



# **BROADWAY HOUSING COMMUNITIES, INC.**

## **CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015 and 2014  
(with supplementary information)**

## **INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Broadway Housing Communities, Inc.  
New York, New York

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Broadway Housing Communities, Inc. (the "Organization"), which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Consolidated Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgments, 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 organization'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 organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Broadway Housing Communities, Inc. as of December 31, 2015 and 2014, and the changes in its consolidated net assets and its consolidated cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.



New York, New York  
September 26, 2016

# BROADWAY HOUSING COMMUNITIES, INC.

## Consolidated Statements of Financial Position

	December 31,	
	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 4,842,236	\$ 6,904,082
Cash and cash equivalents - restricted	875,726	2,990,671
Investments	12,686,434	13,040,370
Grants receivable	422,987	201,998
Pledges receivable	349,779	592,010
Mortgages and notes receivable	924,530	924,530
Other receivables	192,970	440,900
Prepaid expenses and other assets	72,717	144,998
Due from affiliates	<u>2,707,050</u>	<u>1,672,463</u>
Total current assets	<u>23,074,429</u>	<u>26,912,022</u>
Non-current assets:		
Pledges receivable	772,035	825,525
Mortgages and notes receivable	23,337,973	23,222,472
Mortgage interest receivable	1,011,268	727,166
Property and equipment, net	<u>27,261,975</u>	<u>25,637,166</u>
Total non-current assets	<u>52,383,251</u>	<u>50,412,329</u>
	<u>\$ 75,457,680</u>	<u>\$ 77,324,351</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 914,119	\$ 1,713,343
Mortgages and notes payable	4,311,500	4,103,789
Deferred revenue	144,532	
Due to affiliates	<u>533,425</u>	<u>223,384</u>
Total current liabilities	<u>5,903,576</u>	<u>6,040,516</u>
Non-current liabilities:		
Mortgages and notes payable	39,163,426	39,163,426
Accrued mortgage interest payable	<u>851,534</u>	<u>615,768</u>
Total non-current liabilities	<u>40,014,960</u>	<u>39,779,194</u>
Total liabilities	<u>45,918,536</u>	<u>45,819,710</u>
Commitments and contingencies (Notes O and P)		
Net assets:		
Unrestricted	15,232,377	16,928,329
Temporarily restricted	1,311,706	1,581,251
Permanently restricted	<u>12,995,061</u>	<u>12,995,061</u>
Total net assets	<u>29,539,144</u>	<u>31,504,641</u>
	<u>\$ 75,457,680</u>	<u>\$ 77,324,351</u>

See notes to consolidated financial statements.

# BROADWAY HOUSING COMMUNITIES, INC.

## Consolidated Statements of Activities

	Year Ended December 31,							
	2015			2014				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Public support and revenue:</b>								
Grants	\$ 2,239,833			\$ 2,239,833	\$ 1,551,596			\$ 1,551,596
Contributions	837,588	\$ 261,618		1,099,206	507,492	\$ 357,000	\$ 67,061	931,553
Housing management income	1,235,032			1,235,032	1,219,284			1,219,284
Special events income, net of direct benefit to donors of \$33,732 in 2015 and \$27,410 in 2014	345,072			345,072	395,141			395,141
Rental income	64,549			64,549				
Memberships	5,225			5,225				
Interest income - loans	530,000			530,000	533,462			533,462
Investment income (loss)	9,937	(354,460)		(344,523)	10,072	541,256		551,328
Other income	332,886			332,886	132,119			132,119
Total public support and revenue before Net assets released from restrictions	5,600,122	(92,842)		5,507,280	4,349,166	898,256	67,061	5,314,483
Net assets released from restrictions	485,330	(485,330)		0	650,411	(650,411)		0
Total public support and revenue	6,085,452	(578,172)		5,507,280	4,999,577	247,845	67,061	5,314,483
<b>Expenses:</b>								
Program services:								
Education	2,567,607			2,567,607	1,868,795			1,868,795
Housing	3,269,412			3,269,412	2,248,677			2,248,677
Total program services	5,837,019			5,837,019	4,117,472			4,117,472
Supporting services:								
Administrative and general	1,122,963			1,122,963	887,715			887,715
Fundraising	512,795			512,795	536,544			536,544
Total supporting services	1,635,758			1,635,758	1,424,259			1,424,259
Total expenses	7,472,777			7,472,777	5,541,731			5,541,731
Change in net assets before transfer	(1,387,325)	(578,172)		(1,965,497)	(542,154)	247,845	67,061	(227,248)
Underwater funds transfer	(308,627)	308,627		0				
Change in nets assets	(1,695,952)	(269,545)		(1,965,497)	(542,154)	247,845	67,061	(227,248)
Net assets - beginning of year	16,928,329	1,581,251	\$ 12,995,061	31,504,641	17,470,483	1,333,406	\$ 12,928,000	31,731,889
Net assets - end of year	\$ 15,232,377	\$ 1,311,706	\$ 12,995,061	\$ 29,539,144	\$ 16,928,329	\$ 1,581,251	\$ 12,995,061	\$ 31,504,641

See notes to consolidated financial statements.

# BROADWAY HOUSING COMMUNITIES, INC.

## Consolidated Statements of Functional Expenses

	Year Ended December 31,											
	2015						2014					
	Program Services			Support Services			Program Services			Support Services		
	Education	Housing	Total Program Services	Management and General	Fund-Raising	Total	Education	Housing	Total Program Services	Management and General	Fund-Raising	Total
Salaries	\$ 1,255,270	\$ 1,918,320	\$ 3,173,590	\$ 482,651	\$ 282,653	\$ 3,938,894	\$ 996,980	\$ 1,727,539	\$ 2,724,519	\$ 317,048	\$ 252,497	\$ 3,294,064
Payroll taxes and employee benefits	295,969	452,056	748,025	224,921	40,385	1,013,331	225,006	382,240	607,246	179,063	43,312	829,621
Telephone and utilities	87,272	946	88,218	59,693	359	148,270	23,740	25,508	49,248	11,842	2,892	63,982
Food	133,528	1,277	134,805	16,583	9,096	160,484	91,311	9,291	100,602	10,233	14,426	125,261
Rent expense	100,000		100,000			100,000	100,000		100,000			100,000
Consultants and professional fees	122,996		122,996	89,954	157,200	370,150	70,214	3,323	73,537	77,454	155,916	306,907
Program instructors	17,490		17,490			17,490	16,510		16,510			16,510
Maintenance and repairs	93,754	907	94,661	12,373		107,034	35,630	4,092	39,722	2,711	2,104	44,537
Equipment rental	24,847		24,847	18,370		43,217	7,726	5,745	13,471	1,855	17,301	32,627
Insurance and taxes	57,884	25,086	82,970	25,334		108,304	24,955		24,955	17,605		42,560
Supplies	166,357	19,767	186,124	54,486	4,149	244,759	178,464	56,816	235,280	43,514	7,739	286,533
Training and education	32,017	306	32,323	10,144		42,467	18,233	1,692	19,925	17,036	395	37,356
Travel	22,148	5,165	27,313	5,109	192	32,614	23,463	4,907	28,370	6,121	329	34,820
Recruitment	1,588	80	1,668	160		1,828	575		575	3,537		4,112
Printing	12,693		12,693	5,956	12,165	30,814	5,114	856	5,970	841	15,948	22,759
Depreciation	23,272	342,365	365,637	57,344		422,981	42,597	13,422	56,019	52,696	1,818	110,533
Interest expense		498,397	498,397			498,397						
Bad debt				15,124		15,124				110,494		110,494
Artistic expenses	73,930		73,930			73,930						
Miscellaneous	46,592	4,740	51,332	44,761	6,596	102,689	8,277	13,246	21,523	35,665	21,867	79,055
	<u>\$ 2,567,607</u>	<u>\$ 3,269,412</u>	<u>\$ 5,837,019</u>	<u>\$ 1,122,963</u>	<u>\$ 512,795</u>	<u>\$ 7,472,777</u>	<u>\$ 1,868,795</u>	<u>\$ 2,248,677</u>	<u>\$ 4,117,472</u>	<u>\$ 887,715</u>	<u>\$ 536,544</u>	<u>\$ 5,541,731</u>

See notes to consolidated financial statements.

**BROADWAY HOUSING COMMUNITIES, INC.****Consolidated Statements of Cash Flows**

	<b>Year Ended December 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>Cash flows from operating activities:</b>		
Change in net assets	<b>\$ (1,965,497)</b>	\$ (227,248)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	<b>422,981</b>	110,533
Realized/unrealized losses (gains) on investments	<b>744,307</b>	(81,218)
Restricted cash and cash equivalents	<b>2,114,945</b>	4,684,390
Permanently restricted contributions		(67,061)
Bad debt	<b>15,124</b>	110,494
Changes in:		
Due from affiliates	<b>(1,034,587)</b>	(1,542,765)
Grants receivable	<b>(220,989)</b>	(29,892)
Pledges receivable	<b>295,721</b>	(123,283)
Mortgage interest receivable	<b>(284,102)</b>	(280,001)
Other receivables	<b>232,806</b>	81,524
Prepaid expenses and other assets	<b>72,281</b>	(113,774)
Accounts payable and accrued expenses	<b>(799,224)</b>	653,801
Accrued mortgage interest payable	<b>235,766</b>	235,766
Deferred revenue	<b>144,532</b>	
Due to affiliates	<b>310,041</b>	64,272
Net cash provided by operating activities	<b><u>284,105</u></b>	<u>3,475,538</u>
<b>Cash flows from investing activities:</b>		
Payments under mortgages receivable	<b>(115,501)</b>	(6,099)
Purchases of investments	<b>(3,521,378)</b>	(7,607,332)
Proceeds from sales of investments	<b>3,131,007</b>	7,613,691
Purchases of property and equipment	<b>(2,047,790)</b>	(6,121,208)
Net cash used in investing activities	<b><u>(2,553,662)</u></b>	<u>(6,120,948)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from mortgages payable	<b>207,711</b>	
Permanently restricted contributions		67,061
Net cash provided by financing activities	<b><u>207,711</u></b>	<u>67,061</u>
<b>Net decrease in cash and cash equivalents</b>	<b>(2,061,846)</b>	(2,578,349)
Cash and cash equivalents - beginning of year	<b><u>6,904,082</u></b>	<u>9,482,431</u>
<b>Cash and cash equivalents - end of year</b>	<b><u>\$ 4,842,236</u></b>	<u>\$ 6,904,082</u>
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid	<b><u>\$ 245,900</u></b>	<u>\$ 245,900</u>

See notes to consolidated financial statements.

## **BROADWAY HOUSING COMMUNITIES, INC.**

### **Notes to Consolidated Financial Statements December 31, 2015 and 2014**

#### **NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **[1] Organization:**

Broadway Housing Communities, Inc. ("BHC") was founded in 1983 and incorporated in the State of New York as a not-for-profit corporation committed to redressing the challenges of urban homelessness and deep generational poverty. BHC's innovative model integrates affordable housing with education and cultural arts programming to produce meaningful, positive outcomes for some of New York City's most vulnerable and under-served adults, children, families and communities. For more than thirty years, BHC has served as a model for other providers in New York City, New York State, throughout the country and globally. BHC receives substantially all of its revenue from government and foundation grants, contributions from the general public, rental income and management fees. BHC has been determined to be a publicly-supported organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code") and from state and local taxes under comparable law.

In 2008, Broadway Housing Development Fund Company, Inc. ("BHDFC") purchased property located in the Borough of Manhattan for development of a multi-use building consisting of affordable housing, an early childhood center, a children's museum, rental space and underground parking (the "Sugar Hill Project"). In 2015, the children's museum and the underground parking commenced operations. In 2014, the affordable housing and childhood center commenced operations. Two members of BHC's Board of Directors also serve on the Board of Directors of BHDFC, but the criteria for consolidation of the entities' financial statements have not been met. In anticipation of the development and financing of the Sugar Hill Project in December 2011, BHC formed (i) Broadway Sugar Hill Housing Development Fund Company, Inc. ("BSHHDFC"), (ii) Sugar Hill New Market Tax Credit, Inc. ("SHNMTC"), and (iii) Broadway Housing Sugar Hill Lessee, Inc. ("BSHSL"), each a New York not-for-profit corporation. BSHHDFC and SHNMTC are exempt from income taxes under Section 501(c)(4) of the Code. BSHSL is exempt from income taxes under Section 501(c)(2) of the Code. BHC is the sole member of these entities.

In furtherance of the development of the Sugar Hill Project, BHC formed Sugar Hill Leverage LLC ("SHL"), a New York limited liability company. BSHSL is the managing member and has a 95% ownership in SHL.

BSHHDFC is the sole owner of Sugar Hill Housing, Inc. ("SHHI"), which was organized in 2012 as a New York State corporation to assist Broadway Sugar Hill Housing L.P. ("BSHHLP"), a New York State limited liability partnership, in developing the affordable housing portion of the Sugar Hill Project. BSHHLP is the beneficial owner of the residential portion of the Sugar Hill Project. SHHI is the general partner of BSHHLP and holds a .01% interest in the partnership. Although SHHI has the ability to exercise influence over BSHHLP as the general partner, the investment is not consolidated since the limited partners have substantive participating rights.

In 2012, BHC formed Broadway Housing Communities Foundation, Inc. ("BHCF"), a not-for-profit corporation formed under the laws of the State of Delaware, exempt from income taxes as a Section 509(a)(3) Type I supporting organization under the Code, to support and benefit BHC, including holding a portion of the proceeds of the bequest referred to in Note R. BHC is the sole member of BHCF.

In 2013, BHC formed the Sugar Hill Children's Museum of Art and Storytelling ("SHCMAS"), a not-for-profit corporation formed under the laws of New York State, exempt from income taxes as a Section 501(c)(3) of the Code and from state and local taxes under comparable law. The mission of SHCMAS is to establish a children's museum to promote the creation of art and the understanding and appreciation of art and storytelling by children and their families, as well as preserve and display artifacts, maintain public art exhibitions, conduct educational programs about art and storytelling and prepare publication.

The accompanying consolidated financial statements include the consolidated financial position, changes in net assets and cash flows of BHC, BSHHDFC, SHNMTC, BSHSL, SHHI, SHL, BHCF and SHCMAS (collectively referred to herein as the "Organization"). All significant intercompany accounts and transactions have been eliminated in consolidation. Minority interest for SHL reported in accounts payable and accrued expense at December 31, 2015 and 2014 amounted to \$25,000.

## **BROADWAY HOUSING COMMUNITIES, INC.**

### **Notes to Consolidated Financial Statements December 31, 2015 and 2014**

#### **NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **[2] Basis of accounting:**

The accompanying consolidated financial statements of the Organization have been prepared using the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America, as applicable to not-for-profit organizations.

##### **[3] Use of estimates:**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses, as well as disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

##### **[4] Functional allocation of expenses:**

The cost of providing the various programs and supporting services has been summarized on a functional basis in the accompanying consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services using appropriate measurement methodologies determined by the Organization's management.

##### **[5] Cash and cash equivalents:**

For financial reporting purposes, the Organization considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents, with the exception of cash and cash equivalents restricted as to use and amounts held in the investment portfolio. Also, certain amounts of cash and cash equivalents were restricted to assist in the acquisition and development of property related to the Sugar Hill Project in the amounts of \$875,726 and \$2,990,671 at December 31, 2015 and 2014, respectively (see Note I).

##### **[6] Investments:**

The Organization's investments consist of (i) money market funds, (ii) equity securities, (iii) mutual funds, and (iv) limited liability companies as hedge funds. Money market funds held by investment advisors as a part of the portfolio are reported as investments in the accompanying consolidated statements of financial position. Investments in equity securities with readily determinable fair values are reported at their fair values. Mutual funds invested in equities, fixed-income, multi-assets and real estate are reported at their fair values, as determined by the related investment managers.

The Organization has investments in hedge funds for which readily determinable fair values do not exist. The estimated fair value of these investments has been estimated based on the respective net asset value per share (or its equivalent unit) ("NAV") of each investment, as reported by the fund manager. Because of the inherent uncertainty of the valuation of these investments, the Organization's management and its investment manager monitor their positions continuously, to reduce the risk of potential losses due to changes in fair values or the failure of counterparties to perform. The estimated values provided by the manager may differ from actual values had a ready market for these investments existed. Management believes the carrying amount of the investments in non-publicly traded securities is a reasonable estimate of fair value. Estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed.

Investment transactions are recorded on a trade-date basis. Realized gains and losses on assets sold, and unrealized appreciation or depreciation on investments held, are reported in the accompanying consolidated statements of activities. The earnings from dividends and interest are recognized when earned.



## **BROADWAY HOUSING COMMUNITIES, INC.**

### **Notes to Consolidated Financial Statements December 31, 2015 and 2014**

#### **NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **[6] Investments: (continued)**

Investment expenses include the services of investment managers. The balances of investment management fees disclosed in Note C are those specific fees charged by the Organization's investment managers in each year. However, they do not include those fees that are embedded in various other investment accounts and transactions.

##### **[7] Property and equipment:**

Property and equipment are reported at their original costs or their fair values on the dates of donation. Depreciation for property and equipment greater than or equal to \$5,000 is calculated using the straight-line method over the estimated useful lives of these assets, 5-7 years for furniture and equipment and 40 years for buildings, while leasehold improvements are amortized over their useful lives or the respective lease terms, whichever are shorter.

Management evaluates the recoverability of the investment in long-lived assets on an ongoing basis and recognizes any impairment in the year of determination. Long-lived assets were tested for impairment as of June 30, 2016 and 2015, and, in the opinion of management, there were no impairments. It is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

##### **[8] Capitalization of interest:**

Interest cost incurred on the mortgages payable (see Note H) for construction expenditures is capitalized during the construction period.

##### **[9] Accrued paid time off:**

Employees accrue paid time off ("PTO") beginning on their start date, with a provision to utilize accrued time by calendar year-end. The Organization's obligation for accrued PTO is reported as an expense and liability in the accompanying consolidated financial statements and represents the cost of unused employee PTO payable in the event of employee terminations. At December 31, 2015 and 2014, the accrued PTO obligation was approximately \$43,000 and \$53,000, respectively.

##### **[10] Net assets:**

The Organization's net assets and its revenues and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are reported and classified as follows:

###### *Unrestricted:*

Unrestricted net assets represent those resources available for current operations.

###### *Temporarily restricted:*

Temporarily restricted net assets represent those resources which have been restricted by donors for specific uses or program activities. Net assets released from restrictions represent the satisfaction of the restricted purposes specified by the donor or the passage of time or appropriation by the Board. Temporarily restricted contributions, the requirements of which are met in the year of donation, are reported as unrestricted.

## **BROADWAY HOUSING COMMUNITIES, INC.**

### **Notes to Consolidated Financial Statements December 31, 2015 and 2014**

#### **NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **[10] Net assets: (continued)**

###### *Permanently restricted:*

Permanently restricted net assets represent those resources that have been designated by a donor to be held and invested in perpetuity. Generally, the donors of these assets direct the Organization to use all or part of the income earned on related investments. Under the terms of NYPMIFA and the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), those earnings are classified as temporarily restricted in the accompanying consolidated statements of activities, pending appropriation by the Board of Directors.

##### **[11] Contributions and grants:**

Contributions to support the Organization's operations are recognized as unrestricted contributions. Contributions which support future operations or donor-restricted purposes are reflected as temporarily or permanently restricted contributions in the accompanying consolidated financial statements. All contributions are recognized at their fair values at the dates of pledge. Contributions to be received over periods longer than a single year are discounted at an interest rate commensurate with the risk involved.

Revenues from grants are recognized when costs are incurred or services have been performed. Grants received in advance are recorded as advances from the grantor, and revenue is deferred until the related expenses are incurred.

##### **[12] Rental revenue:**

Rental revenue is recognized based upon services rendered in accordance with contractual provisions. Rental income relating to the current year is recognized as revenue in the current year. The recognition of revenue related to rents received in advance is deferred until the following year.

##### **[13] Membership revenue:**

Membership revenue is recognized in accordance with the applicable membership period. Membership income relating to the current year is recognized as revenue in the current year. The recognition of revenue related to memberships received in advance is deferred until the following year.

##### **[14] Grants and direct support:**

Grants and direct support to others are recognized as expenses in the period the grants are approved.

##### **[15] Management and other fees revenue:**

Management and other fees are recognized based upon services rendered in accordance with contractual provisions.

##### **[16] Income tax uncertainties:**

The Organization follows the provisions of FASB's ASC Topic 740, *Income Taxes*, as it relates to accounting and reporting for uncertainty in income taxes. Because of the Organization's general tax-exempt status, management believes ASC Topic 740 has not had, and is not expected to have, a material impact on the Organization's consolidated financial statements.

## **BROADWAY HOUSING COMMUNITIES, INC.**

### **Notes to Consolidated Financial Statements December 31, 2015 and 2014**

#### **NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **[17] Subsequent events:**

The Organization considers the accounting treatments and the related disclosures in the current year's consolidated financial statements that may be required as the result of all events or transactions that occur after December 31, 2015 through September 26, 2016, the date the financial statements were available to be issued.

##### **[18] Reclassification:**

Certain information in the prior year's consolidated financial statements has been reclassified to conform with the current year's presentation.

##### **[19] New pronouncement:**

In August 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-14, "*Presentation of Financial Statements of Not-for-Profit Entities*". ASU 2016-14 amends the presentation and disclosures to help not-for-profit organizations provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. ASU 2016-14 includes qualitative and quantitative requirements in the following areas: (I) net asset classes, (II) investment return, (III) expenses, (IV) liquidity and availability of resources and (V) presentation of operating cash flows. The new standard will be effective for annual reporting periods issued for fiscal years beginning after December 15, 2017. The Organization elected not to early adopt ASU 2016-14.

#### **NOTE B - RELATED-PARTY TRANSACTIONS**

##### **[1] Administration and operations:**

BHC pays all payroll and related taxes and benefits and certain other operating expenses for its affiliated entities through its centralized payroll. These expenses are charged to affiliates through intercompany accounts. The total amount of these various operating expenses for 2015 and 2014 was \$1,364,371 and \$995,688, respectively.

##### **[2] Management fees:**

As consideration for services performed, BHC receives management fees from the housing developments it manages based on a percentage of gross rents from each. During 2015 and 2014, BHC received management fees of \$337,799 and \$223,597, respectively, for its services.

##### **[3] Pledges receivable:**

BHC is a tenant under a lease agreement with 583 Riverside Drive L.P. ("583 L.P."), a related party, for space used as an early childhood center. The lease agreement requires a nominal annual rent (\$10) through the expiration of the agreement in December 2051. Management has estimated the fair value of the donated space to be \$100,000 per annum and has reported the present value of the donated facilities as pledges receivable in the accompanying consolidated statements of financial position. For both 2015 and 2014, BHC reported donated facilities expenses of \$100,000.

## **BROADWAY HOUSING COMMUNITIES, INC.**

### **Notes to Consolidated Financial Statements December 31, 2015 and 2014**

#### **NOTE B - RELATED-PARTY TRANSACTIONS (CONTINUED)**

##### **[4] Mortgages receivable:**

On May 15, 2012, BHC sold property to BHDFC located in the Borough of Manhattan (the "Heights") to continue to be used as low-income housing. In connection with the sale of the property, BHC entered into a \$2,500,000 no interest mortgage receivable agreement with BHDFC secured by the property. The terms of repayment of the mortgage are based on BHDFC making monthly principal payments equal to the net cash flows, as defined. Due to delays in funding from HPD to BSHHLP in 2015 and 2014 for the Sugar Hill Project, BHC waived the principal amounts due from BHDFC. Such funds were then loaned to BSHHLP by BHDFC. The remaining principal is payable on the thirtieth anniversary of the date of the mortgage agreement in May 2042. At both December 31, 2015 and 2014, the mortgage receivable balance was \$2,372,336. Subsequent to year end, BSHHLP entered into a supplemental loan agreement with the New York City Department of Housing Preservation and Development ("HPD") and repaid the principal payments owed to BHDFC. In September 2016, BHDFC repaid BHC approximately \$617,000 on the mortgage receivable.

##### **[5] Sugar Hill Project:**

As disclosed in Note A, in 2008, BHDFC purchased the Sugar Hill Project for development of a multi-use building consisting of affordable housing, an early childcare center, a children's museum, rental space and underground parking. On May 15, 2012, BHDFC sold the Sugar Hill Project to BSHHDFC and BSHHLP for approximately \$14,400,000. In connection with the sale, BSHHDFC and BSHHLP entered into three mortgage payable agreements with BHDFC aggregating approximately \$14,573,000, as more fully described in Note H.

In addition, BHDFC arranged for financing which includes low income housing tax credits, new market tax credits, a construction loan from Capital One Bank, N.A., subsidized loans from New York State and New York City, Federal Home Loan Bank awards and philanthropic dollars. The residential portion of the Sugar Hill Project was constructed and developed by BSHHLP and completed in 2014. The commercial portion of the Sugar Hill Project was constructed and developed by SHNMTC and completed in 2014 and 2015.

On May 15, 2012, BHC entered into a \$2,313,282 no interest mortgage receivable agreement with BSHHLP. BSHHLP may request draw-downs as needed on the mortgage in order to assist in the development of the Sugar Hill Project. Principal is payable and due on the thirty-fifth anniversary of the date of the mortgage agreement. The mortgage receivable is secured by the property associated with the Sugar Hill Project and subordinate to various construction and mortgage loans. At December 31, 2015 and 2014, the outstanding balance of the mortgage was \$2,294,759 and \$2,179,258, respectively (see Note F).

On May 15, 2012, BHC entered into a non-interest-bearing loan agreement, due on demand, with BHDFC in the amount of \$924,530 to assist in the development of the Sugar Hill Project (see Note F). At both December 31, 2015 and 2014, the loan receivable was \$924,530.

## BROADWAY HOUSING COMMUNITIES, INC.

### Notes to Consolidated Financial Statements December 31, 2015 and 2014

#### NOTE B - RELATED-PARTY TRANSACTIONS (CONTINUED)

##### [6] Due to/from affiliates:

At each year-end, the balance due from affiliates consisted of the following, all of which are due on demand and are noninterest-bearing:

	December 31,	
	2015	2014
BSHHLP (b)	\$ 1,847,411	\$ 1,377,689
BHDFC	726,295	206,120
583 L.P.	58,020	17,997
BRHDFC (a)	44,344	70,657
Other affiliates	<u>30,980</u>	<u>          </u>
	<u>\$ 2,707,050</u>	<u>\$ 1,672,463</u>

(a) Broadway Rio Housing Development Fund Company, Inc. ("BRHDFC"), a not-for-profit corporation incorporated in New York State, includes two members who also serve on the Board of Directors of BHC but criteria for consolidation of the entities' financial statements have not been met.

(b) Due to delays in additional funding from HPD to BSHHLP, during 2015 and 2014, BHC loaned BSHHLP approximately \$1,300,000, in 2014 and an additional \$500,000 in 2015. The loans are due on demand and non-interest bearing. Subsequent to year end, BSHHLP entered into modification agreements with HPD and repaid BHC for the amounts borrowed.

At each year-end, the balances due to affiliates in the amounts of \$741,136 and 223,384, respective, were due to BHDFC.

##### [7] Grants and contributions:

To assist with the construction of the Sugar Hill Project, during 2012, BHDFC entered into an agreement to contribute approximately \$1,134,000 to both BHC and SHNMTC, as construction related to the Sugar Hill Project progress. During 2015, BHDFC contributed approximately \$77,000. During 2014, BHDFC did not make any contributions. As of December 31, 2015 and 2014, respectively, approximately \$2,000 and \$79,000 was available to be disbursed to the Organization.

#### NOTE C - INVESTMENTS

At each year-end, investments consisted of the following:

	December 31,			
	2015		2014	
	Cost	Fair Value	Cost	Fair Value
Money market funds	\$ 477,744	\$ 477,744	\$ 1,065,050	\$ 1,065,050
Equity securities	498,924	502,554	468,658	512,673
Mutual funds:				
Equities	5,834,054	5,651,092	5,675,348	5,723,514
Multi-asset	2,245,528	1,986,363	2,138,259	2,021,139
Fixed income	2,429,044	2,327,067	1,830,814	1,811,180
Real estate	476,056	574,522	361,056	456,213
Hedge funds	<u>1,259,585</u>	<u>1,167,092</u>	<u>1,450,000</u>	<u>1,450,601</u>
	<u>\$ 13,220,935</u>	<u>\$ 12,686,434</u>	<u>\$ 12,989,185</u>	<u>\$ 13,040,370</u>

## BROADWAY HOUSING COMMUNITIES, INC.

### Notes to Consolidated Financial Statements December 31, 2015 and 2014

#### NOTE C - INVESTMENTS (CONTINUED)

During each year, net investment (loss) income consisted of the following:

	Year Ended December 31,	
	2015	2014
Dividends and interest	\$ 445,582	\$ 512,941
Investment management fees	(45,798)	(42,831)
Net realized (losses) gains on sale of investments	(158,621)	53,703
Net unrealized (losses) gains on investments	(585,686)	27,515
	<u>\$ (344,523)</u>	<u>\$ 551,328</u>

The FASB's ASC Topic 820, *Fair Value Measurements and Disclosures*, establishes a three-level valuation hierarchy of fair-value measurements. These valuation techniques are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions. These two types of inputs create the following fair-value hierarchy:

- Level 1 - Valuations are based on observable inputs that reflect quoted market prices in active markets for those investments, or similar investments at the reporting date.
- Level 2 - Valuations are based on (i) quoted prices for those investments, or similar investments, in active markets, or (ii) quoted prices for those investments, or similar investments, in markets that are not active, or (iii) pricing inputs other than quoted prices that are directly or indirectly observable at the reporting date.
- Level 3 - Valuations are based on pricing inputs that are unobservable and include situations where there is little, if any, market activity for the investments, or the investments cannot be independently valued.

The Organization's investments are subject to various risks, such as interest-rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of those securities could occur in the near term and that such changes could materially affect the amounts reported in the accompanying consolidated financial statements.

The availability of market data is monitored to assess the appropriate classification of financial instruments within the fair-value hierarchy. Changes in economic conditions or valuation techniques may require the transfer of financial instruments from one level to another. In such instances, the transfer is reported at the beginning of the reporting period. During 2015 and 2014, there were no transfers among the fair-value hierarchy's levels.

## BROADWAY HOUSING COMMUNITIES, INC.

### Notes to Consolidated Financial Statements December 31, 2015 and 2014

#### NOTE C - INVESTMENTS (CONTINUED)

The following tables summarize the fair values of the Organization's assets at each year-end, in accordance with the ASC Topic 820-10-05 valuation levels:

	December 31, 2015			
	Amounts Within Fair-Value Hierarchy		Measured at NAV	Total Investments
	Level 1	Total		
Money market funds	\$ 477,744	\$ 477,744		\$ 477,744
Equity securities	502,554	502,554		502,554
Mutual funds:				
Equities	5,651,092	5,651,092		5,651,092
Multi-asset	1,986,363	1,986,363		1,986,363
Fixed income	2,327,067	2,327,067		2,327,067
Real estate	574,522	574,522		574,522
Hedge funds			\$ 1,167,092	1,167,092
Total	<u>\$ 11,519,342</u>	<u>\$ 11,519,342</u>	<u>\$ 1,167,092</u>	<u>\$ 12,686,434</u>

	December 31, 2014			
	Amounts Within Fair-Value Hierarchy		Measured at NAV	Total Investments
	Level 1	Total		
Money market funds	\$ 1,065,050	\$ 1,065,050		\$ 1,065,050
Equity securities	512,673	512,673		512,673
Mutual funds:				
Equities	5,723,514	5,723,514		5,723,514
Multi-asset	2,021,139	2,021,139		2,021,139
Fixed income	1,811,180	1,811,180		1,811,180
Real estate	456,213	456,213		456,213
Hedge fund			\$ 1,450,601	1,450,601
Total	<u>\$ 11,589,769</u>	<u>\$ 11,589,769</u>	<u>\$ 1,450,601</u>	<u>\$ 13,040,370</u>

The following table describes the funding commitment and redemption information for the Organization's hedge funds:

	December 31, 2015			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge funds	\$ 1,167,092	None	Quarterly	45 to 90 days

#### NOTE D - GRANTS RECEIVABLE

Grants receivable at December 31, 2015 and 2014 of \$422,987 and \$201,998, respectively, included amounts reimbursable to BHC and SHCMAS for expenditures and services provided to tenants, community members and the museum under the terms of agreements signed with various governmental agencies and funders. Management believes, based on its prior history with its donors, including prior history of collections, that all receivables are fully collectible. Accordingly, no provision for uncollectible grants receivable has been recorded.

## BROADWAY HOUSING COMMUNITIES, INC.

### Notes to Consolidated Financial Statements December 31, 2015 and 2014

#### NOTE E - PLEDGES RECEIVABLE

At each year-end, BHC's pledges receivable were estimated to be due as follows:

	December 31,	
	2015	2014
Less than one year	\$ 349,779	\$ 592,010
One to five years	400,000	400,000
Thereafter	<u>3,100,000</u>	<u>3,200,000</u>
	3,849,779	4,192,010
Reduction of pledges due in excess of one year to present value at 5%	<u>(2,727,965)</u>	<u>(2,774,475)</u>
	<u>\$ 1,121,814</u>	<u>\$ 1,417,535</u>

At December 31, 2015 and 2014, pledges receivable included approximately \$869,000 and \$926,000, respectively, representing the fair value of the donated facilities from 583 L.P. for use by BHC as an Early Childhood Center (see Note B[3]). Management believes, based on its prior history with its donors, including prior history of collections, that all receivables are fully collectible. Accordingly, no provision for uncollectible pledges receivable has been recorded.

#### NOTE F - MORTGAGES AND NOTES RECEIVABLE

At December 31, 2015 and 2014, mortgages and notes receivable due to BHC consisted of the following:

	December 31,	
	2015	2014
BHDFC (see Note B[4])	\$ 2,372,336	\$ 2,372,336
BSHHLP (see Note B[5])	2,294,759	2,179,258
COCRF Investor XII LLC [1]	<u>18,670,878</u>	<u>18,670,878</u>
Total mortgages receivable - non-current	23,337,973	23,222,472
BHDFC note receivable (see Note B[5]) - current	<u>924,530</u>	<u>924,530</u>
	<u>\$ 24,262,503</u>	<u>\$ 24,147,002</u>

[1] On May 15, 2012, in connection with the Sugar Hill Project, SHL entered into two-mortgage loan agreements with COCRF Investor XII, LLC (the "Fund") in the amounts of \$14,359,378 and \$4,311,500, respectively. Each loan bears interest at a rate of 2.77% per annum, of which 1.45% of the interest is deferred and 1.32% is payable annually. On November 15, 2019, a balloon principal payment of \$10,000,000 is due, and thereafter, commencing December 30, 2019, semi-annual payments, including deferred interest, of \$322,530 are payable through both loans' maturity date of November 15, 2042. For 2015 and 2014, total interest earned was \$530,000 and \$533,462, respectively, of which \$1,011,268 and \$727,166 was accrued at December 31, 2015 and 2014, respectively.

Future expected cash flows are as follows:

Year Ending December 31,	
2016	\$ 924,530
2017	
2018	
2019	10,000,000
2020	645,060



## BROADWAY HOUSING COMMUNITIES, INC.

### Notes to Consolidated Financial Statements December 31, 2015 and 2014

#### NOTE G - PROPERTY AND EQUIPMENT

At each year-end, property and equipment consisted of the following:

	December 31,	
	2015	2014
Land	\$ 1,088,867	\$ 1,088,867
Building and building improvements	25,632,034	5,328,279
Leasehold improvements	983,661	983,661
Furniture and equipment	508,206	645,777
	<u>28,212,768</u>	8,046,584
Less accumulated depreciation	<u>(950,793)</u>	<u>(1,033,212)</u>
	<u>27,261,975</u>	7,013,372
Construction-in-progress		<u>18,623,794</u>
	<u>\$ 27,261,975</u>	<u>\$ 25,637,166</u>

During 2015, \$505,400 of fully depreciated property and equipment was written off.

As further described in Note B[5], the construction-in-progress at December 31, 2014 represents the capitalized costs of the commercial portion of the Sugar Hill Project. During 2015, the Organization commenced operations of its children's museum and underground parking. During 2014, the Organization commenced operations of its early childcare center. Accordingly, at December 31, 2015 the entire building and improvements were placed in service.

#### NOTE H - MORTGAGES AND NOTES PAYABLE

At each year-end, mortgages and notes payable consisted of the following:

	December 31,	
	2015	2014
Construction mortgage [1]	\$ 24,590,000	\$ 24,590,000
Mortgages and loans payable [2]	14,573,426	14,573,426
HPD loans [3]	4,311,500	4,103,789
	<u>\$ 43,474,926</u>	<u>\$ 43,267,215</u>

- [1] On May 15, 2012, in connection with the construction and development of the Sugar Hill Project, SHNMTC entered into three building and project loan agreements with COCRF SubCDE XII, LLC, Catalyst CDE-2, LLC and Brownfield Revitalization XVI, LLC (together, the "CDE") aggregating approximately \$24,590,000. Funding is advanced to SHNMTC on each loan as needed in order to fund the Sugar Hill Project. The mortgage loans are each secured by the property and the assignment of future lease revenue associated with the Sugar Hill Project. Each loan bears interest at a rate of 1% per annum. Interest-only payments are due annually through December 20, 2018 for each loan. On November 15, 2019, a balloon principal payment of \$10,000,000 is due, and thereafter, commencing December 20, 2019, semi-annual payments of principal and interest of \$355,834 are due through the loans' maturity date of November 15, 2042. As of December 31, 2015 and 2014, respectively, SHMNTC had been advanced loan proceeds of \$24,590,000. Interest expense of approximately \$246,000 was incurred during both 2015 and 2014, respectively. During 2015, the entire amount of interest was expensed, while during 2014, the entire amount of interest was capitalized during construction.

**BROADWAY HOUSING COMMUNITIES, INC.**

**Notes to Consolidated Financial Statements  
December 31, 2015 and 2014**

**NOTE H - MORTGAGES AND NOTES PAYABLE (CONTINUED)**

- [2] On May 15, 2012, in connection with the purchase of the Sugar Hill Project, BSHSL and BSHHDFC entered into two mortgage agreements and one unsecured loan agreement with BHDFC aggregating approximately \$14,573,000. The mortgages, with an aggregate balance at December 31, 2014 of approximately \$14,007,000 are secured by the property associated with the Sugar Hill Project. Each mortgage and loan bears interest at a rate of 1.6% per annum and is due and payable with principal at the maturity date, May 15, 2047. Interest expense of approximately \$236,000 was incurred during both 2015 and 2014, respectively. During 2015, the entire amount of interest was expensed, while during 2014, the entire amount of interest was capitalized during construction. The mortgages and loan are subordinate to the above construction mortgage, bridge loan and HPD loan.
- [3] On May 15, 2012, in connection with the purchase of the Sugar Hill Project, BSHSL entered into two loans with HPD in the maximum amounts of \$3,000,000 and \$1,311,500, bearing interest at a rate of .25% and 1.25% per annum, respectively. The loans are to be executed on a need-basis and advances were made in order to repay BSHSL's bridge loan with Capital One Bank, N.A., which was repaid in full in July 2013. The loans were to mature and are due in full on August 9, 2014; however, extension agreements were signed with HPD extending the maturity date to October 9, 2015 and January 9, 2016, respectively. As of December 31, 2015 and 2014, BSHSL had been advanced a total from both loans approximately \$4,311,000 and \$4,104,000, respectively. In February 2016, BSHSL entered into a partial release and amendment agreement with HPD whereby BSHSL was released from its obligation to HPD for these loans. Interest expense during both 2015 and 2014 amounted to approximately \$10,000, all of which was capitalized.

Certain covenants exist under the terms of the various loan agreements. As of December 31, 2015 and 2014, the Organization was not in violation of any of these covenants.

Future annual minimum principal payments due for the five years subsequent to December 31, 2015 are as follows:

<u>Year Ending December 31,</u>	
2016	\$ 4,311,500
2017	
2018	
2019 (a)	10,000,000
2020	634,348

(a) See Note O[4] for possible cancellation.

**NOTE I - RESTRICTED CASH AND CASH EQUIVALENTS**

Proceeds from the construction and development-related mortgages and loans described in Note H are held in restricted cash accounts with Capital One Bank, N.A. to be used for future construction and development-related costs of the Sugar Hill Project. At December 31, 2015 and 2014, the restricted cash balance aggregated approximately \$876,000 and \$2,991,000, respectively.

## BROADWAY HOUSING COMMUNITIES, INC.

### Notes to Consolidated Financial Statements December 31, 2015 and 2014

#### NOTE J - TEMPORARILY RESTRICTED NET ASSETS

At each year-end, temporarily restricted net assets were categorized as follows:

	December 31,	
	2015	2014
Education services	\$ 442,406	\$ 609,891
Accumulated endowment income reserved for appropriation		45,833
Contributions for future years	<u>869,300</u>	<u>925,527</u>
	<u>\$ 1,311,706</u>	<u>\$ 1,581,251</u>

During each year, temporarily restricted net assets were released from donor restrictions as follows:

	December 31,	
	2015	2014
Education services	\$ 429,103	\$ 61,250
Time restriction met	56,227	56,227
Endowment income appropriated	<u></u>	<u>532,934</u>
	<u>\$ 485,330</u>	<u>\$ 650,411</u>

#### NOTE K - THE ENDOWMENT

**[1] The endowment:**

At December 31, 2015 and 2014, BHCF's endowment fund consists of one donor-restricted fund to support the Organization's operations.

**[2] Interpretation of relevant law:**

NYPMIFA and UPMIFA are applicable to BHCF's endowment fund. The Board of Directors will continue to adhere to both NYPMIFA's and UPMIFA's requirements.

**[3] Return objectives and risk parameters:**

The Organization is in the process of adopting investment and spending policies for its endowment assets that will attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity.

**BROADWAY HOUSING COMMUNITIES, INC.**

**Notes to Consolidated Financial Statements  
December 31, 2015 and 2014**

**NOTE K - THE ENDOWMENT (CONTINUED)**

**[4] Strategies employed for achieving objectives:**

To satisfy its long-term rate-of-return objectives, the Organization will rely on a to-be-adopted general investment policy, subject to practical constraints, so as to provide a balance that will enhance total real return while avoiding undue risk concentration in any single asset class or investment category.

In accordance with donor restrictions, the Organization may, in the event of emergencies, disburse amounts during a given taxable year which in the aggregate do not exceed 10% of the fair value of the principal of the endowment fund as valued on the first business day of such taxable year.

**[5] Endowment net asset composition by type of fund as of each year-end:**

	<b>December 31, 2015</b>		
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>
Donor-restricted endowment fund	<u>\$ (308,627)</u>		<u>\$ 12,995,061</u>
			<u>\$ 12,686,434</u>

	<b>December 31, 2014</b>		
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>
Donor-restricted endowment fund		<u>\$ 45,833</u>	<u>\$ 12,995,061</u>
			<u>\$ 13,040,894</u>

**[6] Changes in endowment net assets:**

Changes in endowment net assets in each year were as follows:

	<b>Year Ended December 31, 2015</b>		
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>
Endowment assets, beginning of year		<u>\$ 45,833</u>	<u>\$ 12,995,061</u>
Investment return:			
Investment income		<u>389,847</u>	<u>389,847</u>
Net depreciation (realized and unrealized)		<u>(744,307)</u>	<u>(744,307)</u>
Total investment loss		<u>(354,460)</u>	<u>(354,460)</u>
Transfer due to underwater funds	<u>\$ (308,627)</u>	<u>308,627</u>	<u>0</u>
Endowment assets, end of year	<u>\$ (308,627)</u>	<u>\$ 0</u>	<u>\$ 12,995,061</u>
			<u>\$ 12,686,434</u>

## BROADWAY HOUSING COMMUNITIES, INC.

### Notes to Consolidated Financial Statements December 31, 2015 and 2014

#### NOTE K - THE ENDOWMENT (CONTINUED)

##### [6] Changes in endowment net assets: (continued)

	Year Ended December 31, 2014		
	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning of year	<u>\$ 37,511</u>	<u>\$ 12,928,000</u>	<u>\$ 12,965,511</u>
Investment return:			
Investment income	460,038		460,038
Net appreciation (realized and unrealized)	<u>81,218</u>		<u>81,218</u>
Total investment return	<u>541,256</u>		<u>541,256</u>
Other changes:			
Contributions		67,061	67,061
Appropriation of endowment assets for expenditure	<u>(532,934)</u>		<u>(532,934)</u>
Endowment assets, end of year	<u>\$ 45,833</u>	<u>\$ 12,995,061</u>	<u>\$ 13,040,894</u>

##### [7] Funds with deficiencies:

Due to unfavorable market fluctuations, from time to time the fair value of assets associated with individual donor-restricted endowment funds may decline below the historic dollar value of the donor's original permanently restricted contribution. Under the terms of NYPMIFA and UPMIFA, the Organization has no responsibility to restore such decrease in value. Deficiencies at December 31, 2015 were 308,627. There were no such deficiencies at December 31, 2014.

#### NOTE L - EMPLOYEE-BENEFIT PLAN

BHC maintains a 403(b) plan for its employees. All BHC employees are eligible to participate in the plan and allowed to make pre-tax salary reduction contributions up to the maximum amount allowed by the Internal Revenue Service. All employees who have satisfied the minimum service requirement of three months are entitled to receive an employer matching contribution equal to 100% of such employee's pre-tax salary reduction contributions, not to exceed 5% in 2015 and 2% in 2014 of such employee's compensation received during the plan years. Employer matching contributions made to the plan amounted to approximately \$46,000 and \$39,000, respectively, in 2015 and 2014.

#### NOTE M - INVESTMENT IN LIMITED PARTNERSHIP

In conjunction with the Sugar Hill Project, BSHHDFC holds a .01% interest in a limited partnership, BSHHLP, through its wholly-owned subsidiary, SHHI. The investment was accounted for using the equity method of accounting because of BSHHDFC's ability to exercise influence over the partnership through SHHI as the general partner, but the investment was not consolidated since the limited partners had substantive participating rights. Under the equity method of accounting, the initial investment is recorded at cost and is subsequently increased by BSHHDFC's share of earnings and capital contributions and decreased by BSHHDFC's share of losses and distributions. For 2015 and 2014, BSHHDFC did not report any investment activity. At December 31, 2015 and 2014, BSHHLP's total assets were approximately \$57,700,000 and \$51,300,000, respectively, and liabilities were approximately \$31,800,000 and \$45,200,000, respectively. For both 2015 and 2014, SHHI's share of losses in excess of its investment in BSHHLP was not material to the consolidated financial statements.

## BROADWAY HOUSING COMMUNITIES, INC.

### Notes to Consolidated Financial Statements December 31, 2015 and 2014

#### NOTE N - RENTAL INCOME

In March 2015, the Organization entered into a lease agreement for its garage space under a non-cancelable operating lease that expires in March 2035. In addition, to the base rent, the tenant is required to pay additional rent for real estate taxes. Rental income generated from this agreement in 2015 amounted to approximately \$64,000.

The minimum annual future rental income under the lease agreement is as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2016	\$ 102,000
2017	102,000
2018	102,000
2019	102,000
2020	109,650
Thereafter	<u>1,772,760</u>
	<u>\$ 2,290,410</u>

#### NOTE O - COMMITMENTS AND CONTINGENCIES

- [1] Government-funded activities are subject to audit by the applicable granting agencies. At December 31, 2015 and 2014, there were no material obligations outstanding as a result of such audits, and management believes that unaudited projects will not result in any material obligations.
- [2] The Organization has entered into various contracts and agreements in the normal course of business operations.
- [3] The Organization is a defendant with respect to various claims involving issues arising in the normal course of business. In the opinion of management and its legal counsel, the resolution of these complaints will not have a material impact on the financial position and changes in net assets of the Organization.
- [4] Capital One, N.A. (the "Investor") is the sole member of the Fund. The Fund is the 100% owner of the CDE. BHC and the Investor have entered into a Put and Call Agreement (the "Agreement"). BHC has the right to trigger the start of the put option period by giving notice to the Investor on March 15, 2019. If BHC gives the notice on March 15, 2019, then Investor has the right, until June 15, 2019, to require BHC to purchase its interest in the Fund (the "Put"). In the event that the Investor does not exercise the Put, BHC has the right, for six months following the end of the put option period, to require the Investor to sell its interest in the Fund for its fair market value as determined by mutual agreement or by appraisal (the "Call"). If BHC gives the Investor the notice described above on March 15, 2019, then BHC's right to Call the Investor's interest in the Fund extends until December 15, 2019. Furthermore, if BHC exercises its right under the Agreement and purchases the Fund, the mortgage receivable and mortgage payable, as disclosed in Note F[1] and Note H[1] would be cancelled.

## **BROADWAY HOUSING COMMUNITIES, INC.**

### **Notes to Consolidated Financial Statements December 31, 2015 and 2014**

#### **NOTE P - CONTINGENT OBLIGATIONS**

In December 1996, BHDFC was awarded \$697,153 as a direct subsidy from the Federal Home Loan Bank (the "FHLB") of New York's Affordable Housing Program to finance certain renovations at the properties owned by BHDFC. The subsidy was administered by JPMorgan Chase Bank, N.A. In connection with the subsidy, BHC guaranteed performance by BHDFC of certain environmental provisions of the loan documents and indemnified the administering bank and FHLB from any losses or damages they may incur as a result of any environmental conditions related to the properties. During 2014, BHDFC obtained a release from the mortgage subsidy.

In addition, in December 2001, BHDFC was awarded \$310,500 as a direct subsidy from the FHLB to finance additional renovations at the three properties owned by BHDFC. The subsidy is also administered by JPMorgan Chase Bank, N.A. In connection with this second subsidy, BHC has reaffirmed its obligations under the original guaranty and indemnity given to the administering bank and FHLB relating to environmental conditions.

The uncertain nature of any environmental conditions that would require performance under the guarantees do not allow for an estimate of potential liability for BHC. BHC has not been called upon to make payments under these guarantees to date, and the conditions requiring guarantee payments are considered unlikely by BHC. Such guarantee payments are not anticipated in the future, and as of December 31, 2015 and 2014, BHC has not recognized a liability under the guarantees.

BHC is contingently liable as guarantor for a \$5,000,000 unsecured loan payable by BHDFC. The loan is payable in installments over five years, on the date which is twelve months after completion of the Sugar Hill Project and closing of BSHHLP's permanent financing which occurred in February 2016.

#### **NOTE Q - CONCENTRATION OF CREDIT RISK AND REVENUE**

Financial instruments that potentially subject BHC to concentrations of credit risk consist principally of cash and cash-equivalent accounts that are deposited in financial institutions in amounts which, from time to time, may exceed federal insurance limits. However, management believes that the Organization does not face a significant risk of loss on these accounts related to the possible failure of these financial institutions.

#### **NOTE R - BEQUEST FROM ESTATE**

During 2011, BHC was notified that BHC would be the beneficiary to a portion of an estate and that the estimated value of the residue to BHC could be in excess of \$25,000,000. BHC entered into a Probate Proceeding Agreement (the "Agreement") with the trustee of the estate which stipulated that half of the funds received would be unrestricted and the other half would be designated as an endowment. In 2014, the trustees of the estate made a final distribution of \$134,122, of which \$67,061 was designated for both unrestricted contribution revenue and donor-restricted endowment in the consolidated statement of activities.