
Supportive Housing
Communities, Inc.

Charlotte, North Carolina

Audited Financial Statements
For The Years Ended June 30, 2017 and 2016



SUPPORTIVE HOUSING COMMUNITIES, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Supportive Housing Communities, Inc.
Charlotte, North Carolina

We have audited the accompanying financial statements of Supportive Housing Communities, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Supportive Housing Communities, Inc. as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Blair, Bohle & Whitsitt, PC

Charlotte, North Carolina
October 25, 2017



SUPPORTIVE HOUSING COMMUNITIES, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 670,205	\$ 463,802
Grants and promises to give, net	35,713	44,282
Other receivables	114,879	166,694
Prepaid expenses and other assets	76,798	66,167
Total current assets	<u>897,595</u>	<u>740,945</u>
Property and equipment		
Property and equipment	3,712,448	3,713,858
Accumulated depreciation	(1,036,133)	(935,793)
Net property and equipment	<u>2,676,315</u>	<u>2,778,065</u>
Other assets		
Grants and promises to give, net	36,537	38,705
Deposits	48,589	41,343
Total other assets	<u>85,126</u>	<u>80,048</u>
	<u>\$ 3,659,036</u>	<u>\$ 3,599,058</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 28,340	\$ 28,730
Accrued expenses	54,501	46,223
Security deposits	12,387	9,949
Other current liabilities	11,306	11,594
Total current liabilities	<u>106,534</u>	<u>96,496</u>
Long-term liabilities		
Notes payable, net	1,459,369	1,409,171
Total long-term liabilities	<u>1,459,369</u>	<u>1,409,171</u>
NET ASSETS		
Unrestricted - undesignated	816,960	926,577
Unrestricted - designated	291,655	291,655
Temporarily restricted	984,518	875,159
Total net assets	<u>2,093,133</u>	<u>2,093,391</u>
	<u>\$ 3,659,036</u>	<u>\$ 3,599,058</u>

See notes to financial statements.



SUPPORTIVE HOUSING COMMUNITIES, INC.

STATEMENTS OF ACTIVITIES

For the years ended June 30, 2017 and 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue						
Contributions and grants	\$ 987,235	\$ 100,000	\$ 1,087,235	\$ 794,582	\$ -	\$ 794,582
Government grants and assistance	1,236,874	-	1,236,874	1,063,460	-	1,063,460
Rental income	277,579	-	277,579	272,361	-	272,361
Investment income	354	1,259	1,613	363	1,714	2,077
Other income	4,234	-	4,234	5,343	-	5,343
Transfer to replenish restricted operating reserve	(58,298)	58,298	-	-	-	-
Net assets released from restriction	50,198	(50,198)	-	96,640	(96,640)	-
Total revenue	<u>2,498,176</u>	<u>109,359</u>	<u>2,607,535</u>	<u>2,232,749</u>	<u>(94,926)</u>	<u>2,137,823</u>
Expenses						
Program services	2,406,648	-	2,406,648	2,020,420	-	2,020,420
Management and general	54,098	-	54,098	66,042	-	66,042
Fundraising	147,047	-	147,047	140,601	-	140,601
Total expenses	<u>2,607,793</u>	<u>-</u>	<u>2,607,793</u>	<u>2,227,063</u>	<u>-</u>	<u>2,227,063</u>
Change in net assets	<u>(109,617)</u>	<u>109,359</u>	<u>(258)</u>	<u>5,686</u>	<u>(94,926)</u>	<u>(89,240)</u>
Net assets, beginning of year	1,218,232	875,159	2,093,391	1,212,546	970,085	2,182,631
Net assets, end of the year	<u>\$ 1,108,615</u>	<u>\$ 984,518</u>	<u>\$ 2,093,133</u>	<u>\$ 1,218,232</u>	<u>\$ 875,159</u>	<u>\$ 2,093,391</u>

See notes to financial statements.



SUPPORTIVE HOUSING COMMUNITIES, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For the years ended June 30, 2017 and 2016

	2017				2016			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
PERSONNEL								
Salaries	\$ 991,679	\$ 24,681	\$ 70,889	\$ 1,087,249	\$ 819,113	\$ 38,288	\$ 67,419	\$ 924,820
Payroll taxes	83,319	2,074	5,956	91,349	67,027	3,133	5,517	75,677
Employee benefits	202,675	5,088	11,201	218,964	152,101	6,323	9,624	168,048
Total	1,277,673	31,843	88,046	1,397,562	1,038,241	47,744	82,560	1,168,545
OTHER								
Professional services	129,672	130	374	130,176	126,825	208	366	127,399
Repairs and maintenance	55,494	1,430	286	57,210	56,583	1,458	292	58,333
Security	56,492	1,456	291	58,239	56,991	1,469	294	58,754
Utilities	76,762	1,978	396	79,136	64,940	1,674	335	66,949
Resident support	34,456	-	-	34,456	39,970	-	-	39,970
Scattered site and rapid rehousing rent	484,634	-	-	484,634	379,226	-	-	379,226
Insurance	45,492	1,172	234	46,898	43,422	1,119	224	44,765
Fundraising events	-	-	42,104	42,104	-	-	44,398	44,398
Bad debt	19,422	501	100	20,023	5,958	154	31	6,143
Office and administrative costs	78,725	11,778	406	90,909	61,504	8,434	317	70,255
Branding and development	-	-	14,048	14,048	-	-	11,028	11,028
Total	981,149	18,445	58,239	1,057,833	835,419	14,516	57,285	907,220
Total expenses before depreciation and amortization	2,258,822	50,288	146,285	2,455,395	1,873,660	62,260	139,845	2,075,765
Depreciation expense	99,134	2,555	511	102,200	99,773	2,571	514	102,858
Amortization of loan discount	48,692	1,255	251	50,198	46,987	1,211	242	48,440
TOTAL EXPENSES	\$ 2,406,648	\$ 54,098	\$ 147,047	\$ 2,607,793	\$ 2,020,420	\$ 66,042	\$ 140,601	\$ 2,227,063

See notes to financial statements.



SUPPORTIVE HOUSING COMMUNITIES, INC.

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Change in net assets	\$ (258)	\$ (89,240)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	102,200	102,858
Amortization of loan discount	50,198	48,440
(Increase) decrease in:		
Receivables	62,552	(49,421)
Prepaid expenses and other assets	(13,305)	(42,708)
Increase (decrease) in:		
Accounts payable	(390)	3,502
Accrued expenses	8,278	15,070
Security deposits	2,438	1,600
Other liabilities	(288)	11,289
Net cash provided by operating activities	<u>211,425</u>	<u>1,390</u>
Cash flows from investing activities		
Purchases of property and equipment	(5,022)	(29,379)
Net cash used in investing activities	<u>(5,022)</u>	<u>(29,379)</u>
Net increase (decrease) in cash and cash equivalents	206,403	(27,989)
Cash and cash equivalents, beginning of year	<u>463,802</u>	<u>491,791</u>
Cash and cash equivalents, end of year	<u>\$ 670,205</u>	<u>\$ 463,802</u>

See notes to financial statements.



SUPPORTIVE HOUSING COMMUNITIES, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 1 – ORGANIZATION AND PURPOSE

Organization and purpose

Supportive Housing Communities, Inc. (the “Organization”) was incorporated under the laws of the State of North Carolina as a not-for-profit organization. The Organization is located at 2120 North Davidson Street in Charlotte, North Carolina, and exists to provide affordable housing to alleviate homelessness and human suffering. Its primary activities are housing and support services for men, women and families who are formerly homeless and live with disabilities. It operates McCreesh Place, a single room occupancy apartment community with 90 permanent housing units as well as 76 scattered site apartments in the community. Supportive services and case management are provided on-site for all residents.

Funding sources

Activities of the Organization are financed principally by contributions from governmental agencies, congregations, individuals, and public and private grants, as well as rents charged to residents. Construction of the Organization's facility was financed primarily by the U.S. Department of Housing and Urban Development and interest-free loans from the City of Charlotte.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets can be both undesignated and designated in nature. Undesignated, unrestricted net assets are those currently available for use in the day-to-day operation of the Organization and those resources invested in property and equipment. From time to time, the Board of Directors may designate certain amounts to be utilized or invested to meet specific objectives of the Organization. Such amounts are reflected as unrestricted, designated net assets.



SUPPORTIVE HOUSING COMMUNITIES, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Net assets received with restrictions that are met in the same reporting period are included in unrestricted net assets.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. The donors of these assets generally permit the Organization to use the income earned on any related investments for general or specific purposes. The Organization had no permanently restricted net assets at June 30, 2017 or 2016.

Cash and Cash Equivalents

For financial statement purposes, the Organization considers deposits that can be redeemed on demand and investments that have original maturities of less than three months, when purchased, to be cash equivalents.

Recorded donated goods and services

Donated services are reported as contributions when the services (a) create or enhance nonfinancial assets or (b) would be purchased if they had not been provided by contribution, require specialized skills, and are provided by individuals possessing those skills. Donated equipment or materials, if significant, are included in support at fair value. The Organization recorded contributed services of \$64,265 and \$68,446, and donated goods of \$113,112 and \$86,904 for the years ended June 30, 2017 and 2016, respectively.

Other donated goods and services

Many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific assistance programs and various assignments. There were 4,664 and 3,956 contributed volunteer hours valued at \$97,944 and \$83,076 for the years ended June 30, 2017 and 2016, respectively. Also, the Organization receives clothing and similar noncash contributions, which are either given to residents or are donated to other nonprofit organizations for distribution.



SUPPORTIVE HOUSING COMMUNITIES, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Levels of service

As of June 30, 2017, there were 166 available units, and 147 were occupied by formerly homeless, disabled men, women and families. The Organization has fixed site and scattered site residents who live in apartment communities and receive supportive services from the Organization.

Functional allocation of expenses

Expenses are allocated to program services, management and general, and fundraising based on management's estimates of time spent and various allocation methods appropriate to the type of expense.

Federal income tax status

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation as defined by Section 509(a) of the Internal Revenue Code. Generally accepted accounting procedures require an organization to recognize a tax benefit or expense from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Organization had no uncertain tax positions as of June 30, 2017.

Use of estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of support, revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification

Certain amounts in prior-period financial statements have been reclassified to conform to current period's presentation.

Recent Accounting Pronouncements

On August 18, 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, Presentation of Financial Statements of Not-for-Profit Entities. Adoption of FASB ASU 2016-14 will result in significant changes to financial reporting and disclosures for not-for-profit entities. More specifically, the standard addresses the complexity of net asset classification, clarity of information regarding liquidity and availability of cash, transparency in reporting financial performance measures, consistency in reporting expenses by function and nature, and the utility of the cash flow statement. FASB ASU 2016-14 is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The Organization has not determined its adoption date.



SUPPORTIVE HOUSING COMMUNITIES, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 3 – INVESTMENTS

The Organization is the income beneficiary of various accounts held in trust for which the trustee has variance power over the distribution of the assets. Accordingly, no amounts are reflected in accompanying financial statements related to the value of these accounts. Income is recorded as the Organization receives payments, due to the uncertainty of the timing and amounts that will be received.

NOTE 4 – RECEIVABLES

Grants

Grants receivable of \$5,326 and \$22,771 at June 30, 2017 and 2016, respectively, are presented at net realizable value. Balance at June 30, 2017 is expected to be collected in the subsequent fiscal year. Management has determined that no allowance for doubtful accounts is necessary based on a review of individual accounts, historical experience, and current economic conditions.

Promises to give

Unconditional promises to give are presented net of an estimated allowance for doubtful accounts, which had a balance of \$5,350 at June 30, 2017 and 2016. Management's assessment of the collectability of receivables is based on a review of individual accounts, historical experience, and current economic conditions. No present value discount has been provided as the amount of the discount, computed at a risk-free interest rate, would not be material to the financial statements. These pledges are expected to be collected during the year ending June 30:

2018	\$	30,387
2019		2,253
2020		<u>19,635</u>
Total Promises to Give		72,274
Deduct – Allowance for doubtful accounts		<u>5,350</u>
Net promises to give	\$	<u><u>66,924</u></u>

Of the \$72,250 of total grants and net promises to give, \$35,713 is expected to be collected during the next fiscal year with the remaining \$36,537 collected thereafter.

Other receivables

Other receivables consist primarily of unbilled rent and support services subsidies that are due but billed subsequent to year end, and rent receivables from residents which are immediately due. Unbilled receivables at June 30, 2017 and 2016 totaled \$69,275 and \$68,278, respectively. Management has determined that no allowance for doubtful accounts is necessary based on a review of individual accounts, historical experience, and current economic conditions.



SUPPORTIVE HOUSING COMMUNITIES, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment exceeding \$500 of value are recorded at cost if purchased or fair market value if donated. Costs that improve or extend the useful lives of assets are capitalized. Amounts paid for maintenance and repairs are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which vary from three years for computers, five to ten years for furniture and fixtures, and 40 years for buildings. Property at June 30, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Buildings and improvements	\$ 3,308,030	3,303,488
Land	140,070	140,070
Furniture and equipment	<u>264,348</u>	<u>270,300</u>
Total Cost	\$ 3,712,448	\$ 3,713,858
Less - accumulated depreciation	<u>1,036,133</u>	<u>935,793</u>
Property and equipment - net	<u><u>\$ 2,676,315</u></u>	<u><u>\$ 2,778,065</u></u>

Depreciation expense for the years ended June 30, 2017 and 2016 was \$102,200 and \$102,858, respectively.

NOTE 6 – NOTES PAYABLE

The Organization has three non-interest bearing notes with the City of Charlotte. All of the notes require no principal payments before maturity. The note agreements do require early payment of the original principal balance if the property located at 2120 North Davidson Street is sold or the Organization ceases to use the property for the purpose of providing housing to formerly homeless, disabled men. This is not currently contemplated by the Organization. Since the notes do not bear interest, a present value discount has been computed utilizing discount rates determined at the inception of each note. Details of these note agreements are as follows:



SUPPORTIVE HOUSING COMMUNITIES, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 6 – NOTES PAYABLE (continued)

	<u>Total</u>	<u>McCreesh</u>	<u>McCreesh II</u>	
			<u>Construction</u>	<u>Operating</u>
Balance at June 30, 2017:				
Principal balance	\$ 2,000,542	\$ 1,025,542	\$ 875,000	\$ 100,000
Present value discount	<u>541,173</u>	<u>201,530</u>	<u>303,312</u>	<u>36,331</u>
Net liability	\$ <u>1,459,369</u>	\$ <u>824,012</u>	\$ <u>571,688</u>	\$ <u>63,669</u>
Other Information:				
Maturity		2023	2031	2031
Interest rate used to compute present value		4%	3%	3%

	<u>Total</u>	<u>McCreesh</u>	<u>McCreesh II</u>	
			<u>Construction</u>	<u>Operating</u>
Balance at June 30, 2016:				
Principal balance	\$ 2,000,542	\$ 1,025,542	\$ 875,000	\$ 100,000
Present value discount	<u>591,371</u>	<u>233,223</u>	<u>319,963</u>	<u>38,185</u>
Net Liability	\$ <u>1,409,171</u>	\$ <u>792,319</u>	\$ <u>555,037</u>	\$ <u>61,815</u>
Other Information:				
Maturity		2023	2031	2031
Interest rate used to compute present value		4%	3%	3%

NOTE 7 – DESIGNATED NET ASSETS

Designated net assets at June 30, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Operating reserve	\$ 185,000	\$ 185,000
Replacement reserve	7,280	7,280
Capital reserve	<u>99,375</u>	<u>99,375</u>
Total	\$ <u>291,655</u>	\$ <u>291,655</u>



SUPPORTIVE HOUSING COMMUNITIES, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 8 – RESTRICTED NET ASSETS

Temporarily restricted

During 2012, the Organization received \$335,100 from the Charlotte Housing Authority that is required to be maintained in a separate bank account as an operating reserve. The Organization may utilize the funds only with permission of the Charlotte Housing Authority and must pay it back when feasible. There is no deadline on the time period in which the funds must be paid back. In the event of the disposition of the related property, which is not contemplated, the funds must be transferred to the new owner. The balance of this cash account was \$350,301, of which only \$335,100 is restricted, and \$275,543, at June 30, 2017, and 2016, respectively, which included accumulated interest income.

Temporarily restricted net assets as of June 30, 2017 and 2016 were restricted to be used for the following purposes:

	<u>2017</u>	<u>2016</u>
Time restrictions:		
City of Charlotte – discounted interest on notes payable	\$ 541,173	\$ 591,371
Charlotte Housing Authority - programs	335,100	275,543
Donor Restriction - building purchase and renovation (see note 12)	100,000	-
Community Housing Development Corp – programs	8,245	8,245
Total	<u>\$ 984,518</u>	<u>\$ 875,159</u>

NOTE 9 – OPERATING LEASE OBLIGATIONS

The Organization leases office space under an operating lease agreement. Future minimum payments due under the operating lease agreement are as follows:

For the years ending June 30:

2018	\$ 28,548
2019	28,548
2020	28,548
2021	28,548
2022	28,548
Thereafter	<u>114,194</u>
Total	<u>\$ 256,934</u>



SUPPORTIVE HOUSING COMMUNITIES, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 10 – CONCENTRATIONS OF RISK

Cash held in bank accounts are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). As of June 30, 2017 and 2016, the Organization's uninsured cash balances totaled \$217,820 and \$147,640, respectively.

NOTE 11 – RETIREMENT PLAN

The Organization maintains a SIMPLE IRA plan that covers all eligible employees with more than two years of service. Based on contributions of two percent per employee, the Organization's contribution for the years ended June 30, 2017 and 2016 was \$19,562 and \$15,960, respectively.

NOTE 12 – SUBSEQUENT EVENTS

The Organization has evaluated all events subsequent to the financial position date of June 30, 2017 through October 25, 2017, which is the date the financial statements were issued, and has determined that there are no subsequent events that require disclosure, except as noted below:

On July 13, 2017, the Organization purchased St. John's Place, a 32-unit apartment building which will create additional affordable apartments designated for chronically homeless individuals and families living with disabilities. The purchase price for the property was \$850,000 with a total funding amount of \$1.3 million that will include needed renovations. The funding is being provided by private donations, including the \$100,000 donation in temporarily restricted net assets at June 30, 2017, grants and borrowings from the Charlotte Housing Trust Fund and North Carolina Housing Finance Agency.

