

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

***CONRAD HOUSE***  
**[a nonprofit organization]**

**June 30, 2018 and 2017**

**Conrad House**

**FINANCIAL STATEMENTS**

***TABLE OF CONTENTS***

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	Page(s)
<b><i>Independent Auditor's Report</i></b> -----	1
<b><i>Notes to Financial Statements</i></b> -----	2 - 5
<b><i>Financial Statements</i></b>	
Statements of Financial Position -----	6
Statement of Unrestricted Activities - June 30, 2018 -----	7
Statement of Unrestricted Functional Expenses - June 30, 2018 -----	8
Statement of Unrestricted Functional Expenses - June 30, 2017 -----	9
Statements of Cash Flows -----	10

***INDEPENDENT AUDITOR'S REPORTS***

**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Conrad House

**Report on the Financial Statements**

I have audited the accompanying financial statements of Conrad House (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, 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**

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Opinion**

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Conrad House as of June 30, 2018 and 2017, 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.

**SEAN T. SULLIVAN, CPA, PC**

*SEAN T. SULLIVAN, CPA, PC*

October 23, 2018

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CERTIFIED PUBLIC ACCOUNTANT

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***NOTES TO FINANCIAL STATEMENTS***

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2018 and 2017

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**NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows -

1. Nature of Activities

Conrad House operates an independent living facility for the elderly located in Harborcreek, Pennsylvania.

2. Affiliation

Conrad House is an affiliate of Brevillier Village Foundation, Inc., which operates an adult community living and nursing care facility.

3. Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

4. Cash and Cash Equivalents

For purposes of the statements of cash flows, Conrad House considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. There are no cash equivalents at June 30, 2018 or 2017.

5. Concentration of Credit Risks / Fair Value of Financial Instruments

Conrad House maintains cash balances at two financial institutions and a mortgage servicing company. The FDIC insures each cash account up to \$250,000. Amounts in excess of insured amounts were \$0 at June 30, 2018 and 2017.

6. Property and Equipment and Related Depreciation

The Organization does not maintain a specific capitalization policy but evaluates items to be capitalized on an individual purchase basis. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets as follows – Buildings 40 years; Furniture and fixtures 5-10 years; Improvements 5-20 years.

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any remaining gain or loss is reflected in operations for the period. The cost of maintenance and repairs is charged to operations as incurred; significant renewals and improvements are capitalized.

7. Leasehold

The land upon which Conrad House is built is leased from the Cathedral of St. Paul, Erie, Pennsylvania, for a term of sixty (60) years ending in 2032. The lease had an original cost of \$21,000 that was amortized on a straight-line basis over 40 years.

8. Real Estate Taxes

The taxing bodies overseeing the taxability of Conrad House's real estate have resolved that

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2018 and 2017

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**NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES** (continued)

8. Real Estate Taxes

Conrad House is fully exempt from real estate taxes. However, the Erie County Board of Tax Assessment Appeals challenged the real estate tax exemption of certain not-for-profit organizations in Erie County, of which Conrad House was included. Conrad House has executed a “fifty-percent agreement” with its respective tax authorities whereby it has agreed to pay fifty percent of its real estate tax assessments in order to retain its tax-exempt status.

9. Pension Plan

Conrad House participates in an employer non-matching, salary reduction plan under Internal Revenue Code Section 401(k) maintained by Brevillier Village Foundation, Inc. The plan covers all employees who have completed two years of service and attained age twenty-one. Annual contributions to the plan equal three-percent of each eligible employee's compensation. Pension contributions amounted to \$5,970 in 2018 and \$3,390 in 2017.

10. Functional Expense Allocation

The costs of providing the various programs and other activities have been summarized on a functional basis in the *Statement of Activities*. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

11. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

12. Contributed Services

No amounts have been reflected in the financial statements for donated services. Conrad House pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist Conrad House with specific assistance programs, campaign solicitations, and various committee assignments. Conrad House received 3,871 volunteer hours during the year ended June 30, 2018 and 7,111 during the year ended June 30, 2017.

13. Income taxes

Conrad House qualifies as an exempt organization from federal and state income taxes under Internal Revenue Code Section 501(c)(3). However, any income from activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction under IRC Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under IRC Section 509(a)(2). The Organization's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending June 30, 2018, 2017, 2016 and 2015 are subject to examination by the IRS, generally for three years after they were filed.

Conrad House

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2018 and 2017

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**NOTE B - PROPERTY AND EQUIPMENT**

Property and equipment consists of –

	As of June 30,	
	2018	2017
Building	\$ 2,280,994	\$ 2,280,994
Building improvements	5,152,308	5,111,043
Furniture and fixtures	462,800	447,759
Total cost	7,896,102	7,839,796
Less accumulated depreciation	4,745,521	4,468,351
Net book value	<u>\$ 3,150,581</u>	<u>\$ 3,371,445</u>

**NOTE C - LONG-TERM DEBT**

Long-term debt consists of –

	As of June 30,	
	2018	2017
Variable rate bank mortgage <sup>(1)</sup>	\$ 3,672,999	\$ 3,756,473
Current maturities	101,469	96,771
	<u>\$ 3,571,530</u>	<u>\$ 3,659,702</u>

(1) Variable rate bank mortgage due February 01, 2039 bearing interest at a variable rate equal to 2.75% above the Federal Home Loan Bank five-year fixed advance rate (5.00% as of June 30, 2018 and 2017).

In addition to Conrad House the loan has two affiliated entities – Ball Pavilion and Brevillier Village Foundation – as named borrowers on the loan.

The loan agreement requires maintenance of a restricted replacement reserve account which (a) requires a monthly deposit equal to one-twelfth of 3% of the prior year' gross rents, and (b) prior approval of the Bank for withdrawals from the account.

The loan requires minimum debt service coverage as of the last day of each fiscal year, on a consolidated basis of all the borrowers, of not less than 125% of the prior year's current portion of long-term debt. The calculated minimum debt service coverage was 181% as of June 30, 2018 and 157% as of June 30, 2017.

Any additional borrowing in excess of \$100,000 from a third-party lender require the prior written consent of the Bank.

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2018 and 2017

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**NOTE C - LONG-TERM DEBT** (continued)

Future maturities of long-term debt subsequent to June 30, 2018 consist of –

2019	\$ 101,469
2020	106,395
2021	111,560
2022	116,976
2023	122,655
2024 – 2028	708,593
2029 – 2033	898,127
2034 – 2038	1,138,359
2039	368,865
	<u>\$ 3,672,999</u>

**NOTE D - TRANSACTIONS WITH AFFILIATES**

Conrad House is affiliated through common management with Brevillier Village Foundation, Inc., Brevillier Trust and the Ball Pavilion. Conrad House operates under a management agreement with Brevillier Village Foundation, Inc. that provides management and financial support services.

Payments for services rendered by Brevillier Village Foundation, Inc. amounted to -

	<u>For the year ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Management services	\$ 84,239	\$ 81,868
Financial support services	<u>3,420</u>	<u>3,420</u>
	<u>\$ 87,659</u>	<u>\$ 85,288</u>

Accounts payable - affiliate at June 30, 2018 and 2017 represents amounts due to Brevillier Village Foundation, Inc., Ball Pavilion, Barnabas Court – South and Barnabas Court – North.

**NOTE E - LEASES**

Conrad House leases space on its rooftop antennae to a communications company. The lease has an initial lease term of five years commencing December 2007, with automatic five-year renewal options. Lease payments are \$1,000 monthly for the initial five years of the lease, with a 15% increase of the prior base rent for each renewal period. Lease income amounted to \$15,008 in 2018 and \$13,800 in 2017.

**NOTE F - SUBSEQUENT EVENTS**

Conrad House has evaluated subsequent events through October 23, 2018, the date which the financial statements are available to be issued.

***FINANCIAL STATEMENTS***

Conrad House

**STATEMENTS OF FINANCIAL POSITION**

	As of June 30,	
	2018	2017
<b>ASSETS</b>		
Cash (Note A4.,A5.)	\$ 70,978	\$ 35,840
Tenant and other receivables	54,047	16,654
Prepaid expenses	30,899	69,399
Tenants' security deposits	81,229	85,759
Property and equipment, net (Notes A6.,B,C)	3,150,581	3,371,445
Leasehold, net of \$21,000 accumulated amortization (Note A7.)	-	-
Total assets	<u>\$ 3,387,734</u>	<u>\$ 3,579,097</u>
<b>LIABILITIES</b>		
Current maturities of long-term debt (Note C)	\$ 101,469	\$ 96,771
Accounts payable – affiliates, net (Note D)	1,657,102	1,610,176
Deferred tenant payments	-	1,974
Tenants' security deposits	79,433	83,985
Long-term debt (Note C)	3,571,530	3,659,702
Total liabilities	<u>5,409,534</u>	<u>5,452,608</u>
<b>NET ASSETS (DEFICIT)</b>		
Unrestricted	( 2,021,800 )	( 1,873,511 )
Total net assets	<u>( 2,021,800 )</u>	<u>( 1,873,511 )</u>
Total liabilities and net assets	<u>\$ 3,387,734</u>	<u>\$ 3,579,097</u>

Conrad House

**STATEMENTS OF UNRESTRICTED ACTIVITIES**

	For the year ended June 30,	
	2018	2017
Support and Revenue		
Rents	\$ 832,480	\$ 817,594
Tenant assistance payments	29,840	30,356
Service fees	30,075	31,159
	892,395	879,109
Less vacancies	( 22,074 )	( 25,689 )
Net rental revenue	870,321	853,420
Home care income	62,943	70,672
Share care income	264,453	-
Interest revenue	32	18
Beauty and health clinic rent	2,784	2,784
Rooftop antenna rental (Note E)	15,008	13,800
Other revenue	4,584	3,865
Total support and revenue	1,220,125	944,559
Expenses		
Program Services		
Subsidized housing	1,257,203	1,008,961
Support Services		
Management and general	111,211	110,223
Total expenses	1,368,414	1,119,184
<b>CHANGE IN NET ASSETS</b>	<b>( 148,289 )</b>	<b>( 174,625 )</b>
Net assets (deficit) - beginning of year	( 1,873,511 )	( 1,698,886 )
Net assets (deficit) - end of year	( \$ 2,021,800 )	( \$ 1,873,511 )

Conrad House

**STATEMENTS OF UNRESTRICTED FUNCTIONAL EXPENSES**

	For the year ended June 30,			
	2018			2017
	Program Services	Support Services	Total	Total
	Subsidized Housing	Management and General		
Salaries and Employee Benefits				
Salaries	\$ 342,319	\$ -	\$ 342,319	\$ 158,681
Employee benefits/payroll taxes	57,964	-	57,964	28,107
	400,283	-	400,283	186,788
Administrative				
Professional outside services	11,621	-	11,621	12,037
Utilities	151,369	-	151,369	143,664
Maintenance and supplies	84,049	-	84,049	77,179
Food	15,494	-	15,494	12,541
Other supplies	10,746	1,000	11,746	3,423
Insurance	35,781	4,387	40,168	45,181
Dues and meetings	1,029	3,655	4,684	4,809
Telephone	770	-	770	1,921
Management fee (Note D)	-	84,239	84,239	81,868
Financial service fee (Note D)	-	3,420	3,420	3,420
Printing and advertising	-	14,510	14,510	15,841
Office expense	18,374	-	18,374	1,063
Miscellaneous	6,934	-	6,934	8,525
	336,167	111,211	447,378	411,472
Real estate taxes (Note A8.)	55,027	-	55,027	50,718
Interest expense	188,556	-	188,556	192,672
Depreciation and amortization	277,170	-	277,170	277,534
	<u>\$ 1,257,203</u>	<u>\$ 111,211</u>	<u>\$ 1,368,414</u>	<u>\$ 1,119,184</u>
	<b>2017</b>			
	<u>\$ 1,008,961</u>	<u>\$ 110,223</u>	<u>\$ 1,119,184</u>	

See *Independent Auditor's Report*.

Conrad House

**STATEMENT OF UNRESTRICTED FUNCTIONAL EXPENSES**

	For the year ended June 30, 2017		
	Program Services	Support Services	Total
	Subsidized Housing	Management and General	
Salaries and Employee Benefits			
Salaries	\$ 158,681	\$ -	\$ 158,681
Employee benefits/payroll taxes	28,107	-	28,107
	186,788	-	186,788
Administrative			
Professional outside services	12,037	-	12,037
Utilities	143,664	-	143,664
Maintenance and supplies	77,179	-	77,179
Food	12,541	-	12,541
Other supplies	1,455	1,968	3,423
Insurance	41,236	3,945	45,181
Dues and meetings	1,628	3,181	4,809
Telephone	1,921	-	1,921
Management fee (Note D)	-	81,868	81,868
Financial service fee (Note D)	-	3,420	3,420
Printing and advertising	-	15,841	15,841
Office expense	1,063	-	1,063
Miscellaneous	8,525	-	8,525
	301,249	110,223	411,472
Real estate taxes (Note A8.)	50,718	-	50,718
Interest expense	192,672	-	192,672
Depreciation and amortization	277,534	-	277,534
	<u>\$ 1,008,961</u>	<u>\$ 110,223</u>	<u>\$ 1,119,184</u>

Conrad House

**STATEMENTS OF CASH FLOWS**

	<b>For the year ended June 30,</b>	
	<b>2018</b>	<b>2017</b>
<i>Cash flows from operating activities -</i>		
Rental receipts	\$ 830,955	\$ 847,124
Other operating receipts	349,772	91,121
	<u>1,180,727</u>	<u>938,245</u>
Payments for salaries and employee benefits	( 400,283 )	( 186,788 )
Payments for administrative expenses	( 400,780 )	( 370,315 )
Payments for real estate taxes	( 16,200 )	( 86,840 )
	<u>363,464</u>	<u>294,302</u>
<i>Net cash provided by operating activities</i>		
<i>Cash flows from investing activities -</i>		
Net additions to property and equipment	( 56,306 )	( 38,743 )
Interest revenue	32	18
	<u>56,274</u>	<u>38,725</u>
<i>Net cash used in investing activities</i>		
<i>Cash flows from financing activities -</i>		
Net (additions) to tenants' security deposits	( 22 )	( 1 )
Repayment of long-term debt and HUD loan	( 83,474 )	( 79,359 )
Payment of interest	( 188,556 )	( 192,672 )
	<u>272,052</u>	<u>272,032</u>
<i>Net cash used in financing activities</i>		
<b>Net increase (decrease) in cash</b>		
	<b>35,138</b>	<b>( 16,455 )</b>
Cash at beginning of year	<u>35,840</u>	<u>52,295</u>
Cash at end of year	<u>\$ 70,978</u>	<u>\$ 35,840</u>
 <i>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</i>		
Change in net assets	( \$ 148,289 )	( \$ 174,625 )
Adjustments -		
Depreciation and amortization	277,170	277,534
Interest revenue	( 32 )	( 18 )
Interest expense	188,556	192,672
(Increase) decrease in tenant receivables	( 37,393 )	( 6,959 )
(Increase) decrease in prepaid expenses	38,500	( 37,331 )
Increase (decrease) in accounts payable – affiliates	46,926	42,366
Increase (decrease) in deferred tenant payments	( 1,974 )	663
	<u>\$ 363,464</u>	<u>\$ 294,302</u>
<i>Net cash provided by operating activities</i>		

See *Independent Auditor's Report*.