# Better Housing Coalition Inc. and Subsidiaries

## Consolidated Financial Statements

Year Ended December 31, 2019 with
Comparative Totals for 2018

# Better Housing Coalition Inc. and Subsidiaries

## Contents

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# Independent Auditor's Report

Board of Directors
Better Housing Coalition Inc. and Subsidiaries
Richmond, Virginia

We have audited the accompanying consolidated financial statements of Better Housing Coalition and its subsidiaries which comprise the consolidated statement of financial position as of December 31, 2019, and the related consolidated statements of activities, functional expenses, 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.

### *Auditor's 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 $30,779,294, as of December 31, 2019 and total support and revenues of $2,998,190 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 auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 consolidated financial position of Better Housing Coalition and its subsidiaries as of December 31, 2019, 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.

***Report on Summarized Comparative Information***

We have previously audited Better Housing Coalition's 2018 consolidated financial statements. We did not audit the financial statements of certain subsidiaries and affiliates, which reflect total assets of $21,927,747 as of December 31, 2018 and total support and revenues of $2,503,088 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 May 17, 2019, 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, 2018, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

***Report on Supplemental Information***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statement of financial position and consolidating statement of activities on page 29 through 32 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 referenced in the third paragraph of this report 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.

BDO USA, LLP

Richmond, Virginia
May 26, 2020

# Better Housing Coalition Inc. and Subsidiaries

## Consolidated Statement of Financial Position

| *December 31,* | | **2019** | | (Comparative Totals) 2018 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Property and equipment: | | | | |
| Buildings and improvements | **$** | **127,333,284** | $ | 107,949,566 |
| Land | | **11,205,791** | | 9,617,791 |
| Furniture, fixtures and equipment | | **1,497,912** | | 1,171,972 |
| Vehicles | | **87,974** | | 87,974 |
| Construction in progress | | **6,499,862** | | 20,091,515 |
| Accumulated depreciation | | **(44,567,606)** | | (40,559,990) |
| Property and equipment, net | | **102,057,217** | | 98,358,828 |
| Current assets: | | | | |
| Cash | | **7,456,854** | | 6,375,964 |
| Cash, restricted | | **826,949** | | 714,488 |
| Cash, donor restricted | | **771,241** | | 577,878 |
| Short-term investments, donor restricted | | **346,632** | | 338,092 |
| Short-term investments | | **66,289** | | 35,105 |
| Restricted deposits | | **5,444,096** | | 5,169,480 |
| Tenant security deposits held in trust | | **583,215** | | 483,812 |
| Tenant receivables, net | | **369,718** | | 189,856 |
| HUD accounts receivable | | **-** | | 1,236 |
| Accounts receivable | | **35,395** | | 95,851 |
| Prepaid assets | | **256,798** | | 260,884 |
| Total current assets | | **16,157,187** | | 14,242,646 |
| Other assets: | | | | |
| Deposits, other | | **4,783** | | 4,783 |
| Intangible assets, net | | **107,876** | | 102,690 |
| Total other assets | | **112,659** | | 107,473 |
| Total assets | **$** | **118,327,063** | $ | 112,708,947 |

*See accompanying notes to consolidated financial statements.*

# Better Housing Coalition Inc. and Subsidiaries

## Consolidated Statement of Financial Position

| *December 31,* | | 2019 | | (Comparative Totals) 2018 |
|---|---|---|---|---|
| **LIABILITIES AND NET ASSETS** | | | | |
| Long-term liabilities: | | | | |
| Lines of credit for construction, net of current maturities | $ | **3,678,243** | $ | 11,646,605 |
| Mortgage and notes payable, net | | **26,085,590** | | 24,258,067 |
| Deferred revenue, net of current portion | | **3,309,433** | | 3,512,957 |
| Deferred payment note | | **1,900,000** | | 1,900,000 |
| Total long-term liabilities | | **34,973,266** | | 41,317,629 |
| Current liabilities: | | | | |
| Current maturities of mortgages and notes payable | | **1,267,359** | | 973,995 |
| Current maturities of deferred revenue | | **198,989** | | 198,989 |
| Current maturities of lines of credit for construction | | **10,391,667** | | 1,344,569 |
| Accounts payable | | **709,969** | | 853,934 |
| Tenant security deposits | | **554,527** | | 482,603 |
| Miscellaneous current liabilities | | **77,775** | | 61,834 |
| Total current liabilities | | **13,200,286** | | 3,915,924 |
| Total liabilities | | **48,173,552** | | 45,233,553 |
| Net assets: | | | | |
| Without restrictions: | | | | |
| Controlling interests | | **20,371,275** | | 21,434,618 |
| Noncontrolling interests | | **41,367,193** | | 37,604,904 |
| | | **61,738,468** | | 59,039,522 |
| With restrictions | | **8,415,043** | | 8,435,872 |
| Total net assets | | **70,153,511** | | 67,475,394 |
| Total liabilities and net assets | **$** | **118,327,063** | $ | 112,708,947 |

*See accompanying notes to consolidated financial statements.*

# Better Housing Coalition Inc. and Subsidiaries

## Consolidated Statement of Activities

| *Year Ended December 31,* | 2019 | | | (Comparative Totals) 2018 |
|---|---|---|---|---|
| | **Without restrictions** | **With restrictions** | **Total** | Total |
| Revenues and other support: | | | | |
| Contributions and philanthropic support | $ 1,652,371 | $ 272,247 | $ 1,924,618 | $ 1,448,750 |
| Grants and awards | 597,509 | 104,500 | 702,009 | 557,483 |
| Other revenue | 369,825 | - | 369,825 | 546,002 |
| Earned fees | 419,661 | - | 419,661 | 1,113,179 |
| Interest and investment income (loss) | 93,404 | - | 93,404 | (119,513) |
| Revenue and other support | 3,132,770 | 376,747 | 3,509,517 | 3,545,901 |
| Revenue (expense), property sales: | | | | |
| Property sales | 2,272,000 | - | 2,272,000 | 8,355,000 |
| Subsidies, government | 394,635 | - | 394,635 | 148,016 |
| Cost of property sales | (2,726,028) | - | (2,726,028) | (7,620,653) |
| Homebuyer assistance | (37,200) | - | (37,200) | (35,000) |
| Net revenue (expense) from property sales | (96,593) | - | (96,593) | 847,363 |
| Revenue, rental properties: | | | | |
| Rental revenue | 12,457,361 | - | 12,457,361 | 11,786,887 |
| Other tenant revenue | 345,373 | - | 345,373 | 233,184 |
| Laundry and vending | 68,648 | - | 68,648 | 59,656 |
| Revenue from rental properties | 12,871,382 | - | 12,871,382 | 12,079,727 |
| Net assets released from restrictions | 397,576 | (397,576) | - | - |
| Total sales, revenues and other support | 16,305,135 | (20,829) | 16,284,306 | 16,472,991 |
| Operating expenses: | | | | |
| Rental properties | 9,889,353 | - | 9,889,353 | 9,243,661 |
| Property development activities | 997,813 | - | 997,813 | 1,419,220 |
| Community social work | 680,716 | - | 680,716 | 673,971 |
| Fund development | 441,468 | - | 441,468 | 491,875 |
| Management and general | 609,698 | - | 609,698 | 603,500 |
| Total operating expenses | 12,619,048 | - | 12,619,048 | 12,432,227 |
| Change in net assets before depreciation and amortization | 3,686,087 | (20,829) | 3,665,258 | 4,040,764 |
| Depreciation | 4,007,616 | - | 4,007,616 | 3,774,678 |
| Amortization | 40,226 | - | 40,226 | 68,720 |
| Change in net assets | $ (361,755) | $ (20,829) | $ (382,584) | $ 197,366 |
| Less: Decrease in net assets attributable to non controlling interests | (189,847) | - | (189,847) | 34,241 |
| Decrease in net assets attributable to Better Housing Coalition | $ (171,908) | $ (20,829) | $ (192,737) | $ 163,125 |

*See accompanying notes to consolidated financial statements.*

## Better Housing Coalition Inc. and Subsidiaries

### Consolidated Schedule of Functional Expenses

| *Year Ended December 31,* | 2019 | | | | | | (Comparative Totals) 2018 |
|---|---|---|---|---|---|---|---|
| | Program | | | | | | |
| | Rental Properties | Property Development | Community Social Work | Management and General | Fund Development | Total | Total |
| Personnel and benefits | $ 1,909,526 | $ 820,774 | $ 630,541 | $ 426,499 | $ 309,927 | $ 4,097,267 | $ 4,056,619 |
| Professional and consulting | 245,181 | 31,830 | 41,801 | 21,586 | 17,982 | 358,380 | 434,707 |
| Travel and training | 81,546 | 29,325 | 14,227 | 25,576 | 6,152 | 156,826 | 102,183 |
| Advertising and marketing | 84,235 | 1,080 | 1,933 | (229) | 79,193 | 166,212 | 205,313 |
| Interest and financial services | 1,615,755 | 13,918 | 624 | 4,263 | 2,207 | 1,636,767 | 1,729,272 |
| Taxes and insurance | 1,153,136 | (11,367) | 1,393 | 9,520 | 1,161 | 1,153,843 | 1,131,199 |
| Dues, memberships and subscriptions | 17,101 | 4,790 | 1,117 | 6,201 | 3,328 | 32,537 | 33,325 |
| Equipment | 76,241 | 9,867 | 4,463 | 6,695 | 2,436 | 99,702 | 89,479 |
| Office | 261,923 | 15,289 | 11,284 | 10,345 | 5,495 | 304,336 | 321,784 |
| Occupancy | 30,857 | 35,852 | 8,274 | 56,537 | 6,895 | 138,415 | 133,133 |
| Utilities | 1,233,848 | 2,831 | 529 | 3,613 | 441 | 1,241,262 | 1,367,549 |
| Resident services | 83,565 | 2,515 | (47,703) | 3,967 | 1,484 | 43,828 | 50,386 |
| Board and committee | 9,695 | 11,370 | 2,738 | 17,929 | 2,670 | 44,402 | 21,366 |
| Property operations | 1,656,153 | 19,689 | 197 | 1,348 | 164 | 1,677,551 | 1,768,982 |
| Property maintenance and repairs | 1,226,612 | - | - | - | - | 1,226,612 | 810,805 |
| Miscellaneous | 80,199 | - | - | - | - | 80,199 | 19,348 |
| Telephone and communications | 123,780 | 10,050 | 9,298 | 15,848 | 1,933 | 160,909 | 156,777 |
| Expenses before depreciation and amortization | 9,889,353 | 997,813 | 680,716 | 609,698 | 441,468 | 12,619,048 | 12,432,227 |
| Depreciation | 3,981,377 | 23,502 | 316 | 2,158 | 263 | 4,007,616 | 3,774,678 |
| Amortization | 40,226 | - | - | - | - | 40,226 | 68,720 |
| Total depreciation and amortization | 4,021,603 | 23,502 | 316 | 2,158 | 263 | 4,047,842 | 3,843,398 |
| Total expenses | $ 13,910,956 | $ 1,021,315 | $ 681,032 | $ 611,856 | $ 441,731 | $ 16,666,890 | $ 16,275,625 |

*See accompanying notes to consolidated financial statements.*

# Better Housing Coalition Inc. and Subsidiaries

## Consolidated Statement of Changes in Net Assets

| *Year Ended December 31,* | **2019** | | | (Comparative Totals) 2018 |
|---|---|---|---|---|
| | **Without restrictions** | **With restrictions** | **Total** | Total |
| Net assets, beginning of year | $ 59,039,522 | $ 8,435,872 | $ 67,475,394 | $ 62,494,041 |
| Capital contributions | 3,060,701 | - | 3,060,701 | 4,783,987 |
| Changes in net assets | (361,755) | (20,829) | (382,584) | 197,366 |
| Net assets, end of year | **$ 61,738,468** | **$ 8,415,043** | **$ 70,153,511** | $ 67,475,394 |

*See accompanying notes to consolidated financial statements.*

# Better Housing Coalition Inc. and Subsidiaries

## Consolidated Statement of Cash Flows

| *Year Ended December 31,* | **2019** | (Comparative Totals) 2018 |
|---|---|---|
| Cash flows from operating activities: | | |
| Change in net assets | $ **(382,584)** | $ 197,366 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | **4,022,882** | 3,793,331 |
| Interest, debt issuance costs | **24,960** | 20,714 |
| Gain on disposal of assets | **-** | (196,861) |
| Loss on disposal of intangible assets | **-** | 29,353 |
| Amortization of deferred revenue | **(198,989)** | (198,989) |
| Change in assets and liabilities: | | |
| Tenant receivables | **(179,862)** | (88,579) |
| Accounts receivable | **60,456** | 154,191 |
| HUD receivables | **1,236** | 32,580 |
| Prepaid expenses | **4,086** | 30,561 |
| Tenant security deposit liability | **71,924** | 118,066 |
| Accounts payable and miscellaneous current liabilities | **(143,964)** | 499,892 |
| Accrued interest | **15,941** | 86,717 |
| Deferred revenue | **(4,535)** | 497,157 |
| Unearned revenue | **-** | (534,170) |
| Net cash provided by operating activities | **3,291,551** | 4,441,329 |
| Cash flows from investing activities: | | |
| Purchase of property | **(7,706,004)** | (10,196,911) |
| Proceeds from sale of property, net | **-** | 7,439,000 |
| Purchase of equipment | **-** | (5,885) |
| Net change in short-term investments/notes receivable | **(31,185)** | 31,791 |
| Payments of loan costs and tax credit fees | **(72,012)** | - |
| Net cash used in investing activities | **(7,809,201)** | (2,732,005) |
| Cash flows from financing activities: | | |
| Proceeds on lines of credit for construction | **6,300,661** | 4,760,952 |
| Payment on lines of credit for construction | **(3,106,924)** | (4,031,390) |
| Proceeds on notes payable | **1,107,918** | 200,000 |
| Payments on notes payable | **(1,074,940)** | (5,410,934) |
| Payments on note payable, related party | **(493)** | (20,498) |
| Capital contributions | **3,060,701** | 4,783,987 |
| Net cash provided by financing activities | **6,286,923** | 282,117 |
| Net increase in cash | **1,769,273** | 1,991,441 |
| Cash, cash equivalents and restricted cash, beginning of year | **13,659,714** | 11,668,273 |
| Cash, cash equivalents and restricted cash, end of year | $ **15,428,987** | $ 13,659,714 |
| Reconciliation of cash, cash equivalents and restricted cash balances: | | |
| Cash | $ **7,456,854** | $ 6,375,964 |
| Cash, restricted | **826,949** | 714,488 |
| Cash, donor restricted | **771,241** | 577,878 |
| Short-term investments, donor restricted | **346,632** | 338,092 |
| Restricted deposits | **5,444,096** | 5,169,480 |
| Tenant security deposits held in trust | **583,215** | 483,812 |
| Total cash, cash equivalents and restricted cash | $ **15,428,987** | $ 13,659,714 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the year for interest | $ **1,711,532** | $ 1,606,851 |

*See accompanying notes to consolidated financial statements.*

## 1. Organization and Nature of Business

Better Housing Coalition (the "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

***Basis of accounting***

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.

***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 | Known As |
|---|---|
| Senior housing communities: | |
| Affordable Residences in Chesterfield, Inc. | Rockwood Village |
| 1617-1621 Grove Avenue LP* | Columns on Grove |
| Market Square Elderly Housing LP* | Market Square |
| Market Square Elderly Housing LP Phase II* | Market Square II |
| Market Square Elderly Housing LP Phase III | Market Square Phase III |
| Market Square V, LLC** | Market Square V |
| Market Square IV LLC*** | Market Square IV |
| Nine Mile Road LLC | Carter Woods Senior Apts |
| Nine Mile Road II LLC | Carter Woods Senior Apts Phase II |
| Richmond Urban Senior Housing, Inc. | Monarch Woods |
| 300 Randolph Street LLC | Randolph Place |
| 1208 North 28th St. LLC | Beckstoffer Seniors |
| Claiborne Square LLC | Claiborne Square |

| Legal Entity | Known As |
|---|---|
| Multifamily housing communities: | |
| Affordable Historic Residences of Richmond LP* | St. Andrews |
| Affordable Residences in Chesterfield II, Inc. | Winchester Greens |
| 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 |
| 2230 Venable Street, LLC | Goodwyn at Union Hill |
| | |
| Commercial properties: | |
| Winchester Commons LLC* | Winchester Commons I |
| Winchester Commons II LLC* | Winchester Commons II |

*These entities are consolidated in the financials of Richmond Affordable Housing, Inc.
**This project was new for 2018.
***This project was new for 2019.

***Basis of presentation***

In accordance with ASU 2016-14, the Coalition is required to report information regarding its financial position and activities according to two classes of net assets: with restrictions and without restrictions. The consolidated financial statements report amounts separately by class of net assets as follows:

**Net assets without restrictions:** Net assets that are not subject to donor-imposed stipulations, representing investment of property and equipment and the portion of expendable resources that are available without limitation for support of operations. In addition, they represent resources over which the Board of Directors 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.

**Net assets with restrictions:** Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Board and/or passage of time. Net assets with donor restrictions represent resources currently available for use, but expendable only for those operating purposes specified by the donor or other providers of funding.

***Accounting pronouncement adopted***

November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows* (Topic 230): Restricted Cash. ASU 2016-18 requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. The standard is effective for fiscal years beginning after December 15, 2018. The Coalition has adopted this ASU and has applied the retrospective transition method for each period presented.

In June 2018, the FASB issued ASU 2018-08, "*Not-for-Profit Entities (Topic 958) - Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*". The ASU clarifies and improves current guidance by providing criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the organization follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards. The ASU also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. The Coalition has adopted ASU 2018-08 for the years ended December 31, 2019 and 2018, with no changes to previously reported periods.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). ASU 2014-09 supersedes nearly all existing revenue recognition under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration an entity expects to be entitled to for those goods or services using a defined five-step process. More judgment and estimates may be required to achieve this principle than under existing U.S. GAAP. ASU 2014-09 can be adopted using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients or (ii) a retrospective approach with the cumulative effect upon initial adoption recognized at the date of adoption which includes additional footnote disclosures. The Coalition has adopted ASU 2014-09 for the financial statements presented herein for the year ended December 31, 2019. Analysis of various provisions of this standard resulted in no significant changes in the way the Coalition recognizes revenue, and therefore there was no cumulative effect on the opening balance of net assets as a result of adopting the standard as of January 1, 2019.

***Recently issued accounting pronouncements***

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). Under ASU 2016-02, an entity will be required to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. ASU 2016-02 offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The guidance is effective for annual periods, beginning after January 1, 2021. Management continues to evaluate the potential impact of this ASU on the Coalition's consolidated financial statements.

***Public support and revenue recognition***

Public support and revenue are reported as increases in net assets without restrictions 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 net assets without restrictions. Expenses are reported as decreases in net assets without restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without restrictions 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 net assets released from restrictions.

The Coalition recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met. As of December 31, 2019 and 2018, $1,924,618 and $1,448,750, respectively, of contributions were received.

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

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.

The Coalition recognizes revenue from property sales when the property is sold. Costs incurred in connection with property sales are charged to expense upon closing and as such the Coalition satisfies its performance obligation upon closing of the sale of the property. The price is based on the sales contract with an affordable buyer at 80% area medium income who have gone through extensive home ownership classes and assessment of ability to be a successful homeowner. There are no variable considerations present and no financing component. As of December 31, 2019 and 2018, net revenue from property sales was loss of $96,593 and gain of $847,363, respectively.

Rental and commercial income is recognized for property rentals as they accrue. Lease terms are generally one to ten years. Advance receipts of rental income are deferred and classified as unearned revenue until earned. All leases between the real estate projects and the tenants are operating leases. Management has determined that the material revenue stream falls under current ASC 840-Leases and is not within the scope of ASU 2014-09, adopted in the current reporting period. Income is recognized as revenue when the leasing payments are due on a monthly basis. Total income recognized from rental revenue for the year ended December 31, 2019 and 2018, was $12,457,361 and $11,786,887, respectively.

### *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.

### *Receivables*

Management reviews receivables, and determines if any that are considered to be an uncollectable expense. There was no allowance for doubtful accounts at December 31, 2019 and 2018.

***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 2019 and 2018.

***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. Construction in progress of single family homes held for sale at December 31, 2019 and 2018 is $432,808 and $783,955, respectively. Total construction in progress as December 31, 2019 and 2018 was $6,499,862 and $20,091,515 with $8,822,208 and $7,882,478, respectively, remaining to be completed.

***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, short-term investments, 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 $25,000,000 and $21,000,000 at December 31, 2019 and 2018, 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 as 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). 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.

## 3. Liquidity and Availability of Financial Assets

The Coalition's financial assets available within one year of the statement of financial position date for general expenditures are as follows:

| *December 31,* | **2019** | 2018 |
|---|---|---|
| Financial assets, at year end | **$ 15,495,276** | $ 13,694,817 |
| Contractual or organizational imposed restrictions: | | |
| Restricted cash | **(826,949)** | (714,488 ) |
| Donor-restricted cash | **(771,241)** | (577,878) |
| Donor-restricted investments | **(346,632)** | (338,092) |
| Restricted deposits | **(5,444,096)** | (5,169,480) |
| Tenant security deposit | **(583,215)** | (483,812) |
| Financial assets available to meet cash needs for general expenditures within one year | **$ 7,523,143** | $ 6,411,067 |

## 4. Net Assets with Donor Restrictions

The Coalition and its controlled entities have $8,415,043 and $8,435,872 in net assets with restrictions as of December 31, 2019 and 2018, respectively. Those restricted net assets consist of the following items detailed in the schedule below:

| | 2019 | 2018 |
|---|---|---|
| Restricted by donors | $ 1,117,873 | $ 915,970 |
| Capital advances from HUD restricted for low income elderly housing | 5,372,891 | 5,595,623 |
| Contributed land from HUD restricted for affordable housing | 1,924,279 | 1,924,279 |
| | $ 8,415,043 | $ 8,435,872 |

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.

Net assets were released from various donor restrictions by incurring expenses satisfying the restricted purposes as follows:

| | 2019 | 2018 |
|---|---|---|
| Net assets released – Better Housing Coalition | $ 16,274 | $ 111,411 |
| Net assets released – Affordable Residences in Chesterfield and Richmond Urban Senior Housing | 222,732 | 180,513 |
| Net assets released – Richmond affordable Housing | 158,570 | 152,278 |
| Total net assets released from restrictions | $ 397,576 | $ 444,202 |

## 5. Controlling and Non-Controlling Interests

The change in consolidated net assets without donor restriction attributed to controlling and non-controlling interests is as follows:

| | Controlling Interest | Non-Controlling Interest | Total Net Assets Without Donor Restrictions |
|---|---|---|---|
| Balance, January 1, 2018 | $ 21,129,578 | $ 32,786,676 | $ 53,916,254 |
| Change in net assets | 305,040 | 4,818,228 | 5,123,268 |
| Balance, December 31, 2018 | 21,434,618 | 37,604,904 | 59,039,522 |
| Change in net assets | (1,063,343) | 3,762,289 | 2,698,946 |
| **Balance, December 31, 2019** | **$ 20,371,275** | **$ 41,367,193** | **$ 61,738,468** |

## 6. Concentrations

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, 2019 and 2018, uninsured cash deposits were $6,911,051 and $7,006,085, respectively. Management rationally assesses the solvency of the financial institutions.

## 7. 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 2019 and 2018 was $148,814 and $145,348, 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 2019 and 2018.

The Coalition maintains a 457(b) Deferred Compensation Plan for certain eligible employees. At the Board of Directors discretion, the Coalition matches 25% of the employees' contributions up to the Internal Revenue Code limits of $18,000 or 100% of the employee's compensation. The plan also provides certain catch-up provisions for participants age 50 or over. The amounts contributed by the Coalition vest immediately. The Coalition's contribution to this plan in 2019 and 2018 was $12,871 and $12,338, respectively.

The Coalition maintains a 457(f) Deferred Compensation Plan for the CEO. At the Board of Directors discretion, the Coalition matches 25% of the employees' contributions. The amounts contributed by the Coalition vest immediately. The Coalition's contribution to this plan in 2019 was $2,840.

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, the administrator of the plan. 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 2019 and 2018 was $98,594 and $95,421, 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.

## 8. Restricted Deposits

The Coalition, through its subsidiaries, is required to maintain certain escrow accounts. The following shows the activity in those accounts for 2019 and 2018.

| | **Beginning Balance January 1, 2019** | **Additions and Interest** | **Withdrawals and Transfers** | **Ending Balance December 31, 2019** |
|---|---|---|---|---|
| Operating reserve | $ 2,296,303 | $ 207,722 | $ 35,090 | $ 2,468,935 |
| Taxes and insurance reserve | 586,979 | 1,090,952 | 1,050,233 | 627,698 |
| Repair and replacement reserve | 2,286,198 | 372,326 | 311,061 | 2,347,463 |
| | $ 5,169,480 | $ 1,671,000 | $ 1,396,384 | $ 5,444,096 |

| | Beginning Balance January 1, 2018 | Additions and Interest | Withdrawals and Transfers | Ending Balance December 31, 2018 |
|---|---|---|---|---|
| Operating reserve | $ 3,059,618 | $ 236,685 | $ 1,000,000 | $ 2,296,303 |
| Taxes and insurance reserve | 611,376 | 989,257 | 1,013,654 | 586,979 |
| Repair and replacement reserve | 2,455,604 | 577,389 | 746,795 | 2,286,198 |
| | $ 6,126,598 | $ 1,803,331 | $ 2,760,449 | $ 5,169,480 |

## 9. Lease Commitments

Effective May 1, 2020, the Coalition entered into a property lease agreement with SNP Properties for office space located at 23 W. Broad St., Suite 100 and 303 and common area and maintenance charges (CAM). The lease is effective for four years through April 30, 2024. Annual base rent and CAM charges increase at a rate of 3%. Prior to this lease the Coalition had a lease with Cornerstone Architects, PLC which sold the property to SNP on July 1, 2018. SNP assumed the lease the Coalition had with Cornerstone and that lease expired on April 30, 2020.

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

| | | |
|---|---|---|
| 2020 | $ | 123,064 |
| 2021 | | 128,110 |
| 2022 | | 131,953 |
| 2023 | | 135,912 |
| 2024 | | 45,748 |
| | $ | 564,787 |

## 10. 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 $3,800,413, and $3,580,977 as of December 31, 2019 and 2018, respectively, and are reflected in the Coalition’s net assets with restrictions.

## 11. Lines of Credit

Richmond Affordable Housing, Inc. has a construction line of credit with a local bank to build and acquire single family homes. The total amount available under this arrangement is $4,000,000 and $2,000,000 for 2019 and 2018, respectively. The total amount outstanding at December 31, 2019 and 2018 was $745,919 and $1,344,569, respectively. The credit line is secured by deeds of trust on homes under development and/or guaranteed by Better Housing Coalition. Interest rate on this agreement is the Wall Street Journal Prime plus 1%. The balance on the line of credit has a maturity date of October 2020. The organization had another line of credit with a lending foundation with an interest rate of 7% that matured and was paid-in-full during 2019.

Better Housing Coalition has a construction line of credit with a local bank for predevelopment work. The total amount available under this arrangement is $1,000,000 and $750,000 for 2019 and 2018, respectively. There was no outstanding balance at December 31, 2019 and 2018. The credit line is guaranteed by Better Housing Coalition and the interest rate is the Wall Street Journal Prime plus 1%. The line has a maturity date of October 2020. The Organization had two additional lines of credit with a lending foundation with an interest rates of 6% and 4.25% that matured during 2019 and were not renewed.

Better Housing Coalition also has a line of credit with a lending foundation to be used to support the development and/or preservation of affordable housing. The total amount available under this arrangement is $10,000,000 for 2019. There was no outstanding balance at December 31, 2019. The credit line is guaranteed by Better Housing Coalition and the interest rate is the Wall Street Journal Prime plus 2%. The line has a maturity date of September 2021.

In addition, Better Housing Coalition has a working line of credit with a local bank. The total amount available under this arrangement is $500,000 for 2019 and 2018. There was no outstanding balance at December 31, 2019 and 2018. The credit line is guaranteed by Better Housing Coalition and the interest rate is the Wall Street Journal Prime plus 1%. The line has a maturity date of October 2020.

In 2016, Affordable Residences in Chesterfield II, Inc. obtained a construction loan payable with a local bank. The total amount available under this arrangement is $8,957,000. The total amount outstanding at December 31, 2019 and 2018 was $8,645,749 and $8,614,893, respectively. The note bears interest at a rate of LIBOR plus 2.65% and matured in April 2020.

In December 2017, 2230 Venable Street, LLC entered into a construction loan agreement with TowneBank for $900,000 with an interest rate of 5.37% and a maturity date of December 2019. This loan was paid in full during 2019. The partnership also in December 2017 entered in a construction loan agreement with Virginia Housing Development Authority. The construction loan bears interest of 3.68% and had a total balance of $863,469 at December 31, 2018. This loan was converted to a permanent loan during 2019.

In December 2018, Market Square V, LLC entered into two loan agreements with VHDA. The first loan has a total line of $3,400,000 with a balance of $3,036,084 and $268,243 for 2019 and 2018 with an interest rate of 2.95% maturing in April 2051. The other loan of $1,000,000 outstanding as of December 31, 2019 and 2018 has an interest rate of 3.78% maturing in May 2020.

In May 2019, Market Square IV, LLC entered into a loan agreement with BB&T. The loan has a total line of $6,000,000 with a balance of $642,159 for 2019. The note bears interest at a rate of LIBOR plus 2.75% and matures in May 2021.

## 12. Letter of Credit Available for Construction

Richmond Affordable Housing, Inc. has a letter of credit with a local bank to build and acquire single family homes and predevelopment work. The total amount available under this arrangement is $2,000,000 with the total outstanding of $1,355,120 and $1,962,772 as of December 31, 2019 and 2018, respectively. The letter of credit fee on this agreement is 1.5% of each letter annually, with a minimum of $350. The letter of credit is required to be renewed annually.

## 13. Mortgages and notes payable, net

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.

| | **2019** | 2018 |
|---|---|---|
| Mortgage notes payable to Virginia Housing Development Authority (VHDA), with principal and interest due ranging from $3,053 through $29,031 bearing interest at 0% to 8.25%, maturing from May 2019 – June 2049. | **$ 25,628,543** | $ 24,312,120 |
| Mortgage note payable to Virginia Housing Partnership Revolving Fund, with principal and interest of $1,601, bearing interest at 2%, maturing January 2024. | **74,498** | 92,028 |
| 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. | **517,078** | 585,918 |
| 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. | **291,961** | 308,035 |
| Note payable to St. Andrew's Association, 0% interest, due on demand. | **30,000** | 30,000 |
| Note payable to Northern Trust Company bearing interest at 2%. Interest is due quarterly. Principal and interest payments are due in full in March 2024. | **1,000,000** | — |
| Note payable to Restoration of Petersburg Community Development Corporation bearing interest at 4.64% with monthly principal and interest payments of $1,000 through December 2085. | **246,275** | 246,768 |
| | **$ 27,788,355** | $ 25,574,869 |

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 notes. Amortization of debt issuance costs is reported as a component of interest expense over the term of the loan. Unamortized debt issuance costs were $435,406 and $342,807 as of December 31, 2019 and 2018, respectively. Amortization was $24,960 and $20,714 for 2019 and 2018, respectively, and is included in interest expense.

The following are the components of the mortgage payable as shown on the consolidated statement of financial position at December 31, 2019:

| | 2019 | 2018 |
|---|---|---|
| Mortgage payable | **$ 27,788,355** | $ 25,574,869 |
| Unamortized debt issuance costs | **(435,406)** | (342,807) |
| | **27,352,949** | 25,232,062 |
| Current portion | **(1,267,359)** | (973,995) |
| | **$ 26,085,590** | $ 24,258,067 |

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

| | |
|---|---|
| 2020 | $ 1,267,359 |
| 2021 | 768,382 |
| 2022 | 728,308 |
| 2023 | 763,188 |
| 2024 | 1,781,133 |
| Thereafter | 22,479,985 |
| | $ 27,788,355 |

## 14. 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:

| | Term | 2019 | 2018 |
|---|---|---|---|
| Tax credits | 5 - 37 years | **$ 300,511** | $ 280,060 |
| Capitalized interest | 27.5 years | **13,608** | 13,608 |
| | | **314,119** | 293,668 |
| Accumulated amortization | | **(206,243)** | (190,978) |
| | | **$ 107,876** | $ 102,690 |

Amortization expense for intangible assets was $15,266 and $18,652 for 2019 and 2018, respectively. The Coalition expects amortization expense for each of the next five fiscal years starting 2020 through 2024 to be $15,266.

## 15. Advertising and Marketing Costs

Advertising and marketing costs are expensed as incurred. Advertising and marketing expense for 2019 and 2018 was $166,212 and $205,313, respectively.

## 16. Related Parties 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 $7,586 and $7,294 were incurred during 2019 and 2018, respectively. $7,586 and $7,294 remains payable as of December 31, 2019 and 2018, 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 $7,176 and $6,967 were incurred during 2019 and 2018, respectively. $7,176 and $6,967 remains payable as of December 31, 2019 and 2018, 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 $11,667 and $11,327 for 2019 and 2018, respectively. No fees remain payable as of December 31, 2019 and 2018.

The Coalition is required through consolidated entities to pay Housing Capital Corporation, the investor member, annual asset management fees totaling $33,425 for 2019 and 2018. No fees remain payable as of December 31, 2019 and 2018.

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. The asset management fee will increase at the rate of 3% each year and is payable from future cash flows. Total fees of $5,797 and $5,628 were incurred during 2019 and 2018, respectively. $5,797 and $5,628 remain payable as of December 31, 2019 and 2018, respectively.

### *Investor service fee*

The Coalition is required through two consolidated entities to pay Enterprise Community Investment, Inc. annual investor service fees in accordance with the investor services agreements. Total fees of $14,548 and $14,057 were incurred during the year ended December 31, 2019 and 2018, respectively. The investor services fees will increase at the rate of 3% and 4% each year to the extent the entities have available cash flow.

## 17. 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 2019 and 2018, $145,755 was amortized to income. At December 31, 2019 and 2018, deferred revenue was $2,669,779 and $2,815,534, respectively. 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 2019 and 2018, $53,234 was amortized to income. At December 31, 2019 and 2018, deferred revenue was $346,021 and $399,255, respectively.

## 18. 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.

## 19. Project Rental Assistance Contracts

The U.S. Department of Housing and Urban Development has contracted with Richmond Urban Senior Housing, Inc. and Affordable Residences in Chesterfield, Inc. to make housing assistance payments on behalf of qualified tenants. For 2019 and 2018, $435,888 and $404,530, respectively, was received in assistance payments. The current contracts expire January 31, 2021 and August 31, 2020, respectively, and if not renewed could substantially impact the rental income of the individual properties.

## 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, 2018, from which the summarized information was derived.

## 21. Commitments and Contingencies

Except to the extent of $3,812,590 of guarantees provided by the Better Housing Coalition to various consolidated entities, the creditors of these partnerships and limited liability companies have no further recourse against the Coalition. In addition to $3,812,590 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 $384,045, and $568,724 was outstanding on those contracts at December 31, 2019.

## 22. Rental Income

In June 2018, Winchester Commons II, LLC entered into a rental agreement with Capital Area Health Network. The lease is effective for five years through May 31, 2023. The Organization received $38,066 and $37,311in rental income during 2019 and 2018, respectively.

In July 2016, the Winchester Commons I & II entered into rental agreements with Chesterfield Community Services Board. The leases are effective for five years through June 30, 2021 with the option to renew the lease for an additional five years. The Organization received $162,580 and $157,845 in rental income during 2019 and 2018, respectively.

In January 2019, Affordable Residences in Chesterfield II, Inc. entered into a rental agreement with Genesis Learning Center, LLC. The lease is effective for five years through December 31, 2023 with the option to renew the lease for an additional two years. The Organization received $51,329 in rental income during 2019.

In August 2018, Richmond Affordable Housing entered into a rental agreement with Wells Fargo Bank. The lease is effective for five years through July 31, 2023 with the option to renew the lease for an additional five years. The Organization received $41,860 and $47,590 in rental income during 2019 and 2018, respectively.

Expected rental income under these leases for the years subsequent to 2019 is as follows:

| | | |
|---|---|---|
| 2020 | $ | 319,027 |
| 2021 | | 225,096 |
| 2022 | | 159,700 |
| 2023 | | 121,159 |
| | $ | 824,982 |

## 23. Endowment

The Coalition is the beneficiary of the Hilton W. Goodwyn and Hallie J. Goodwyn fund. Hilton W. Goodwyn Jr. and his wife, Erline H. Goodwyn in honor of Hilton Goodwyn Jr.'s parents, established the fund solely for the benefit of the Coalition. This $6,000,000 endowed charitable fund is held within the Community Foundation. It will be administered by them and subject to its governing documents and polices. The spendable income each year shall be available to support "bricks and mortar" capital projects of the Coalition in creating high-quality affordable housing. No amounts shall be used for administration or non-building programs. The Coalition's distribution from the endowment in 2019 and 2018 was $213,849 and $185,280, respectively.

## 24. Subsequent Events

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the "COVID-19 outbreak"). In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. The full magnitude that the pandemic will have on the Coalition's financial condition, liquidity, and future results of operations is uncertain. The Coalition has been approved and received a $861,500 loan under the Small Business Association Payroll Protection Program Loan which was established as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act on March 27, 2020. The application for these funds requires the Coalition to, in good faith, certify that the current economic uncertainty made the loan request necessary to support the ongoing operations of the Coalition. This certification further requires the Coalition to take into account its current business activity and its ability to access other sources of liquidity sufficient to support ongoing operations in a manner that is not significantly detrimental to the business. The receipt of these funds, and the forgiveness of the loan attendant to these funds, is dependent on the Coalition having initially qualified for the loan and qualifying for the forgiveness of such loan based on its future adherence to the forgiveness criteria. Currently, the Coalition is unable to determine the impact that the CARES Act will have on its financial condition, results of operations, or liquidity.

Although the Coalition cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time, if the pandemic continues, it could have an adverse effect on the Coalition's results of future operations, financial position, and liquidity in fiscal year 2020.

Management has evaluated subsequent events through May 26, 2020, the date the consolidated financial statements were available to be issued.

## 25. Reclassifications

Certain amounts in the 2018 financial statements have been reclassified to conform to the current year financial statement presentation.

# Supplementary Information

# Better Housing Coalition Inc. and Subsidiaries

## Consolidating Statement of Financial Position - December 31, 2019

| | Total LIHTC Multifamily | Extended Use Compliance Multifamily | Other Multifamily | Better Housing Coalition (Parent) | Development | Commercial Rental | Total |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| Property and equipment: | | | | | | | |
| Buildings and improvements | $ 82,427,248 | $ 3,500,006 | $ 38,993,580 | $ - | $ 513,911 | $ 1,898,539 | $ 127,333,284 |
| Land | 6,420,477 | 125,000 | 2,846,722 | 640,000 | 1,173,592 | - | 11,205,791 |
| Furniture, fixtures and equipment | 994,130 | 3,155 | 263,459 | 229,638 | 7,530 | - | 1,497,912 |
| Vehicles | 42,475 | - | 6,127 | 39,372 | - | - | 87,974 |
| Construction in progress | - | - | - | - | 6,499,862 | - | 6,499,862 |
| Accumulated depreciation | (24,916,736) | (2,226,544) | (16,142,323) | (259,976) | (372,149) | (649,878) | (44,567,606) |
| Property and equipment, net | 64,967,594 | 1,401,617 | 25,967,565 | 649,034 | 7,822,746 | 1,248,661 | 102,057,217 |
| Current assets: | | | | | | | |
| Cash | 1,462,175 | 118,407 | 372,769 | 3,209,113 | 2,161,936 | 132,454 | 7,456,854 |
| Cash, restricted | 239,427 | 83,034 | 500,773 | - | - | 3,715 | 826,949 |
| Cash, donor restricted | - | - | - | 440,971 | 330,270 | - | 771,241 |
| Short-term investments, donor restricted | - | - | - | 346,632 | - | - | 346,632 |
| Short-term investments | - | - | - | 66,289 | - | - | 66,289 |
| Restricted deposits | 4,170,776 | 61,322 | 1,194,253 | - | - | 17,745 | 5,444,096 |
| Tenant security deposits held in trust | 387,018 | 13,182 | 179,514 | - | 3,501 | - | 583,215 |
| Tenant receivables, net | 70,155 | 301 | 12,047 | 271,991 | - | 15,224 | 369,718 |
| Current accounts receivable | - | - | - | 19,920 | 15,475 | - | 35,395 |
| Prepaid assets | 246,278 | - | - | 10,520 | - | - | 256,798 |
| Total current assets | 6,575,829 | 276,246 | 2,259,356 | 4,365,436 | 2,511,182 | 169,138 | 16,157,187 |
| Other assets: | | | | | | | |
| Deposits, other | - | - | - | 4,783 | - | - | 4,783 |
| Intangible assets, net | 99,881 | 7,995 | - | - | - | - | 107,876 |
| Total other assets | 99,881 | 7,995 | - | 4,783 | - | - | 112,659 |
| Total assets | $ 71,643,304 | $ 1,685,858 | $ 28,226,921 | $ 5,019,253 | $ 10,333,928 | $ 1,417,799 | $ 118,327,063 |

*See Independent Auditor's Report.*

## Consolidating Statement of Financial Position - Year Ended December 31, 2019

| | Total LIHTC Multifamily | Extended Use Compliance Multifamily | Other Multifamily | Better Housing Coalition (Parent) | Development | Commercial Rental | Total |
|---|---|---|---|---|---|---|---|
| **LIABILITIES AND NET ASSETS** | | | | | | | |
| Long-term liabilities: | | | | | | | |
| Lines of credit for construction, net of current maturities | $ 3,036,084 | $ - | $ - | $ - | $ 642,159 | $ - | $ 3,678,243 |
| Mortgages and notes payable, net | 23,282,460 | 39,668 | 1,317,328 | 1,000,000 | - | 446,134 | 26,085,590 |
| Deferred revenue, net of current portion | 2,844,901 | 512 | 1,229 | 126,311 | 336,480 | - | 3,309,433 |
| Deferred payment note | 1,900,000 | - | - | - | - | - | 1,900,000 |
| Total long-term liabilities | 31,063,445 | 40,180 | 1,318,557 | 1,126,311 | 978,639 | 446,134 | 34,973,266 |
| Current liabilities: | | | | | | | |
| Current maturities of lines of credit | 1,000,000 | - | 8,645,749 | - | 745,918 | - | 10,391,667 |
| Current maturities of notes payable | 1,119,174 | 47,883 | 29,358 | - | - | 70,944 | 1,267,359 |
| Current maturities of deferred revenue | 198,989 | - | - | - | - | - | 198,989 |
| Accounts payable | 343,995 | 1,714 | 20,355 | 18,839 | 325,066 | - | 709,969 |
| Tenant security deposits | 363,116 | 10,182 | 174,014 | - | 3,500 | 3,715 | 554,527 |
| Miscellaneous current liabilities | 72,705 | - | 5,070 | - | - | - | 77,775 |
| Total current liabilities | 3,097,979 | 59,779 | 8,874,546 | 18,839 | 1,074,484 | 74,659 | 13,200,286 |
| Total liabilities | 34,161,424 | 99,959 | 10,193,103 | 1,145,150 | 2,053,123 | 520,793 | 48,173,552 |
| Total net assets | 37,481,880 | 1,585,899 | 18,033,818 | 3,874,103 | 8,280,805 | 897,006 | 70,153,511 |
| Total liabilities and net assets | $ 71,643,304 | $ 1,685,858 | $ 28,226,921 | $ 5,019,253 | $ 10,333,928 | $ 1,417,799 | $ 118,327,063 |

*See Independent Auditor's Report.*

# Better Housing Coalition Inc. and Subsidiaries

## Consolidating Statement of Activities - Year Ended December 31, 2019

| | Total LIHTC Multifamily | Extended Use Compliance Multifamily | Other Multifamily | Better Housing Coalition (Parent) | Development | Commercial Rental | Total |
|---|---|---|---|---|---|---|---|
| Revenues and other support: | | | | | | | |
| Contributions and philanthropic support | $ - | $ - | $ - | $ 1,924,618 | $ - | $ - | $ 1,924,618 |
| Grants and awards | - | - | - | 702,009 | - | - | 702,009 |
| Other revenue | 170,989 | (32,745) | 451 | 230,496 | 634 | - | 369,825 |
| Earned fees | - | - | - | 75,000 | 344,661 | - | 419,661 |
| Interest and investment income | 26,064 | 552 | 2,898 | 47,054 | 16,836 | - | 93,404 |
| Total revenue and other support | 197,053 | (32,193) | 3,349 | 2,979,177 | 362,131 | - | 3,509,517 |
| Revenue (expenses), property sales: | | | | | | | |
| Property sales | - | - | - | - | 2,272,000 | - | 2,272,000 |
| Subsidies, government | - | - | - | - | 394,635 | - | 394,635 |
| Cost of property sales | - | - | - | - | (2,726,028) | - | (2,726,028) |
| Homebuyer assistance | - | - | - | - | (37,200) | - | (37,200) |
| Net revenue (expenses) from property sales | - | - | - | - | (96,593) | - | (96,593) |
| Revenue, rental properties: | | | | | | | |
| Rental revenue | 8,028,561 | 288,022 | 3,898,272 | - | 41,860 | 200,646 | 12,457,361 |
| Other tenant revenue | 161,043 | 2,011 | 148,044 | - | - | 34,275 | 345,373 |
| Laundry and vending | 56,899 | 1,474 | 10,275 | - | - | - | 68,648 |
| Total revenue from rental properties | 8,246,503 | 291,507 | 4,056,591 | - | 41,860 | 234,921 | 12,871,382 |
| Total sales, revenues and other support | $ 8,443,556 | $ 259,314 | $ 4,059,940 | $ 2,979,177 | $ 307,398 | $ 234,921 | $ 16,284,306 |

*See Independent Auditor's Report.*

# Better Housing Coalition Inc. and Subsidiaries

## Consolidating Statement of Activities - Year Ended December 31, 2019

| | Total LIHTC Multifamily | Extended Use Compliance Multifamily | Other Multifamily | Better Housing Coalition (Parent) | Development | Commercial Rental | Total |
|---|---|---|---|---|---|---|---|
| Operating expenses: | | | | | | | |
| Personnel and benefits | $ 776,924 | $ 18,144 | $ 266,730 | $ 2,485,159 | $ 550,311 | $ - | $ 4,097,268 |
| Professional and consulting | 146,713 | 5,459 | 69,342 | 118,544 | 18,141 | 180 | 358,379 |
| Travel and training | 31,718 | 1,891 | 13,150 | 96,959 | 13,106 | - | 156,824 |
| Advertising and marketing | 61,207 | 2,351 | 18,613 | 82,820 | 1,225 | - | 166,216 |
| Interest and financial services | 1,078,751 | 19,477 | 498,361 | 12,085 | 11,215 | 16,878 | 1,636,767 |
| Taxes and insurance | 719,807 | 39,960 | 367,975 | 24,028 | (17,404) | 19,479 | 1,153,845 |
| Dues, memberships and subscriptions | 9,439 | 315 | 3,125 | 18,800 | 858 | - | 32,537 |
| Equipment | 41,891 | 1,266 | 22,510 | 25,060 | 5,621 | - | 96,348 |
| Office | 113,725 | 6,315 | 31,112 | 42,084 | 8,729 | 174 | 202,139 |
| Bad debt | 69,893 | (1,518) | 33,822 | - | - | - | 102,197 |
| Occupancy | 82 | - | 32 | 138,300 | - | - | 138,414 |
| Utilities | 964,786 | 47,750 | 209,500 | 8,813 | 539 | 9,872 | 1,241,260 |
| Resident services | 12,331 | 1,616 | 67,457 | (37,577) | - | - | 43,827 |
| Board and committee | - | - | - | 44,402 | - | - | 44,402 |
| Property operations | 1,082,301 | 42,449 | 529,172 | 4,105 | 18,834 | 4,044 | 1,680,905 |
| Property maintenance and repairs | 721,748 | 27,379 | 458,195 | 919 | - | 18,372 | 1,226,613 |
| Miscellaneous | 80,199 | - | - | - | - | - | 80,199 |
| Telephone and communications | 74,923 | 6,101 | 30,265 | 49,619 | - | - | 160,908 |
| Total operating expenses | 5,986,438 | 218,955 | 2,619,361 | 3,114,120 | 611,175 | 68,999 | 12,619,048 |
| Change in net assets before depreciation and amortization | 2,457,118 | 40,359 | 1,440,579 | (134,943) | (303,777) | 165,922 | 3,665,258 |
| Depreciation | 2,754,134 | 127,318 | 1,047,680 | 5,265 | 22,133 | 51,086 | 4,007,616 |
| Amortization | 34,154 | 4,079 | 1,993 | - | - | - | 40,226 |
| Change in net assets | $ (331,170) | $ (91,038) | $ 390,906 | $ (140,208) | $ (325,910) | $ 114,836 | $ (382,584) |

*See Independent Auditor's Report.*