DHIC, Inc.

Program Review Report

Southern Region
Conducted: September 5, 2016
By: *Linda L. Gallagher*
Assessments Manager/s
Organizational Assessment Division

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INTRODUCTION/OVERVIEW

A comprehensive review of DHIC, Inc. was conducted by the Organizational Assessment Division (OAD) of NeighborWorks® America and concluded with an onsite visit on September 5, 2016. The primary objective of the review is to assist the organization in enhancing its performance and capacity by facilitating an evaluation of its operations and capacity in all lines of business and areas covered by the acronym PROMPT®: Production/Program Services, Resource and Financial Management, Organizational Management and Board Governance, Management, Planning and Technical Operating and Compliance Systems.

Interviews were held with the organization's board, staff and partners to explore recent accomplishments and future goals and challenges. The review included an analysis of the organization's internal management and service delivery systems, and as an examination of financial records, production reports, and, selected policies, procedures and contracts. Additionally, a tour of DHIC, Inc. properties and service areas was conducted. At the end of the onsite visit, a debriefing meeting was held with the members of the DHIC, Inc. senior management team wherein key preliminary observations, findings, analysis, conclusions and recommendations were presented and discussed.

This report summarizes the discussions and recommendations that emerged from the review process. Please refer to the appendices for further details. NeighborWorks America's Organizational Assessment Division appreciates the cooperation, assistance and attention the organization extended to the reviewers and sincerely hopes that the review process and this report will assist the organization in achieving its goals and in the improvement of its performance.

PROMPT® Assessment

I. PRODUCTION/PROGRAM SERVICES

DHIC, Inc. has exceeded this performance objective.

DHIC has been highly productive in creating new homeowners and new rental units affordable to families, seniors, and individuals with special needs. DHIC enabled 106 new homeowners in 2013, 86 in 2014, and 128 in 2015. It is on track to create another 90 homeowners in 2016. DHIC also developed 317 rental and 10 homeownership units in the last three years, representing investment of $46 million, earning $3.9 million in developer fees. DHIC strengthened its existing portfolio of multifamily rental properties both financially and physically in the last three years by refinancing 172 units to extend affordability with new investment totaling over $7 million. The portfolio has an average debt coverage ratio at 1.43. Replacement and operating reserves meet or exceed required minimums to meet capital improvements including energy efficient systems and appliances. A review of the financials for the real estate and asset management line of business confirms a positive change in net assets as a result of its development activities.

DHIC LOBs include:

- Homeownership promotion
- Real estate development/asset management

A. Homeownership Promotion

The table below shows DHIC's record of assisting clients purchase homes over the last three years.

Figure 1: Homeowners

	2013	2014	2015	Q3 2016
Pre-Purchase Homebuyer Education Workshop (Customers)	309	401	413	280
Pre-Purchase Homebuyer Individual Counseling (Customers)	61	192	278	109
Total Homeowners Created	**106**	**86**	**128**	**69**
% of new homeowners who received eight hours of education	51%	77%	86%	96%
Financial Literacy Workshop (Customers)				

Source: NeighborWorks America Quarterly Reports

In each of the last three years, DHIC has created a number of homeowners that exceeds by two or three times the 40 required by HOC benchmarks. Through its group education and individual counseling DHIC enabled over 100 clients to become first time homebuyers in two of the last three years.

"Bringing Home the Dream" workshops attract high numbers and have trended upward over the last three years. DHIC offers 15 workshops per year, on Saturdays. They include sections on energy efficiency practices, home inspections, maintenance and repairs. In the first three quarters of 2016, DHIC staff educated 280 households. Annualized, this would be 372, lower than the previous two years but still a high level of performance in educating and creating first time homeowners overall.

DHIC is the city of Raleigh's preferred homebuyer education and counseling agency and has a fee for service agreement with the City that reimburses DHIC for counseling and education services rendered, up to $73,000. Recently, the city of Raleigh changed the parameters for its funding of homebuyer education limiting it to those who reside in Raleigh at the time they register, with no screening for area median income required. Previously DHIC could use that subsidy for those who were planning to purchase in Raleigh as well. With this change, staff will use other grant sources to support the counseling activity and may apply to other municipalities where it can demonstrate registrants reside for direct subsidy like Raleigh's. DHIC has changed the registration process to avoid excess registrants that then turned into no-shows. DHIC measures its progress toward goals for homeownership creation diligently and tracks the demographics and statistics for clients served. The 2015 goals were all achieved. The percentage of those receiving eight hours of education has consistently increased to 86 percent in 2015 and 96 percent for the first three quarters of 2016.

DHIC connects clients to down payment assistance programs to help remove barriers to purchasing a home for the first time. In so doing, DHIC is approved to participate in the programs offered through the NC housing finance agency (NCHFA), to include the community partners loan pool (CPLP) program which offers homebuyers down payment assistance of up to 20 percent of the home's sales price, when combined with the NCHFA home advantage mortgage program. . DHIC processes loans on behalf of NCHFA's CPLP program for which service it receives an administrative fee. Thirty thousand dollars so far this year has been earned. DHIC also assists families in accessing the city of Raleigh second lien program that offers up to $20,000 in down payment assistance and the FHLB of Atlanta offers assistance up to $5,000. It is a seller's market in Raleigh with median sales price of $230/240,000. DHIC clients can typically qualify for a $140,000 purchase.

DHIC management recently fielded a call with NeighborWorks America homeownership national initiatives about its interest in becoming a LIFT partner. DHIC would need to deploy $4 mil in 2 years. Management and staff are very excited about this potential opportunity. The director of the homeownership center was previously a mortgage lender and another other staff member has a mortgage license. DHIC homeownership staff hold all six FCL certifications.

The 2016 budgeted revenue and support for this LOB is $227,900 in revenue and support, down 5.3 percent from 2015 budget of $240,710. Budgeted expenses for 2016 have been trimmed by 10.8 percent from $555,421 to $494,384 primarily by cutting staff and eliminating the foreclosure counseling activity once the AG funding for it disappeared.

Figure 2: LOB budget comparison

	Budget 2015	Budget 2016
HOC earned fees	60,000	104,000
City of Raleigh	34,839	32,400
NWA unrestricted grant	76,774	67,500
Other, unrestricted grants	37,097	24,000
AG Grant	32,000	0
Total LOB revenue and support	240,710	227,900
Expenses	555,421	494,384
Budgeted deficit	(314,711)	(266,484)

Source: DHIC reports

The budgeted deficit for 2016 is lower than it was for 2015, even after the loss of attorney general grant funds. Also, year to date figures indicate HOC is ahead of budget. As of May 31, 2015, five months into the year, HOC fees are $66,433, more than budgeted for the entire year. The revenue from that source has been reforecast to $112,096. The 2016 budgeted surplus for RED and AM is $1,524,724, more than adequate to cover both the budgeted deficit of HOP of $226,484 (and that of resident services, $146,591).

B. Property Management

DHIC contracts out property management to third party management companies and self-manages the Prairie building which houses its offices and 11 apartments. Compliance is done by CMC for the Prairie.

C. Real Estate Development/Asset Management

The table below shows the development work over the last three years that yielded $46.6 million of investment into affordable housing into the target market which covers nine counties in North Carolina.

Figure 3: Real Estate Rental Development Production

Project	units	Type	TDC	Sources	Fees earned	Mo, Year
Water Garden Village	60	New constr	10,004,249	LIHTC,city	630,000	12/2012
Water Garden Park	88	New constr	12,133,005	LIHTC, city	1 mil	12/2013
University Park	100	Acq/Rehab, Sec 8 (HUD 221)	10,299,021	LIHTC, HFC	1 mil	12/2014
Willow Creek	53	new constr	7,703,832	LIHTC, HFA, other	636,000	08/2015
Emerson Glen	48	new constr	7,587,886	LIHTC, city, county, state	576,000	12/2015
Sedgebrook	32	Repairs	316,205	($6k per unit)	100,000	01/2015
The Ten	10	homeownr	2,559,558		n/a	12/2015
Total	327		46,603,756		3,942,000	

Source: NeighborWorks America template tables, DHIC internal reports

DHIC developed 317 rental units in the last three years, representing investment of $44 million. The rental projects completed ranged from 32 to 100 units. Additionally, DHIC completed rehab and repairs on two existing projects and one new 10 unit homeownership project. DHIC earned $3.9 million in developer fees and refinancing proceeds from this work.

Since the last onsite visit, DHIC has refinanced four projects to extend the affordability for ten years or more. In 2014, Avonlea (44 units) and Sedgebrook (32 units) were refinanced for a combined $3.5 million. In 2015, 48 units at Tryon Grove were refinanced for $1.9 million and in 2016, another 48 units at Ripley Station accounted for $1.7 million in refinancing. Sedgebrook was then rehabilitated as shown in the completed projects table above.

The Ten, homeownership units, sold out in six months with sales prices starting at $269,000. The development received a design award from the Appearance committee of the city for its sleek urban design, at the same time representing the most affordable home ownership option for downtown Raleigh.

All six real estate goals set for 2015 were achieved including the completion of the "Ten". DHIC will stick to its active pipeline of rental development for the near future as it is increasingly difficult to find suitable infill sites for homeownership. Staff will focus on multifamily rental developments including supportive housing and senior housing in an expanded footprint. DHIC's charter allows for development in all but one county of NC. Staff are capable, dedicated, focused, and successful in consistently achieving high goals that make noticeable impact and gain recognition in the community.

DHIC continues to expand geographically with a supportive housing project in Wilmington. DHIC submitted four LIHTC applications in May to NC housing finance agency, representing $61 million in investment. Three of the four were awarded. See the table below for pipeline projects.

Figure 4: Real Estate Development Pipeline

Project NAME	Type	# of units	TDC	Financial Structure	Status
In development:					
Village at Washington Terrace, Ph 1, Raleigh	Acq/rehab, family rental	162 + fac	29.9	LIHTC	Tax credit appln approved, May
Greenfield Place, Chapel Hill, Ph 1	New constr rental	80	10.8	LIHTC, have perm loan	Closing on f/c in Sept/16
Pennington Grove, Garner	New constr seniors	83	11.3	LIHTC	Permitting
Lakeside Reserve* Wilmington		16	2.5 mil	HOME	f/c closing summer/16
Sub total		341	54.5 mil		
Greenfield Commons Chapel Hill	New constr seniors	69	9.3 mil	LIHTC	Tax credit appln approved, May
Booker Park North Raleigh (ph2 WT)	Leased land seniors	72	10.9 mil	LIHTC	Tax credit appln approved, May
Beacon Ridge Raleigh	YMCA site, new constr	72	10.9 mil	LIHTC	Not funded
Capital Towers Raleigh	Acquisition/rehab, seniors	296	29 mil	4% bond	Funding in place
Total		780	103.7 mil		

Source: DHIC Pipeline Report
* Development consulting contract

DHIC has 790 units representing $104 million in development costs in its development pipeline, including three projects for which $50.1 million in LIHTC allocations was secured in May.

DHIC gained site control of Washington Terrace in 2014 and completed a comprehensive master planning process in late 2015. DHIC encouraged and facilitated significant tenant input about design features and amenities. The process involved 350 residents, exceeding the goal of 100. DHIC overcame the residents' initial distrust and fears of displacement. Staff arranged planning sessions on site and transportation to downtown meetings. They provided ample information and displayed plans for tenants to view and comment. They identified housing elsewhere on the site or in other DHIC communities for those who wanted to stay through the redevelopment process, sometimes facilitating relocation with stipends. Redevelopment will take six to ten years and include at least two phases.

Demolition of the 1950's era housing, (245 units on a 23 acre site) is about to commence, kicking off Phase I, the construction of 162 family rental units and a child care center. Eventually, the project will include 400+ rental units, 50+ homeownership units, a childcare center, green space and a community garden. Adding members to its board of directors, DHIC created the Washington Terrace planning committee to lead and facilitate the community engagement. Recently the city was successful with its four percent bond issue enabling financing for Phase 1. This will be DHIC's largest most complex development in 40 years and will represent 14 percent of its portfolio in Wake County. The operator of the child care center has been involved in the design process, a contractor has been selected and construction documents are in preparation. Units in Phase 1 will come on line in 2018.

DHIC is a NeighborWorks America green certified NW O. Noting there is not much appetite among funders for anything significant, staff include energy star appliances and energy efficient systems in its designs, working closely with asset management staff and consultants.

DHIC added a project manager in the fall of 2015 and hired another shortly before our site visit to accommodate the extensive pipeline. With the confirmation of funding for three new LIHTC projects, the development timelines have been pushed up and overlap. Pursuing additional income generating activities like In house construction management or more development consulting contracts is no longer necessary. Meanwhile, work as development consultant on Lakeside Reserve in Wilmington and Capital Towers in Raleigh continues.

Asset Management

DHIC has built a portfolio of 37 projects and 2,203 units (including vacant units at Washington Terrace). DHIC contracts out property management to four third party management companies. CMC and D & F have the bulk of properties to manage. Edgewood manages Royal Oak Gardens in Kannapolis, NC and Ginkgo manages Washington Terrace Apartments. Property plans are in place. Ginkgo was chosen to manage Washington Terrace Apartments (a FNMA foreclosure) because of its experience in REITs. The Excel group was property manager for Capital Towers at acquisition and will be kept in place.

DHIC's projects range from 11 units to 245 units in size, with the majority between 32 and 60 units. DHIC often develops projects in phases, so combining the unit counts from all phases reveals a higher median size.

The table below shows the DHIC portfolio performance as compared to national MFI participants in key metrics. See Appendix B for more detailed property by property performance metrics.

Figure 5: Asset Management

Project	# of units	Debt per unit	DSC	Net cash flow, pupm	NCF as % of GPI
Avg for DHIC	2,061	$727	1.43	502	6.23
Avg, all MFI (nat'l)	87,402	$721	1.65	813	7.93

Source: MFI reports, Q2, 2016

DHIC has a slightly higher debt per unit and a slightly lower DSC than the national MFI average. Net cash flow per unit per month averages $502 for DHIC portfolio, compared to $813 nationally. Annualized net cash flow, based on six months of performance ending March 31, 2016 is negative in nine projects. Of those, six are projected to have negative cash flow of less than $10,000. The other three are Santree Commons, Lennox Chase, and Water Garden Village. Santree Commons has a Rural Development first mortgage with an interest subsidy reduction. It was a 15 year exit in 2015 and came off the tax rolls then, so no taxes are paid. Lennox Chase is a permanent supportive housing community and is budgeted to break even. Tenants are at 40% AMI. Drucker Falk manages Water Garden Village. The firm intentionally expenses taxes (not paid) to show over budget performance.

The average DSC for the portfolio is 1.43. Four projects have debt service coverage of 2.0 or greater. Bay River, Highland Village and Murphee School are close to that (over 1.8x). A comprehensive asset management plan contains an overview of the portfolio and several more detailed sections for ready reference and analysis. It reflects ample capital and operating reserves and identifies required balances. A timeline capture tasks that range from green training start date, to refinance planning, 15 year expiries, guarantee obligations, and the status of capital needs assessments. Needs assessments start with an energy study and include Earthcraft pricing. DHIC has done written plans for Portfolio Strengthening covering 1/5 of the portfolio over the last three years. A significant number of capital improvements are water heaters, low flow toilets, HVAC, and roofs. DHIC routinely uses energy star appliances. Staff and consultants do utility usage and tracking for all properties.

A watchlist categorizes each property by risk level, includes debt structure, and commentary on progress made on key issues. Staff actively work the asset management plan and watchlist.

The upcoming 15 yr exits are Bay River; Creston Commons I, MacGregor Village I, Beechridge II, and Madison Glen (waiting to hear from Enterprise), Prairie building (office, in discussion now). The asset management consultant is now dedicated to the exits, developing strategies and negotiating with investors to deliver customized plans for each project. Responsibility for the rest of the asset management plan and the watch list has been transitioned to the new full time asset manager. The CFO remains fully engaged as the director of asset management activities.

The RED and AM lines of business both generate net income, run as separate LOBs at DHIC. The table below shows combined RED/AM lob financial results for 2015 and budget.

Figure 6: LOB financials (RED/AM)

	Budget 2015	Actual 2015	Budget 2016
Developers Fees,	538,000	851,215	1,788,000
sale of homes		2,771,950	
Asset management fees	409,000	338,420	442,000
Grants, support (RED)	104,097	471,830	96,367
Grants, support (AM)	29,742	224,380	27,533
Other Income	0	426,637	
Total LOB revenue and support	1,080,839	5,084,432	2,353,900
Expenses, excl cost of sales	716,964	1,033,231	829,175
Other exp, cost of sales		2,554,168	
Surplus/(Deficit)	363,875	1,497,033	1,524,724

Source: DHIC internal management reports

In 2015, sales of homes accounted for $2,771,950 of revenue and $2,554,168 in costs, contributing only $217,782 to the surplus for the year.

In 2015, developers fees at $861,215 exceeded budget In 2016 they are budgeted at $1,788,000, more than double. As of May 31, 2016, actual developer's fees are $1,147,692. While asset management fees are below budget, this is only because of timing for receipt. A surplus of $1,524,724 is budgeted for RED/AM LOB. Developer's fees are now projected to be about $10,000 less than the original budget. Overall, the budget for the RED/AM line of business is reforecast at $2,377,177 in total revenue and support, driven by more management fees and more grants than anticipated.

Owners' meetings are held quarterly and resident services staff attend. Regional managers attend and convey issues and items needing follow up to property level staff. DHIC has moved its community impact measurement project from Highland Villagein Cary to Washington Terrace.

Resident services staff produce information flyers regularly, work with residents one on one, and create convenings that each particular community will favor. Staff identify needs and find community partners to deliver resources. DHIC also contracts with "Resources for Seniors" for its senior projects. Fees come from the property cash flow. A thorough needs assessment is completed at move in. The vice president of real estate development, three project managers (one senior), and four consultants staff the real estate development department. An asset manager and the CFO do asset management and a consultant focuses on 15 year expiring LIHTCs.

II. RESOURCE AND FINANCIAL MANAGEMENT

DHIC, Inc. has exceeded this performance objective.

DHIC's consolidated balance sheet shows total assets increased by 15 percent from 2013 to 2015. The organization maintains much more restricted than unrestricted cash including a reserve of $185,000 specifically for the properties of Tryon Grove and Avonlea, and a board designated reserve that totaled $700,015 at December 31, 2015. The combined restricted cash balances have increased by 22 percent over the three year period, ensuring adequate reserves for subsidiary needs for properties, operating needs, and liquidity. DHIC liquidity ratios are strong and its debt ratios compare favorably with its peers. Total net assets have increased by almost $10 million from 2013 to 2015 driven by revenues and support that have increased by 48 percent since 2013. While expenses exceed revenues in all three years, depreciation accounted for more than the negative change in all years. The parent entity has shown a positive change in net assets in all three years.

1. Financial Position Analysis

DHIC's consolidated financial statements include DHIC, Inc. and 39 wholly owned subsidiaries that hold general partners or managing partner interests. It received an unmodified opinion on the latest audit with no material weaknesses, significant deficiencies or issues of noncompliance. The financial position of the consolidated entity over the last three years is shown below.

Figure 7: Consolidated Statement of Financial Position as of December 31st

	2013	2014	2015
ASSETS	133,535,626	149,598,175	153,117,911
LIABILITIES	79,197,283	83,196,306	89,208,679
UNRESTRICTED NET ASSETS	48,943,824	61,582,350	59,139,713
TEMPORARILY RESTRICTED NET ASSETS			
PERMANENTLY RESTRICTED NET ASSETS	5,394,519	4,819,519	4,769,519
Non- controlling interest	46,496,828	54,945,907	57,170,506
TOTAL NET ASSETS	54,338,343	66,401,869	63,909,232

Source: NWO Audits

The consolidated balance sheet has grown steadily each year for the last three years, with an increase in total assets of 15 percent from 2013 to 2015. Fixed assets represent 87 percent of total. The remaining 13 percent is comprised of cash, unrestricted three percent, and restricted eight percent, plus other assets two percent.

A portfolio of notes receivable/second mortgages totaled $407,411 in 2014, and $409,792 at December 31, 2015, of which $15,758 is current portion for 2015. The organization has not been active in lending for several years. The portfolio is comprised of three sets of loans, one was loans made by DHIC under the Hope III program, another loans by DHIC, and another second mortgages made by affiliates of DHIC. There are 10 non-interest bearing loans left from the HOPE III, which are forgivable. All are reserved as uncollectible.

The other second mortgages made by DHIC are also non-interest- bearing, with no payments for 30 years or until the home is sold or loan refinanced. These 24 loans totaled $222,427 as of December 31, 2015. The affiliate loans have the same terms and number seven, totaling $187,365.

Total liabilities increased by 13 percent over the three years, showing DHIC was able to grow its balance sheet while improving already strong equity. Net assets represented 41 percent of total assets in 2013 and 42 percent in 2015. Long-term debt represents 95 percent of all liabilities. Sixteen percent of long-term debt is non -amortizing, due upon maturity or dependent on excess cash flow from rental properties.

Total net assets have increased by almost $10 million from 2013 to 2015. Of total net assets of $63,909,232 at December 31, 2015, $59,139,713 was unrestricted. Non-controlling interest was 97 percent of this total, or $57,170,506.

Figure 8: Statement of Financial Position as of December 31st , parent only

	2013	2014	2015	YTD Unaudited 6/30/2016
ASSETS	17,506,796	18,835,486	19,211,988	19,488,696
LIABILITIES	1,392,390	1,190,562	680,819	1,261,461
UNRESTRICTED NET ASSETS	10,779,886	12,825,405	13,761,650	
TEMPORARILY RESTRICTED NET ASSETS				
PERMANENTLY RESTRICTED NET ASSETS	5,394,519	4,819,519	4,769,519	
TOTAL NET ASSETS	16,174,405	17,644,924	18,531,169	18,227,235

Source: consolidating statements, audits, internal reports for interim

The parent entity's balance sheet has shown the same trends in assets and net assets. Total assets increased by ten percent to $19.2 million since 2013. Net assets have increased significantly also. Liabilities decreased by 51 percent over the three year period.

An interim financial statement for the parent alone shows liabilities are up to previous (2014) levels while assets increased. Net assets reflected little change.

Liquidity and Leverage Analysis

DHIC's peer group consists of 13 organizations with a real estate focus and total 2014 assets of $50 million or more. Below are the liquidity and leverage ratios as compared to its peer group.

Figure 9: Liquidity and Leverage 2013-15

	2013	2014	2015	Network Peer Median 2014
LIQUIDITY				
Current Ratio	0.3	1.3	1.4	1.8
Cash/Quick Ratio	0.2	1.0	1.2	1.4
Days of Cash	44	109	92	163
LEVERAGE				
Debt to Net Assets	145.7%	125.3%	139.6%	221.0%
Short Term Debt	18.2%	6.1%	5.7%	14.0%

Source: NWA audit analysis

DHIC's liquidity ratios are strong, although slightly lower than its peers at 1.4 vs. 1.8 in current ratio and 1.2 vs. 1.4 in quick ratio. Both have improved since year end 2013 and are much closer to the medians of its peer group than they have been for the last several years. There was over 90 days cash on hand at the last two fiscal year ends. The organization maintains much more restricted cash then unrestricted, including an operating reserve, $185,000, and a board designated reserve that totaled $700,015 at December 31, 2015. The combined restricted cash balances have increased by 22 percent over the three year period, ensuring adequate reserves for subsidiary needs for properties, operating needs, and liquidity.

DHIC's leverage ratios are better than peers showing less debt as a percentage of equity for both long and short term debt. The CFO uses an equity line as an internal revolving LOC for deferred development fees. Once received, the fees pay the internal LOC back. Each year, the CFO draws the line down into an operating account for this purpose.

2. Resource Management and Development

The table below shows the last three years of revenue and expense on a consolidated basis.

Figure 10: Consolidated Revenue and Expenses for 12 months ending December 31st

	2013	2014	2015
REVENUES, SUPPORT	11,888,470	15,055,327	17,647,254
EXPENSES	14,725,050	17,458,250	23,131,399
CHANGE IN NET ASSETS	(2,836,580)	(2,402,923)	(5,484,145)
Depreciation	*4,172,705*	*4,707,939*	*7,244,988*

Source: NWO Audits

Consolidated revenues and support have increased steadily since 2013, rising by 48 percent over the three years ending December 31, 2015. Revenue represents 93 percent and support seven percent. Revenue is derived primarily from rental income, $12.7 million in 2015, and sale of homes, $2.8 million. The latter resulted from sell out of the Ten, a 10 unit mixed income homeownership project in downtown Raleigh. The remaining $2.1 million comes from grants, debt forgiveness, and other. Rental income increased 26 percent from 2013 to 2015. Two new entities were added and rental income was increased at several other properties. Inventory in development decreased by $461,273 in 2015. Again, this was related to the homeownership project.

Without the revenue from the sale of homes, the parent company revenue would have decreased 19 percent from 2014, but developer fees for 2016 are already double those of 2015. Both are real estate development activities. This line item (sale of homes) was atypical and not likely to be repeated as DHIC is primarily involved in large rental projects. The CFO is skillful at determining the factors that create variations on line items of income from year to year. She refines and reforecasts the budget mid-year, especially after the LIHTC awards are known making the timelines and fee schedules for projects more predictable.

Consolidated expenses increased to $23.1 million in 2015, up by 57 percent from 2013. The negative change in net assets more than doubled in 2015 from the previous year. Depreciation accounted for more than the negative change in all years. Annual deficits in the entities are consistently at levels below annual depreciation.

Figure 11: Revenue and expenses for 12 months ended December 31st, (parent only)

	2013	2014	2015	ytd 5/31/16
REVENUES	1,403,766	2,204,093	4,565,754	1,225,900
SUPPORT	1,275,013	1,467,436	1,181,134	283,795
Total Revenue and support	2,678,779	3,671,529	5,746,888	1,576,128
EXPENSES	1,965,281	2,201,010	4,860,643	981,508
CHANGE IN NET ASSETS	713,498	1,470,519	886,245	594,620
Includes Depreciation of:	*42,365*	*73,138*	*73,370*	*0*

Source: consolidated audits, internal reports for interim

Revenue and support for the parent entity more than doubled over the three year period. Revenue increased by 57 percent from 2013 to 2014 and by 107 percent from 2014 to 2015. The latter increase was largely attributable to a new line item, proceeds from sale of homes (see above). However, as noted in the RED/AM section, after the cost of sales this line item of revenue only contributed about $200,000 to the LOB's $1.5 million surplus.

Support for the parent entity is more significant than for the consolidated entity. It represented 48 percent of combined revenue and support in 2013, 40 percent in 2014, and just 21 percent in 2015, due to a spike in revenues in that year. DHIC hosted its 40th anniversary celebration luncheon on

Friday, November 21st, 2014 at the Raleigh Marriott city center. More than 400 people attended this celebration. As part of the event, DHIC hosted a Health & Housing Symposium in the morning. It featured a panel discussion on the importance of public health and housing policies that impact older adults and families in the community and around the country. More than 150 people attended the symposium. DHIC exceeded its goal of $100,000 by raising $154,000 in sponsorship dollars.

At May 31,1 2016, revenue and support totaled $1,576,128, yielding a surplus of $594,620 , more than the budgeted surplus for the year. The reforecast net income is $741,429 compared to original budget of $543,500. DHIC looks to its major lines of business, RED and AM to support both homeownership promotion and resident services.

3. Financial Management

DHIC submitted audits from Dixon Hughes Goodman, LLP for each of the last three years. The audits were all performed in accordance with GAS. For 2013 and 2014, DHIC did not meet the threshold for OMB Circular A-133. In those three audits, no deficiencies were noted, no findings were issued and no instances of non-compliance were identified. DHIC did not qualify as a low risk auditee as defined by OMB Circular A-133. DHG did not issue management letters in any of the three years.

The organization prepares budget to actual reports that include both a statement of activities and a balance sheet. Additionally, interim summaries of cash balances and changes to unrestricted cash provide excellent information to the board for planning and oversight purposes.

The overall budget is highly dependent on development fees from current projects. Thus, the CFO tracks the amounts and timing of development fees on a project basis. Once tax credit awards are announced, the development team does three year budgets for each project. From this data the CFO analyzes the LOB and organizational budgets to refine and reforecast. The information is presented to the quarterly board meetings, after first going to the finance committee.

The capital fund agreement on December 31, 2015 was $2,835,698 and agreed with the permanently restricted net assets reported in the audited financial statements. The NeighborWorks capital fund assets were comprised of: cash $1,150, notes receivable $2,754,437 and 2nd mortgage loans $80,111.

As of August 18, 2016, the balance was $3,185,698.43 and agreed with internal tracking records. It is comprised of $1,684,334 cash and $1,501,364 is in notes receivable from developments. The restricted cash is further segregated into three accounts, one board restricted, one for projects, and one for second mortgages. The investment in development projects is as follows:

Murphey	$427,500
Tryon	$367,013

W. Creek $400,000
Greenfield $300,000
Ripley $ 6,851

DHIC sets up promissory notes for projects under development or rehabilitation and uses the restricted capital to fund predevelopment or early construction costs. Copies of promissory notes were submitted. Once work is completed on a project and permanent funding comes in, the notes are reduced or paid back with restricted funds then moved to the next project in need. Since last December, loans receivable from six projects were collected, Lennox, Creston II, Cardinal LLC, Carlton, Madison Glen, and Brookridge. This year four new projects are being started so cash balances are high right now pending their needs for funds. DHIC has excellent internal records and actively tracks restricted NWA capital by transaction and cumulatively.

III. ORGANIZATIONAL MANAGEMENT AND BOARD GOVERNANCE

DHIC, Inc. has exceeded this performance objective.

DHIC has 15 board members, two of whom were appointed at the end of 2015 when two others rolled off. They reflect a variety of relevant skills for governance and programmatic oversight, including deep experience in real estate development, community development, land use and planning, banking, real estate law, nonprofit management, and technology services. Membership demonstrates local government and state education systems, as well as residents, are an integral part of the board.

Figure 12: Board Revitalization, Composition and Meeting Practices

Board Revitalization	Range in yrs.	Median yrs. Svc	Avg. yrs. svc			
	Zero to 3 yrs.	3 to 5 yrs.	➢ 5- 10 yrs.	11 - 15 yrs.	16 - 20 yrs.	> 20 yrs.
	8	5	2			
Board Composition	Public (# / %)	Private (# / %)	Resident (# / %)			
	3/20%	7/47%	5/33%			
Board Meetings	Mtgs in past 12 mo.	Avg attendance (%)				
	5	11/73%				

Source: NWO Data

DHIC is a CHODO and a third of its board represents the community served. In accordance with its by-laws, the Raleigh city council appointed five board members. At least five at any time represent low income communities or organizations serving same. Five current members are residents of DHIC developments or represent low income residents.

The bylaws, last amended in April, 2013, limit terms to three consecutive two year terms with a maximum of four over a lifetime. Terms expire in alternate years to ensure rotation. The tenure of the current board reflects the policy. In the chart above, the two with tenures of five to ten years have served less than six years. Management indicates a proposed bylaw change is under consideration to allow some longer tenured members to be part of the mix, increasing the institutional memory and continuity on the board.

There is a conflict of interest policy and signed statements by all board members are current. Annually, with the conflict of interest statements, board members sign commitments to service that include monetary as well as other giving to DHIC. Each makes their individual choice from a variety of options. The board conducts regular self-assessments and evaluates the executive director annually, assuring goals are in alignment with the strategic plan. The succession plan includes all eventualities that could result in a vacant CEO position. Processes to handle near term, long term, planned, and unplanned absence are in place and clearly identify senior staff members' responsibilities and communication to partners. Leadership is encouraged, nurtured, and tested periodically because of the organization's policy of granting sabbaticals to staff with at least five years of service. The executive director was recently on sabbatical for 12 weeks. This promoted board confidence in the leadership and ability of staff to carry the organization.

DHIC holds board meetings five times a year including the annual meeting in December, with executive committee meetings in the intervening months. Special meetings brought the total to eight in the last 12 months. The average attendance is 11, or 73 percent, based on December, 2015, February and April 2016 meeting minutes. Board members are well informed about special events like ribbon cuttings, ground breaking, and city council meetings and actively participate, giving DHIC a high level of visibility in the community.

Board meeting packages are accessible through a web portal, with instructions attached in a cover memo. The consent agenda is comprised of three sections, financial reports, projects in development and pipeline and resolutions/ other business. The financial dashboard reports are informative and thorough without being too busy. They include budget to actual with a reforecast, cash balances, and tracking for lines of credit and restrictive funds. Likewise, project status reports are thorough and detailed, yet easy to read. Board meetings are well run and efficient with business accomplished and questions regarding strategy or direction sufficiently given time for discussion.

The executive committee is the only one required, per the bylaws, with the option to create one or more as long as there are two directors on each committee. DHIC has established the following committees: finance, development, and Washington Terrace Planning committee. Members are engaged and active in committee work and on the board.

DHIC is in compliance with performance objectives in the checklist attached.

IV. MANAGEMENT – STAFFING AND PERSONNEL MANAGEMENT

DHIC, Inc. has met this performance objective.

DHIC employs 15 full time and two part time staff. Additionally, DHIC makes good use of consultants to assist in real estate development, asset management, and high level planning. Tenure is diverse and reflects a good mix of highly seasoned and newer staff. DHIC hired a part time homeownership advisor in the spring, increased staffing in real estate development/asset management by adding two new project managers, a resident services coordinator, and an asset manager since last fall. The asset manager was hired to reassign work previously done by a consultant. The resident services coordinator Is new although the position existed prior to the acquisition of Washington Terrace, although vacant.

The senior management team consists of the president and three vice presidents, finance and administration, real estate development, and resource development and partnerships. The latter also manages homeownership and resident services. The homeownership director completes the team. Senior management meets bi-weekly.

The organizational chart clearly reflects the lines of business, with authority and reporting lines well identified. The major change to the chart since the last onsite review is the homeownership center now operates as part of the resource development/partnerships department. Previously it was housed in the construction department. Construction has been folded into real estate development.

Staffing at the previous onsite review consisted of 16 employees and four consultants. Both staffing and consultant support have increased. The personnel manual (updated December 2012) and parts of the operations manual (June 30, 2014) together form a comprehensive policy and procedures manual for employees. The corporate policies section of the operations manual contains whistleblower, conflict of interest, document retention and privacy, employee confidentiality policies.

The personnel manual outlines a generous and flexible benefits package, including flextime, options for combining sick and vacation leaves. It contains an anti-nepotism policy. There are even thoughtful progressive policies for new mothers returning to work and discussion of social media and appropriate use of telephonic and communications devices.

The development team meets once a week. Meetings include the CEO and one accounting staff person as well. The asset manager attends as needed. The homeownership staff meet once every two weeks.

V. PLANNING

DHIC, Inc. has met this performance objective.

DHIC employs both annual plans and a multi-year strategic plan to guide and direct its work at all levels. The current strategic plan covers the period 2015-2017. It clearly states the mission, core market, and three major strategic objectives, to diversity DHIC's income, to design and manage DHIC's ten year commitment to redevelop Washington Terrace, and to leverage the increased visibility, new relationships and rebranding resultant from the organization's celebration of its 40th anniversary in 2014.

DHIC defines its four lines of business as asset management, real estate development, resident services, and homeownership center. The strategic plan addresses all the lines and the resource development, organizational development and governance priorities for the organization.

Staff prepare one year business plans driven by the priorities in the strategic plan and collect data as the year progresses. The commitment to Washington Terrace has had significant implications across the organization including the relocation of 36 households in preparation for Phase I. A relocation specialist was brought in to assist on a temporary basis.

Both the strategic and business plan incorporate financial and staffing needs in determining reasonable SMART goals. The work plan for each department rolls up into the business plan. The achievement of business plan goals result in success meeting higher level objectives in the strategic plan. DHIC's current business plan includes discussion about staffing capacity and the continued use of consultants as part of its revised organizational structure. Recent hires in real estate development/asset management department resulted. DHIC is currently evaluating the benefits of outsourcing the payroll function.

Staff use the (three page) success measures tracking tool to note progress, challenges, and changes to anticipated completion of goals. They report to the board of directors annually at the annual meeting. With five individuals appointed by the city to the board, DHIC obtains regular input from other stakeholders.

VI. TECHNICAL OPERATING AND COMPLIANCE SYSTEMS

DHIC, Inc. has met this performance objective.

DHIC has two offices, one houses the homeownership center, meeting rooms and the other is where most staff and consultants work. They are a short walk from each other and both are on the ground floor in downtown Raleigh. The homeownership center has space for up to seven work stations.

A network server connects both offices. DHIC uses Microsoft office suite, BusinessWorks for accounting, and CounselorMax, Grantworks, ORS, and MFI systems for NeighborWorks America reporting. In 2017 DHIC will conduct a full review of alternate accounting software for an upgrade, starting now with a general overview of which systems to investigate. DHIC contracts with an IT consultant for its computing and information management needs, maintenance and replacement of hardware and software as needed. Management is pursuing an upgrade to include Onenote, a program that integrates project management tasks and facilitates group work. It produces dashboard reports by project. The data base used now does a property summary, organized functionally, not by property. Improvements will allow sorting both ways for better tracking and comparative analysis.

DHIC is a NeighborWorks America green certified NW O. Its capital needs improvement plans demonstrate acute attention to greening each property which are already at high standards of energy efficiency. DHIC uses a vendor for a utility study as a first step to its capital improvement assessments.

In fact, the consultant brought in training for maintenance staff to understand and changed protocols as needed after using a blower door test and has contracted for NeighborWorks America place based training, held locally for site staff and maintenance. All the regionally property management and site staff from the property management companies engaged by DHIC attended.

DHIC meets reporting deadlines to NeighborWorks America timely, with accuracy

OVERALL CONCLUSION

DHIC is a highly productive, financially strong organization with appropriate staff, systems, and governance models in place to deliver its mission and continue to expand its impact. DHIC created 383 new homeowners from October of 2012 through June of 2016. It invested $46.6 million in affordable housing in the research triangle of North Carolina, working in nine counties and producing housing for families, seniors, and special needs individuals. Asset management systems are of high quality and ensure continuing demand for attractive, energy efficient well maintained apartments. The properties have ample reserves, positively cash flow and return fees to DHIC. The parent organization generated over $3 million of positive change in net assets in the last three years, improving liquidity ratios and maintaining low debt compared to peers. The DHIC board of directors is a partnership board with members that bring relevant skills and substantial experience to guide the organization. The design of bylaws and meeting practices ensure regular rotation in the governing body and active programmatic oversight. Strategic planning is conducted at regular intervals, including input from external stakeholders. The board receives regular reports on progress to goals. The current plan illustrates clear thinking on long term issues, including eventual succession of the executive director, anticipated in three to five years.

APPENDIX A - PERFORMANCE AGAINST NEIGHBORWORKS AMERICA OMBG PERFORMANCE OBJECTIVES

Performance Objective	Y/N	Performance Objective	Y/N
1. Board Governance		**4.Monitor and strengthen the organization and its programs and services**	
Recruit and sustain a diverse group of knowledgeable members	Y	Articulate the mission, accomplishments and goals to the public and garner support	Y
Diversity of board tenure and adequate institutional knowledge. Regular rotation of board and committee chairs.	Y	Hold management accountable for performance against the stated goals, grant and contractual commitments.	Y
Documented orientation process	Y	Implemented reporting practices at the board (and committee) level that allow for oversight of programs, LOB and operations.	Y
Documented board (and committee) roles and responsibilities	Y	Adequate financial resources are secured (e.g. healthy liquidity, multi-year surpluses, healthy debt ratios)	Y
Continuous training opportunities that increase board members' contribution	Y		
Meeting practices that promote constructive dialogue, timely decisions and support fiduciary, strategic and generative leadership	Y		
Documented self-assessment and action plan at least once every three years	Y		
2.Management of the Chief Executive Officer/Executive Director		**5. External Support and Compliance**	
Documented responsibilities of the CEO/ED	Y	Review of annual audit including adequate financial controls	Y
Documented goals to be achieved by the CEO/ED. Monitoring of the goals by the board	Y	Adherence to legal standards and required documents (e.g. IRS Form 990, fidelity insurance with NWA as loss payee, whistle blower policy, document destruction policy)	Y
Documented annual evaluation of the CEO/ED	Y	Compliance with contractual obligations and grant agreements	Y
Identify and resolve issues with or beyond the control of management that present risk	Y	Signed conflict of interest statements annually	Y
Documented and implemented succession plan	Y	Compliance with by-laws	Y
3.Strategic Planning and Evaluation		Compliance with NeighborWorks chartering agreement including but not limited to resident representation	Y
Documented mission statement used in strategic decision making	Y		
Documented strategic plan	Y		
Approved annual operating plan	Y		
Annual budget	Y		

APPENDIX B – DHIC PROJECTS

Project name	Units	Type	NCF, rolling 4Qs	DSCR
Avonlea Apartments	44		36,425	1.35
Bay River Apartments	20		(2,413)	2.43
Beechridge I Apts	40		15,777	1.47
Beechridge II Apts	32		15,207	1.61
Brookridge Apts	41	specialized	2,918	0
Camden Glen Apts	48		21,591	2.10
Cardinal Chase Apts	48		(2,368)	1.17
Carlton Place	80	mixed use	24,798	1.38
Chadwick Apartments	40	seniors	6,398	0
Creston Commons Apts	48		(4,560)	1.91
Creston Commons II Apts	32		(3,956)	1.97
Commons at Highland Village	68		3,358	1.35
Glenbrook Apartments	63		(8,948)	1.94
Highland Manor Apartments	32	seniors	10,924	0
Highland Village Apartments	50		25,525	1.77
Highland Terrace	80	seniors	19,525	1.34
Jeffries Ridge	32		10,476	1.53
Lennox Chase Apts	37	specialized	(9,678)	0
MacGregor I Apts	48		15,468	0
MacGregor II Apts	32		2,093	1.34
Madison Glen Apts	120		12,129	1.25
Maplewood Apts	32	???	(1,282)	1.60
Meadowcreek Commons	48	seniors	3,651	1.81
Murphey School Apts	48	mixed use	43,662	1.97
Prairie Apts	11		1,255	1.48
Ripley Station Apts	48		(4,025)	1.32
Roanoke Commons & Club Plaza Apts	65	seniors	52,822	3.59
University Park Apts	100		103,837	1.57
Santree Commons Apts	24	RD	3,664	1.02
Sedgebrook Apts	32		13,216	1.94
Tryon Grove Apts	48		22,582	1.54
Turnberry Apts	41	seniors	122	0
Wakefield Hills	80		22,744	1.28
Wakefield Manor	96		19,613	1.35
Washington Terrace	245		3,549	1.00
Water Garden Village	60		12,542	1.10
Water Garden Park	88	seniors	35,518	1.45
Weston Trace Apts	48		24,921	1.60
Willow Creek Apts		seniors	38,463	

Source: MFI reports, Q2 2016

APPENDIX C – PROPERTYS

PROPERTY/OWNERSHIP ENTITY	College Park Collaborative, LLC	ROG Preservation, LLC	Water Garden Park LLC
NAME	Washington Terrace	University Park Apts	Water Garden Park
PLACED IN SERVICE YEAR	41640	41548	41609
OWNERSHIP/FINANCIAL STRUCTURE	#1	#3	#5
TOTAL REVENUES	865006	918950	574063
TOTAL EXPENSES	757777	521372	374458
NET OPERATING INCOME	107229	397578	199605
Income after non oper exp & b/depn	-75063	182888	155972
RESERVE CONTRIBUTION	0		
MORTGAGE PRINCIPAL AND INTEREST	0		
CASH FLOW	107229	397578	199605
NUMBER OF UNITS	100	100	88
REVENUES PER UNIT	8650.06	9189.5	6523.443182
EXPENSES PER UNIT	7577.77	5213.72	4255.204545
Interest Expense	167292	194890	43633
Other non operating exp excl d'pn/am	15000	19800	0
REPLACEMENT RESERVE BALANCE		102518	
OPER. RESERVE BAL./RESIDUAL RECEIPTS	238161	116022	242779
REPLACEMENT RESERVE PER UNIT	0	1025.18	0
OPERATING RESERVES PER UNIT	2381.61	1160.22	2758.852273
*CASH DISTRIBUTIONS/WATERFALL :			
HUD SURPLUS CASH CALCULATION:			
NET LOSS AFTER DEP'N AND AMORT			
DEPRECIATION AND AMORTIZATION	2501191	355938	308115
REQ'D PRINCIPAL PAYMENTS			
REQ'D REPL RESERVE CONTRIBUTIONS			
INT EARNED ON RESTRICTED DEPOSITS			
HFA APPROVED ITEMS			
EXPENSES FUNDED W/REPL RESERVES			
TOTAL SURPLUS CASH			
* Surplus or distributable cash should be presented here			
in the same manner as it is in the property's audit.			
The HUD Surplus Cash is shown as an example only.			
NOTES:	$277k of earned fee to be paid fr cash flow		
	oper reserve is over min balance		

NeighborWorks® America
Organizational Assessment Division

Kansas City Office
4435 Main Street, Suite 700
Kansas City, MO 64111
(816) 753-2404

Boston Office
116 Huntington Avenue, 12th Floor
Boston, MA 02116
(617) 450-0420