,559
Fundraising	678,501	-	678,501	-	678,501	630,117
Total Supporting Services	6,464,030	-	6,464,030	-	6,464,030	5,918,676
Total Expenses	52,217,613	279,136	52,496,749	-	52,496,749	49,411,206
Increase (Decrease) in Net Assets Before Capital Contributions from Non-Controlling Limited Partners	(2,163,986)	236,885	(1,927,101)	481,932	(1,445,169)	(910,333)
Captial contributions from Non-Controlling Limited Partners	1,033,159	-	1,033,159	-	1,033,159	1,080,292
Change in Net Assets	(1,130,827)	236,885	(893,942)	481,932	(412,010)	169,959
NET ASSETS						
Beginning of the year	7,380,128	289,816	7,669,944	1,406,980	9,076,924	8,906,965
End of the year	$ 6,249,301	$ 526,701	$ 6,776,002	$ 1,888,912	$ 8,664,914	$ 9,076,924

See notes to consolidated financial statements

Project Renewal, Inc. and Affiliates

Consolidated Statement of Functional Expenses
Year Ended June 30, 2014
(with summarized totals for the year ended June 30, 2013)

	Program Services						Supporting Services			
	Outreach	Treatment and Transitional Housing	Medical Services	Employment Services	Permanent Housing	Total	Management and General	Fundraising	2014 Total	2013 Total
Salaries	$ 245,928	$ 14,054,469	$ 3,802,447	$ 2,075,600	$ 2,499,326	$ 22,677,770	$ 2,624,143	$ 274,115	$ 25,576,028	$ 24,508,699
Employee benefits and payroll related taxes	68,157	3,895,074	1,053,815	575,235	692,666	6,284,947	720,288	75,969	7,081,204	6,757,526
Total Salaries and Related Expenses	314,085	17,949,543	4,856,262	2,650,835	3,191,992	28,962,717	3,344,431	350,084	32,657,232	31,266,225
Food and kitchen supplies	-	1,259,118	-	2,235,739	72,412	3,567,269	4,694	-	3,571,963	2,832,708
Client supplies	3,620	740,655	154,116	184,182	106,050	1,188,623	14,648	47,938	1,251,209	1,071,072
Lab fees	1,701	14,425	41,690	125	2,153	60,094	1,824	-	61,918	57,428
Office rent and occupancy expense	20,629	1,851,757	24,538	182,444	2,396,747	4,476,115	507,695	-	4,983,810	4,752,470
Utilities	3,027	474,229	-	16,431	396,449	890,136	65,034	-	955,170	1,278,482
Facility maintenance	4,381	1,119,808	32,261	4,406	100,560	1,261,416	49,533	-	1,310,949	1,146,888
Telephone	4,168	164,341	39,757	11,346	38,789	258,401	22,597	1,039	282,037	233,513
Office expense	1,186	389,228	204,209	33,834	85,846	714,303	328,006	77,918	1,120,227	960,000
Staff travel	979	45,945	26,743	19,635	7,577	100,879	20,918	233	122,030	107,041
Printing	-	8,126	8,256	931	797	18,110	8,495	25,746	52,351	79,808
Professional fees	-	92,738	202,317	36,102	158,863	490,020	734,215	155,693	1,379,928	1,185,251
Temporary help	15,804	217,595	615,991	28,900	3,685	881,975	68,303	616	950,894	846,993
Vehicle expense	17,284	146,953	169,451	91,511	2,356	427,555	22,359	-	449,914	411,034
Insurance	8,599	280,813	141,798	58,228	34,948	524,386	73,154	-	597,540	597,524
Recruiting	-	931	12,107	4,042	203	17,283	14,038	720	32,041	41,256
Bad debt expense	-	-	-	-	62,626	62,626	6,250	-	68,876	84,132
Data processing	-	-	-	4,320	-	4,320	118,091	-	122,411	115,245
Depreciation and amortization	-	202,931	172,070	17,417	958,598	1,351,016	241,760	-	1,592,776	1,526,689
Interest expense	-	119,764	-	-	284,489	404,253	-	-	404,253	285,142
Miscellaneous	-	12,365	3,943	21,611	54,167	92,086	139,484	18,514	250,084	216,663
Total Operating Expenses	395,463	25,091,265	6,705,509	5,602,039	7,959,307	45,753,583	5,785,529	678,501	52,217,613	49,095,564
Interest expense	-	64,885	-	-	-	64,885	-	-	64,885	101,391
Depreciation and amortization	-	214,251	-	-	-	214,251	-	-	214,251	214,251
Total Nonoperating Expenses	-	279,136	-	-	-	279,136	-	-	279,136	315,642
Total Expenses	$ 395,463	$ 25,370,401	$ 6,705,509	$ 5,602,039	$ 7,959,307	$ 46,032,719	$ 5,785,529	$ 678,501	$ 52,496,749	$ 49,411,206

See notes to consolidated financial statements

Project Renewal, Inc. and Affiliates

Consolidated Statement of Cash Flows
Year Ended June 30, 2014
(with comparative amounts for the year ended June 30, 2013)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (412,010)	$ 169,959
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	1,807,027	1,740,940
Provision for doubtful accounts	68,876	84,132
Unrealized (gain) on investments	(10,667)	(1,989)
Non-cash loan principal amortization	(408,756)	(372,816)
Deferred rent	(50,367)	(68,791)
Change in Operating Assets and Liabilities		
Restricted cash	(408,159)	-
Accounts and grant receivables	(1,033,948)	(608,084)
Pledges receivable	(739,984)	(65,502)
Rent receivable	(36,394)	(59,797)
Prepaid expenses	(71,708)	(18,339)
Security deposits and other assets	(926)	42,552
Assets held for others	319,284	420,547
Due (to) from affiliates	69,717	114,186
Accounts payable and accrued expenses	633,473	550,459
Accrued payroll and related liabilities	192,175	(43,964)
Accrued interest	263,931	237,676
Deferred revenue	(781,667)	(424,267)
Net Cash From Operating Activities	(600,103)	1,696,902
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(4,854,577)	(5,203,195)
Investment in rental property	-	(820,833)
Net Cash From Investing Activities	(4,854,577)	(6,024,028)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings on loans payable	4,611,956	3,665,189
Change in Cash and Cash Equivalents	(842,724)	(661,937)
CASH AND CASH EQUIVALENTS		
Beginning of year	2,408,205	3,070,142
End of year	$ 1,565,481	$ 2,408,205
SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES		
Amortization of loan payables	$ 408,756	$ 372,816
Interest expense	469,138	386,533
Grant income	$ 877,894	$ 759,349

See notes to consolidated financial statements

1. Organization and Related Parties

Project Renewal, Inc. and Affiliates (the "Corporation") operate facilities in New York State that offer a variety of services in accessible settings to homeless and formerly homeless people suffering from mental illness, alcoholism, and substance abuse. Project Renewal, Inc. receives substantial grant awards from various Federal, New York State and City agencies. The consolidated financial statements include the following entities:

- Project Renewal Housing Development Fund Corporation ("PRI HDFC"), whose sole member is Project Renewal, Inc., provides housing for low income persons with mental illness and/or chemical dependency in the Bronx called the Fletcher Place Residence (the "Project").

- Washington OMH Corporation ("Washington OMH"), is the general partner of Washington Fletcher OMH L.P. ("Washington Fletcher"), a limited partnership controlled by PRI HDFC. Washington OMH has a 0.01% interest in Washington Fletcher. Washington Fletcher owns investments in real property and the provision of low-income housing through the construction, renovation, rehabilitation, operation and leasing of an apartment complex. The apartment complex is an 80-unit, multifamily rental housing development in Bronx, New York, for low-income residents. Occupancy commenced in December 2011.

- Bronx Boulevard Housing Development Fund Corporation ("Bronx Boulevard HDFC"), whose sole member is Project Renewal, Inc., is developing housing for men with mental illness.

- PRI Villa Avenue Housing Development Fund Corporation ("PRI Villa HDFC"), whose sole member is Project Renewal, Inc., is developing housing for low income persons with substance and mental illness in the Bronx called Villa Avenue Residence.

- PRI Villa Avenue GP, Inc., the general partner of PRI Villa Avenue L.P., a limited partnership controlled by PRI Villa HDFC. PRI Villa Avenue GP has a 0.01% interest in PRI Villa Avenue L.P.

Other related entities are:

- Project Renewal Fund Inc. ("PRF") a not-for-profit entity that is the sole member of Project Renewal, Inc. and other non-profit entities.

- The Corporation shares certain common facilities and management personnel with Manhattan Bowery Management Corporation ("MBMC"), a not-for-profit entity. PRF is the sole member of MBMC.

- MRG Partners, L.P. ("MRG"), operates the Geffner House (formally the Holland House), a low-income rental housing project. The general partner is Starting Homes, Inc., a for-profit corporation controlled by a housing development fund corporation that is owned by PRF.

1. Organization and Related Parties *(continued)*

- St. Nicholas House L.P. ("St. Nicholas") operates the St. Nicholas House project for occupancy by low income tenants. The general partner is St. Nicholas House GP Corporation, a for-profit corporation controlled by a housing development fund corporation that is owned by PRF.

- North Star Housing, Inc. ("NSH"), a not-for-profit entity develops and manages affordable housing. PRF is the sole member of NSH.

2. Principles of Consolidation

These financial statements are prepared on a consolidated basis and include the activities for the year ended June 30, 2014 of entities controlled by Project Renewal, Inc. through its sole membership in not for profit entities or its controlling interest in for-profit entities. The assets, liabilities, and net assets of Washington Fletcher and PRI Villa Avenue L.P. have been consolidated into Washington OMH and PRI Villa Avenue GP, respectively, due to the controlling influence the general partners have over the limited partnerships. The consolidated entity is collectively referred to as the “Corporation.” All intercompany transactions and balances have been eliminated in consolidation.

3. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP 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 financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid investments with maturities of three months or less at the time of purchase.

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

Fair Value of Financial Instruments

U.S. GAAP requires the Corporation to classify its investments in a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets that can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

Allowance for Doubtful Accounts

An allowance for doubtful accounts is established for amounts where there exists doubt as to whether an amount will be fully collected. The determination of this allowance is an estimate based on the Corporation's historical experience, review of account balances and expectations relative to collections.

Deferred Debt Issuance Costs

Deferred debt issuance costs represent costs incurred to obtain long term debt. Amortization of these costs is provided over the life of the loans. The Corporation has incurred debt issuance costs of $714,565 as of June 30, 2014 and 2013. At June 30, 2014 and 2013, accumulated amortization was $175,656 and $150,985, respectively.

Property and Equipment

Property and equipment is stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Buildings and leasehold improvements	25-30 years
Equipment	4-7 years
Automobiles	5-7 years

The Corporation capitalizes all purchases of property and equipment greater than $1,000. Equipment acquired under terms of grant provisions, title to which reverts to the grantor at the termination of the contract, is recorded as an asset.

Impairment of Long-Lived Assets

The Corporation reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to aggregate future net cash flows (undiscounted and without interest) expected to be generated by the asset. If such assets are considered impaired, the impairment to be recognized is measured by the amount by which the carrying amounts of the assets exceed the fair value. No impairment loss has been recognized during the years ended June 30, 2014 and 2013.

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

Non-Controlling Limited Partners' Interests

Non-controlling limited partners' interest in the consolidated statements of activities represents the capital contributions and profits or losses of the Limited Partnership allocated to limited partners for that period. Limited partners' interest in the consolidated statement of financial position represents the equity in net assets of the Limited Partnership owned by limited partners.

Net Asset Presentation

The classification of the Corporation's net assets and its support, revenue and expenses is based on the existence or absence of donor-imposed restrictions. Accordingly, the Corporation's net assets and changes therein are classified and reported as unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

The classes of net assets are defined as follows:

Permanently Restricted - Net assets resulting from contributions and other inflows of assets whose use by the Corporation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Corporation.

Temporarily Restricted - Net assets resulting from contributions and other inflows of assets whose use by the Corporation is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Corporation pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities.

Unrestricted - The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations.

Contributions and Pledges

Contributions and unconditional promises to give are recorded as support when pledges are made and are classified as unrestricted, temporarily restricted, or permanently restricted support.

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using rates applicable to the years in which the promises are received and consider market and credit risk as applicable. Amortization of the discounts and changes in allowance for doubtful accounts are included in contribution revenue in the consolidated statement of activities.

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

Recognition of Revenue

Grant revenue is recognized in amounts equal to expenses incurred. Upon termination, the unexpended cash funds received under the terms of the grant provisions revert to the grantor. Advances received in excess of expenditures incurred for grants in progress are reported as deferred revenue.

Grant revenue received for the purchase of equipment is recorded as deferred revenue. The Corporation recognizes the revenue as the asset is depreciated over the useful life of the related asset.

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 with terms between one and two years.

Contract Disallowances

The contractual agreements with various funding sources include provisions for claims and program audits in subsequent years. These audits may result in disallowance and repayment of costs previously reimbursed by the funding sources. Management estimates potential disallowances based on past experiences. Accordingly, management has established a contingency reserve to cover the cost of future disallowances, if any. At June 30, 2014 and 2013, the contingency reserve amounted to approximately $250,600 and $303,500, respectively, and is reflected in accounts payable and accrued expenses in the accompanying consolidated statement of financial position.

Non-operating Revenue and Expenses

Non-operating revenue and expenses include government grant income, depreciation and interest expense relating to the residential care facility for mentally ill individuals and mortgage.

Functional Allocation of Expenses

The costs of providing various program and other activities have been summarized on a functional basis in the consolidated statement of activities and presented in the consolidated statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Reclassification

Certain amounts in the 2013 consolidated financial statements have been reclassified for comparative purposes only.

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

Income Taxes

Project Renewal, Inc. is exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code and from state and local taxes under comparable laws.

PRI HDFC, Bronx Boulevard HDFC, PRI Villa HDFC, Washington OMH and PRI Villa Avenue are for-profit Corporations subject to Federal income tax and applicable state and local taxes.

The Corporation recognizes the effect of income tax positions only when they are more likely than not to be sustained. Management has determined that the Corporation had no uncertain tax positions that would require financial statement recognition or disclosure. The Corporation is no longer subject to examinations by the applicable taxing jurisdictions for the periods prior to fiscal 2011.

Prior Year Summarized Comparative Information

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Corporation's consolidated financial statements for the year ended June 30, 2013, from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events for disclosure and/or recognition in the consolidated financial statements through the date that the consolidated financial statements were available to be issued, which is October 23, 2014.

4. Concentration of Credit Risk

The Corporation maintains its cash in bank deposit accounts with major financial institutions, which, at times, may exceed federally insured limits. The Corporation has not experienced any losses in such accounts and believes its cash balances are not exposed to any significant risk.

5. Restricted Cash

During fiscal 2014, the Corporation received $408,159 for PRI Villa Avenue, L.P. which represents funds to be used for the inspection and contingency of the construction project (note 14). The amount was deposited into an escrow account held by New York City Housing Development Corporation.

6. Assets Held for Others

Assets held for others consist of custodial and other funds required to be maintained in separate accounts for specific purposes or future periods. The corresponding liability is reflected in accounts payable and accrued expenses.

7. Investments

Investments in the consolidated statement of financial position are stated at fair value at June 30, 2014 and 2013 and consist of mutual funds based on Level 1 inputs for fair value. The cost of those investments was $10,000.

8. Accounts and Grants Receivable

Accounts and grants receivable at June 30, 2014 and 2013 consist of the following:

	2014	2013
Accounts receivable	$ 1,156,734	$ 919,221
Grants Receivable		
Federal	1,401,712	1,319,629
New York State	2,817,532	1,143,063
New York City	1,923,168	3,078,844
Total	7,299,146	6,460,757
Less: Allowance for doubtful accounts	(98,379)	(251,767)
Accounts and grants receivable, net	$ 7,200,767	$ 6,208,990

Accounts receivable represent amounts due to the Corporation from other not-for-profit agencies and private companies for services provided by one of the Corporation's social purpose ventures.

9. Pledges Receivable

Pledges receivable at June 30, 2014 and 2013 consist of the following:

	2014	2013
Total pledges receivable	$ 1,229,620	$ 489,636
Less: Allowance for doubtful accounts	(34,000)	(34,000)
Pledges receivable, net	$ 1,195,620	$ 455,636

10. Property and Equipment

Property and equipment at June 30, 2014 and 2012 consist of the following:

	2014	2013
Land	$ 2,191,250	$ 2,191,250
Buildings	13,581,676	7,295,703
Equipment	4,569,137	4,073,692
Automobiles	1,866,070	1,866,070
Building and leasehold improvements	1,799,597	1,799,597
Construction-in-progress	4,799,670	6,756,594
Total	28,807,400	23,982,906
Accumulated depreciation and amortization	(12,318,703)	(11,475,387)
Property and equipment, net	$ 16,488,697	$ 12,507,519

11. Related Party Transactions Not Disclosed Elsewhere

Transactions with related entities are as follows:

(a) During each of the years ended June 30, 2014 and 2013, the Corporation charged MBMC rental expense of $94,798 and a management fee of $24,000.
(b) During each of the years ended June 30, 2014 and 2013, NSH charged the Corporation $447,457 for rental expense.

Amounts due (to) from related parties at June 30, 2014 and 2013 are non-interest bearing, payable on demand and consist of the following:

	2014	2013
MBMC	$ (324,732)	$ (210,644)
NSH	(570,896)	(589,810)
MRG	755,825	645,895
St. Nicholas	(307,205)	(222,732)
Total	(447,008)	(377,291)
Allowance for doubtful accounts	(645,895)	(645,895)
Total Related Party, Net	$ (1,092,903)	$ (1,023,186)

Management considers these transactions to be conducted at arms length.

12. Mortgage Receivable and Enforcement Note Payable

The Corporation is the sponsor of the Geffner House project, which is operated and owned by MRG. The Corporation has a $12,500,000 mortgage note receivable from MRG as a result of transferring land to the Geffner House property for use in the project.

This mortgage receivable is subordinated to a $12,500,000 enforcement note held by the City of New York. The enforcement note may be forgiven if the Corporation operates certain social service programs at the Geffner House site during the term of the agreement. The enforcement note shall not bear interest and matures on December 30, 2026. Once the enforcement note is satisfied, the mortgage receivable shall be forgiven.

13. Sponsor Reserve

During fiscal year 2013, the Corporation transferred $7,974,510 to MRG, which represented interest received on the purchase money mortgage (Note 12) and an escrow account. The escrow account was held by New York City Housing Development Corporation. According to the terms of the agreement, these funds were held in custody by the Corporation on behalf of MRG.

14. Loans Payable

Loans payable consist of the following at June 30:

	2014	2013
Fletcher Street Project		
New York State Housing Finance Agency (HFA)	$ 10,965,000	$ 10,965,000
New York State Homeless Housing and Assistance Corporation (HHAC)	4,238,094	4,238,094
Bronx Boulevard Construction		
JP Morgan Chase Bank, N.A.	7,098,741	5,334,406
Contact Fund	404,747	404,747
PRI Villa Avenue Construction		
New York City Department of Housing Preservation and Development (New York City of HPD)	1,257,566	145,000
NYS Office of Temporary and Disability Assistance	1,735,055	-
Clinton Residence		
New York State Office of Mental Health (OMH)	448,161	856,917
	$ 26,147,364	$ 21,944,164

14. Loans Payable *(continued)*

Fletcher Street Project

Construction on the Fletcher Place Project is being financed using the proceeds provided to PRI HDFC of (1) a construction / permanent mortgage loan from the New York State Housing Finance Agency ("HFA") in the amount not to exceed $14,250,000 to be financed with funds from the proceeds of tax exempt Affordable Housing Revenue Bonds 2009 Series B Bonds, (2) a subordinate loan from HFA in the approximate principal amount of $200,000 (together with (1) the "HFA Loan"), (3) a building and project loan from New York State Homeless Housing and Assistance Corporation in the principal amount of $4,632,300 ("HHAC Loan"), and (4) an equity investment in the amount of $8,132,569 made in connection with the sale of Federal low income housing tax credits generated by the Project.

As a condition of the HFA Loan, Washington Fletcher secured an irrevocable standby letter of credit from JP Morgan Chase Bank, N.A. Also as a condition of the HFA Loan, Washington Fletcher will be required to enter into an agreement with HFA that will regulate the rents and incomes of eligible occupants of the project for a period of at least 30 years.

The construction loan portion of the financing was converted to permanent financing and the letter of credit from JP Morgan Chase Bank, N.A. for the project was released on October 12, 2012.

The project is eligible to receive certain operating subsidies from Washington OMH for management and operation of the project and provide special services to tenants. In addition, the Corporation is eligible for debt service subsidies for payments on the HFA loan.

As of June 30, 2014 and 2013, HFA advanced $10,965,000, of which $10,765,000 is outstanding on the construction/permanent mortgage loan and $200,000 is outstanding on the subordinate loan. The HFA construction/permanent mortgage loan bears interest of 2% per year and is payable on September 30, 2039. The HFA subordinate loan bears interest of 1% per year and has a maturity date of July 1, 2041. Total interest expense accrued at June 30, 2014 and 2013 for both loans was $593,413 and $371,862.

As of June 30, 2014 and 2013 HHAC advanced $4,238,094 to the Corporation. The HHAC loan bears interest of 1% per year and is payable in September 2039. Total interest expense accrued at June 30, 2014 and 2013 was $199,277 and $156,897.

Washington Fletcher has entered into a commitment with PRI HDFC to receive a loan of $759,205. The loan has a stated interest rate of 3.5% per annum with the entire principal balance and accrued interest due on September 30, 2039. No amounts have been advanced as of June 30, 2014 and 2013.

14. Loans Payable *(continued)*

Bronx Boulevard Construction

Construction on the Bronx Boulevard project was financed by JP Morgan Chase Bank, N.A. and Contact Fund loans for $10,222,649 and $404,747 respectively. The interest rate is 2.75% per annum plus the adjusted LIBOR rate for JP Morgan Chase Bank, N.A. and 1.75% plus prime rate for Contact Fund. Both loans were to mature on May 3, 2014. The Corporation obtained a six-month extension for both loans, with a new maturity date of November 3, 2014. As of June 30, 2014 and 2013, JP Morgan Chase Bank, N.A. advanced $7,098,741 and $5,334,406, respectively. As of June 30, 2014 and 2013, Contact Fund advanced $404,747.

The Corporation is negotiating with JP Morgan Chase Bank, N.A. to convert these loans to permanent loans by the end of October 2014.

PRI Villa Avenue Construction

Construction on the PRI Villa Avenue project is being financed by (1) New York City Department of Housing Preservation and Development (New York City of HPD) in the amount of $4,475,000, (2) New York State Office of Temporary & Disability Assistance in the amount of $3,250,000, and (3) an equity investment in the amount of $8,344,280 made in connection with the sale of Federal low income housing tax credits generated by the project.

As of June 30, 2014 and 2013, New York City of HPD advanced $1,257,566 and $145,000, respectively, to the Corporation. No interest shall be accrued until the date of substantial completion of the project, at which point the Corporation will begin to accrue interest at a rate of 2.5% per annum. The loan matures on June 28, 2015. As of June 30, 2014 and 2013, there was no interest accrued on this loan.

As of June 30, 2014, New York State Office of Temporary & Disability Assistance advanced the Corporation $1,735,055. The loan bears an interest rate of 4.5% per annum and matures on June 28, 2073. As of June 30, 2014, there was no interest accrued on this loan. Interest will begin to accrue during fiscal 2015.

Clinton Residence

The residential care facility for mentally ill individuals at the Clinton Residence is subject to a $4,562,434 mortgage note with the New York State Office of Mental Health which matures in May 2015. The mortgage is payable in semiannual installments of $240,030 consisting of principal and interest at the rate of 9.42% per annum. The mortgage is secured by the building and related personal property. As of June 30, 2014 and 2013, the outstanding balance was $448,161 and $856,917, respectively.

14. Loans Payable *(continued)*

Future loan amortization payments on the loans payable are as follows for the years ending June 30:

2015	$ 9,209,215
2016	-
2017	-
2018	-
2019	-
Thereafter	16,938,149
	$ 26,147,364

Principal and interest payments pertaining to outstanding loans payable are not cash payments made by the Corporation. Those payments are the responsibility of each government agency as the Corporation meets the obligations of the respective contract.

15. Line of Credit

The Corporation has a $3,000,000 line of credit with a financial institution expiring in April 2015. Interest payments on all borrowings are due on a monthly basis. Interest is charged at the financial institution's prime rate (3.25% at June 30, 2014 and 2013) plus 1%. The line of credit is collateralized by all property of the Corporation, MBMC and PRF. There were no outstanding borrowings at June 30, 2014 and 2013.

16. Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes at June 30, 2014 and 2013:

	2014	2013
Treatment and transitional housing	$ 50,980	$ 53,910
Medical	780,025	373,481
Employment services	931,537	855,417
Permanent housing	126,370	124,172
	$ 1,888,912	$ 1,406,980

Net assets were released from restrictions during the years ended June 30, 2014 and 2013 by incurring expenses satisfying the restricted purposes as follows:

	2014	2013
Treatment and transitional housing	$ 3,220	$ 10,139
Medical	339,456	291,679
Employment services	528,227	613,586
Permanent housing	47,802	2,985
	$ 918,705	$ 918,389

17. Pension Plan

The Corporation has a defined contribution pension plan under Section 401(a) of the Internal Revenue Code. The Corporation makes discretionary contributions to the plan for eligible employees. There were no pension contributions or expense for the years ended June 30, 2014 and 2013.

In addition, the Corporation has a defined contribution plan under Section 403(b) of the Internal Revenue Code. The Corporation does not make any matching contributions to this plan.

18. Commitments and Contingencies

Lease Commitments

The Corporation rents office space at 200 Varick Street, New York under a lease agreement expiring June 30, 2020, with an option to extend the lease for an additional 5 years. In addition, the Corporation leases apartments and storage space, which are subleased to tenants in the supportive housing program. Rent and occupancy expense for the years ended June 30, 2014 and 2013 was $4,983,810 and $4,752,470, respectively.

Minimum future lease payments under the lease agreement are payable as follows:

For the year ending June 30,	
2015	$ 2,856,161
2016	1,273,115
2017	700,144
2018	719,530
2019	745,212
Thereafter	745,212
	$ 7,039,374

Contingencies

The Corporation is a defendant in several lawsuits that have arisen in the ordinary course of business. It is management's belief that any settlements that arise from these suits will be within the limits of the Corporation's insurance policies. Therefore, no provision has been made in the accompanying consolidated financial statements.

19. Change in Non-Controlling Limited Partners' Interests

	Total	Controlling Interest	Non-Controlling Interest
Balance, June 30, 2013	$ 4,808,770	$ (251)	$ 4,809,021
Net loss	(1,126,233)	(113)	(1,126,120)
Capital contributions	1,033,159	-	1,033,159
Balance, June 30, 2014	$ 4,715,696	$ (364)	$ 4,716,060

* * * * *

Supplementary Financial Information

Project Renewal, Inc. and Affiliates

Consolidating Schedule of Financial Position
June 30, 2014

	Project Renewal, Inc.	PRI HDFC	Washington OMH	Bronx Boulevard HDFC	PRI Villa Ave HDFC	PRI Villa Ave GP	Eliminating Entries	2014 Total
ASSETS								
Cash and cash equivalents	$ 1,185,672	$ 95	$ 348,070	$ 9,985	$ 4,400	$ 17,259	$ -	$ 1,565,481
Investments	44,389	-	-	-	-	-	-	44,389
Restricted cash	-	-	-	-	-	408,159	-	408,159
Accounts and grants receivables, net	7,179,700	-	-	-	-	21,067	-	7,200,767
Pledges receivable, net	1,195,620	-	-	-	-	-	-	1,195,620
Rent receivable, net	-	-	127,927	-	-	-	-	127,927
Due from affiliates, net	1,131,859	-	1,500	3,500	750	-	(1,004,179)	133,430
Prepaid expenses	319,894	-	-	-	-	-	-	319,894
Tax credit monitoring fees, net	-	-	12,294	-	-	-	-	12,294
Security deposits and other assets, net	324,996	-	-	4,285	-	-	-	329,281
Mortgage receivable	12,500,000	15,203,094	-	-	-	-	(15,203,094)	12,500,000
Assets held for others	239,835	-	-	-	-	-	-	239,835
Investments in rental property, net	-	-	21,052,639	-	-	-	-	21,052,639
Deferred debt issuance costs, net	5,112	-	533,797	-	-	-	-	538,909
Property and equipment, net	2,212,359	-	-	8,151,668	-	6,124,670	-	16,488,697
Total Assets	$ 26,339,436	$ 15,203,189	$ 22,076,227	$ 8,169,438	$ 5,150	$ 6,571,155	$ (16,207,273)	$ 62,157,322
LIABILITIES AND NET ASSETS								
Liabilities								
Accounts payable and accrued expenses	$ 3,716,293	$ -	$ 77,469	$ 482,707	$ -	$ 599,370	$ -	$ 4,875,839
Accrued payroll and related liabilities	1,096,664	-	-	-	-	-	-	1,096,664
Accrued interest	-	-	792,690	-	-	-	-	792,690
Construction payable	-	-	164,743	-	-	292,974	-	457,717
Developer's fee payable	-	-	2,300,000	-	-	-	-	2,300,000
Due to affiliates	534,957	1,500	892,904	223,522	5,150	572,479	(1,004,179)	1,226,333
Deferred revenue	2,986,347	-	-	349,378	-	-	-	3,335,725
Deferred rent	716,734	-	43,342	-	-	-	-	760,076
Loans payable	448,161	15,203,094	15,203,094	7,503,488	-	2,992,621	(15,203,094)	26,147,364
Enforcement note payable	12,500,000	-	-	-	-	-	-	12,500,000
Total Liabilities	21,999,156	15,204,594	19,474,242	8,559,095	5,150	4,457,444	(16,207,273)	53,492,408
Net Assets								
Unrestricted								
Operating	1,924,667	(1,405)	(364)	(389,657)	-	-	-	1,533,241
Nonoperating	526,701	-	-	-	-	-	-	526,701
Non-controlling limited partners' interest in consolidated affiliates	-	-	2,602,349	-	-	2,113,711	-	4,716,060
Total Unrestricted Net Assets	2,451,368	(1,405)	2,601,985	(389,657)	-	2,113,711	-	6,776,002
Temporarily restricted	1,888,912	-	-	-	-	-	-	1,888,912
Total Net Assets	4,340,280	(1,405)	2,601,985	(389,657)	-	2,113,711	-	8,664,914
	$ 26,339,436	$ 15,203,189	$ 22,076,227	$ 8,169,438	$ 5,150	$ 6,571,155	$ (16,207,273)	$ 62,157,322

See independent auditors' report

Project Renewal, Inc. and Affiliates

Consolidating Schedule of Activities
Year ended June 30, 2014

	Project Renewal, Inc.											
	Operating	Non-Operating	Total Unrestricted	Temporarily Restricted	Total PRI	PRI HDFC	Washington OMH	Bronx Boulevard HDFC	PRI Villa Ave HDFC	PRI Villa Ave GP	Eliminating Entries	Total
REVENUE AND SUPPORT												
Grants	$ 44,108,020	$ 516,021	$ 44,624,041	$ -	$ 44,624,041	$ -	$ 1,335,525	$ 5,922	$ -	$ -	$ (1,335,525)	$ 44,629,963
Rental income	2,384,852	-	2,384,852	-	2,384,852	-	580,618	-	-	-	(366,780)	2,598,690
Special events, net of direct benefit to donors of $97,991	1,040,394	-	1,040,394	-	1,040,394	-	-	-	-	-	-	1,040,394
Contributions	509,515	-	509,515	1,400,637	1,910,152	-	-	-	-	-	-	1,910,152
Developer's fee income	500,000	-	500,000	-	500,000	-	-	-	-	-	-	500,000
Miscellaneous income	328,957	-	328,957	-	328,957	-	42,996	-	15	413	-	372,381
Net assets released from restrictions	918,705	-	918,705	(918,705)	-	-	-	-	-	-	-	-
Total Public Support and Revenue	49,790,443	516,021	50,306,464	481,932	50,788,396	-	1,959,139	5,922	15	413	(1,702,305)	51,051,580
EXPENSES												
Program Services												
Outreach	395,463	-	395,463	-	395,463	-	-	-	-	-	-	395,463
Treatment and transitional housing	24,695,796	279,136	24,974,932	-	24,974,932	-	-	395,469	-	-	-	25,370,401
Medical services	6,705,509	-	6,705,509	-	6,705,509	-	-	-	-	-	-	6,705,509
Employment services	5,602,039	-	5,602,039	-	5,602,039	-	-	-	-	-	-	5,602,039
Permanent housing	6,575,962	-	6,575,962	-	6,575,962	-	3,085,650	-	-	-	(1,702,305)	7,959,307
Total Program Services	43,974,769	279,136	44,253,905	-	44,253,905	-	3,085,650	395,469	-	-	(1,702,305)	46,032,719
Supporting Services												
Management and general	5,785,108	-	5,785,108	-	5,785,108	286	-	-	-	135		5,785,529
Fundraising	678,501	-	678,501	-	678,501	-	-	-	-	-	-	678,501
Total Supporting Services	6,463,609	-	6,463,609	-	6,463,609	286	-	-	-	135	-	6,464,030
Total Expenses	50,438,378	279,136	50,717,514	-	50,717,514	286	3,085,650	395,469	-	135	(1,702,305)	52,496,749
Increase (Decrease) in Net Assets Before Partners' Capital Contributions to Consolidated Affiliates	(647,935)	236,885	(411,050)	481,932	70,882	(286)	(1,126,511)	(389,547)	15	278	-	(1,445,169)
Capital contributions from Non-Controlling Limited Partners	-	-	-	-	-	-	-	-	-	1,033,159	-	1,033,159
Change in Net Assets	(647,935)	236,885	(411,050)	481,932	70,882	(286)	(1,126,511)	(389,547)	15	1,033,437	-	(412,010)
NET ASSETS												
Beginning of the year	2,572,602	289,816	2,862,418	1,406,980	4,269,398	(1,119)	3,728,496	(110)	(15)	1,080,274	-	9,076,924
End of the year	$ 1,924,667	$ 526,701	$ 2,451,368	$ 1,888,912	$ 4,340,280	$ (1,405)	$ 2,601,985	$ (389,657)	$ -	$ 2,113,711	$ -	$ 8,664,914

See independent auditors' report

Project Renewal, Inc.
and Affiliates

OMB Circular A-133
Schedules and Reports

June 30, 2014

Project Renewal, Inc. and Affiliates

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	*Federal CFDA Number*	*Pass-Through Entity Identifying Number*	*Federal Expenditures*
Department of Health and Human Services, Direct Programs			
Health Centers Cluster			
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224		$ 2,148,545
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918		104,231
Total Department of Health and Human Services, Direct Programs			2,252,776
Department of Health and Human Services, Pass-Through Programs			
Passed-through HIV Care Services			
HIV Emergency Relief Project Grants	93.914	H89HA00015	262,454
Passed-through New York City Department of Health and Mental Hygiene			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	816 0810 776	56,311
Block Grants for Community Mental Health Services	93.958	816 1113 210	145,791
Immunization Cooperative Agreements	93.268	N/A	2,245
Total Department of Health and Human Services, Pass-Through Programs			466,801
Total Department of Health and Human Services			2,719,577

See independent auditors' report and notes to schedule of expenditures of federal awards

Project Renewal, Inc. and Affiliates

Schedule of Expenditures of Federal Awards (continued)
Year Ended June 30, 2014

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	*Federal CFDA Number*	*Pass-Through Entity Identifying Number*	*Federal Expenditures*
Department of Labor			
Veterans' Employment Program	17.802		$ 91,732
Total Department of Labor, Direct Programs			91,732
Department of Housing and Urban Development, Direct Programs			
Supportive Housing Program			
Safe Haven	14.235		591,267
Renewal Farm	14.235		396,607
In Homes Now	14.235		504,352
Veterans Housing	14.235		129,470
Rental Assistance Program for People on Methadone	14.235		398,789
Bowery Project	14.235		331,602
HUD Tech	14.235		309,956
Total Supportive Housing Program			2,662,043
Department of Housing and Urban Development, Pass-Through Programs			
Passed-through New York City Department of Homeless Services			
Emergency Solutions Grant Program			
Emergency Shelter - Kenton Hotel	14.231	20100000141	246,294
Emergency Shelter - Fort Washington	14.231	20070001104	342,007
Total Emergency Solutions Grant Program			588,301
Passed-through New York City Human Resources Administration			
Housing Opportunities for Persons with AIDS	14.241	20111446943	216,609
Passed-through New York State Office of Alcoholism and Substance Abuse Services			
Shelter Plus Care			
Shelter Plus Care	14.238	C-003948	125,383
Total Department of Housing and Urban Development, Pass-Through Programs			930,293
Total Department of Housing and Urban Development			3,592,336
Total Expenditures of Federal Awards			$ 6,403,645

See independent auditors' report and notes to schedule of expenditures of federal awards

Project Renewal, Inc. and Affiliates

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity for Project Renewal, Inc. and Affiliates (the "Corporation") under programs of the federal government for the year ended June 30, 2014. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Corporation, it is not intended to and does not represent the financial position, operations, changes in net assets or cash flows of the Corporation.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

3. Subrecipients

For the year ended June 30, 2014, the Corporation provided no funds to subrecipients.

O'CONNOR DAVIES

PKF

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Independent Auditors' Report

Board of Trustees
Project Renewal, Inc. and Affiliates

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 financial statements of Project Renewal, Inc. and Affiliates (the "Corporation"), which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities, 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 23, 2014.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Corporation'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.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

O'Connor Davies, LLP

October 23, 2014

O'CONNOR DAVIES

PKF

Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133

Independent Auditors' Report

Board of Trustees
Project Renewal, Inc. and Affiliates

Report on Compliance for Each Major Federal Program

We have audited Project Renewal, Inc. and Affiliates' (the "Corporation") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Corporation's major federal programs for the year ended June 30, 2014. The Corporation's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

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Opinion on Each Major Federal Program

In our opinion, Project Renewal, Inc. and Affiliates complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

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

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

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

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

O'Connor Davies, LLP

October 23, 2014

Project Renewal, Inc. and Affiliates

Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	____ yes __X__ no
Significant deficiency(ies) identified?	____ yes __X__ none reported
Noncompliance material to financial statements noted?	____ yes __X__ no

Federal Awards

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
14.235	Supportive Housing Program

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000
Auditee qualified as low-risk auditee?	__X__ yes ____ no

Section II – Financial Statement Findings

During our audit, we noted no material findings for the year ended June 30, 2014.

Section III – Federal Award Findings and Questioned Costs

During our audit, we noted no material instances of noncompliance and none of the costs reported in the federal financially assisted programs are questioned or recommended to be disallowed.

Section IV – Prior Year Federal Award Findings and Questioned Costs

None reported.