

# **Better Housing Coalition**

---

## **Consolidated Financial Statements**

**Year Ended December 31, 2016 with Comparative Totals for 2015**

## **Table of Contents**

|   |    |
|---|----|
| <b>Independent Auditors' Report</b> .....             | 1  |
| <b>Consolidated Financial Statements:</b>             |    |
| Consolidated Statement of Financial Position.....     | 3  |
| Consolidated Statement of Activities.....             | 4  |
| Consolidated Statement of Changes in Net Assets ..... | 5  |
| Consolidated Statement of Cash Flows .....            | 6  |
| Notes to Consolidated Financial Statements .....      | 8  |
| <b>Supplementary Information:</b>                     |    |
| Consolidated Schedule of Functional Expenses.....     | 21 |
| Consolidating Statement of Financial Position .....   | 22 |
| Consolidating Statement of Activities .....           | 24 |

## **Independent Auditors' Report**

Board of Directors  
Better Housing Coalition  
Richmond, Virginia

We have audited the accompanying consolidated financial statements of Better Housing Coalition, which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statements of activities, changes in net assets 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 did not audit the financial statements of certain subsidiaries and affiliates which statements reflect total assets of \$26,789,876, as of December 31, 2016, and total support and revenues of \$2,629,583 for the year then ended. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these entities, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of 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, based on our audit and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Better Housing Coalition as of December 31, 2016, 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.

***Change in Accounting Principle***

As discussed in Note 3 to the consolidated financial statements, Better Housing Coalition adopted new accounting guidance on the presentation of debt issuance costs in 2016. Our opinion is not modified with respect to that matter

***Report on Summarized Comparative Information***

We have previously audited Better Housing Coalition's 2015 consolidated financial statements. We did not audit the financial statements of certain subsidiaries and affiliates, which reflect total assets of \$27,471,904 as of December 31, 2015 and total support and revenues of \$2,530,763 for the year then ended. Those statements were audited by other auditors whose reports were furnished to us, and our opinion, insofar as it relates to the amounts included for those subsidiaries was based solely on the reports of other auditors. Our report dated April 30, 2016, expressed an unmodified opinion on those audited consolidated financial statements based on our audit and the reports of other auditors. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

***Report on Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidated schedule of functional expenses, consolidating statement of financial position and consolidating statement of activities on page 21 through 24 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The supplementary information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information, which insofar as it relates to the subsidiaries and affiliates, is based on the reports of other auditors, is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Dixon Hughes Goodman LLP*

**Richmond, Virginia  
May 15, 2017**

***Better Housing Coalition***  
***Consolidated Statement of Financial Position***  
***December 31, 2016,***  
***With Comparative Totals for 2015***  
***(Next Page)***

**Better Housing Coalition**  
**Consolidated Statement of Financial Position**  
**December 31, 2016, with Comparative Totals for 2015**

|   | <u>2016</u>                  | <u>(As Adjusted)<br/>2015</u> |
|---|------------------------------|-------------------------------|
| <b>ASSETS</b>                                   |                              |                               |
| Property and equipment:                         |                              |                               |
| Buildings and improvements                      | \$ 113,792,745               | \$ 115,373,506                |
| Land  | 10,013,791                   | 10,114,223                    |
| Furniture, fixtures and equipment               | 1,105,128                    | 1,126,238                     |
| Vehicles  | 87,975                       | 45,500                        |
| Accumulated depreciation                        | <u>(37,115,918)</u>          | <u>(34,687,384)</u>           |
| Property and equipment, net                     | <u>87,883,721</u>            | <u>91,972,083</u>             |
| Current assets:                                 |                              |                               |
| Cash  | 5,148,852                    | 3,444,242                     |
| Cash, restricted                                | 3,766                        | 23,510                        |
| Cash, donor restricted                          | 1,584,321                    | 1,781,593                     |
| Short-term investments, donor restricted        | 388,604                      | 362,829                       |
| Restricted deposits                             | 5,031,971                    | 4,897,381                     |
| Tenant security deposits held in trust          | 309,820                      | 333,355                       |
| Tenant receivables                              | 135,810                      | 246,158                       |
| HUD accounts receivable                         | 2,304                        | 38,183                        |
| Current accounts receivable                     | 62,246                       | 140,950                       |
| Notes receivable                                | 31,041                       | 30,291                        |
| Prepaid assets                                  | <u>257,981</u>               | <u>261,231</u>                |
| Total current assets                            | <u>12,956,716</u>            | <u>11,559,723</u>             |
| Other assets:                                   |                              |                               |
| Deposits, other                                 | 19,135                       | 4,783                         |
| Accounts receivable, net of current receivables | 235,420                      | 140,250                       |
| Construction in progress                        | 14,398,417                   | 2,543,798                     |
| Intangible assets, net                          | <u>191,700</u>               | <u>363,462</u>                |
| Total other assets                              | <u>14,844,672</u>            | <u>3,052,293</u>              |
| Total assets                                    | <u><u>\$ 115,685,109</u></u> | <u><u>\$ 106,584,099</u></u>  |

See accompanying notes.

|  | <u>2016</u>           | <u>(As Adjusted)<br/>2015</u> |
|--|-----------------------|-------------------------------|
| <b>LIABILITIES AND NET ASSETS</b>                                |                       |                               |
| Long-term liabilities:   |                       |                               |
| Lines of credit for construction, net of current maturities      | \$ 11,422,006         | \$ 97,731                     |
| Notes payable, net of current maturities and debt issuance costs | 30,172,648            | 28,367,730                    |
| Bonds payable, net of current maturities                         | -                     | 4,420,000                     |
| Deferred revenue, net of current portion                         | 3,413,778             | 3,612,767                     |
| Deferred payment note  | 1,900,000             | 1,900,000                     |
|  | <u>46,908,432</u>     | <u>38,398,228</u>             |
| Total long-term liabilities                                      |                       |                               |
| Current liabilities:   |                       |                               |
| Current maturities of notes payable                              | 1,462,900             | 1,728,888                     |
| Current maturities of bonds payable                              | -                     | 200,000                       |
| Current maturities of deferred revenue                           | 198,989               | 198,989                       |
| Current maturities of lines of credit for construction           | 288,000               | -                             |
| Accounts payable   | 634,560               | 502,476                       |
| Payables related party   | 41,851                | 18,254                        |
| Tenant security deposits   | 294,817               | 285,610                       |
| Accrued interest   | -                     | 123,203                       |
| Unearned revenue   | 809,304               | 396,051                       |
| Miscellaneous current liabilities                                | 58,744                | 38,175                        |
|  | <u>3,789,165</u>      | <u>3,491,646</u>              |
| Total current liabilities  |                       |                               |
| Net assets:  |                       |                               |
| Unrestricted   |                       |                               |
| Controlling interests  | 26,480,478            | 25,006,480                    |
| Noncontrolling interests   | 28,669,935            | 29,469,098                    |
|  | <u>55,150,413</u>     | <u>54,475,578</u>             |
| Temporarily restricted   | <u>9,837,099</u>      | <u>10,218,647</u>             |
|  | <u>64,987,512</u>     | <u>64,694,225</u>             |
| Total net assets   |                       |                               |
|  | <u>\$ 115,685,109</u> | <u>\$ 106,584,099</u>         |
| Total liabilities and net assets                                 |                       |                               |

**Better Housing Coalition**  
**Consolidated Statement of Activities**  
**Year Ended December 31, 2016, with Comparative Totals for 2015**

|   | 2016         |                           |              | (As Adjusted)<br>2015 |
|---|--------------|---------------------------|--------------|-----------------------|
|   | Unrestricted | Temporarily<br>Restricted | Total        | Total                 |
|   |              |                           |              |                       |
| Revenues and other support:                                   |              |                           |              |                       |
| Contributions and philanthropic support                       | \$ 217,668   | \$ 994,701                | \$ 1,212,369 | \$ 951,999            |
| Grants and awards   | 377,072      | -                         | 377,072      | 592,555               |
| Other revenue   | 1,020,139    | -                         | 1,020,139    | 322,834               |
| Earned fees   | 1,053,806    | -                         | 1,053,806    | 118,189               |
| Interest and investment income (loss)                         | (17,473)     | -                         | (17,473)     | 80,072                |
|   | 2,651,212    | 994,701                   | 3,645,913    | 2,065,649             |
| Revenue (expense), property sales:                            |              |                           |              |                       |
| Property sales  | 3,157,000    | -                         | 3,157,000    | 1,138,638             |
| Subsidies, government   | 409,550      | -                         | 409,550      | 336,360               |
| Loss on disposal of equipment                                 | -            | -                         | -            | (5,932)               |
| Cost of property sales  | (2,274,628)  | -                         | (2,274,628)  | (1,391,724)           |
| Homebuyer assistance  | (29,550)     | -                         | (29,550)     | (59,525)              |
|   | 1,262,372    | -                         | 1,262,372    | 17,817                |
| Revenue, rental properties:                                   |              |                           |              |                       |
| Rental revenue  | 11,396,122   | -                         | 11,396,122   | 10,950,319            |
| Other tenant revenue  | 163,503      | -                         | 163,503      | 190,715               |
| Laundry and vending   | 77,656       | -                         | 77,656       | 66,423                |
|   | 11,637,281   | -                         | 11,637,281   | 11,207,457            |
| Net assets released from restriction                          | 1,376,249    | (1,376,249)               | -            | -                     |
|   | 16,927,114   | (381,548)                 | 16,545,566   | 13,290,923            |
| Operating expenses:   |              |                           |              |                       |
| Rental properties   | 8,738,695    | -                         | 8,738,695    | 9,232,688             |
| Property development activities                               | 1,369,579    | -                         | 1,369,579    | 603,902               |
| Community social work   | 657,549      | -                         | 657,549      | 619,177               |
| Fund development  | 650,674      | -                         | 650,674      | 534,355               |
| Management and general  | 659,200      | -                         | 659,200      | 714,973               |
|   | 12,075,697   | -                         | 12,075,697   | 11,705,095            |
| Changes in net assets before<br>depreciation and amortization | 4,851,417    | (381,548)                 | 4,469,869    | 1,585,828             |
| Depreciation  | 3,803,167    | -                         | 3,803,167    | 3,799,038             |
| Amortization  | 171,418      | -                         | 171,418      | 37,164                |
|   | \$ 876,832   | \$ (381,548)              | \$ 495,284   | \$ (2,250,374)        |

See accompanying notes.



**Better Housing Coalition**  
**Consolidated Statement of Changes in Net Assets**  
**Year Ended December 31, 2016, with Comparative Totals for 2015**

|                               | 2016                    |                            |                       |                           | 2015                 |                      |
|-------------------------------|-------------------------|----------------------------|-----------------------|---------------------------|----------------------|----------------------|
|                               | Unrestricted            |                            | Total<br>Unrestricted | Temporarily<br>Restricted | Total                | Total                |
|                               | Controlling<br>Interest | Noncontrolling<br>Interest |                       |                           |                      |                      |
| Net assets, beginning of year | \$ 25,006,480           | \$ 29,469,098              | \$ 54,475,578         | \$ 10,218,647             | \$ 64,694,225        | \$ 65,692,825        |
| Equity investments            | -                       | (201,997)                  | (201,997)             | -                         | (201,997)            | 1,251,774            |
| Changes in net assets         | <u>1,473,998</u>        | <u>(597,166)</u>           | <u>876,832</u>        | <u>(381,548)</u>          | <u>495,284</u>       | <u>(2,250,374)</u>   |
| Net assets, end of year       | <u>\$ 26,480,478</u>    | <u>\$ 28,669,935</u>       | <u>\$ 55,150,413</u>  | <u>\$ 9,837,099</u>       | <u>\$ 64,987,512</u> | <u>\$ 64,694,225</u> |

See accompanying notes.

**Better Housing Coalition**  
**Consolidated Statement of Cash Flows**  
**Year Ended December 31, 2016, with Comparative Totals for 2015**

|  | 2016               | (As Adjusted)<br>2015 |
|--|--------------------|-----------------------|
| Cash flows from operating activities:  |                    |                       |
| Change in net assets   | \$ 495,284         | \$ (2,250,374)        |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: |                    |                       |
| Depreciation and amortization  | 3,974,585          | 3,836,202             |
| Interest, debt issuance costs  | 22,480             | 22,004                |
| Bad debt expense (recovery)  | (13,555)           | 83,761                |
| (Gain) loss on disposal of property  | (1,155,454)        | 5,932                 |
| Amortization of deferred revenue   | (198,989)          | (198,989)             |
| Changes in assets and liabilities:   |                    |                       |
| Tenant receivables   | 123,903            | (163,972)             |
| Accounts receivable  | (16,466)           | 243,276               |
| HUD receivables  | 35,879             | (38,183)              |
| Notes receivable   | (750)              | 12,394                |
| Prepaid expenses   | 3,250              | (11,353)              |
| Tenant security and other deposits   | 18,390             | (33,515)              |
| Construction in progress   | (11,854,619)       | 660,204               |
| Accounts payable and miscellaneous current liabilities   | 152,653            | 282,730               |
| Payables related party   | 23,597             | (30,534)              |
| Accrued interest   | (123,203)          | (9,187)               |
| Unearned revenue   | 413,253            | (52,698)              |
| Net cash provided (used) by operating activities   | <u>(8,099,762)</u> | <u>2,357,698</u>      |
| Cash flows from investing activities:  |                    |                       |
| Net change in restricted deposits  | (134,590)          | (54,678)              |
| Purchase of property   | (507,507)          | (2,940,680)           |
| Proceeds from sale of property   | 2,030,000          | -                     |
| Purchase of equipment  | (81,844)           | (36,493)              |
| Redemption (purchase) of certificate of deposits   | (25,775)           | 120,334               |
| Payments of loan costs and tax credit fees   | 344                | (39,349)              |
| Net cash provided (used) by investing activities   | <u>1,280,628</u>   | <u>(2,950,866)</u>    |
| Cash flows from financing activities:  |                    |                       |
| Proceeds on lines of credit for construction   | 11,612,275         | 346,673               |
| Payments on lines of credit for construction   | -                  | (911,503)             |
| Proceeds on notes payable  | 3,780,000          | 1,650,000             |
| Payments on notes payable  | (2,263,550)        | (926,320)             |
| Payments on bonds payable  | (4,620,000)        | (190,000)             |
| Equity investments   | (201,997)          | 1,251,774             |
| Net cash provided by financing activities  | <u>8,306,728</u>   | <u>1,220,624</u>      |
| Net increase in cash   | 1,487,594          | 627,456               |

See accompanying notes.

**Better Housing Coalition**  
**Consolidated Statement of Cash Flows**  
**Year Ended December 31, 2016, with Comparative Totals for 2015**

**(Continued)**

|   | <u>2016</u>                | <u>2015</u>                |
|---|----------------------------|----------------------------|
| Cash, beginning of year                           | <u>5,249,345</u>           | <u>4,621,889</u>           |
| Cash, end of year                                 | <u><u>\$ 6,736,939</u></u> | <u><u>\$ 5,249,345</u></u> |
| Reconciliation of cash:                           |                            |                            |
| Cash  | \$ 5,148,852               | \$ 3,444,242               |
| Cash, restricted                                  | 3,766                      | 23,510                     |
| Cash, donor restricted                            | <u>1,584,321</u>           | <u>1,781,593</u>           |
| Cash, end of year                                 | <u><u>\$ 6,736,939</u></u> | <u><u>\$ 5,249,345</u></u> |
| Supplemental disclosure of cash flow information: |                            |                            |
| Cash paid during the year for interest            | <u><u>\$ 1,677,805</u></u> | <u><u>\$ 1,576,930</u></u> |

## **Notes to Consolidated Financial Statements**

### **1. Organization and Nature of Activities**

Better Housing Coalition (Coalition) is a not-for-profit corporation whose mission is to develop affordable housing communities in the Richmond, Virginia, metropolitan area. It serves as a sponsor/developer of both single family and multifamily dwellings in the Richmond metropolitan area. In addition, it provides community social work services to several multifamily housing communities. The Coalition derives its revenues from individual and corporate contributions, grants, fees from real estate development and management activities and rental income including property sales.

### **2. Summary of Significant Accounting Policies**

#### ***Accounting method***

The consolidated financial statements of the Coalition have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America; revenue and gains are recognized when earned, and expenses and losses are recognized when incurred. The significant accounting policies are described below to enhance the usefulness of the consolidated financial statements to the reader.

#### ***Consolidated financial statements***

The consolidated financial statements include the accounts of the Coalition, Richmond Affordable Housing Inc., a developer of affordable single family dwellings, BHC Management Company, organized to operate and maintain the rental properties outlined below, and all of the rental property entities listed below. The Coalition has common control since it has economic interest, as well as the majority voting power on the board of these entities. The consolidated financial statements include the accounts of limited partnership or limited liability companies in which the Coalition or one of its wholly-owned subsidiaries is the general partner or managing member, but does not hold a majority financial interest. All material inter-company accounts and transactions have been eliminated in consolidation.

#### **Legal Entity**

Senior housing communities:

Affordable Residences in Chesterfield, Inc.  
1617-1621 Grove Avenue LP\*  
Market Square Elderly Housing LP\*  
Market Square Elderly Housing LP Phase II  
Market Square Elderly Housing LP Phase III  
Nine Mile Road LLC  
Nine Mile Road II LLC  
Richmond Urban Senior Housing, Inc.  
300 Randolph Street LLC  
1208 North 28th St. LLC  
Claiborne Square LLC

#### **Known As**

Rockwood Village  
Columns on Grove  
Market Square  
Market Square Phase II  
Market Square Phase III  
Carter Woods Senior Apts  
Carter Woods Senior Apts Phase II  
Monarch Woods  
Randolph Place  
Beckstoffer Seniors  
Claiborne Square

**Better Housing Coalition**  
**Notes to Consolidated Financial Statements**

---

Multifamily housing communities:

|  |                   |
|--|-------------------|
| Affordable Historic Residences of Richmond LP* | St. Andrews       |
| Affordable Residences in Chesterfield II, Inc. | Winchester Greens |
| Cary 2000 North LP* **                         | Cary Mews         |
| Cary 2000 Phase II LP* **                      | Cary Townhomes    |
| Cary 2000 Phase III LP*                        | Cary Townhomes    |
| 4101 North Avenue LLC                          | Lincoln Mews      |
| 4101 North Avenue II LLC                       | Lincoln Mews II   |
| North Oak LLC                                  | North Oak         |
| Beckstoffer Lofts LLC                          | Beckstoffer Lofts |
| Richmond Scattered Sites East LLC              | Jefferson Mews    |
| Richmond Scattered Sites West LLC              | CaryWest          |

Commercial properties:

|                            |                       |
|----------------------------|-----------------------|
| Winchester Commons I LLC*  | Winchester Commons I  |
| Winchester Commons II LLC* | Winchester Commons II |

\*These entities are consolidated in the financials of Richmond Affordable Housing, Inc.

\*\*These projects were sold in 2014 and had no activity during 2015 with the exception of notes receivable balances which are included in the consolidated statement of financial position, which are related to a deferred sales agreement. Construction was completed in 2016 and the receivable balances were collected.

***Basis of presentation***

The consolidated financial statements report amounts separately by classes of net assets as follows:

**Unrestricted** net assets represent resources over which the Board of Directors (Board) have discretionary control and are used to carry out operations. If the Board specifies a purpose where none has been stated by the original donor or other providers of funding, such funds are classified as Board designated funds.

**Temporarily restricted** net assets include resources whose use by the Coalition is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Coalition pursuant to those stipulations.

**Permanently restricted** net assets include resources whose use by the Coalition is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Coalition. The Coalition had no permanently restricted net assets at December 31, 2016 and 2015.

***Public support and revenue***

Public support and revenue are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. If the restrictions expire in the year in which the revenues are recognized, then the revenues are reported as increases in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or law. Expiration of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between applicable classes of net assets.

Contributions are recognized in the period received. Unconditional pledges are recognized in the period made. Conditional pledges are not recognized until the conditions on which they depend are substantially met.

## **Better Housing Coalition**

### **Notes to Consolidated Financial Statements**

---

Contributions to be received after one year are discounted at an appropriate rate commensurate with the risk involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible pledges receivable is provided, when necessary, based upon management's judgment considering factors such as prior collection history, type of contribution and nature of fundraising activity.

Contributions received with donor-imposed restrictions are reported as revenues of the temporarily restricted net asset class unless the restriction expires in the same year in which the revenues are recognized, in which case the revenues are reported as increases in unrestricted net assets. Contributions of land, building and equipment without donor-imposed restrictions concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class.

Revenue from government grant and contract agreements is recognized as it is earned through expenditure in accordance with the agreement. Revenue from program service fees is recognized when the service is completed.

#### ***Functional expenses***

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated schedule of functional expenses. Accordingly, certain costs have been allocated as program, management and general, and fund development.

#### ***Fund accounting***

To ensure observance of limitations and restrictions placed on the use of resources available to the Coalition, the accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose. Separate accounts are maintained for each fund; however, in the accompanying consolidated financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

#### ***Accounts receivables***

Management reviews receivables, and any that are considered to be uncollectible are charged to expense. There was no allowance for doubtful accounts at December 31, 2016 and 2015.

#### ***Income recognition***

Rental and commercial income is recognized for property rentals as they accrue. Lease terms are generally one year or less. Advance receipts of rental income are deferred and classified as unearned revenue until earned.

Revenue from property sales is recognized when the property is sold.

#### ***Impairment of long-lived assets***

Long-lived assets and certain intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Coalition reviews applicable intangible assets and long-lived assets on a periodic basis. When events or changes in circumstances indicate an asset may not be recoverable, the Coalition estimates the future cash flows expected to result from the use of the asset. If the sum of the expected undiscounted cash flows is less than the carrying value of the asset, an impairment loss is recognized. The impairment loss is recognized by measuring the difference between the carrying value of the asset group and the fair value of the asset group.

The Coalition's estimates of fair values are based on the best information available and require the use of estimates, judgments and projections as considered necessary. The actual results may vary significantly. There were no impairment losses in 2016 and 2015.

**Better Housing Coalition**  
**Notes to Consolidated Financial Statements**

---

***Property and equipment***

Property and equipment are stated at cost and depreciated by straight-line and accelerated methods over estimated useful lives which range as follows:

|                                   |              |
|-----------------------------------|--------------|
| Buildings and improvements        | 5 - 40 years |
| Furniture, fixtures and equipment | 5 - 15 years |
| Vehicles                          | 5 years      |

Maintenance and repairs are charged to operations when incurred. Betterments and renewals are capitalized. When property and equipment are sold or otherwise disposed, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in current year's operations.

***Construction in progress***

The costs associated with the acquisition and renovation of housing units is included in construction in progress until a unit is sold.

***Use of estimates***

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates and assumptions.

***Fair value of financial instruments***

The carrying amounts of cash, escrows and reserves, receivables, prepaid expenses, deposits, account payable, accrued expenses and security deposits approximate fair value because of the short maturities of these instruments. Variable rate loans approximate fair value because of the variable rate. The fair value of the fixed-rate long-term debt was approximately \$27,000,000 and \$18,000,000 at December 31, 2016 and 2015, respectively, which is based on market rates for similar loans.

***Donated services***

A substantial number of unpaid volunteers have made significant contributions of their time. The value of this contributed time is not reflected in these consolidated statements because no objective basis is available to measure the value of such services.

***Gifts-in kind***

Gifts of real estate, professional services, cash and personal property are recorded at their estimated fair market value and recorded as revenue when received.

***Cash equivalents***

For purposes of the consolidated statement of cash flows, the Coalition considers all unrestricted highly liquid investments with a purchased maturity of three months or less to be cash equivalents.

***Income taxes***

Better Housing Coalition and its affiliates, Affordable Residences in Chesterfield, Affordable Residences in Chesterfield II, Richmond Affordable Housing and Richmond Urban Senior Housing, are nonprofit charitable organizations other than private foundations, as defined by Internal Revenue Code Section 501(c)(3) and are not subject to federal or Virginia income taxes. BHC Management Company has been granted tax exempt status under Internal Revenue Code Section 501(c)(4).

**Better Housing Coalition**  
**Notes to Consolidated Financial Statements**

---

The Coalition's controlled limited liability partnerships and limited liability companies are subject to federal and state income taxes at the partner and member level. Better Housing Coalition and its non-profit subsidiaries noted above, have a partner or member interest in each of these taxable entities, accordingly, the accompanying consolidated financial statements do not reflect provision of federal or state income taxes.

**Subsequent events**

In preparing these consolidated financial statements, the Coalition has evaluated events and transactions for potential recognition or disclosure through May 15, 2017, the date the consolidated financial statements were available to be issued.

**3. Presentation of Debt Issuance Costs**

Effective January 1, 2016, the Coalition has adopted ASU 2015-03, *Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, which amends current presentation guidance by requiring debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. ASU 2015-03 does not change the recognition and measurement requirements for debt issuance costs. Prior to the issuance of this ASU, an entity would present debt issuance costs as an asset. The new accounting guidance simplifies the presentation as debt issuance costs are now shown as a direct deduction from notes payable. The statement of financial position as of December 31, 2015, and the statements of activities and cash flows for the year then ended, have been adjusted to reflect retrospective application of the new accounting guidance as follows:

|  | <u>As Previously<br/>Reported</u> | <u>Retrospective<br/>Adjustment</u> | <u>As Adjusted</u> |
|--|-----------------------------------|-------------------------------------|--------------------|
| Assets:  |                                   |                                     |                    |
| Intangible assets, net   | \$ 756,920                        | \$ (393,458)                        | \$ 363,462         |
| Total other assets   | \$ 3,445,751                      | \$ (393,458)                        | \$ 3,052,293       |
| Total assets   | \$ 106,977,557                    | \$ (393,458)                        | \$ 106,584,099     |
| Liabilities and net assets:  |                                   |                                     |                    |
| Notes payable, net of current maturities   | \$ 28,761,188                     | \$ (393,458)                        | \$ 28,367,730      |
| Total long-term liabilities  | \$ 38,791,686                     | \$ (393,458)                        | \$ 38,398,228      |
| Total liabilities and net assets   | \$ 106,977,557                    | \$ (393,458)                        | \$ 106,584,099     |
| Statement of activities:   |                                   |                                     |                    |
| Operating expenses   |                                   |                                     |                    |
| Rental properties  | \$ 9,210,684                      | \$ 22,004                           | \$ 9,232,688       |
| Total operating expenses   | \$ 11,683,091                     | \$ 22,004                           | \$ 11,705,095      |
| Changes in net assets before depreciation<br>and amortization                      | \$ 1,607,832                      | \$ (22,004)                         | \$ 1,585,828       |
| Amortization   | \$ 59,168                         | \$ (22,004)                         | \$ 37,164          |
| Statement of cash flows:   |                                   |                                     |                    |
| Cash flows from operating activities   |                                   |                                     |                    |
| Adjustments to reconcile net loss to net<br>cash provided by operating activities: |                                   |                                     |                    |
| Depreciation and amortization  | \$ 3,858,206                      | \$ (22,004)                         | \$ 3,836,202       |
| Interest, debt issuance costs  | \$ -                              | \$ 22,004                           | \$ 22,004          |



#### **4. Concentrations**

The Coalition depends on grants, contributions and other public support to fund its operations. Significant changes in the amounts received could significantly affect operations.

Financial instruments which potentially subject the Coalition to concentrations of credit risk consist of cash and unsecured receivables. The Coalition maintains its cash balances with financial institutions located in Richmond, Virginia. The Coalition places its cash with high credit quality financial institutions. Accounts at the institutions are secured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2016 and 2015, uninsured cash deposits were \$5,648,262 and \$4,593,507, respectively. Management rationally assesses the solvency of the financial institutions.

The Coalition's ability to collect its receivables is dependent upon the financial condition of the debtor or lessee and management routinely assesses their credit quality.

#### **5. Retirement Plans**

On January 1, 1997, the Coalition established a 403(b) retirement plan. Currently, the Coalition matches employee contributions up to 5% of an employee's salary. Employees are eligible for benefits after they are at least 21 years of age and have completed one year of service with at least 1,000 hours and are fully vested after three years of service. The Coalition's contribution to this plan in 2016 and 2015 was \$131,751 and \$104,007, respectively. In 2008, the plan was amended to bring it into compliance with the plan document requirements of the final 403(b) regulations. The plan was also amended in 2008 to allow for up to 2% base contribution for eligible employees effective January 1, 2009. The Coalition contributed 1% of base in 2016 and 2015.

The Coalition is also a participating partner agency in a multiple-employer noncontributory defined benefit plan with the United Way of Greater Richmond and Petersburg who is the administrator. Participants in the plan become fully vested after three years of service. The actuarial present value of vested and non-vested accumulated plan benefits and the net assets available for benefits are not determined for the individual entities participating in this multiple-employer plan.

Future benefit accruals in the plan were frozen by the United Way on December 31, 2008 and the plan will be terminated when fully funded. Future contributions will be based on each agency's share of the plan's termination liability. Contributions to the plan began in 2010. The Coalition's contribution to this plan in 2016 and 2015 was \$89,341 and \$73,582, respectively.

All employees who were at least 21 years of age and had completed one year of service with 1,000 hours were enrolled in the defined benefit plan. Employees were vested having either completed three years of service or attaining early retirement age. Employees are eligible for full accrued benefits at age 65. Benefits are actuarially reduced according to age for eligible employees who retire prior to qualifying for full retirement benefits. The annual retirement benefit payable at age 65 is computed as follows: 1.5% of the final average earnings multiplied by the employee's credited service plus .5% of the final average earnings in excess of the social security average multiplied by the total years of credited service up to maximum of 35 years.

**Better Housing Coalition**  
**Notes to Consolidated Financial Statements**

**6. Restricted Deposits**

The Coalition, through its subsidiaries, is required to maintain certain escrow accounts. The following shows the activity in those accounts for 2016 and 2015.

|                                | <u>Beginning<br/>Balance<br/>January 1,<br/>2016</u> | <u>Additions<br/>and<br/>Interest</u> | <u>Withdrawals<br/>and<br/>Transfers</u> | <u>Ending<br/>Balance<br/>December 31,<br/>2016</u> |
|--------------------------------|--|---------------------------------------|--|---|
| Administrative fee reserve     | \$ 1,183   | \$ 1,775                              | \$ 2,958                                 | \$ -  |
| Debt service reserve           | 469,799  | 4,671                                 | 474,470                                  | -   |
| Operating reserve              | 1,927,069  | 153,709                               | 25,018                                   | 2,055,760   |
| Principal and interest escrow  | 225,964  | 654,095                               | 880,059                                  | -   |
| Taxes and insurance reserve    | 466,870  | 1,037,145                             | 852,011                                  | 652,004   |
| Repair and replacement reserve | <u>1,806,496</u>                                     | <u>561,367</u>                        | <u>43,656</u>                            | <u>2,324,207</u>                                    |
|                                | <u>\$ 4,897,381</u>                                  | <u>\$ 2,412,762</u>                   | <u>\$ 2,278,174</u>                      | <u>\$ 5,031,971</u>                                 |

|                                | <u>Beginning<br/>Balance<br/>January 1,<br/>2015</u> | <u>Additions<br/>and<br/>Interest</u> | <u>Withdrawals<br/>and<br/>Transfers</u> | <u>Ending<br/>Balance<br/>December 31,<br/>2015</u> |
|--------------------------------|--|---------------------------------------|--|---|
| Administrative fee reserve     | \$ 1,183   | \$ 21,791                             | \$ 21,791                                | \$ 1,183  |
| Debt service reserve           | 457,753  | 45,673                                | 33,627                                   | 469,799   |
| Operating reserve              | 2,046,431  | 4,545                                 | 123,907                                  | 1,927,069   |
| Principal and interest escrow  | 225,919  | 452,638                               | 452,593                                  | 225,964   |
| Taxes and insurance reserve    | 545,797  | 1,025,457                             | 1,104,384                                | 466,870   |
| Repair and replacement reserve | <u>1,565,620</u>                                     | <u>384,499</u>                        | <u>143,623</u>                           | <u>1,806,496</u>                                    |
|                                | <u>\$ 4,842,703</u>                                  | <u>\$ 1,934,603</u>                   | <u>\$ 1,879,925</u>                      | <u>\$ 4,897,381</u>                                 |

**7. Lease Commitments**

Effective May 1, 2011, the Coalition entered into a property lease agreement with Cornerstone Architects, PLC for office space located at 23 W. Broad St., Suite 100. The lease is effective for three years through April 30, 2014, with no annual rent escalation. The property lease agreement was extended for another three years effective May 1, 2014 through April 30, 2017. It was extended for another three years effective May 1, 2017 through April 30, 2020 and amended to include additional office space located at 23 W. Broad St., Suite 303 and common area & maintenance charges (CAM). Annual base rent increases at a rate of 3% and CAM is subject to a 2% annual cap.

Future minimum lease payments due under the lease are as follows for year ending December 31:

|      |                   |
|------|-------------------|
| 2017 | \$ 111,540        |
| 2018 | 114,260           |
| 2019 | 117,056           |
| 2020 | <u>39,332</u>     |
|      | <u>\$ 382,188</u> |

## **8. Capital Advances**

The Coalition, through a subsidiary, received from the Department of Housing and Urban Development a capital advance of \$4,855,000 for construction of a low-income elderly housing community known as Rockwood Village. The capital advance agreement dated April 1, 1999, bears no interest and is not required to be repaid so long as the housing remains available to eligible very low-income households for a period of 40 years in accordance with Section 202 of the Housing Act of 1959, as amended. The capital advance is secured by a deed of trust on the property. Upon noncompliance with the agreement, the capital advance shall become immediately due and payable at an annual interest rate of 5.75%.

In addition, the Coalition through a subsidiary received a capital advance from the Department of Housing and Urban Development of \$4,321,600 for construction of a low-income elderly housing community known as Monarch Woods. The capital advance agreement dated July 2, 2002, bears no interest and is not required to be repaid as long as the housing remains available to eligible very low income households for a period of 40 years in accordance with Section 202 of the Housing Act of 1959, as amended. The capital advance is secured by a deed of trust on the property. Upon noncompliance with the agreement, the capital advance shall become immediately due and payable at an annual interest rate of 5.75%.

Department of Housing and Urban Development capital advances granted were \$9,176,600, less accumulated depreciation associated with the properties of \$3,194,705 and \$2,984,653 as of December 31, 2016 and 2015, respectively, and are reflected in the Coalition's temporarily restricted net assets.

## **9. Lines of Credit Used for Operations**

The Coalition has a line of credit with a local bank. The total amount available under this arrangement for 2016 and 2015 was \$500,000. There are no amounts outstanding at December 31, 2016 and 2015. The credit line is guaranteed by Better Housing Coalition. Interest rate on the line is the Wall Street Journal Prime plus 1%. The line matures on October 31, 2017.

## **10. Lines of Credit Used for Construction**

Richmond Affordable Housing, Inc. has three construction line of credit with lending foundations and local banks to build and acquire single family homes and predevelopment work. The total amount available under these arrangements is \$6,530,000. The total amount outstanding at December 31, 2016 and 2015 was \$3,658,363 and \$-0-, respectively. The credit line is secured by deeds of trust on homes under development and/or guaranteed by Better Housing Coalition. Interest rates on these agreements are 7%, the Wall Street Journal Prime plus 1%, and LIBOR plus 3%. The balances on the lines of credit have maturity dates of October 2017, September 2018, and April 2019.

Better Housing Coalition has three construction lines of credit with lending foundations and local banks for predevelopment work and to build single family homes. The total amount available in 2016 and 2015 under these arrangements is \$2,000,000 and \$1,250,000, respectively. The total amount outstanding at December 31, 2016 and 2015 was \$11,250 and \$97,731, respectively. The credit lines are secured by deeds of trust on certain properties under development and/or guaranteed by Better Housing Coalition. Interest rates on these agreements are 4.25%, 6%, and the Wall Street Journal Prime plus 1%. The balance on the lines of credit have a maturity date of October 2017, November 2017, and May 2019.

In 2016, Affordable Residences in Chesterfield II, Inc. obtained a construction loan payable with a local bank. The total amount available in 2016 under this arrangement is \$8,957,000. The total amount outstanding at December 31, 2016, was \$8,040,393. The note bears interest at a rate of LIBOR plus 2.65% and matures in April 2018.

**Better Housing Coalition**  
**Notes to Consolidated Financial Statements**

**11. Notes Payable to Finance Rental Properties**

The Coalition, through its various consolidated affiliated organizations and partnerships, has notes payable secured by real estate for rental properties throughout the City of Richmond, Chesterfield County, Petersburg and Henrico County.

|   | <u>2016</u>                 | <u>2015</u>                 |
|---|-----------------------------|-----------------------------|
| Mortgage notes payable to Virginia Housing Development Authority (VHDA), with principal and interest due ranging from \$3,053 through \$29,031 bearing interest at 0% to 8.25%, maturing from February 2021 through March 2056. | \$ 26,681,706               | \$ 27,511,813               |
| Mortgage notes payable to Virginia Housing Partnership Revolving Fund, with principal and interest due ranging from \$1,530 through \$1,601, bearing interest at 2%, maturing from April 2017 through November 2027.            | 357,047                     | 553,353                     |
| Mortgage note payable to Virginia Housing Partnership Revolving Fund, with interest payments only, bearing interest at 1%. Interest only payments from December 1995. Principal and interest due January 2016.                  | -                           | 600,000                     |
| Mortgage note payable to Federal Home Loan Bank of Atlanta bearing interest at 3%, with monthly principal and interest payments of \$7,143 through June 2026.   | 717,470                     | 780,269                     |
| Mortgage note payable to Virginia Community Capital, Inc. with monthly principal and interest of \$1,848 due monthly, bearing interest at 2%, maturing April 2020.  | 339,221                     | 354,328                     |
| Note payable to St. Andrew's Association, 0% interest, due on demand.   | 30,000                      | 30,000                      |
| Note payable to Community Capital Bank of Virginia bearing interest at 5.75%, with monthly principal and interest payments of \$3,713 through July 2017.  | 391,032                     | 412,067                     |
| Note payable to an investor bearing interest at LIBOR plus 1.5%. Principal and interest payments are due in full in September 2018  | 3,242,641                   | -                           |
| Note payable to Restoration of Petersburg Community Development Corporation bearing interest at 4.64% with monthly principal and interest payments of \$1,000 through December, 2085.   | <u>247,754</u>              | <u>248,246</u>              |
|   | <b>32,006,871</b>           | 30,490,076                  |
| Current maturities  | <u>(1,462,900)</u>          | <u>(1,728,888)</u>          |
|   | <b><u>\$ 30,543,971</u></b> | <b><u>\$ 28,761,188</u></b> |

The liability of the Coalition under the mortgage notes is limited to the underlying value of the real estate collateralized.

Debt issuance costs, net of accumulated amortization, are reported as a direct reduction of the mortgage note. Amortization of debt issuance costs is reported as a component of interest expense over the term of the loan. Unamortized debt issuance costs were \$371,323 and \$393,458 as of December 31, 2016 and 2015, respectively. Amortization was \$22,480 and \$22,004 for 2016 and 2015, respectively, and is included in interest expense.

**Better Housing Coalition**  
**Notes to Consolidated Financial Statements**

The following are the components of the mortgage payable as shown on the balance sheet at December 31, 2016:

|                                 | <u>2016</u>          | <u>2015</u>          |
|---------------------------------|----------------------|----------------------|
| Mortgage payable                | \$ 32,006,871        | \$ 30,490,076        |
| Unamortized debt issuance costs | <u>(371,323)</u>     | <u>(393,458)</u>     |
|                                 | 31,635,548           | 30,096,618           |
| Current portion                 | <u>(1,462,900)</u>   | <u>(1,728,888)</u>   |
|                                 | <u>\$ 30,172,648</u> | <u>\$ 28,367,730</u> |

Aggregate maturities of the long-term debt for future years are as follows:

|            |                      |
|------------|----------------------|
| 2017       | \$ 1,462,900         |
| 2018       | 4,128,147            |
| 2019       | 932,716              |
| 2020       | 982,734              |
| 2021       | 805,536              |
| Thereafter | <u>23,694,838</u>    |
|            | <u>\$ 32,006,871</u> |

## 12. Industrial Development Authority Bonds

In February 1999, the Chesterfield County (Virginia) Industrial Development Authority issued bonds in the amount of \$6,630,000 for the benefit of Affordable Residences in Chesterfield II, a corporation controlled by the Coalition. The bonds were secured by the property and were payable over thirty years at various interest rates. The bonds were paid off in full during 2016 using proceeds from a line of credit.

## 13. Intangible Assets

The Coalition has certain costs relating to acquiring property which it has capitalized and these costs are being amortized based on the schedule below:

|                          | <u>Term</u>  | <u>2016</u>       | <u>As adjusted<br/>2015</u> |
|--------------------------|--------------|-------------------|-----------------------------|
| Tax credits              | 5 – 37 years | \$ 327,362        | \$ 344,201                  |
| Capitalized interest     | 27.5 years   | 124,221           | 168,452                     |
| Bond underwriters fee    | 30 years     | -                 | 99,450                      |
| Bond issue cost          | 30 years     | <u>-</u>          | <u>180,000</u>              |
|                          |              | 451,583           | 793,103                     |
| Accumulated amortization |              | <u>(259,883)</u>  | <u>(429,641)</u>            |
|                          |              | <u>\$ 191,700</u> | <u>\$ 363,462</u>           |

Amortization expense for intangible assets was \$171,418 and \$37,164, as adjusted, for 2016 and 2015, respectively. The Coalition expects amortization expense for each of the next five fiscal years starting 2017 through 2021 to be \$25,001.

**Better Housing Coalition**  
**Notes to Consolidated Financial Statements**

---

**14. Temporarily Restricted Net Assets**

The Coalition and its controlled entities have \$9,837,100 and \$10,218,648 in temporarily restricted net assets as of December 31, 2016 and 2015, respectively. Those restricted net assets consist of the following items detailed in the schedule below:

|   | <u>2016</u>         | <u>2015</u>          |
|---|---------------------|----------------------|
| Restricted by donors  | \$ 1,930,925        | \$ 2,102,420         |
| Capital advances from HUD restricted for low income elderly housing | 5,981,895           | 6,191,947            |
| Contributed land from HUD restricted for affordable housing         | <u>1,924,280</u>    | <u>1,924,280</u>     |
|   | <u>\$ 9,837,100</u> | <u>\$ 10,218,647</u> |

The Coalition is the beneficiary of an endowment held by the Community Foundation, the distributions from which are restricted to the development of new real estate activities. The value of such distributions is undeterminable and the determination of future benefits is uncertain and also undeterminable.

**15. Land Lease**

The buildings owned by Affordable Historic Residences of Richmond, LP are subject to a land lease. The lease provides for monthly rent subject to an annual escalator and requires the partnership to pay all related real estate taxes and maintain insurance on the property. The initial lease term ends December 2031 with an option available for eight additional years. The lease contains covenants requiring the property to be operated to assist the housing needs of low-income families. Current monthly rent payable is \$1,337.

Future rent payments required by the lease are:

|            |                   |
|------------|-------------------|
| 2017       | \$ 16,611         |
| 2018       | 17,109            |
| 2019       | 17,623            |
| 2020       | 18,151            |
| 2021       | 18,696            |
| Thereafter | <u>220,757</u>    |
|            | <u>\$ 308,947</u> |

**16. Advertising and Marketing Costs**

Advertising and marketing costs are expensed as incurred and are included in functional expenses in the accompanying consolidated statement of activities. Advertising and marketing expense for 2016 and 2015 was \$284,335 and \$285,951, respectively.

## **17. Related Party Transactions**

### ***Asset management fees***

The Coalition is required through a consolidated entity to pay Community Equity Fund XIV, Inc., the investor member, an annual asset management fee. The asset management fee will increase at the rate of 4% each year. Total fees of \$6,744 and \$6,484 were incurred during 2016 and 2015, respectively. Of these amounts, \$6,744 and \$- remain payable as of December 31, 2016 and 2015, respectively.

The Coalition is required through a consolidated entity to pay Community Equity Fund VII A, LP, the investor member, an annual asset management fee. The asset management fee will increase at the rate of 4% each year. Total fees of \$5,828 and \$5,604 were incurred and remain payable as of December 31, 2016 and 2015, respectively.

The Coalition is required through a consolidated entity to pay Community Equity Fund XV, LP, the investor member, an annual asset management fee. The asset management fee will increase at a rate of 3% each year. Total fees of \$6,567 and \$6,376 were incurred during 2016 and 2015, respectively. Of these amounts, \$6,567 and \$- remain payable as of December 31, 2016 and 2015, respectively.

The Coalition is required through consolidated entities to pay NEF Assignment Corporation, the investor member, annual asset management fees. The asset management fees will increase at a rate of 3% each year. Total fees were \$10,677 and \$10,366 for 2016 and 2015, respectively. Total fees of \$10,677 and \$- remain payable as of December 31, 2016 and 2015, respectively.

The Coalition is required through consolidated entities to pay Housing Capital Corporation, the investor member, annual asset management fees totaling \$42,637 and \$37,982 for 2016 and 2015, respectively. Total fees of \$- remained payable as of December 31, 2016 and 2015.

The Coalition is required through a consolidated entity to pay Bank of America CDC Special Holding Company, Inc., the special investor member, an annual asset management fee. Total fees of \$5,305 and \$5,150 were incurred during 2016 and 2015, respectively. As of December 31, 2016 and 2015, \$5,305 and \$12,650, respectively, remained payable.

### ***Investor service fee***

The Coalition is required through a consolidated entity to pay Enterprise Community Investment, Inc. an annual investor service fee. Total fees of \$13,125 and \$12,683 were incurred during the year ended December 31, 2016 and 2015, respectively. As of December 31, 2016 and 2015, \$6,720 and \$-, respectively, remained payable.

### ***Development agreement***

The Coalition entered into a development agreement with Affordable Residences in Chesterfield II, Inc. during 2016. The agreement provided for a development and overhead fee of \$675,000 for services performed in connection with the development of the project and the supervision of the construction. The developer fee was paid in full during 2016.

## **18. Deferred Revenue**

Lincoln Mews II has received a grant of \$4,008,253 as part of Section 1602 Tax Credit Exchange Program of the American Recovery and Reinvestment Act of 2009. Lincoln Mews II must comply with section 1602 by meeting certain requirements, including tenant eligibility and rental charges as restricted in accordance with Internal Revenue Code Section 42. Management has certified that compliance has been met. The total amount of the grant was recorded as deferred revenue and will be amortized over the compliance period. During both 2016 and 2015, \$145,755 was amortized to income. At December 31, 2016 and 2015, deferred revenue was \$3,107,044 and \$3,252,799, respectively.

## **Better Housing Coalition Notes to Consolidated Financial Statements**

---

Compliance with these regulations must be maintained in each of the fifteen consecutive years of the compliance period. Failure to maintain compliance could result in default and the recapture of 6.67% of the grant amount for each year of noncompliance.

Claiborne Square, LLC has a grant agreement with VHDA for exchange funds of \$798,510 to be used in the construction of the project. The cash grant provided by VHDA is in exchange for low-income housing tax credits. The grant revenue will be recognized evenly over the 15 year tax credit compliance period. During both 2016 and 2015, \$53,234 was amortized to income. At December 31, 2016 and 2015, deferred revenue was \$505,723 and \$558,957, respectively.

### **19. Deferred Payment Note**

Claiborne Square, LLC has a deferred payment note with VHDA of \$1,900,000 with an interest rate of zero percent. Repayment of the principal shall be deferred through December 31, 2041. Beginning on December 31, 2042, one-twentieth (1/20th) of the principal balance shall be due and payable on December 31 of each year until December 31, 2061, at which time the balance of principal remaining unpaid shall be due and payable.

### **20. 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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Coalition's consolidated financial statements for the year ended December 31, 2015, from which the summarized information was derived.

### **21. Commitments and Contingencies**

Except to the extent of \$3,093,830 of guarantees provided by the Coalition to various consolidated entities, the creditors of these partnerships and limited liability companies have no further recourse against the Coalition. In addition to \$3,093,830 of guarantees provided by the Coalition to various consolidated entities, there are guarantees for credit adjustments that would be difficult to value.

Richmond Affordable Housing, Inc. has contracted with various builders for the construction of single-family homes. The total contract amount of the construction in process at year-end is \$844,290, of which \$195,445 was outstanding on those contracts at December 31, 2016.



***Supplementary Information***

***Better Housing Coalition***  
***Consolidating Statement of Financial Position***  
***December 31, 2016***  
***(Next Page)***

**Better Housing Coalition**

**Consolidated Schedule of Functional Expenses**

**Year Ended December 31, 2016, with Comparative Totals for 2015**

|   | 2016              |                      |                       |                      |                  | 2015          |               |
|---|-------------------|----------------------|-----------------------|----------------------|------------------|---------------|---------------|
|   | Program           |                      |                       |                      |                  | Total         | Total         |
|   | Rental Properties | Property Development | Community Social Work | Management & General | Fund Development |               |               |
| Personnel and benefits                        | \$ 1,746,444      | \$ 840,519           | \$ 630,410            | \$ 437,705           | \$ 354,777       | \$ 4,009,855  | \$ 3,781,368  |
| Professional and consulting                   | 172,194           | 42,193               | 6,529                 | 42,058               | 89,434           | 352,408       | 381,236       |
| Travel and training                           | 67,116            | 25,083               | 18,564                | 27,296               | 10,150           | 148,209       | 130,525       |
| Advertising and marketing                     | 104,615           | 9,354                | 1,935                 | 13,398               | 155,033          | 284,335       | 285,951       |
| Interest                                      | 1,558,765         | 32,131               | 1,412                 | 10,601               | 1,176            | 1,604,085     | 1,586,117     |
| Financial services                            | 27,246            | 12,641               | 618                   | 4,644                | 1,450            | 46,599        | 47,013        |
| Taxes and insurance                           | 1,068,155         | 40,225               | 973                   | 7,308                | 811              | 1,117,472     | 1,093,867     |
| Dues, memberships and subscriptions           | 8,024             | 2,840                | 702                   | 3,580                | 6,147            | 21,293        | 12,797        |
| Equipment                                     | 75,488            | 10,059               | 21,383                | 13,725               | 4,475            | 125,130       | 145,649       |
| Office  | 124,240           | 18,755               | 5,083                 | 17,092               | 7,625            | 172,795       | 185,631       |
| Bad debt                                      | (13,555)          | -                    | -                     | -                    | -                | (13,555)      | 83,761        |
| Occupancy                                     | 24,306            | 30,316               | 7,394                 | 55,530               | 6,162            | 123,708       | 121,232       |
| Utilities                                     | 1,107,058         | 33,320               | 608                   | 4,569                | 507              | 1,146,062     | 1,153,560     |
| Resident services                             | 80,731            | -                    | (49,402)              | -                    | 10,477           | 41,806        | 27,772        |
| Board and committee                           | 3,035             | 3,905                | 941                   | 7,069                | 784              | 15,734        | 14,945        |
| Property operations                           | 1,687,856         | 259,925              | 467                   | 1,543                | 171              | 1,949,962     | 2,032,354     |
| Property maintenance and repairs              | 672,486           | 1,216                | 11                    | 83                   | 9                | 673,805       | 521,635       |
| Miscellaneous                                 | 96,469            | -                    | -                     | -                    | -                | 96,469        | (93,522)      |
| Telephone and communications                  | 128,022           | 7,097                | 9,921                 | 12,999               | 1,486            | 159,525       | 193,204       |
| Expenses before depreciation and amortization | 8,738,695         | 1,369,579            | 657,549               | 659,200              | 650,674          | 12,075,697    | 11,705,095    |
| Depreciation                                  | 3,761,141         | 28,200               | 1,480                 | 11,113               | 1,233            | 3,803,167     | 3,799,038     |
| Amortization                                  | 171,418           | -                    | -                     | -                    | -                | 171,418       | 37,164        |
| Total depreciation and amortization           | 3,932,559         | 28,200               | 1,480                 | 11,381               | 1,233            | 3,974,585     | 3,836,202     |
| Total expenses                                | \$ 12,671,254     | \$ 1,397,779         | \$ 659,029            | \$ 670,313           | \$ 651,907       | \$ 16,050,282 | \$ 15,541,297 |

See independent auditors' report.

**Better Housing Coalition**  
**Consolidating Statement of Financial Position**  
**December 31, 2016**

|  | <u>Total LIHTC<br/>Multifamily</u> | <u>Extended Use<br/>Compliance<br/>Multifamily</u> | <u>Other<br/>Multifamily</u> | <u>Better<br/>Housing<br/>Coalition<br/>(Parent)</u> | <u>Single Family<br/>and Land<br/>Holding</u> | <u>Commercial<br/>Rental</u> | <u>Total</u>          |
|--|------------------------------------|--|------------------------------|--|---|------------------------------|-----------------------|
| <b>ASSETS</b>                                      |                                    |  |                              |  |   |                              |                       |
| Property and equipment:                            |                                    |  |                              |  |   |                              |                       |
| Buildings and improvements                         | \$ 69,668,957                      | \$ 7,275,678                                       | \$ 34,449,453                | \$ -   | \$ 513,911                                    | \$ 1,884,746                 | \$ 113,792,745        |
| Land   | 5,042,478                          | 311,000  | 2,846,721                    | 640,000  | 1,173,592                                     | -                            | 10,013,791            |
| Furniture, fixtures and equipment                  | 671,629                            | 13,850   | 194,642                      | 217,477  | 7,530   | -                            | 1,105,128             |
| Vehicles   | 42,475                             | -  | 6,128                        | 39,372   | -   | -                            | 87,975                |
| Accumulated depreciation                           | (18,333,500)                       | (4,396,611)  | (13,350,258)                 | (230,420)  | (305,750)                                     | (499,379)                    | (37,115,918)          |
| Property and equipment, net                        | <u>57,092,039</u>                  | <u>3,203,917</u>                                   | <u>24,146,686</u>            | <u>666,429</u>                                       | <u>1,389,283</u>                              | <u>1,385,367</u>             | <u>87,883,721</u>     |
| Current assets:                                    |                                    |  |                              |  |   |                              |                       |
| Cash   | 785,927                            | 1,816,278  | 51,215                       | 1,601,253  | 780,102                                       | 114,077                      | 5,148,852             |
| Cash, restricted                                   | 50                                 | -  | -                            | 1  | -   | 3,715                        | 3,766                 |
| Cash, donor restricted                             | -                                  | -  | -                            | 1,338,746  | 245,575                                       | -                            | 1,584,321             |
| Short-term investments, donor restricted           | -                                  | -  | -                            | 388,604  | -   | -                            | 388,604               |
| Restricted deposits                                | 3,741,970                          | 258,790  | 990,157                      | -  | -   | 41,054                       | 5,031,971             |
| Tenant security deposits held in trust             | 186,818                            | 20,894   | 99,607                       | -  | 2,501   | -                            | 309,820               |
| Tenant receivables, net                            | 87,852                             | 3,343  | 2,545                        | 22,249   | 9,175   | 10,646                       | 135,810               |
| HUD accounts receivable                            | 1,437                              | -  | 867                          | -  | -   | -                            | 2,304                 |
| Current accounts receivable                        | -                                  | -  | 491                          | 61,455   | 300   | -                            | 62,246                |
| Notes receivable                                   | -                                  | -  | -                            | -  | 31,041  | -                            | 31,041                |
| Prepaid assets                                     | 247,754                            | -  | -                            | 10,227   | -   | -                            | 257,981               |
| Total current assets                               | <u>5,051,808</u>                   | <u>2,099,305</u>                                   | <u>1,144,882</u>             | <u>3,422,535</u>                                     | <u>1,068,694</u>                              | <u>169,492</u>               | <u>12,956,716</u>     |
| Other assets:                                      |                                    |  |                              |  |   |                              |                       |
| Deposits, other                                    | -                                  | -  | -                            | 4,783  | 14,352  | -                            | 19,135                |
| Accounts receivable, net of current<br>receivables | -                                  | -  | -                            | 235,420  | -   | -                            | 235,420               |
| Construction in progress                           | -                                  | -  | 4,431,001                    | -  | 9,967,416                                     | -                            | 14,398,417            |
| Intangible assets, net                             | 128,341                            | 63,359   | -                            | -  | -   | -                            | 191,700               |
| Total other assets                                 | <u>128,341</u>                     | <u>63,359</u>                                      | <u>4,431,001</u>             | <u>240,203</u>                                       | <u>9,981,768</u>                              | <u>-</u>                     | <u>14,844,672</u>     |
| Total assets                                       | <u>\$ 62,272,188</u>               | <u>\$ 5,366,581</u>                                | <u>\$ 29,722,569</u>         | <u>\$ 4,329,167</u>                                  | <u>\$ 12,439,745</u>                          | <u>\$ 1,554,859</u>          | <u>\$ 115,685,109</u> |

See independent auditors' report.

**Better Housing Coalition**  
**Consolidating Statement of Financial Position**  
**December 31, 2016**

(Continued)

|   | <u>Total LIHTC<br/>Multifamily</u> | <u>Extended Use<br/>Compliance<br/>Multifamily</u> | <u>Other<br/>Multifamily</u> | <u>Better<br/>Housing<br/>Coalition<br/>(Parent)</u> | <u>Single Family<br/>and Land<br/>Holding</u> | <u>Commercial<br/>Rental</u> | <u>Total</u>          |
|---|------------------------------------|--|------------------------------|--|---|------------------------------|-----------------------|
| <b>LIABILITIES AND NET ASSETS</b>                                   |                                    |  |                              |  |   |                              |                       |
| Long-term liabilities:  |                                    |  |                              |  |   |                              |                       |
| Lines of credit for construction, net<br>of current maturities      | \$ -                               | \$ -   | \$ 8,040,393                 | \$ 11,250  | \$ 3,370,363                                  | \$ -                         | \$ 11,422,006         |
| Notes payable, net of current maturities<br>and debt issuance costs | 24,177,150                         | 704,546  | 1,395,646                    | -  | 3,242,641                                     | 652,665                      | 30,172,648            |
| Deferred revenue, net of current portion                            | 3,413,778                          | -  | -                            | -  | -   | -                            | 3,413,778             |
| Deferred payment note   | 1,900,000                          | -  | -                            | -  | -   | -                            | 1,900,000             |
| Total long-term liabilities   | <u>29,490,928</u>                  | <u>704,546</u>                                     | <u>9,436,039</u>             | <u>11,250</u>  | <u>6,613,004</u>                              | <u>652,665</u>               | <u>46,908,432</u>     |
| Current liabilities:  |                                    |  |                              |  |   |                              |                       |
| Current maturities of notes payable                                 | 705,707                            | 275,666  | 25,690                       | 391,032  | -   | 64,805                       | 1,462,900             |
| Current maturities of deferred revenue                              | 198,989                            | -  | -                            | -  | -   | -                            | 198,989               |
| Current maturities of lines of credit                               | -                                  | -  | -                            | -  | 288,000                                       | -                            | 288,000               |
| Accounts payable  | 22,474                             | 1,397  | 368,344                      | 47,277   | 193,968                                       | 1,100                        | 634,560               |
| Payables related party  | 41,851                             | -  | -                            | -  | -   | -                            | 41,851                |
| Tenant security deposits  | 172,923                            | 18,737   | 96,942                       | -  | 2,500   | 3,715                        | 294,817               |
| Unearned revenue  | 38,461                             | 4,263  | 15,591                       | 296,376  | 454,613                                       | -                            | 809,304               |
| Miscellaneous current liabilities                                   | 54,013                             | -  | 5,356                        | (625)  | -   | -                            | 58,744                |
| Total current liabilities   | <u>1,234,418</u>                   | <u>300,063</u>                                     | <u>511,923</u>               | <u>734,060</u>                                       | <u>939,081</u>                                | <u>69,620</u>                | <u>3,789,165</u>      |
| Total net assets  | <u>31,546,842</u>                  | <u>4,361,972</u>                                   | <u>19,774,607</u>            | <u>3,583,857</u>                                     | <u>4,887,660</u>                              | <u>832,574</u>               | <u>64,987,512</u>     |
| Total liabilities and net assets                                    | <u>\$ 62,272,188</u>               | <u>\$ 5,366,581</u>                                | <u>\$ 29,722,569</u>         | <u>\$ 4,329,167</u>                                  | <u>\$ 12,439,745</u>                          | <u>\$ 1,554,859</u>          | <u>\$ 115,685,109</u> |

See independent auditors' report.

**Better Housing Coalition**  
**Consolidating Statement of Activities**  
**Year Ended December 31, 2016**

|  | <b>Total LIHTC<br/>Multifamily</b> | <b>Extended Use<br/>Compliance<br/>Multifamily</b> | <b>Other<br/>Multifamily</b> | <b>Better<br/>Housing<br/>Coalition<br/>(Parent)</b> | <b>Single Family<br/>and Land<br/>Holding</b> | <b>Commercial<br/>Rental</b> | <b>Total</b> |
|--|------------------------------------|--|------------------------------|--|---|------------------------------|--------------|
| Revenues and other support:                |                                    |  |                              |  |   |                              |              |
| Contributions and philanthropic support    | \$ -                               | \$ -   | \$ -                         | \$ 1,211,173   | \$ 1,196                                      | \$ -                         | \$ 1,212,369 |
| Grants and awards                          | -                                  | -  | -                            | 377,072  | -   | -                            | 377,072      |
| Other revenue                              | 200,054                            | 638,000  | -                            | 175,510  | 6,575   | -                            | 1,020,139    |
| Earned fees                                | -                                  | -  | -                            | 234,176  | 819,630                                       | -                            | 1,053,806    |
| Interest and investment income (loss)      | 5,076                              | 790  | (5,226)                      | (20,349)   | 2,236   | -                            | (17,473)     |
| Total revenue and other support            | 205,130                            | 638,790  | (5,226)                      | 1,977,582  | 829,637                                       | -                            | 3,645,913    |
| Revenue (expenses), property sales:        |                                    |  |                              |  |   |                              |              |
| Property sales                             | -                                  | 2,030,000  | -                            | -  | 1,127,000                                     | -                            | 3,157,000    |
| Subsidies, government                      | -                                  | -  | -                            | -  | 409,550                                       | -                            | 409,550      |
| Cost of property sales                     | -                                  | (874,546)  | -                            | -  | (1,400,082)                                   | -                            | (2,274,628)  |
| Homebuyer assistance                       | -                                  | -  | -                            | -  | (29,550)                                      | -                            | (29,550)     |
| Net revenue (expenses) from property sales | -                                  | 1,155,454  | -                            | -  | 106,918                                       | -                            | 1,262,372    |
| Revenue, rental properties:                |                                    |  |                              |  |   |                              |              |
| Rental revenue                             | 6,757,745                          | 934,400  | 3,424,329                    | -  | 61,116  | 218,532                      | 11,396,122   |
| Other tenant revenue                       | 103,991                            | 10,616   | 48,396                       | -  | 500   | -                            | 163,503      |
| Laundry and vending                        | 58,179                             | 7,040  | 12,437                       | -  | -   | -                            | 77,656       |
| Total revenue from rental properties       | 6,919,915                          | 952,056  | 3,485,162                    | -  | 61,616  | 218,532                      | 11,637,281   |
| Total sales, revenue and other support     | 7,125,045                          | 2,746,300  | 3,479,936                    | 1,977,582  | 998,171                                       | 218,532                      | 16,545,566   |

See independent auditors' report.

**Better Housing Coalition  
Consolidating Statement of Activities  
Year Ended December 31, 2016**

**(Continued)**

|  | <b>Total LIHTC<br/>Multifamily</b> | <b>Extended Use<br/>Compliance<br/>Multifamily</b> | <b>Other<br/>Multifamily</b> | <b>Better<br/>Housing<br/>Coalition<br/>(Parent)</b> | <b>Single Family<br/>and Land<br/>Holding</b> | <b>Commercial<br/>Rental</b> | <b>Total</b>      |
|--|------------------------------------|--|------------------------------|--|---|------------------------------|-------------------|
| Operating expenses:  |                                    |  |                              |  |   |                              |                   |
| Personnel and benefits                                     | 610,246                            | 109,566  | 307,174                      | 2,381,310  | 601,559                                       | -                            | 4,009,855         |
| Professional and consulting                                | 85,033                             | 23,823   | 43,255                       | 181,064  | 19,233  | -                            | 352,408           |
| Travel and training  | 22,623                             | 5,833  | 13,166                       | 96,405   | 10,182  | -                            | 148,209           |
| Advertising and marketing                                  | 59,570                             | 7,882  | 28,591                       | 186,119  | 2,040   | 133                          | 284,335           |
| Interest   | 1,174,809                          | 63,947   | 292,538                      | 23,527   | 26,344  | 22,920                       | 1,604,085         |
| Financial services   | 6,409                              | 17,366   | 1,456                        | 11,244   | 10,105  | 19                           | 46,599            |
| Taxes and insurance  | 635,596                            | 88,129   | 319,844                      | 16,841   | 36,235  | 20,827                       | 1,117,472         |
| Dues, memberships and subscriptions                        | 2,888                              | 1,592  | 1,602                        | 14,326   | 885   | -                            | 21,293            |
| Equipment  | 42,270                             | 3,360  | 23,705                       | 53,229   | 2,566   | -                            | 125,130           |
| Office   | 81,079                             | 11,150   | 23,136                       | 47,839   | 9,422   | 169                          | 172,795           |
| Bad debt   | (4,519)                            | -  | (9,036)                      | -  | -   | -                            | (13,555)          |
| Occupancy  | -                                  | -  | -                            | 123,708  | -   | -                            | 123,708           |
| Utilities  | 738,064                            | 111,961  | 246,364                      | 10,138   | 30,826  | 8,709                        | 1,146,062         |
| Resident services  | 10,725                             | 1,639  | 68,368                       | (38,926)   | -   | -                            | 41,806            |
| Board and committee  | -                                  | -  | -                            | 15,688   | 46  | -                            | 15,734            |
| Property operations  | 996,076                            | 168,554  | 517,200                      | 3,687  | 259,082                                       | 5,363                        | 1,949,962         |
| Property maintenance and repairs                           | 328,051                            | 65,193   | 270,519                      | 184  | 1,171   | 8,687                        | 673,805           |
| Miscellaneous  | 86,875                             | -  | 9,594                        | -  | -   | -                            | 96,469            |
| Telephone and communications                               | 65,372                             | 10,399   | 40,983                       | 42,771   | -   | -                            | 159,525           |
| <b>Total operating expenses</b>                            | <b>4,941,167</b>                   | <b>690,394</b>                                     | <b>2,198,459</b>             | <b>3,169,154</b>                                     | <b>1,009,696</b>                              | <b>66,827</b>                | <b>12,075,697</b> |
| Changes in net assets before depreciation and amortization | 2,183,878                          | 2,055,906  | 1,281,477                    | (1,191,572)  | (11,525)                                      | 151,705                      | 4,469,869         |
| Depreciation   | 2,517,533                          | 298,646  | 891,865                      | 24,663   | 22,133  | 48,327                       | 3,803,167         |
| Amortization   | 18,017                             | 19,737   | 133,664                      | -  | -   | -                            | 171,418           |
| <b>Changes in net assets</b>                               | <b>\$ (351,672)</b>                | <b>\$ 1,737,523</b>                                | <b>\$ 255,948</b>            | <b>\$ (1,216,235)</b>                                | <b>\$ (33,658)</b>                            | <b>\$ 103,378</b>            | <b>\$ 495,284</b> |

See independent auditors' report.