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June 8, 2018

Board of Directors
Providence Housing Corporation
219 N. Providence Place
West Terre Haute, IN 47885

We have reviewed the report prepared by Providence Housing Corporation and opined upon by Sackrider & Company, Inc., Independent Public Accountants, for the period September 1, 2015 to August 31, 2016. Per the *Independent Auditor's Report* the financial statements included in the report present fairly the financial condition Providence Housing Corporation as of August 31, 2016 and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Sackrider & Company, Inc. prepared all required independent auditor's reports in accordance with generally accepted auditing standards and guidelines established by the State Board of Accounts.

The report is filed with this letter in our office as a matter of public record.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

**PROVIDENCE HOUSING
CORPORATION**

**Financial Statements and Independent
Auditor's Report**

August 31, 2016

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Providence Housing Corporation
West Terre Haute, Indiana

We have audited the accompanying financial statements of Providence Housing Corporation (a nonprofit organization), which comprise the statement of financial position as of August 31, 2016, and the related statements of activities and cash flows for the year 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 audit. 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 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 risk 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 Providence Housing Corporation as of August 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The 2015 financial statements were reviewed by us, and our report thereon, dated January 13, 2016, stated we were not aware of any material modifications that should be made to those financial statements for them to be in conformity with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements.

Sackrider & Company, LLC

Terre Haute, Indiana
August 9, 2017

PROVIDENCE HOUSING CORPORATION

Statements of Financial Position

August 31,

ASSETS	Audited 2016	Reviewed 2015
Current assets		
Cash and cash equivalents	\$ 431,617	\$ 475,285
Accounts receivable	45	755
Total current assets	<u>431,662</u>	<u>476,040</u>
Restricted cash - tenant security deposits	24,718	20,502
Property and equipment, at cost		
Land and improvements	107,315	107,315
Building and improvements	5,491,049	4,605,293
Construction in progress	-	130,374
Leasehold improvements	17,174	17,174
Equipment	11,729	11,729
Vehicles	15,000	16,000
	<u>5,642,267</u>	<u>4,887,885</u>
Less accumulated depreciation	<u>1,775,187</u>	<u>1,583,937</u>
	<u>3,867,080</u>	<u>3,303,948</u>
Other assets		
Loan costs, net of amortization of \$5,149 for 2016 and \$4,753 for 2015	<u>2,773</u>	<u>3,169</u>
Total assets	<u>\$ 4,326,233</u>	<u>\$ 3,803,659</u>

The accompanying notes are an integral part of these statements.

	Audited 2016	Reviewed 2015
LIABILITIES AND NET ASSETS		
Current liabilities		
Current maturities of long-term debt	\$ 15,658	\$ 15,351
Accounts payable	10,661	11,936
Accrued interest payable	1,298	1,630
Accrued payroll withholdings	248	726
Total current liabilities	<u>27,865</u>	<u>29,643</u>
Tenant security deposits	23,810	20,362
Long-term debt, less current maturities	105,903	171,561
Net assets		
Unrestricted	527,685	450,550
Temporarily restricted	3,640,970	3,131,543
	<u>4,168,655</u>	<u>3,582,093</u>
Total liabilities and net assets	\$ <u>4,326,233</u>	\$ <u>3,803,659</u>

PROVIDENCE HOUSING CORPORATION

Statements of Activities

(with summarized financial information for the year ended August 31, 2015)

For the Years Ended August 31,

	Audited 2016			Reviewed 2015
	Unrestricted	Temporarily Restricted	Total	Total
Revenues and other support:				
Grant revenues	\$ -	\$ 769,626	\$ 769,626	\$ 170,374
Rental income	297,901	-	297,901	262,510
Miscellaneous income	2,501	-	2,501	2,085
Interest income	1,150	-	1,150	1,003
	<u>301,552</u>	<u>769,626</u>	<u>1,071,178</u>	<u>435,972</u>
Net assets released from restriction	260,199	(260,199)	-	-
Total revenues and other support	<u>561,751</u>	<u>509,427</u>	<u>1,071,178</u>	<u>435,972</u>
Expenses:				
Salaries	61,466	-	61,466	54,283
Phase VI fees	70,838	-	70,838	-
Repairs and maintenance	56,966	-	56,966	43,568
Insurance	18,055	-	18,055	16,828
Utilities	46,737	-	46,737	46,489
Professional fees	12,251	-	12,251	10,682
Travel	1,327	-	1,327	1,383
Telephone	1,314	-	1,314	1,306
Office supplies	1,798	-	1,798	1,809
Advertising and public relations	1,334	-	1,334	1,172
Depreciation and amortization	192,647	-	192,647	172,265
Postage	445	-	445	427
Interest expense	4,585	-	4,585	3,768
Miscellaneous	7,657	-	7,657	2,268
Payroll taxes	4,662	-	4,662	4,058
Pension	2,466	-	2,466	2,179
Property taxes	68	-	68	-
Total expenses	<u>484,616</u>	<u>-</u>	<u>484,616</u>	<u>362,485</u>
Change in net assets	77,135	509,427	586,562	73,487
Net assets at beginning of year	<u>450,550</u>	<u>3,131,543</u>	<u>3,582,093</u>	<u>3,508,606</u>
Net assets at end of year	<u>\$ 527,685</u>	<u>\$ 3,640,970</u>	<u>\$ 4,168,655</u>	<u>\$ 3,582,093</u>

The accompanying notes are an integral part of these statements.

PROVIDENCE HOUSING CORPORATION

Statements of Cash Flows

For the Years Ended August 31,

	Audited 2016	Reviewed 2015
Cash flows from operating activities:		
Net increase/(decrease) in total net assets	\$ 586,562	\$ 73,487
Adjustments to reconcile net increase in total net assets to net cash from operating activities:		
Depreciation and amortization	192,647	172,265
Changes in assets and liabilities:		
Accounts receivable	710	60
Accounts payable	(1,275)	2,666
Accrued expenses	(810)	(1,317)
Tenant security deposits	(768)	(1,092)
Net cash from operating activities	777,066	246,069
Cash flows from investing activities:		
Purchase of property and equipment	(755,383)	(7,897)
Construction in progress	-	(130,374)
Net cash from investing activities	(755,383)	(138,271)
Cash flows from financing activities:		
Borrowings	-	50,000
Payments on long-term debt	(65,351)	(180,203)
Net cash from financing activities	(65,351)	(130,203)
Net increase (decrease) in cash and cash equivalents	(43,668)	(22,405)
Cash and cash equivalents at beginning of year	475,285	497,690
Cash and cash equivalents at end of year	\$ 431,617	\$ 475,285

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Interest paid	\$ 4,917	\$ 4,419
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DISCLOSURE OF ACCOUNTING POLICY:

Cash, as used in the statement of cash flows, consists of amounts in checking, savings and money market accounts.

The accompanying notes are an integral part of these statements.

PROVIDENCE HOUSING CORPORATION

Notes to Financial Statements

August 31, 2016 and 2015

NOTE 1 - ORGANIZATION

Providence Housing Corporation (PHC) is a not-for-profit organization formed for the purpose of providing affordable housing opportunities for residents of West Terre Haute, Indiana, including housing rehabilitation for qualified individuals, senior citizen apartments, single family homes and new home construction for citizens who qualify based on income. PHC is supported primarily through grants, rents and contributions from the general public.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of PHC is presented to assist in understanding PHC's financial statements. The financial statements are representations of PHC's management, who is responsible for the integrity and objectivity of the financial statements. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Cash and Cash Equivalents

Unrestricted demand deposits and interest bearing checking accounts intended to be used for current operations are classified as cash and cash equivalents.

Receivables

The valuation of accounts and grants receivable is based upon a detail analysis of past due accounts and the history of uncollectible accounts. Estimated uncollectible accounts increase the allowance for doubtful accounts and when the receivable is written off, the allowance for doubtful accounts is decreased. Management considers all receivable amounts to be fully collectible. Accordingly, no allowance for uncollectible accounts has been recorded.

Restricted Cash

Assets whose use is restricted by donors for a specific purpose, designated by PHC's Board of Directors for future use, and security deposits are classified as assets whose use is limited.

Property, Equipment and Depreciation

PHC has a policy to capitalize property and equipment with a useful life greater than one year. Purchased property and equipment are stated at cost. Donated property is stated at fair market value as of the date of donation. Depreciation of property and equipment is computed by the straight-line method over their estimated useful lives.

Donations

PHC records donated services that require specific expertise and would normally have been purchased, and donated services that create or enhance non-financial assets, at fair market value. Those donated services that do not meet these specific criteria are not reflected in the financial statements. Donations other than cash are recorded at their fair market value as of the date of donation. Donations of long-lived assets with explicit restrictions that specify how the assets are to be used and donations of cash or other assets that must be used to acquire long-lived assets

PROVIDENCE HOUSING CORPORATION

Notes to Financial Statements - Continued

August 31, 2016 and 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Donations - continued

are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, PHC reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Assets restricted by donors for future use are classified as temporarily restricted. When a donor's temporary restriction expires, those net assets are reclassified to unrestricted net assets. Temporarily restricted donations are treated as unrestricted if the restriction expires in the same period as it is received.

Conditional promises to give, when dependent on the occurrence of specified future and uncertain events to bind the promise, are recognized when the conditions on which they depend are substantially met.

Functional Classification

Total expenses reported on the Statement of Activities by functional classification are as follows at August 31:

	<u>2016</u>	<u>2015</u>
Program services	\$ 471,031	\$ 350,631
Management and general	13,585	11,854
Fundraising	-	-
	<u>\$ 484,616</u>	<u>\$ 362,485</u>

Loan Costs

Loan costs are amortized on the straight-line basis over the life of the loan.

Estimates

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

Income Taxes

The Organization is a not-for-profit corporation within the terms of Internal Revenue Code Section 501(c)(3) and, therefore, is not subject to income taxes.

The Organization's policy is to evaluate the likelihood that its uncertain tax positions will prevail upon examination based on the extent to which those positions have substantial support within the Internal Revenue Code and Regulations, Revenue Rulings, court decisions, and other evidence. It is the opinion of management that the Organization has no uncertain tax positions.

PROVIDENCE HOUSING CORPORATION

Notes to Financial Statements - Continued

August 31, 2016 and 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Income Taxes - continued

The Organization's information returns are subject to examination by the appropriate taxing jurisdictions. As of August 31, 2016, the Organization's federal and state tax returns for the last three years are open for examination as each year's returns remain open for examination for three years.

Subsequent Events

Management has evaluated subsequent events through August 9, 2017, the date which the financial statements were available for issue.

Comparative Financial Information

The 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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended August 31, 2015 from which the summarized information was derived.

Reclassifications

Certain 2015 amounts have been reclassified to conform to 2016 presentation.

NOTE 3 - RELATED PARTY TRANSACTIONS

During the year ended August 31, 2016 and 2015, building maintenance services were provided to PHC by the husband of the director. Amounts paid for these services during the years ended August 31, 2016 and 2015 was \$745 and \$1,255, respectively.

NOTE 4 - LONG-TERM DEBT

Long-term debt consists of the following at August 31,:

	<u>2016</u>	<u>2015</u>
Mortgage note with Indiana Housing Finance Authority, with a face amount of \$210,000 discounted to net present value using a borrowing rate of 7%, payable in annual installments of \$12,830, with remaining unpaid principal and interest due December 2017. The note bears interest at 2%. The Phase I apartment building is pledged as collateral on this note.	\$ 83,033	\$ 93,983
Mortgage note with Indiana Housing Finance Authority, with a face amount of \$86,000 discounted to net present value using a borrowing rate of 7%, payable in annual installments of \$5,259, with remaining unpaid principal and interest due June 2018. The note bears interest at 2%. The Phase II apartment building is pledged as collateral on this note.	38,528	42,929

PROVIDENCE HOUSING CORPORATION

Notes to Financial Statements - Continued

August 31, 2016 and 2015

NOTE 4 - LONG-TERM DEBT - continued

	<u>2016</u>	<u>2015</u>
Unsecured line of credit with Terre Haute Savings Bank, payable in one lump sum due January 17, 2017. Interest of 4.25% due in monthly installments.	\$ <u>-</u>	\$ <u>50,000</u>
	121,561	186,912
Less current maturities	<u>(15,658)</u>	<u>(15,351)</u>
	\$ <u>105,903</u>	\$ <u>171,561</u>

Undiscounted future maturities of long-term debt are as follows:

Year ending August 31, 2017	\$ 15,658
2018	105,903
2019	-
2020	-
2021	-
Thereafter	<u>-</u>
	\$ <u>121,561</u>

NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consists of the following as of August 31,:

	<u>2016</u>	<u>2015</u>
Property and equipment		
less accumulated depreciation	\$ 3,640,970	\$ 3,001,169
Construction in progress	<u>-</u>	<u>130,374</u>
	\$ <u>3,640,970</u>	\$ <u>3,131,543</u>

The property and equipment represents five phases of a senior apartment project in West Terre Haute, Indiana. PHC's use of its investment in these projects is limited by deed restriction to low-income housing for a period of 20 years. The restrictions expire between 2023 and 2035.

Failure to comply with the deed restrictions may result in a percentage of original grants received for construction to become refundable.

NOTE 6 - PENSION EXPENSE

PHC contributes 3% of salaries on the behalf of the director to an IRA. Pension expense for the years ended August 31, 2016 and 2015 is \$2,466 and \$2,179, respectively.

NOTE 7 - CONCENTRATION OF CREDIT RISK

PHC maintains cash balances at a local financial institution. The Organization maintains bank account balances in excess of the amount covered by the Federal Deposit Insurance Corporation (FDIC). Management does not believe that PHC is exposed to any significant credit risk on uninsured amounts.