

Midlands Housing Alliance, Inc.

Financial Statements and
Independent Auditors' Report

*As of and for the Years
Ended June 30, 2020 and 2019*

Midlands Housing Alliance, Inc.

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Independent Auditors' Report

To the Board of Directors
Midlands Housing Alliance, Inc.
Columbia, South Carolina

We have audited the accompanying financial statements of Midlands Housing Alliance, Inc. (a nonprofit), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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, 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.



MOORE BEAUSTON WOODHAM
150 N. NINTH STREET / COLUMBIA, SC 29169
tel: (803) 791.7472 fax: (803) 796.1168
FULLSERVICECPA.COM

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Midlands Housing Alliance, Inc. as of June 30, 2020 and 2019, 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.

Mark Beaufort ; Woodhewer LLP

Columbia, South Carolina
October 27, 2020

Midlands Housing Alliance, Inc.

Statements of Financial Position

As of June 30,

| ASSETS | 2020 | 2019 |
|--|---------------------|---------------------|
| | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 1,311,696 | \$ 772,956 |
| Investments - other | 52,551 | 103,920 |
| Grants receivable | | |
| Donor restricted for time or purpose | 375,905 | 379,164 |
| Without donor restriction | 13,012 | 137,493 |
| Other receivables | 40,634 | 18,352 |
| Prepaid expenses | 8,327 | 13,750 |
| Total Current Assets | 1,802,125 | 1,425,635 |
| Non-Current Assets: | | |
| Property and equipment, net | 7,704,186 | 8,090,421 |
| Investments - other | 340,954 | 265,827 |
| Beneficial interest in assets held by others | 61,251 | 60,223 |
| Total Non-Current Assets | 8,106,391 | 8,416,471 |
| Total Assets | \$ 9,908,516 | \$ 9,842,106 |
| LIABILITIES AND NET ASSETS | | |
| Current Liabilities: | | |
| Accounts payable | \$ 35,150 | \$ 22,569 |
| Accrued expenses | 130,539 | 132,994 |
| Deferred revenue | 292,500 | - |
| Total Current Liabilities | 458,189 | 155,563 |
| Net Assets: | | |
| Without donor restrictions | 9,074,422 | 9,307,379 |
| With donor restrictions | 375,905 | 379,164 |
| Total Net Assets | 9,450,327 | 9,686,543 |
| Total Liabilities and Net Assets | \$ 9,908,516 | \$ 9,842,106 |

See accompanying notes and independent auditors' report.

Midlands Housing Alliance, Inc.
Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2020

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|-------------------------------|----------------------------|---------------------|
| REVENUES AND OTHER SUPPORT | | | |
| Grants | \$ 796,442 | \$ 274,883 | \$ 1,071,325 |
| Contributions | 1,112,918 | 41,000 | 1,153,918 |
| Contract | 279,223 | - | 279,223 |
| Rental | 37,888 | - | 37,888 |
| Miscellaneous | 20,923 | - | 20,923 |
| Investment income | 22,311 | - | 22,311 |
| Gain on sale of donated assets | 70 | - | 70 |
| Unrealized loss on investments | (2,200) | - | (2,200) |
| Net assets released from restriction | 319,142 | (319,142) | - |
| Total Revenues and Other Support | 2,586,717 | (3,259) | 2,583,458 |
| EXPENSES | | | |
| Program services | 2,335,687 | - | 2,335,687 |
| Management and general | 286,133 | - | 286,133 |
| Fundraising | 197,854 | - | 197,854 |
| Total Expenses | 2,819,674 | - | 2,819,674 |
| Decrease in Net Assets | (232,957) | (3,259) | (236,216) |
| Net Assets at Beginning of Year | 9,307,379 | 379,164 | 9,686,543 |
| Net Assets at End of Year | \$ 9,074,422 | \$ 375,905 | \$ 9,450,327 |

See accompanying notes and independent auditors' report.

Midlands Housing Alliance, Inc.
Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2019

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|-------------------------------|----------------------------|---------------------|
| REVENUES AND OTHER SUPPORT | | | |
| Grants | \$ 914,511 | \$ 150,625 | \$ 1,065,136 |
| Contributions | 1,033,801 | 80,000 | 1,113,801 |
| Contract | 297,089 | 1,307 | 298,396 |
| Rental | 49,886 | - | 49,886 |
| Miscellaneous | 15,483 | - | 15,483 |
| Investment income | 10,863 | - | 10,863 |
| Gain on Disposal of Assets | 5,820 | - | 5,820 |
| Unrealized gain on investments | 9,362 | - | 9,362 |
| Net assets released from restriction | 330,426 | (330,426) | - |
| Total Revenues and Other Support | 2,667,241 | (98,494) | 2,568,747 |
| EXPENSES | | | |
| Program services | 2,305,223 | - | 2,305,223 |
| Management and general | 297,577 | - | 297,577 |
| Fundraising | 219,843 | - | 219,843 |
| Total Expenses | 2,822,643 | - | 2,822,643 |
| Decrease in Net Assets | (155,402) | (98,494) | (253,896) |
| Net Assets at Beginning of Year | 9,462,781 | 477,658 | 9,940,439 |
| Net Assets at End of Year | \$ 9,307,379 | \$ 379,164 | \$ 9,686,543 |

See accompanying notes and independent auditors' report.

Midlands Housing Alliance, Inc.

Statements of Functional Expenses

For the Year Ended June 30, 2020, with Comparative Totals for the Year Ended June 30, 2019

| | 2020 | | | | | | 2019 | |
|--|---------------------|------------------------|-----------------------|------------------------|-------------------|------------------------|---------------------|---------------------|
| | Grants | Other Program Services | Total Program Service | Management and General | Fundraising | Total Support Services | Total | |
| Expenses: | | | | | | | | |
| Salaries, benefits and payroll taxes | \$ 1,299,825 | \$ 67 | \$ 1,299,892 | \$ 143,366 | \$ 155,464 | \$ 298,830 | \$ 1,598,722 | \$ 1,581,788 |
| Depreciation | 377,995 | - | 377,995 | 7,993 | 3,996 | 11,989 | 389,984 | 383,868 |
| Telephone and utilities | 173,058 | - | 173,058 | 18,062 | 6,326 | 24,388 | 197,446 | 191,401 |
| Program supplies | 152,967 | 741 | 153,708 | 8,089 | - | 8,089 | 161,797 | 138,859 |
| Contract services | 87,254 | 12,560 | 99,814 | 2,446 | - | 2,446 | 102,260 | 138,258 |
| Equipment rental, maintenance and repair | 49,204 | - | 49,204 | 14,210 | 2,500 | 16,710 | 65,914 | 99,993 |
| Insurance | 58,581 | - | 58,581 | 19,265 | - | 19,265 | 77,846 | 65,773 |
| Land rental and leases | 31,527 | - | 31,527 | 7,006 | 5,255 | 12,261 | 43,788 | 43,788 |
| Consulting and professional fees | 52,617 | - | 52,617 | 60,984 | 922 | 61,906 | 114,523 | 61,663 |
| Fundraising events | - | - | - | 480 | 21,736 | 22,216 | 22,216 | 35,975 |
| Memberships and dues | 1,680 | - | 1,680 | 423 | 52 | 475 | 2,155 | 2,066 |
| Postage | 3,305 | - | 3,305 | 159 | 262 | 421 | 3,726 | 4,142 |
| Printing and publications | 368 | - | 368 | - | 59 | 59 | 427 | 5,141 |
| Conferences and professional development | 2,212 | - | 2,212 | - | - | - | 2,212 | 4,638 |
| Other expenses | 31,726 | - | 31,726 | 3,650 | 1,282 | 4,932 | 36,658 | 65,290 |
| Total Functional Expenses | \$ 2,322,319 | \$ 13,368 | \$ 2,335,687 | \$ 286,133 | \$ 197,854 | \$ 483,987 | \$ 2,819,674 | \$ 2,822,643 |
| | | | 82.8% | 10.1% | 7.0% | | | |

See accompanying notes and independent auditors' report.

Midlands Housing Alliance, Inc.

Statements of Cash Flows For the Year Ended June 30,

| | 2020 | 2019 |
|--|---------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Decrease in net assets | \$ (236,216) | \$ (253,896) |
| Adjustments to reconcile decrease in net assets to cash provided by operating activities: | | |
| Depreciation | 389,984 | 383,868 |
| Unrealized loss (gain) on investments | 1,713 | (3,513) |
| (Increase) decrease in operating assets: | | |
| Beneficial interest in assets held by others | (1,028) | (2,549) |
| Promises to give | - | 9,580 |
| Grants receivable restricted for time or purpose | 3,259 | 98,494 |
| Grants receivable without donor restriction | 124,481 | (77,122) |
| Other receivables | (22,282) | 3,475 |
| Prepaid expenses | 5,423 | (5,110) |
| (Decrease) increase in operating liabilities: | | |
| Accounts payable | 12,581 | (13,314) |
| Accrued expenses | (2,455) | - |
| Deferred revenue | 292,500 | 22,544 |
| Net cash provided by operating activities | <u>567,960</u> | <u>162,457</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of investments | (25,471) | (6,436) |
| Purchases of property and equipment | (3,749) | (92,694) |
| Net cash used by investing activities | <u>(29,220)</u> | <u>(99,130)</u> |
| Increase in cash | 538,740 | 63,327 |
| Cash, beginning of year | <u>772,956</u> | <u>709,629</u> |
| Cash, end of year | <u>\$ 1,311,696</u> | <u>\$ 772,956</u> |

See accompanying notes and independent auditors' report.

Midlands Housing Alliance, Inc.

Notes to the Financial Statements

As of and for the Years Ended June 30, 2020 and 2019

Note 1 – Summary of Significant Accounting Policies

Description of Operating Activity

The Midlands Housing Alliance, Inc. (the Organization) was organized as a nonprofit corporation in South Carolina in 2005, and was initially called South Carolina Cares, Inc. In 2008, the Organization's name was changed to Midlands Housing Alliance, Inc., as the Organization's mission was realized. The Organization manages and operates Transitions, a facility that opened in June of 2011. Transitions provides shelter and comprehensive services for people who are homeless. The facility helps adult men and women overcome barriers to housing. The 260-bed facility has emergency, convalescent, program, and extended program beds to engage clients at whatever level they need. Approximately 90 additional clients come into the Day Center during the day to receive services. These people living on the streets or otherwise homeless are engaged by day counselors. These day users are encouraged to participate in services and join the program after entering emergency beds. After engaging in low-demand shelter or program beds, the clients can progress to extended program housing for longer recovery or special programs such as Youth or Veterans' beds. Transitions also conducts rapid rehousing to place people more quickly.

The Organization's mission is to engage and equip homeless adults of the Midlands to transition into stability and permanent housing. A majority of the men and women Transitions serves reside in Lexington or Richland counties. There are over sixty partnering agencies that come to Transitions to help clients in their particular service area. Partnering together, Transitions has been able to place approximately 2,817 clients into permanent housing and another approximately 9,332 into positive outcomes in its nine years of operation. Services offered at Transitions include meals, showers, washers and dryers, restrooms, resource center, computers, clothing, telephones, healthcare, mental health counseling and treatment, veterans services, Community Long Term Care, life skills classes, substance abuse counseling, jobs training, rapid housing, and literacy skills. Case management is critical to the transformation process as people are guided to successful outcomes and towards graduation from the Transitions program. As residents participate more fully in the program, they engage in community service and personal development, leading to a source of income and the necessary life skills to maintain permanent housing once they graduate from Transitions.

Transitions also runs the Inclement Weather Center (IWC) for the City of Columbia (the "City") as a subcontractor for United Way of the Midlands. This IWC opens on nights when it is 40 degrees Fahrenheit or colder from November 1st through March 31st. This project requires extensive coordination with the City and other partners. During fiscal year 2020, services were provided to approximately 736 unique guests.

Basis of Accounting

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

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. The Organization had no net assets that were perpetual in nature at June 30, 2020 and 2019.

Midlands Housing Alliance, Inc.

Notes to the Financial Statements

As of and for the Years Ended June 30, 2020 and 2019

Note 1 – Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions by management. These estimates could affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ and could be material. Significant estimates were management's estimate of useful lives for depreciation and fair market value of investments.

Cash and Cash Equivalents

The Organization considers all highly-liquid instruments purchased with a maturity of three months or less to be cash equivalents.

The Organization maintains its cash in cash deposit accounts which at times during the year may exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation (FDIC). The Organization has not experienced any losses in such accounts and feels the commercial banks they use are financially sound. The Organization's cash balances exceeded the FDIC limit by approximately \$727,000 at June 30, 2020. The Organization does not believe it is exposed to any significant risk on its cash balances.

Grant Receivables

Grant receivables represent noninterest-bearing amounts due from various local and state granting agencies and are carried at realizable value. Management determines an allowance for doubtful accounts by identifying troubled accounts using historical experience. Management has deemed all grant receivables to be collectible at year-end.

Investments – Other

Investments – Other is comprised of certificates of deposit (CD) held for investment that are not considered marketable securities and fixed income securities classified as held-to-maturity. Realized and unrealized gains and losses are included in total revenues and support. Fixed income securities are carried at fair market value. CDs with original maturities greater than three months and remaining maturities less than one year are classified as short-term while those with remaining maturities greater than one year are classified as long-term. CDs are reported at cost plus any accrued interest through the reporting date.

Property, Building and Equipment

Furniture and equipment are stated at cost if purchased and fair market value if donated. The Organization provides for depreciation of property and equipment utilizing the straight-line method over their useful lives. Costs of major additions and improvements are capitalized. The costs of assets retired or otherwise disposed of, and the related allowances for depreciation are eliminated from the respective accounts and any resulting gain or loss is credited or charged to operations. Property and equipment are analyzed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. There was no impaired property or equipment at June 30, 2020 and 2019.

Midlands Housing Alliance, Inc.

Notes to the Financial Statements

As of and for the Years Ended June 30, 2020 and 2019

Note 1 – Summary of Significant Accounting Policies (continued)

Deferred Revenue

The Organization is the recipient of grants that require expenditure for specified activities before the Organization is reimbursed by the grantor for the costs incurred. Documentation showing actual costs expended is included when submitting a monthly or quarterly report for reimbursement. Certain grantors pay in advance of incurring the specified costs; in those cases, the amount received in excess of amounts spent on reimbursable costs is reported as deferred revenue.

Revenue Recognition

Revenue is recognized when earned. Contributions are recognized when cash, other assets or an unconditional promise to give is received. Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to the Organization's program services, administration and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet the recognition criteria prescribed by generally accepted accounting principles. Donated services are recognized as contributions if the services create or enhance nonfinancial assets or require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Contributed goods or donated services are recorded at fair value at the date of donation.

Income Taxes

The Organization is organized as a South Carolina nonprofit as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income tax. The Organization is required annually to file a *Return of Organization Exempt from Income Tax (Form 990)* with the IRS. In addition, the Organization is subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. Generally, the Internal Revenue Service may examine a *Return of Organization Exempt from Income Tax* for three years from the date it is filed. At June 30, 2020, tax years ended June 30, 2019, 2018, and 2017 remained open for possible examination.

Management has determined that the Organization is not subject to unrelated business income tax and has not filed an *Exempt Organization Business Income Tax Return (Form 990-T)* with the IRS.

Midlands Housing Alliance, Inc.

Notes to the Financial Statements

As of and for the Years Ended June 30, 2020 and 2019

Note 1 – Summary of Significant Accounting Policies (continued)

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and changes in net assets. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The expenses that are allocated include the following:

| <u>Expense Category</u> | <u>Method of Allocation</u> |
|--|--------------------------------|
| Salaries, benefits and payroll taxes | Time and Effort |
| Depreciation | Square Footage |
| Telephone and utilities | Number of Lines/Square Footage |
| Program supplies | Time and Effort |
| Contract services | Time and Effort |
| Equipment rental, maintenance and repair | Time and Effort |
| Insurance | Time and Effort |
| Land rental and leases | Number of Parking Spaces |
| Consulting and professional fees | Time and Effort |
| Fundraising events | Time and Effort |
| Office supplies | Time and Effort |
| Memberships and dues | Time and Effort |
| Postage | Time and Effort |
| Printing and publications | Time and Effort |
| Conferences and professional development | Time and Effort |
| Other expenses | Time and Effort |

Implementation of New Accounting Standard and Change in Accounting Principle

The Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2018-08, "Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made," which provided specific criteria for determining whether a contract or agreement should be accounted for as a contribution or an exchange transaction and guidance in determining whether a contribution is conditional or unconditional which impacts the timing of revenue recognition. The Organization adopted the ASU on the modified prospective basis as of July 1, 2019. There was no adjustment to net asset balances at July 1, 2019.

Recent Accounting Pronouncements

Leases

The FASB issued an ASU requiring organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than twelve months. Additional disclosure will also be required. The effective date for this standard has been delayed to annual reporting periods beginning after December 15, 2021. The Organization plans to comply with the standard when it becomes effective.

Midlands Housing Alliance, Inc.

Notes to the Financial Statements

As of and for the Years Ended June 30, 2020 and 2019

Note 1 – Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements (continued)

Revenue Recognition

The FASB issued an ASU and subsequent amendments that eliminates the transaction and industry- specific revenue recognition guidance and replaces it with a principle-based approach for determining revenue recognition. The effective date for this standard has been delayed to annual reporting periods beginning after December 15, 2019. The Organization plans to comply with the standard when it becomes effective.

Note 2 – Liquidity and Availability

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, comprise the following:

| <u>Financial assets at year-end:</u> | |
|--------------------------------------|---------------------|
| Cash and cash equivalents | \$ 1,311,696 |
| Investments, short-term | 52,551 |
| Grants receivable | 13,012 |
| Total available financial assets | <u>\$ 1,377,259</u> |

Part of management's liquidity plan is to maintain financial assets to meet ninety days of general expenditures. The Organization has a \$500,000 line of credit available to meet cash flow needs.

Note 3 – Investments – Other

The Organization's investment decisions are managed pursuant to a board-approved investment policy. All brokerage and banking institutions managing the Organization's investments were provided copies and have agreed to abide by this policy. The policy restricts investments to fixed income investments consisting of certificates of deposit, money market funds, guaranteed government securities, and AA rated or above commercial paper with an average maturity of less than three years.

Investment securities are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the amounts reported in the statement of financial position.

Investments – Other consisted of the following as of June 30:

| | <u>2020</u> | <u>2019</u> |
|--|-------------------|-------------------|
| Certificates of deposit, maturing in one year or less | \$ 52,551 | \$ 103,920 |
| Certificates of deposit, maturing in greater than one year | 225,383 | 163,153 |
| Money market funds and accrued interest | 45,342 | 38,403 |
| Fixed income investments | 70,229 | 64,271 |
| | <u>\$ 393,505</u> | <u>\$ 369,747</u> |

Midlands Housing Alliance, Inc.

Notes to the Financial Statements

As of and for the Years Ended June 30, 2020 and 2019

Note 4 – Property and Equipment

Property and equipment consists of the following, as of June 30:

| | Estimated Useful Life in Years | 2020 | 2019 |
|--------------------------------|-----------------------------------|--------------|--------------|
| Land | - | \$ 1,832,929 | \$ 1,832,929 |
| Buildings and improvements | 10 - 25 | 9,034,064 | 9,034,064 |
| Furniture and equipment | 5 | 496,834 | 493,084 |
| Vehicles | 5 | 132,903 | 157,186 |
| | | 11,496,730 | 11,517,263 |
| Less: accumulated depreciation | | (3,792,544) | (3,426,842) |
| Property and equipment, net | | \$ 7,704,186 | \$ 8,090,421 |

Depreciation expense was approximately \$389,984 and \$383,868 for the years ended June 30, 2020 and 2019, respectively.

Note 5 – Beneficial Interest in Assets Held by Community Foundation

The Organization has the sole beneficial interest in the assets held by Central Carolina Community Foundation (CCCF). Funds are distributed at the Organization's request, and are to be used for the operations of the Organization. Midlands Housing Alliance has the power to direct those distributed funds, as they deem necessary when they are received. The fund is held and invested by CCCF for the Organization's benefit and is reported at fair value in the statements of financial position, with distributions and changes in fair value recognized in the statements of activities and changes in net assets.

The fair value presentation of these funds resulted in a net change in value comprised of the following as of June 30:

| | 2020 | 2019 |
|------------------------|-----------|-----------|
| Beginning balance | \$ 60,223 | \$ 57,674 |
| Contributions | 100 | - |
| Interest and dividends | 2,257 | 3,361 |
| Change in market value | (489) | 157 |
| Fees | (840) | (969) |
| Balance at year end | \$ 61,251 | \$ 60,223 |

Note 6 – Line of Credit

The Organization has a \$500,000 line of credit at a variable interest rate, secured by a deed of trust that expired in October 2019. The line of credit was renewed through October 2020. There was no outstanding balance on the line of credit at June 30, 2020 and 2019.

Midlands Housing Alliance, Inc.

Notes to the Financial Statements

As of and for the Years Ended June 30, 2020 and 2019

Note 7 – Net Assets with Donor Restrictions

Net assets with donor restrictions reported at June 30, 2020 and 2019, are grant amounts restricted for purpose and timing. Net assets with donor restrictions at June 30, 2020 and 2019 totaled \$375,905 and \$379,164, respectively.

Note 8 – Contributed Support

In-kind support includes approximately \$1,700 and \$25,600 for the value of rent and services contributed to the Organization for fundraising, accounting, and various other types of support for the years ended June 30, 2020 and 2019, respectively.

Note 9 – Commitments

The Organization rents property under operating lease agreements with landlords. Future minimum rental payments at June 30, 2020, under agreements classified as operating leases with non-cancelable terms in excess of one year are as follows:

| | | |
|-------------------------------------|----|----------------|
| 2021 | \$ | 43,788 |
| 2022 | | 43,788 |
| 2023 | | 43,788 |
| 2024 | | 43,788 |
| 2025 | | <u>7,298</u> |
| Total future minimum lease payments | \$ | <u>182,450</u> |

Rent expense totaled \$43,788 for the years ended June 30, 2020 and 2019, respectively.

Note 10 – Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The FASB ASC topic *Fair Value Measurements and Disclosures* establishes a three-tier hierarchy that prioritizes the assumptions, referred to as inputs, used in valuation techniques to measure fair value.

The three levels of the fair value hierarchy are defined as follows:

Level 1 – Pricing inputs which include quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access at the reporting date.

Level 2 – Pricing inputs other than quoted prices included in Level 1 that are either directly observable or that can be derived from or corroborated by observable market data as of the reporting date.

Level 3 – Pricing inputs which include those that are unobservable for the asset or liability and reflect the Organization's own assumptions about the assumptions market participants would use in pricing the asset or liability. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

Midlands Housing Alliance, Inc.

Notes to the Financial Statements

As of and for the Years Ended June 30, 2020 and 2019

Note 10 – Fair Value Measurements (continued)

Assets measured at fair value as of:

| <u>June 30, 2020</u> | Level 1 | Level 2 | Level 3 | Total |
|-------------------------|-------------------|------------------|--------------|-------------------|
| Certificates of deposit | \$ 277,934 | \$ - | \$ - | \$ 277,934 |
| Insured deposit program | 45,342 | - | - | 45,342 |
| Fixed income | 16,898 | 70,229 | 75 | 87,202 |
| Stock | 40,834 | - | - | 40,834 |
| Real estate | 3,444 | - | - | 3,444 |
| | <u>\$ 384,452</u> | <u>\$ 70,229</u> | <u>\$ 75</u> | <u>\$ 454,756</u> |

| <u>June 30, 2019</u> | Level 1 | Level 2 | Level 3 | Total |
|-------------------------|-------------------|------------------|--------------|-------------------|
| Certificates of deposit | \$ 267,073 | \$ - | \$ - | \$ 267,073 |
| Insured deposit program | 38,403 | - | - | 38,403 |
| Fixed income | 17,897 | 64,271 | 83 | 82,251 |
| Stock | 38,754 | - | - | 38,754 |
| Real estate | 3,489 | - | - | 3,489 |
| | <u>\$ 365,616</u> | <u>\$ 64,271</u> | <u>\$ 83</u> | <u>\$ 429,970</u> |

The following is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of:

| | Fair Value Measurement at Report Date Using Significant Unobservable Inputs (Level 3) | |
|--|--|-----------|
| | Beneficial Interests | |
| | Assets Held By Community Foundation | |
| <u>Year Ended June 30, 2020</u> | | |
| Balance at June 30, 2019 | \$ | 83 |
| Purchases/contributions of investments | | - |
| Investment returns, net | | (8) |
| Distributions | | - |
| Balance at June 30, 2020 | <u>\$</u> | <u>75</u> |
| <u>Year Ended June 30, 2019</u> | | |
| Balance at June 30, 2018 | \$ | 84 |
| Purchases/contributions of investments | | - |
| Investment returns, net | | (1) |
| Distributions | | - |
| Balance at June 30, 2019 | <u>\$</u> | <u>83</u> |

Midlands Housing Alliance, Inc.

Notes to the Financial Statements

As of and for the Years Ended June 30, 2020 and 2019

Note 11 – Federal and State Contracts

Expenditures related to federal and state contracts are subject to adjustment based upon review by the granting agencies. It is management's assessment that the amounts, if any, of expenditures which may be disallowed, would not have a material effect on the Organization's financial position.

Note 12 – Defined Contribution Plan

The Organization sponsors a defined contribution plan (the Plan) available to all who agree to make contributions to the Plan. The Organization matches participants' contributions to the Plan up to 2% of the individual participant's compensation. Total expense for the years ended June 30, 2020 and 2019, was approximately \$14,700 and \$19,700, respectively.

Note 13 – Board–Designated Reserves

As of June 30, 2020 and 2019, the Board of Directors reserved approximately \$455,000 and \$430,000, respectively, of net assets without donor restrictions to cover operating expenses should an emergency occur that would affect the continuation of the Organization. Since the amounts resulted from an internal designation and are not donor-restricted, they are classified and reported as net assets without donor restrictions.

Note 14 – Subsequent Events

In May 2020, the Organization received loan proceeds in the amount of approximately \$267,500 under the Paycheck Protection Program (“PPP”). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), provides for loans to qualifying businesses or organizations for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business or organizations. The loans and accrued interest are forgivable after eight weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the eight-week period. The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months. The Organization intends to use the proceeds for purposes consistent with the PPP. The Organization currently believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan. Consequently, at June 30, 2020 none of the loan proceeds have been recognized in the accompanying statement of activities and changes in net assets because the conditions on which they depend had not yet been met.

The continued uncertainty surrounding the coronavirus could adversely impact the Organization's operations and workforce, including fundraising and donor-giving, which in turn could have an adverse impact on the Organization's mission, financial condition and results of operations. Management is continually monitoring and assessing the virus.
