
**SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES
(AN INDIANA NOT-FOR-PROFIT CORPORATION)**

**CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

YEARS ENDED DECEMBER 31, 2021 AND 2020

**SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES
(AN INDIANA NOT-FOR-PROFIT CORPORATION)**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
South Bend Heritage Foundation, Inc. and Subsidiaries
(An Indiana Not-For-Profit Corporation)

Report on the Audit of the Consolidated Financial Statements

Opinions

We have audited the accompanying consolidated financial statements of South Bend Heritage Foundation, Inc. and Subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2021 and 2020, and the related consolidated statements of activities, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of South Bend Heritage Foundation, Inc. and Subsidiaries as of December 31, 2021 and 2020, 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.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of South Bend Heritage Foundation, Inc. and Subsidiaries and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about South Bend Heritage Foundation, Inc. and Subsidiaries' ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance, and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 South Bend Heritage Foundation, Inc. and Subsidiaries' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about South Bend Heritage Foundation, Inc. and Subsidiaries' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

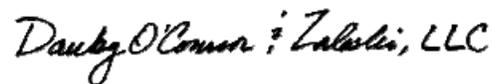
Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2022, on our consideration of South Bend Heritage Foundation, Inc. and Subsidiaries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of South Bend Heritage Foundation, Inc. and Subsidiaries' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering South Bend Heritage Foundation, Inc. and Subsidiaries' internal control over financial reporting and compliance.

June 9, 2022
Carmel, Indiana



Dauby O'Connor & Zaleski, LLC
Certified Public Accountants

**SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES
(AN INDIANA NOT-FOR-PROFIT CORPORATION)**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2021 AND 2020**

	ASSETS	
	<u>2021</u>	<u>2020</u>
Current assets		
Cash and cash equivalents		
Cash	\$ 2,327,475	\$ 858,845
Resident security deposits	101,093	77,915
Replacement reserves	538,895	497,581
Operating reserves	842,001	839,268
Deficit reserve	34,251	34,251
Supportive service reserve	335,423	383,714
	<u>4,179,138</u>	<u>2,691,574</u>
Total cash and cash equivalents	4,179,138	2,691,574
Accounts receivable, net	184,013	152,402
Accounts receivable - related parties	9,143	8,663
Grants receivable	25,859	121,801
Prepaid expenses	17,595	17,895
	<u>4,415,748</u>	<u>2,992,335</u>
Total current assets	4,415,748	2,992,335
Property and equipment		
Land	1,403,082	1,403,082
Buildings and improvements	44,433,194	41,561,914
Furniture and equipment	1,683,820	1,683,820
	<u>47,520,096</u>	<u>44,648,816</u>
Less: Accumulated depreciation	(21,474,386)	(19,758,968)
	<u>26,045,710</u>	<u>24,889,848</u>
Total property and equipment	26,045,710	24,889,848
Other assets		
Notes receivable	629,212	623,563
Beneficial interest in assets held by the Community Foundation	105,597	94,017
Real estate held for resale, net	261,915	542,692
Investment in subsidiaries	86,159	86,159
Unamortized costs, net	53,138	60,330
	<u>1,136,021</u>	<u>1,406,761</u>
Total other assets	1,136,021	1,406,761
	<u><u>\$ 31,597,479</u></u>	<u><u>\$ 29,288,944</u></u>

**SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES
(AN INDIANA NOT-FOR-PROFIT CORPORATION)**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)
DECEMBER 31, 2021 AND 2020**

LIABILITIES AND NET ASSETS

	<u>2021</u>	<u>2020</u>
Current liabilities		
Accounts payable	\$ 670,093	\$ 161,343
Accrued expenses	71,738	70,134
Prepaid revenue	67,253	39,358
Line of credit	-	92,764
Notes payable - current maturities	1,837,821	1,865,824
Accrued interest	43,118	35,649
Grant advances	138,000	273,103
	<u>2,828,023</u>	<u>2,538,175</u>
Deposit liabilities, resident security deposits	<u>78,069</u>	<u>69,874</u>
Long term liabilities		
Notes payable, net of current maturities	6,452,268	6,628,754
1602 Funds payable	1,936,682	2,351,684
Accrued interest	30,618	13,922
Less: unamortized debt issuance costs	(118,252)	(139,841)
Accrued expenses	195,771	161,360
	<u>8,497,087</u>	<u>9,015,879</u>
Total liabilities	11,403,179	11,623,928
Net assets		
Without donor restrictions	11,093,967	7,625,651
With donor restrictions	344,406	284,098
Non-controlling interest	8,755,927	9,755,267
	<u>20,194,300</u>	<u>17,665,016</u>
Total net assets	20,194,300	17,665,016
	<u>\$ 31,597,479</u>	<u>\$ 29,288,944</u>

**SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES
(AN INDIANA NOT-FOR-PROFIT CORPORATION)**

**CONSOLIDATED STATEMENTS OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2021**

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Public support and revenue			
Public support			
Contributions and grants	\$ 686,130	\$ -	\$ 686,130
Federal grants	3,561,855	75,000	3,636,855
Total public support	<u>4,247,985</u>	<u>75,000</u>	<u>4,322,985</u>
Other revenue:			
Management and project fees	308,545	-	308,545
Section 1602 forgiveness	415,002	-	415,002
Rental revenue	2,749,664	-	2,749,664
Interest revenue	7,886	-	7,886
Change in beneficial interest	11,580	-	11,580
Gain on real estate held for resale	42,478	-	42,478
Valuation expense	(95,925)	-	(95,925)
Miscellaneous revenue	94,926	-	94,926
Total other revenue	<u>3,534,156</u>	<u>-</u>	<u>3,534,156</u>
Total revenue	<u>7,782,141</u>	<u>75,000</u>	<u>7,857,141</u>
Reclassification of restrictions:			
Satisfaction of restrictions	14,692	(14,692)	-
Expenses			
Program expenses	4,346,759	-	4,346,759
Management and general	941,218	-	941,218
Fundraising	39,880	-	39,880
Total expenses	<u>5,327,857</u>	<u>-</u>	<u>5,327,857</u>
Change in net assets	<u>2,468,976</u>	<u>60,308</u>	<u>2,529,284</u>
Change in non-controlling interest	<u>(1,023,224)</u>	<u>-</u>	<u>(1,023,224)</u>
Change in controlling interest	<u>3,492,200</u>	<u>60,308</u>	<u>3,552,508</u>
	<u>\$ 2,468,976</u>	<u>\$ 60,308</u>	<u>\$ 2,529,284</u>

**SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES
(AN INDIANA NOT-FOR-PROFIT CORPORATION)**

**CONSOLIDATED STATEMENTS OF ACTIVITIES (CONTINUED)
YEAR ENDED DECEMBER 31, 2020**

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Public support and revenue			
Public support			
Contributions and grants	\$ 158,873	\$ 186,821	\$ 345,694
Federal grants	1,099,158	75,000	1,174,158
Total public support	<u>1,258,031</u>	<u>261,821</u>	<u>1,519,852</u>
Other revenue:			
Management and project fees	321,699	-	321,699
Section 1602 forgiveness	415,002	-	415,002
SBA loan forgiveness	237,385	-	237,385
Rental revenue	2,693,199	-	2,693,199
Interest revenue	11,224	-	11,224
Change in beneficial interest	10,266	-	10,266
Loss on real estate held for resale	(125,314)	-	(125,314)
Valuation expense	(159,477)	-	(159,477)
Miscellaneous revenue	246,146	-	246,146
Total other revenue	<u>3,650,130</u>	<u>-</u>	<u>3,650,130</u>
Total revenue	<u>4,908,161</u>	<u>261,821</u>	<u>5,169,982</u>
Reclassification of restrictions:			
Satisfaction of restrictions	1,048,360	(1,048,360)	-
Expenses			
Program expenses	4,339,597	-	4,339,597
Management and general	981,152	-	981,152
Fundraising	27,626	-	27,626
Total expenses	<u>5,348,375</u>	<u>-</u>	<u>5,348,375</u>
Change in net assets	<u>608,146</u>	<u>(786,539)</u>	<u>(178,393)</u>
Change in non-controlling interest	<u>(828,445)</u>	<u>-</u>	<u>(828,445)</u>
Change in controlling interest	<u>1,436,591</u>	<u>(786,539)</u>	<u>650,052</u>
	<u>\$ 608,146</u>	<u>(786,539)</u>	<u>\$ (178,393)</u>

**SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES
(AN INDIANA NOT-FOR-PROFIT CORPORATION)**

**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2021 AND 2020**

	<u>Without donor restriction</u>		<u>With donor restriction</u>	<u>Total</u>
	<u>Controlling Interest</u>	<u>Non-controlling Interest</u>		
Balance, January 1, 2020	\$ 6,189,060	\$ 10,583,712	\$ 1,070,637	\$ 17,843,409
Change in net assets	<u>1,436,591</u>	<u>(828,445)</u>	<u>(786,539)</u>	<u>(178,393)</u>
Balance, December 31, 2020	7,625,651	9,755,267	284,098	17,665,016
Change in net assets	<u>3,492,200</u>	<u>(1,023,224)</u>	<u>60,308</u>	<u>2,529,284</u>
Balance, December 31, 2021	<u>\$ 11,117,851</u>	<u>\$ 8,732,043</u>	<u>\$ 344,406</u>	<u>\$ 20,194,300</u>

**SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES
(AN INDIANA NOT-FOR-PROFIT CORPORATION)**

**CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
Cash flow from operating activities		
Change in net assets	<u>\$ 2,529,284</u>	<u>\$ (178,393)</u>
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:		
Depreciation	1,715,418	1,682,491
Amortization	7,192	7,192
Amortization of debt issuance costs	21,589	21,589
Valuation expense	95,925	159,477
Beneficial interest in assets	(11,580)	(10,266)
Section 1602 forgiveness	(415,002)	(415,002)
SBA loan forgiveness	-	(237,385)
(Gain)/Loss on real estate held for resale	(42,478)	125,314
Changes in:		
Accounts receivable - residents	(31,611)	(38,722)
Accounts receivable - related parties	(480)	(2,933)
Grants receivable	95,942	53,422
Contributions receivable	-	110,640
Notes receivable	(5,649)	(5,649)
Prepaid expenses	300	32,851
Accounts payable	41,550	(64,969)
Accrued expenses	36,015	(169,502)
Prepaid revenue	27,895	(9,044)
Accrued interest	24,165	9,084
Grant advances	(135,103)	(72,177)
Net cash provided by (used in) operating activities	<u>3,953,372</u>	<u>998,018</u>
Cash flow from investing activities		
Purchase of property and equipment	(2,281,721)	(283,877)
Purchase of real estate held for resale	(340,134)	(448,666)
Proceeds from sale of homes	453,300	-
Net cash provided by (used in) investing activities	<u>\$ (2,168,555)</u>	<u>\$ (732,543)</u>

**SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES
(AN INDIANA NOT-FOR-PROFIT CORPORATION)**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
Cash flow from financing activities		
Principal payments on notes payable	\$ (204,489)	\$ (159,050)
Change in line of credit	(92,764)	64,028
Proceeds from SBA loan	-	237,385
Net cash provided by (used in) financing activities	<u>(297,253)</u>	<u>142,363</u>
Net change in cash and cash equivalents	1,487,564	407,838
Cash and cash equivalents, beginning	<u>2,691,574</u>	<u>2,283,736</u>
Cash and cash equivalents, ending	<u><u>\$ 4,179,138</u></u>	<u><u>\$ 2,691,574</u></u>
Supplemental information		
Cash paid during the year for interest	<u><u>\$ 369,981</u></u>	<u><u>\$ 312,899</u></u>

Cash flow from investing activities related to the purchase of property and equipment for the year ended December 31, 2021 excludes \$542,155, which was included in accounts payable at December 31, 2021 and includes \$74,955, which was included in accounts payable at December 31, 2020.

**SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES
(AN INDIANA NOT-FOR-PROFIT CORPORATION)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 1-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

South Bend Heritage Foundation, Inc. (an Indiana Not-For-Profit Corporation) was formed on July 11, 1974, to operate exclusively for charitable, benevolent and educational purposes. The Corporation was organized under the Indiana Not-For-Profit Act of 1971. The Corporation's charitable purposes include, among other things, developing or facilitating the development of affordable, safe, good quality, well-maintained housing communities focusing its efforts on neighborhood revitalization in South Bend, Indiana.

All are reported collectively as South Bend Heritage Foundation Inc. and Subsidiaries (the "Corporation").

The consolidated financial statements include the results of operations and account balances of South Bend Heritage Foundation, Inc., and it wholly owned or controlled subsidiaries and limited liabilities entities listed below.

<u>Entity</u>	<u>DBA</u>	<u>Units</u>	<u>Ownership %</u>
Wholly owned or controlled subsidiaries			
Robertson's Building Corporation			
Historic Rushton GP, Inc.			
NHHS GP Corporation			
SBPSH, LLC			
Scattered Sites			
Gemini Apartments			
Hope Avenue Homes*			
Hoose Ct.*			
Limited Liability Entities (the "Properties")			
Robertson's Building, LLC	Robertson's Senior Apartments	92	100.00
South Bend Heritage Properties, LLC	Washington - Dunbar Apartments	80	100.00
Historic Rushton, LP	Historic Rushton Senior Apts.	23	1.00
New Heritage Homes Southeast, LP	New Heritage Homes Southeast Rehab Apartments	54	0.01
South Bend Permanent Supportive Housing, LP	Oliver Apartments	32	0.01
Chapin Market, LLC	-	-	100.00
Equity Method Investments			
SBHF MH GP, LLC	South Bend Mutual Homes Apartments	24	0.00396

*Hope Avenue Homes and Hoose Ct. are under construction as of December 31, 2021.

**SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES
(AN INDIANA NOT-FOR-PROFIT CORPORATION)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2021 AND 2020**

**NOTE 1-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

ORGANIZATION (CONTINUED)

Scattered Sites and Gemini Apartments are accounted for as independent units, but not separate entities, of the Corporation.

Chapin Market, LLC is a wholly owned subsidiary of South Bend Heritage Foundation, Inc. and owns the land for a supermarket's parking lot. There was no activity in Chapin Market, LLC for the years ended December 31, 2021 and 2020.

Cash flow from operating activities generated by the Properties is payable in accordance with each Property's respective organizational documents. The Properties pay distributions in accordance with the Corporation's ownership interest, after priority payments.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial reporting

The consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, and are in conformity with the provisions required by the Not-for-Profit Entities Presentation of Financial Statements topic of the Financial Accounting Standards Board ("FASB") *Accounting Standards Codification* ("ASC") 958-205. This topic established standards for external financial reporting for Not-for-Profit Organizations.

The Not-for-Profit Entities Presentation of Financial Statements topic primarily affects the display of the consolidated financial statements and requires that the amounts for each of two classes of net assets - with or without donor restrictions - be displayed in the Consolidated Statements of Financial Position and the amounts of the change in each of those classes of net assets be displayed in a Consolidated Statements of Changes in Net Assets.

New accounting pronouncements

In February 2016, the FASB issued *Accounting Standards Update* ("ASU") 2016-02, *Leases*, which once implemented will result in lessees recognizing most leased assets and corresponding lease liabilities on the Consolidated Statements of Financial Position. The standard is effective for year-ends beginning after December 15, 2021 and early adoption is permitted. The lease standard is not expected to have a material impact on the financial statements.

Consolidation

In accordance with FASB ASC 958-810, the consolidated financial statements include the accounts of the Corporation and its wholly owned partnerships and limited liability companies, after elimination of all material intercompany accounts, transactions, and profits.

The financial statements also consolidate the assets, liabilities, and activities of the Corporation and various limited partnerships and limited liability companies for which the Corporation, as the general partner or managing member, has a controlling financial and legal interest. All significant intercompany transactions have been eliminated in the consolidation.

**SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES
(AN INDIANA NOT-FOR-PROFIT CORPORATION)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2021 AND 2020**

**NOTE 1-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Investment in partnerships

The Corporation does not consolidate the accounts and activities of certain Properties it considers equity investments. The Corporation has determined that it is unable to exercise significant influence of the limited liability entities under FASB ASC 958-810. The Corporation accounts for its equity investments in accordance with the equity method of accounting, under which the equity investment is carried at cost and is adjusted for the Corporation's share of net income or loss and by cash distributions received. Equity in loss of each equity investment allocated to the Corporation is recognized to the extent of the Corporation's equity investment balance. Previously unrecognized equity in loss is recognized in the year in which equity in income is earned by such equity investment or additional investment is made by the Corporation. Distributions received subsequent to the elimination of an equity investment balance will be recorded as other income. Advances and additional capital contributions will be recorded as additional equity investments if they occur. The Corporation assesses the carrying value of its equity investments whenever there are indications that a permanent impairment may have occurred. No impairment losses were recognized during the years ended December 31, 2021 and 2020.

Cash

For the Consolidated Statements of Cash Flows, all unrestricted investments with original maturities of three months or less are cash. At December 31, 2021 and 2020, cash consists of operating checking accounts. The carrying amount of cash and deposits held in trust-funded accounts approximates fair value due to the type of investments and the maturity dates.

Resident receivable and bad debt policy

The Properties' resident rent charges for the current month are due on the first of the month. Residents who are evicted or move-out are charged with damages or cleaning fees, if applicable. Resident receivables consist of amounts due for rental income or the charges for damages and cleaning fees. The Properties do not accrue interest on the resident receivable balances.

Resident receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not material to the consolidated financial statements for the years ended December 31, 2021 and 2020. Bad debts expensed for the years ended December 31, 2021 and 2020 was \$26,760 and \$27,813, respectively.

Notes receivable

Notes receivable are carried at amounts contractually due, less an allowance for doubtful accounts. The Corporation accrues interest on the note receivable balances.

**SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES
(AN INDIANA NOT-FOR-PROFIT CORPORATION)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2021 AND 2020**

**NOTE 1-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Notes receivable (continued)

Management periodically reviews notes receivable and uses an allowance for doubtful accounts to recognize bad debts. Notes receivable on the Consolidated Statements of Financial Position is shown net of the allowance for doubtful accounts. There were no bad debts expensed for the years ended December 31, 2021 and 2020. There is no allowance for doubtful accounts as of December 31, 2021 and 2020.

Property and equipment

Depreciation of property and equipment, stated at cost, is computed primarily using the straight-line method over the estimated useful lives of the assets ranging from 5 - 39 years. Costs that are deemed to increase the useful life of the property or equipment are capitalized. When assets are sold or otherwise disposed of, the costs and related reserves are removed from the accounts, and any resulting gain or loss is included in operations.

The Corporation is subject to the provisions of the Impairment or Disposal of Long-Lived Assets topic of the FASB ASC 360-10. Impairment or Disposal of Long-Lived Assets has no retroactive impact on the Corporation's consolidated financial statements. The standard requires impairment losses to be recorded on long-lived assets when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets (excluding interest) are less than the carrying amount of the assets. In such cases, the carrying value of assets to be held and used are adjusted to their estimated fair value and assets held for sale are adjusted to their estimated fair value less selling expenses. No impairment losses were recognized during the years ended December 31, 2021 and 2020.

Donated assets

Donations of property and equipment and other assets are recorded as revenue at their estimated fair value at the date of donation. Such donations are reported as revenue without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment and other assets are reported as revenue with donor restrictions. Absent donor stipulations regarding how long these donated assets must be maintained, the Corporation reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Corporation reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Unamortized costs

Certain Properties incurred costs in connection with obtaining tax credits, which are being amortized over various terms using the straight-line method.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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**NOTE 1-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Debt issuance costs

The Corporation is subject to the provisions of the Interest-Imputation of Interest topic of the FASB ASC 835-30 which requires unamortized debt issuance costs to be presented as a reduction of the outstanding debt and the amortization of the debt issuance costs to be presented as a component of interest expense. Generally accepted accounting principles require that the effective yield method be used to amortize debt issuance costs; however, the effect of using the straight-line method is not material to the financial statements for the years ended December 31, 2021 and 2020.

Rental income

Rental income is recognized as rents become due. Rental payments received in advance are deferred until earned. All leases between the Properties and the residents of the property are operating leases under FASB ASC 840 and are not within the scope of FASB ASU 2014-09.

Management fee income

Management fee income is earned based on the terms as outlined in the management agreements between the Corporation and various properties. Management fees are typically paid by various properties one month in arrears.

Grant revenue

Grants that the Corporation receives from various government and nongovernmental agencies have long-term compliance requirements. The Corporation intends to fulfill the compliance requirements as part of its mission. The amounts received are recognized as revenue in the period that the compliance requirements are met.

Contributions and donations

Contributions and donations, including unconditional promises to give, are recognized in the period received or made, in accordance with FASB ASC 958-605 under the Revenue Recognition of Contributions Receivable topic.

Beneficial interest in assets

The Corporation records periodic distributions of income and realizes changes in the market value of its beneficial interest as gains (losses) in the statements of activities.

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**NOTE 1-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Developer fee revenue

The Corporation earns developer fees primarily for orchestrating the financing and construction of low and moderate income housing, generally in its capacity as general partner or managing member of various real estate partnerships and limited liability companies. Fees are recognized based on completion of various phases of the property representing its performance obligations, as specified in the respective agreements. Certain fees are deferred and payable from the Properties' future available operating cash flow. In accordance with FASB ASC 606, an allowance should be established to reserve against balances determined to be uncollectible. However, the receivable balances are eliminated as intercompany transactions, and the difference is considered to not be material to the consolidated financial statements.

Advertising costs

Advertising costs are expensed as incurred and are included in administrative expenses in the Consolidated Statements of Activities.

Property taxes

Property taxes are expensed in the year of the lien on the property such that twelve months of expense are charged to operations each year.

Functional allocation of expenses

The Corporation was organized to focus efforts on neighborhood revitalization in South Bend, Indiana. The revitalization is achieved by initiating and managing projects and programs designed to address physical and economic issues and to improve the quality of life for neighborhood residents and merchants. The costs associated with this program are summarized on a functional basis in the table below. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Corporation.

	<u>2021</u>	<u>2020</u>
Program services		
Operating and maintenance	\$ 1,360,800	\$ 1,263,077
Utilities	513,096	497,958
Taxes and insurance	572,179	596,122
Financial	438,218	475,478
Depreciation	1,685,553	1,655,645
Amortization	7,192	7,192
Other	<u>39,890</u>	<u>38,728</u>
Subtotal program services	4,616,928	4,534,200
Less eliminations	<u>(270,169)</u>	<u>(194,603)</u>
Total program services	<u>\$ 4,346,759</u>	<u>\$ 4,339,597</u>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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**NOTE 1-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Functional allocation of expenses (continued)

	<u>2021</u>	<u>2020</u>
Management and general:		
Advertising and marketing	\$ 16,702	\$ 23,507
Office expenses	183,625	141,369
Salaries	478,034	496,706
Professional fees	91,302	134,187
Bad debts	26,760	27,813
Utilities	25,125	26,839
Taxes and insurance	50,066	46,459
Interest	26,696	32,494
Depreciation	29,865	28,847
Other administrative	<u>13,043</u>	<u>22,931</u>
Subtotal administrative	941,218	981,152
Less eliminations	<u>-</u>	<u>-</u>
Total administrative	<u>\$ 941,218</u>	<u>\$ 981,152</u>
Fundraising:		
Advertising and marketing	\$ 29,375	\$ 17,312
Salaries	<u>10,505</u>	<u>10,314</u>
Subtotal fundraising	39,880	27,626
Less eliminations	<u>-</u>	<u>-</u>
Total fundraising	<u>\$ 39,880</u>	<u>\$ 27,626</u>

Concentration of credit risk

The Corporation maintains various cash balances at one financial institution. The balances in the accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000. From time to time during the period, the cash balances held at the institution exceeded the FDIC Insurance Limit. Management monitors the financial strength ratings of the institution on a periodic basis.

The Corporation's operations are concentrated in the multifamily real estate market. In addition, the Corporation operates in a heavily regulated environment. The operations of the Corporation are subject to the administrative directives, rules and regulations of federal, state, and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, if any, to comply with a change.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2021 AND 2020**

**NOTE 1-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Use of estimates in the preparation of consolidated financial statements

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair value

The Corporation is subject to the provisions of the Fair Value Measurement topic of the FASB ASC 820-10 which provides guidance for assets and liabilities which are required to be measured at fair value and requires expanded disclosure for fair value measurement. The standard clarifies the principle that fair value should be based on the assumptions that market participants would use when pricing the asset or liability and establishes the following fair value hierarchy:

- Level 1 - Inputs utilize quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access;
- Level 2 - Inputs may include quoted prices for similar assets or liabilities in active markets; and
- Level 3 - Unobservable inputs for the asset or liability based on the best available information.

Accounting for uncertainty in income taxes

The Corporation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and state income tax and has been classified as other than a private foundation. Accordingly, no provision for federal and state taxes on revenue and income has been recognized in the accompanying financial statements.

Even though the Corporation is recognized as tax exempt, it still may be liable for tax on its unrelated business income ("UBI"). The Corporation evaluates uncertain tax positions through its review of the sources of income to identify UBI and certain other matters, including those which may affect its tax exempt status. The effect of the uncertainty would be recorded if the outcome was considered probable and reasonably estimable. As of December 31, 2021 and 2020, the Corporation had no uncertain tax positions requiring accrual.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2021 AND 2020**

**NOTE 1-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Accounting for uncertainty in income taxes (continued)

Several of the Properties are treated as pass-through entities for income tax purposes and, as such, are not subject to income taxes. Rather, all items of taxable income, deductions and tax credits are passed through to and are reported by their owners on their respective income tax returns. These entities' federal tax statuses as pass-through entities are based on their legal status as limited partnerships and limited liability companies. Accordingly, these entities are not required to take any tax positions in order to qualify as pass-through entities. These entities are required to file and do file tax returns with the Internal Revenue Service and other taxing authorities. Accordingly, these Consolidated Financial Statements do not reflect a provision for income taxes and these entities have no other tax positions which they must consider for disclosure. There has been no interest or penalties recognized in the consolidated statements of activities or Consolidated Statements of Financial Position for the years ended December 31, 2021 and 2020. Generally, the federal and state returns are subject to examination for three years after the later of the original or extended due date or the date filed with the applicable tax authorities.

Subsequent events

Management performed an evaluation of the Corporation's activity through June 9, 2022, the audit report date, and has concluded that there are no significant subsequent events requiring disclosure through the date these consolidated financial statements were available to be issued, except for the maturing debt as described in note 3 and payoff of the line of credit as described in note 6.

NOTE 2-UNAMORTIZED COSTS

Certain Properties incurred costs in connection with obtaining tax credits and interest rate caps. These costs are being amortized over various terms using the straight-line method. Amortization expense for each of the years ended December 31, 2021 and 2020 totaled \$7,192.

NOTE 3-FINANCING

The Properties have entered into various debt agreements to fund construction and operating costs. The outstanding debt balances and terms are summarized as follows:

<u>Date of Note</u>	<u>Maturity Date</u>	<u>Lender</u>	<u>Interest Rate</u>	<u>Face Amount</u>	<u>Outstanding Balance</u>	
					<u>2021</u>	<u>2020</u>
South Bend Heritage Foundation, Inc.						
1/19/18	8/15/21*	Northwest Bank	5.41%	\$ 1,918,291	\$ 1,642,475*	\$ 1,679,282*
6/30/15	12/31/35	Federal Home Loan Bank	0.00%	400,000	400,000	400,000
10/14/11	10/30/41	Federal Home Loan Bank	0.00%	585,000	585,000	585,000

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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NOTE 3-FINANCING (CONTINUED)

<u>Date of Note</u>	<u>Maturity Date</u>	<u>Lender</u>	<u>Interest Rate</u>	<u>Face Amount</u>	<u>Outstanding Balance</u>	
					<u>2021</u>	<u>2020</u>
Scattered Sites						
4/15/05	2/1/25	St. Joseph County Housing Consortium	1.00%	\$ 22,362	\$ 6,141	\$ 7,172
1/19/18	1/19/28	Northwest Bank	5.18%	327,000	228,005	250,046
Robertson's Building, LLC						
3/1/11	4/1/46	Centennial Mortgage, Inc. Business Development Corporation	4.35%	2,640,000	2,204,501	2,254,420
3/1/11	3/1/46	Centennial Mortgage, Inc. Business Development Corporation	5.00%	370,679	333,927	333,927
South Bend Heritage Properties						
8/22/14	8/20/24	Teacher's Credit Union	4.00%	865,000	699,860	725,379
Gemini Apartments						
11/22/19	11/22/39	Northwest Bank	Variable	2,124,304	2,021,890	2,081,035
New Heritage Homes Southeast, LP						
12/5/12	12/5/27	Lake City Bank	6.40%	240,000	168,295	178,388
10/14/11	12/31/41	SBHF, Inc.	7.00%	480,000	480,000	480,000
10/14/11	10/30/41	SBHF, Inc.	7.00%	585,000	585,000	585,000
South Bend Permanent Supportive Housing, LP						
4/24/17	12/31/36	SBHF, Inc.	3.00%	700,000	633,004	633,004

*The note payable to Northwest Bank was set to mature in 2021. A loan extension was granted during 2022, extending the maturity date to June 10, 2022. The Corporation has negotiated a refinance with a final loan closing pending as of the audit report date.

Estimated future maturities for each of the next five years and thereafter are as follows:

2022	\$ 1,837,826
2023	204,492
2024	831,088
2025	194,989
2026	204,420
Thereafter	<u>5,017,274</u>
	8,290,089
Debt issuance costs	<u>(118,252)</u>
	<u>\$ 8,171,837</u>

**SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 3-FINANCING (CONTINUED)

The long term debts of the Properties are secured by the assets of the associated Property and are not secured by the assets of the Corporation and are not typically guaranteed by the Corporation.

NOTE 4-SECTION 1602 FUNDS

South Bend Heritage Properties, LLC received Section 1602 funds, which are funds from the American Recovery and Reinvestment Act ("ARRA") provided for a Low Income Housing Tax Credit Exchange program wherein housing agencies are allowed to exchange certain low income housing tax credit ("LIHTC") allocations with the United States Treasury for cash grants equal to 85% of the credits exchanged. The housing agencies are able to provide these funds in the form of forgivable loans or grants to LIHTC properties.

The Indiana Housing and Community Development Authority provided these funds in the form of a forgivable loan in exchange of 2008 tax credits awarded to South Bend Heritage Properties, LLC. For financial reporting purposes, the funds were recorded as a liability upon receipt and income is recognized using the straight-line method over the 15-year compliance period, at the end of which the loan will be forgiven. South Bend Heritage Properties, LLC was allocated \$6,225,032 in exchange funds. During each of the years ended December 31, 2021 and 2020, \$415,002 was recognized as income. This income is tax exempt.

NOTE 5-SBA LOAN

Due to economic uncertainty caused by the spread of COVID-19, the Corporation applied for and received a loan through the Paycheck Protection Program (the "PPP Loan") with the U.S. Small Business Administration ("SBA"), as authorized in the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). The Corporation allocated a portion of the PPP Loan to the Properties for the payroll related costs incurred during the year ended December 31, 2020. During the year ended December 31, 2020, the SBA loan was forgiven and \$123,652 of revenue recognized for the forgiveness of debt.

NOTE 6-LINE OF CREDIT

During 2020, the Corporation entered into a line of credit with Lake City Bank in a principal amount not to exceed \$100,000 to fund predevelopment costs of 912 Oak. The line of credit agreement calls for interest only payments monthly at an interest rate of 4.75% and maturity date of December 15, 2021. The line of credit was repaid on January 19, 2021 in connection with the sale of 912 Oak.

During 2021, the Corporation entered into a line of credit with Lake City Bank to fund predevelopment costs of 702 N. St. Louis. The line of credit agreement called for interest only payments at an interest rate of 4.75%. The line of credit was repaid on July 26, 2021 in connection with the sale of 702 N. St. Louis.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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NOTE 7-DEBT ISSUANCE COSTS

The Properties incurred costs in connection with obtaining financing. The costs are being amortized using the straight line method over the terms of the mortgage. Amortization expense for each of the years ended December 31, 2021 and 2020 totaled \$21,589.

NOTE 8-RELATED PARTIES

Developer fees

The Corporation entered into various developer agreements for its services in overseeing the development of the Properties. The following summarizes the developer fee activity during the years ended December 31, 2021 and 2020:

<u>Property Name</u>	<u>Receivable at December 31, 2020</u>	<u>Developer Fee Earned</u>	<u>Developer Fee Paid</u>	<u>Receivable at December 31, 2021</u>
Historic Rushton Apartments	\$ 119,624	\$ -	\$ -	\$ 119,624
Robertson's Senior Apartments	302,838	-	-	302,838
Hope Avenue Homes	-	266,329	(266,329)	-
Total	422,462	266,329	(266,329)	422,462
Eliminated in consolidation	(422,462)	(266,329)	266,329	(422,462)
Total after consolidation	\$ -	\$ -	\$ -	\$ -

<u>Property Name</u>	<u>Receivable at January 1, 2020</u>	<u>Developer Fee Earned</u>	<u>Developer Fee Paid</u>	<u>Receivable at December 31, 2020</u>
Historic Rushton Apartments	\$ 119,624	\$ -	\$ -	\$ 119,624
Robertson's Senior Apartments	302,838	-	-	302,838
Oliver Apartments	10,245	-	(10,245)	-
Total	432,707	-	(10,245)	422,462
Eliminated in consolidation	(432,707)	-	10,245	(422,462)
Total after consolidation	\$ -	\$ -	\$ -	\$ -

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 8-RELATED PARTIES (CONTINUED)

Management fees

The Corporation provides services in connection with the management of various properties. These contracts are subject to HUD or other regulatory agency approval and performance standards. Management fees related to the Properties was eliminated during consolidation.

Notes receivable

The Corporation receives funding from various sources, primarily Community Development Block Grants, St. Joseph Housing Consortium, NeighborWorks America, and private funding. These funds are then advanced to various parties for the rehabilitation or purchase of homes. The Corporation believes that all receivables will be collected over time.

<u>Date of Note</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Outstanding Balance</u>		
			<u>Face Amount</u>	<u>2021</u>	<u>2020</u>
New Heritage Homes Southeast, LP					
10/14/11	10/30/41	3.75%	\$ 585,000	\$ 798,890	\$ 776,953
10/14/11	10/30/41	7.00%	480,000	891,119	832,882
South Bend Mutual Homes, LP					
6/30/15	12/31/35	3.00%	400,000	629,212	623,563
South Bend Permanent Supporting Housing, LP					
4/24/17	12/31/36	3.00%	700,000	<u>726,310</u>	<u>707,391</u>
			Subtotal	3,045,531	2,940,789
			Less: elimination	<u>(2,416,319)</u>	<u>(2,317,226)</u>
			Notes receivable	<u>\$ 629,212</u>	<u>\$ 623,563</u>

NOTE 9-LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Corporation manages its liquidity by completing annual operating budgets that provide sufficient funds for general expenditures in meeting liabilities and other obligations as they become due and maintains cash and cash equivalents that may be drawn upon as needed during the year to manage cash flow and make necessary expenditures. The Corporation's cash and cash equivalents is available within one year of the statement of financial position date to meet cash needs for general expenditures. There are funds (operating and other reserves) established by the governing board or required by regulatory agencies that may be drawn upon in the event of financial distress, to make improvements to the properties or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities.

As of December 31, 2021, the Corporation has positive working capital and approximately 157 days of cash on hand.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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NOTE 9-LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS (CONTINUED)

The following reflects the organization's financial assets as of December 31, 2021, reduced by amounts not available for general use within one year of December 31, 2020 because of internal designations. Amounts not available include amounts set aside as payable on mortgages and investments designated by the Board of Directors as held for future development or currently in development. These amounts could be drawn upon if needed with approval from the Board of Directors.

Cash	\$ 2,327,475
Resident security deposits	101,093
Replacement reserves	538,895
Operating reserves	842,001
Deficit reserve	34,251
Supportive service reserve	335,423
Accounts receivable, net	184,013
Accounts receivable - related parties	9,143
Grants receivable	<u>25,859</u>
	4,398,153
Internal designations	
Restricted cash	(250,791)
Resident security deposit liability	(101,093)
Replacement reserves held by mortgagor	(538,895)
Restricted operating reserves	(842,001)
Restricted deficit reserve	(34,251)
Restricted supportive service reserve	<u>(335,423)</u>
	<u>(2,102,454)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,295,699</u>

NOTE 10-COMMITMENTS AND CONTINGENCIES

The Corporation receives funds under numerous contracts, grants and agreements with federal, state, and local governmental agencies. In the event of noncompliance with these requirements, the Corporation may be subject to repayment of the funds received. The Corporation's HOME contracts with pass-through agencies are subject to regulatory clauses that require the related properties to remain affordable to low-income buyers for the applicable statutory affordability period, without regard to the term of the mortgage or transfer of ownership. The term is based on the amount of HOME grant funds that are invested in the project or the type of project and range from five to twenty years. The Corporation is required to recertify compliance annually and maintain records for grantor review that support such affordability. If affordability requirements are not met, the pass-through agency is entitled to recapture HOME funds from the Corporation within 30 days of non-compliance. Special rules apply to projects with the Federal Housing Administration ("FHA") mortgage insurance. As of December 31, 2021, the Corporation remains responsible for certain HOME contracts entered into on or after January 1, 2001. Management deems the likelihood of violation of the affordability standards to be remote. Therefore, no provision for contingencies has been reflected in the consolidated financial statements.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 10-COMMITMENTS AND CONTINGENCIES (continued)

Low-income housing tax credits

Certain properties have received allocations of low-income housing tax credits. The tax credits are contingent on the applicable partnerships' ability to maintain compliance with applicable sections of Section 42 of the Internal Revenue Code. Failure to maintain compliance with occupant eligibility, and/or unit gross rent, or to correct noncompliance within a specified time period could result in recapture of previously taken tax credits. In addition, such potential noncompliance may require adjustments as disclosed in the properties' partnership or operating agreements.

Economic conditions

In December 2019, a novel strain of coronavirus ("COVID-19") surfaced. The spread of COVID-19 around the world has caused significant volatility in U.S. and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies, and, as such, the Corporation is unable to determine if it will have a material impact to its operations.

NOTE 11-BENEFICIAL INTEREST IN ASSETS HELD BY THE COMMUNITY FOUNDATION

The Corporation has entered into an agreement with the Community Foundation of St. Joseph County ("CFSJC") in which a fund was established (the "CFSJC Fund") for the benefit of the Corporation. CFSJC has the authority to approve or deny the disbursement of funds from the account. Deposits to the CFSJC Fund are made from net assets without donor restrictions. In addition, donors will contribute directly to the CFSJC Fund or make restricted donations to the Corporation for the CFSJC Fund.

The fund agreement provides CFSJC the power to modify any restrictions or conditions on the distribution of funds to any specified charitable organizations if such restrictions become, in effect, unnecessary, incapable of fulfillment or inconsistent with the charitable need of the area served by CFSJC.

Contributions are made to the fund by the Corporation from net assets without donor restriction and appreciation (depreciation) on those monies. Additionally, donors will contribute directly to the funds or make restricted donations to the Corporation for the funds. These contributions are not considered to be assets of the Corporation, but the Corporation receives its annual distribution, as described above, based on the total value of the funds.

The beneficial interest in the Community Foundation is carried at fair value using Level 3 inputs in accordance with FASB Accounting Standards Codification related to fair value measurements, which is based upon the Corporation's interest in the underlying fair value of pooled investments purchased by the Community Foundation. The resulting realized and unrealized gain or losses will be reported in the Statements of Activities as change in value of interest in the Community Foundation when earned or incurred.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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**NOTE 11-BENEFICIAL INTEREST IN ASSETS HELD BY THE COMMUNITY FOUNDATION
(CONTINUED)**

The total market value of the fund held and managed by CFSJC as of December 31, 2021 was \$476,883, of which \$105,597 was contributed to the fund directly by the Corporation, or is appreciation (depreciation) on those monies. At December 31, 2020 total market value of the fund was \$424,588, of which \$94,017 was contributed to the fund directly by the Corporation, or is appreciation (depreciation) on those monies. All monies contributed to the fund directly by the Corporation are considered endowment net assets without donor restrictions. The distributions from the fund directly to the Corporation for the years ended December 31, 2021 and 2020 were \$18,418 and \$17,618, respectively.

The following is a summary of the transactions for the fund for the years ended December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Beginning balance	\$ 94,017	\$ 83,751
Change in value:		
Realized and unrealized gain (loss)	15,658	14,167
Appropriation of endowment assets for expenditures	<u>(4,078)</u>	<u>(3,901)</u>
	<u>\$ 105,597</u>	<u>\$ 94,017</u>

NOTE 12-REAL ESTATE HELD FOR RESALE

The Corporation invests in various real estate for the purpose of improving the real estate and then selling the assets. The Corporation values these assets using level 3 inputs, stated at historical cost plus the cost of improvements. A valuation reserve has been established to adjust the assets to fair market value, which is estimated based on historical sales of similar assets. The value of real estate held for resale at December 31, 2021 and 2020 is \$261,915 and \$542,692, respectively.

Real estate held for resale consists of the following:

	<u>2021</u>	<u>2020</u>
Real estate held for resale	\$ 1,096,713	\$ 1,545,453
Valuation allowance	<u>(834,798)</u>	<u>(1,002,659)</u>
Net properties held for resale	<u>\$ 261,915</u>	<u>\$ 542,692</u>

**SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES
(AN INDIANA NOT-FOR-PROFIT CORPORATION)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 12-REAL ESTATE HELD FOR RESALE (CONTINUED)

The reconciliation of the changes in real estate held for resale measured on a recurring basis using significant unobservable inputs (level 3) is as follows:

	<u>2021</u>	<u>2020</u>
January 1	\$ 542,692	\$ 553,871
Real estate purchased	-	-
Development and construction costs	340,134	448,660
Change in market value	(95,925)	(159,477)
Real estate sold	(445,009)	(125,314)
Transfer to rental property	(79,977)	(175,048)
December 31	<u>\$ 261,915</u>	<u>\$ 542,692</u>

NOTE 13-LEASES

The Corporation leases commercial space at the following locations: Colfax Cultural Center, Charles Martin Youth Center, Studio 815, Blume's Building, Marycrest Complex, Chapin Market, LLC, and Teachers Credit Union. The majority of the leases are month-to-month or are expiring in 12 months from December 31, 2020. Lease income for the years ended December 31, 2021 and 2020 was \$319,412 and \$333,034, respectively.

Future minimum commercial lease income for each of the next five years are as follows:

2022	\$ 251,781
2023	202,561
2024	122,256
2025	42,504
2026	<u>42,504</u>
Total	<u>\$ 661,606</u>

NOTE 14-RETIREMENT PLAN

The Corporation is a member of a defined contribution retirement plan. The Corporation can make discretionary contributions in each calendar year for all eligible employees who are at least 21 years old and who have worked at least one year. For the years ended December 31, 2021 and 2020, no contributions were made.

**SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES
(AN INDIANA NOT-FOR-PROFIT CORPORATION)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2021 AND 2020**

NOTE 15-NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at December 31, 2021 and 2020 consist of the following:

	<u>2021</u>	<u>2020</u>
Grant for down payment assistance for loans held by Fifth Third Bank \$	4,000	\$ 4,000
MLK scholarship funds	108,004	76,686
CMYC Fundraiser	63,787	31,979
Robertsons RLC	-	27,758
Literacy Center	-	13,500
Team Heat	-	6,359
Other restricted assets	-	30,199
NeighborWorks America	<u>168,615</u>	<u>93,616</u>
Ending balance	<u>\$ 344,406</u>	<u>\$ 284,098</u>

SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES
(AN INDIANA NOT-FOR-PROFIT CORPORATION)

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2021

	South Bend Heritage Foundation	Scattered Sites	Robertson's Building	South Bend Heritage Properties	Historic Rushton	New Heritage Homes Southeast	South Bend Permanent Supportive Housing	Chapin Market	Gemini Apartments	Eliminations	Total
Current assets											
Cash and cash equivalents											
Cash	\$ 1,853,767	\$ 3,511	\$ 54,339	\$ 150,059	\$ 19,373	\$ 34,246	\$ 71,143	\$ -	\$ 141,037	\$ -	\$ 2,327,475
Resident security deposits	-	11,927	22,471	32,061	6,558	14,971	-	-	13,105	-	101,093
Replacement reserves	-	1,755	188,578	150,614	26,955	123,322	47,671	-	-	-	538,895
Operating reserves	-	-	-	400,283	87,589	141,536	212,593	-	-	-	842,001
Deficit reserve	-	-	-	-	-	34,251	-	-	-	-	34,251
Supportive service reserve	-	-	-	-	-	-	335,423	-	-	-	335,423
Total cash and cash equivalents	1,853,767	17,193	265,388	733,017	140,475	348,326	666,830	-	154,142	-	4,179,138
Accounts receivable, net	108,800	10,670	16,790	23,530	5,885	6,178	5,572	-	6,588	-	184,013
Accounts receivable - related parties	1,436,602	28,485	-	7,000	508	-	-	-	3,000	(1,466,452)	9,143
Developer fees receivable	422,462	-	-	-	-	-	-	-	-	(422,462)	-
Grants receivable	25,859	-	-	-	-	-	-	-	-	-	25,859
Prepaid expenses	100	8,171	5,448	2,830	281	765	-	-	-	-	17,595
Total current assets	3,847,590	64,519	287,626	766,377	147,149	355,269	672,402	-	163,730	(1,888,914)	4,415,748
Property and equipment											
Land	290,379	-	12,364	62,000	57,500	46,500	652,436	281,903	-	-	1,403,082
Buildings and improvements	10,553,215	2,235,209	8,390,716	6,711,280	3,791,579	5,945,923	4,385,191	-	2,420,081	-	44,433,194
Furniture and equipment	112,174	-	106,972	77,271	92,387	123,308	1,171,708	-	-	-	1,683,820
	10,955,768	2,235,209	8,510,052	6,850,551	3,941,466	6,115,731	6,209,335	281,903	2,420,081	-	47,520,096
Less: Accumulated depreciation	(5,380,951)	(994,960)	(6,795,693)	(2,833,867)	(1,224,022)	(2,211,187)	(1,875,101)	-	(158,605)	-	(21,474,386)
Total property and equipment	5,574,817	1,240,249	1,714,359	4,016,684	2,717,444	3,904,544	4,334,234	281,903	2,261,476	-	26,045,710
Other assets											
Notes receivable	3,045,603	-	-	-	-	-	-	-	-	(2,416,391)	629,212
Beneficial interest in assets held by the Community Foundation	105,597	-	-	-	-	-	-	-	-	-	105,597
Real estate held for resale, net	261,915	-	-	-	-	-	-	-	-	-	261,915
Investment in subsidiaries	524,564	-	-	-	-	-	-	-	-	(438,405)	86,159
Unamortized costs, net	-	-	-	-	9,809	12,843	30,486	-	-	-	53,138
Total other assets	3,937,679	-	-	-	9,809	12,843	30,486	-	-	(2,854,796)	1,136,021
	\$ 13,360,086	\$ 1,304,768	\$ 2,001,985	\$ 4,783,061	\$ 2,874,402	\$ 4,272,656	\$ 5,037,122	\$ 281,903	\$ 2,425,206	\$ (4,743,710)	\$ 31,597,479

**SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES
(AN INDIANA NOT-FOR-PROFIT CORPORATION)**

**CONSOLIDATING STATEMENT OF FINANCIAL POSITION (CONTINUED)
DECEMBER 31, 2020**

	South Bend Heritage Foundation	Scattered Sites	Robertson's Building	South Bend Heritage Properties	Historic Rushton	New Heritage Homes Southeast	South Bend Permanent Supportive Housing	Chapin Market	Gemini Apartments	Eliminations	Total
Current assets											
Cash and cash equivalents											
Cash	\$ 515,593	\$ 12,947	\$ 80,640	\$ 130,534	\$ 10,445	\$ 13,869	\$ 34,153	\$ -	\$ 60,664	\$ -	\$ 858,845
Resident security deposits	-	7,064	17,998	26,824	3,918	15,471	-	-	6,640	-	77,915
Replacement reserves	-	2,435	132,927	154,911	47,535	123,307	36,466	-	-	-	497,581
Operating reserves	-	-	-	398,461	86,612	141,602	212,593	-	-	-	839,268
Deficit reserve	-	-	-	-	-	34,251	-	-	-	-	34,251
Supportive service reserve	-	-	-	-	-	-	383,714	-	-	-	383,714
Total cash and cash equivalents	515,593	22,446	231,565	710,730	148,510	328,500	666,926	-	67,304	-	2,691,574
Accounts receivable, net	67,512	16,163	12,401	10,392	3,069	18,323	17,966	-	6,576	-	152,402
Accounts receivable - related parties	1,286,257	36,682	-	-	508	-	-	-	-	(1,314,784)	8,663
Developer fees receivable	422,462	-	-	-	-	-	-	-	-	(422,462)	-
Grants receivable	121,801	-	-	-	-	-	-	-	-	-	121,801
Prepaid expenses	100	8,171	5,448	2,830	281	765	300	-	-	-	17,895
Total current assets	2,413,725	83,462	249,414	723,952	152,368	347,588	685,192	-	73,880	(1,737,246)	2,992,335
Property and equipment											
Land	290,379	-	12,364	62,000	57,500	46,500	652,436	281,903	-	-	1,403,082
Buildings and improvements	7,836,458	2,235,209	8,321,976	6,711,280	3,791,579	5,945,923	4,383,460	-	2,336,029	-	41,561,914
Furniture and equipment	112,174	-	106,972	77,271	92,387	123,308	1,171,708	-	-	-	1,683,820
	8,239,011	2,235,209	8,441,312	6,850,551	3,941,466	6,115,731	6,207,604	281,903	2,336,029	-	44,648,816
Less: Accumulated depreciation	(5,181,853)	(920,323)	(6,494,632)	(2,589,722)	(1,086,160)	(1,994,855)	(1,411,620)	-	(79,803)	-	(19,758,968)
Total property and equipment	3,057,158	1,314,886	1,946,680	4,260,829	2,855,306	4,120,876	4,795,984	281,903	2,256,226	-	24,889,848
Other assets											
Notes receivable	2,940,789	-	-	-	-	-	-	-	-	(2,317,226)	623,563
Beneficial interest in assets held by the Community Foundation	94,017	-	-	-	-	-	-	-	-	-	94,017
Real estate held for resale, net	542,692	-	-	-	-	-	-	-	-	-	542,692
Investment in subsidiaries	455,824	-	-	-	-	-	-	-	-	(369,665)	86,159
Unamortized costs, net	-	-	-	-	11,453	15,555	33,322	-	-	-	60,330
Total other assets	4,033,322	-	-	-	11,453	15,555	33,322	-	-	(2,686,891)	1,406,761
	\$ 9,504,205	\$ 1,398,348	\$ 2,196,094	\$ 4,984,781	\$ 3,019,127	\$ 4,484,019	\$ 5,514,498	\$ 281,903	\$ 2,330,106	\$ (4,424,137)	\$ 29,288,944

**SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES
(AN INDIANA NOT-FOR-PROFIT CORPORATION)**

**CONSOLIDATING STATEMENT OF FINANCIAL POSITION (CONTINUED)
DECEMBER 31, 2021**

	South Bend Heritage Foundation	Scattered Sites	Robertson's Building	South Bend Heritage Properties	Historic Rushton	New Heritage Homes Southeast	South Bend Permanent Supportive Housing	Chapin Market	Gemini Apartments	Eliminations	Total
Current liabilities											
Operating:											
Accounts payable	\$ 581,068	\$ 24,754	\$ 16,579	\$ 9,561	\$ 8,742	\$ 19,850	\$ 7,986	\$ -	\$ 1,553	\$ -	\$ 670,093
Accrued expenses	75,913	13,416	11,285	-	-	-	27,333	-	15,906	(72,115)	71,738
Prepaid revenue	45,354	-	10,003	7,002	452	1,990	2,452	-	-	-	67,253
Notes payable - current maturities	1,642,470	32,404	52,134	26,483	-	10,911	-	-	73,419	-	1,837,821
Accrued interest	12,510	-	8,172	-	18,257	507	-	-	3,672	-	43,118
Accounts payable - related parties	15,028	15,433	18,247	4,110	7,304	1,696	-	-	455,322	(517,140)	-
Grant advances	138,000	-	-	-	-	-	-	-	-	-	138,000
Total current liabilities	2,510,343	86,007	116,420	47,156	34,755	34,954	37,771	-	549,872	(589,255)	2,828,023
Deposit liabilities, resident security deposits	-	-	21,971	32,242	7,485	16,371	-	-	-	-	78,069
Long term liabilities											
Notes payable, net of current maturities	985,000	201,742	2,486,294	673,377	-	1,222,384	633,004	-	1,948,471	(1,698,004)	6,452,268
1602 Funds payable	-	-	-	1,936,682	-	-	-	-	-	-	1,936,682
Accrued interest	-	-	30,618	-	-	625,010	93,306	-	-	(718,316)	30,618
Less: unamortized debt issuance costs	-	-	(57,350)	(60,902)	-	-	-	-	-	-	(118,252)
Accrued expenses	-	-	-	-	81,272	48,273	66,226	-	-	-	195,771
Accounts payable - related parties	-	-	548,425	-	313,999	-	-	-	-	(862,424)	-
Deferred developer fee	-	-	302,838	-	119,569	-	-	-	-	(422,407)	-
Total long term liabilities	985,000	201,742	3,310,825	2,549,157	514,840	1,895,667	792,536	-	1,948,471	(3,701,151)	8,497,087
Total liabilities	3,495,343	287,749	3,449,216	2,628,555	557,080	1,946,992	830,307	-	2,498,343	(4,290,406)	11,403,179
Net assets											
Without donor restrictions	9,520,337	1,017,019	(1,447,231)	2,154,506	73,870	20,238	(234)	281,903	(73,137)	(453,304)	11,093,967
With donor restrictions	344,406	-	-	-	-	-	-	-	-	-	344,406
Non-controlling interest	-	-	-	-	2,243,452	2,305,426	4,207,049	-	-	-	8,755,927
Total net assets	9,864,743	1,017,019	(1,447,231)	2,154,506	2,317,322	2,325,664	4,206,815	281,903	(73,137)	(453,304)	20,194,300
	\$ 13,360,086	\$ 1,304,768	\$ 2,001,985	\$ 4,783,061	\$ 2,874,402	\$ 4,272,656	\$ 5,037,122	\$ 281,903	\$ 2,425,206	\$ (4,743,710)	\$ 31,597,479

**SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES
(AN INDIANA NOT-FOR-PROFIT CORPORATION)**

**CONSOLIDATING STATEMENT OF FINANCIAL POSITION (CONTINUED)
DECEMBER 31, 2020**

	South Bend Heritage Foundation	Scattered Sites	Robertson's Building	South Bend Heritage Properties	Historic Rushton	New Heritage Homes Southeast	South Bend Permanent Supportive Housing	Chapin Market	Gemini Apartments	Eliminations	Total
Current liabilities											
Operating:											
Accounts payable	\$ 118,289	\$ 545	\$ 10,397	\$ 7,527	\$ 8,145	\$ 6,932	\$ 9,508	\$ -	\$ -	\$ -	\$ 161,343
Accrued expenses	75,913	13,615	9,888	-	241	-	6,351	-	10,158	(46,032)	70,134
Prepaid revenue	5,372	-	17,489	9,161	236	4,979	2,121	-	-	-	39,358
Line of credit	92,764	-	-	-	-	-	-	-	-	-	92,764
Notes payable - current maturities	1,679,282	30,793	49,919	25,446	-	10,227	-	-	70,157	-	1,865,824
Accrued interest	7,954	-	8,172	-	15,344	507	-	-	3,672	-	35,649
Accounts payable - related parties	15,028	9,754	17,932	7,098	304	1,696	-	-	325,989	(377,801)	-
Grant advances	273,103	-	-	-	-	-	-	-	-	-	273,103
Total current liabilities	2,267,705	54,707	113,797	49,232	24,270	24,341	17,980	-	409,976	(423,833)	2,538,175
Deposit liabilities, resident security deposits	-	-	21,171	28,742	4,190	15,771	-	-	-	-	69,874
Long term liabilities											
Notes payable, net of current maturities	985,000	226,425	2,538,428	699,933	-	1,233,161	633,004	-	2,010,878	(1,698,075)	6,628,754
1602 Funds payable	-	-	-	2,351,684	-	-	-	-	-	-	2,351,684
Accrued interest	-	-	13,922	-	-	544,774	74,316	-	-	(619,090)	13,922
Less: unamortized debt issuance costs	-	-	(59,707)	(80,134)	-	-	-	-	-	-	(139,841)
Accrued expenses	-	-	-	-	71,138	41,750	48,472	-	-	-	161,360
Accounts payable - related parties	-	-	548,871	-	313,999	-	-	-	-	(862,870)	-
Deferred developer fee	-	-	302,838	-	119,569	-	-	-	-	(422,407)	-
Total long term liabilities	985,000	226,425	3,344,352	2,971,483	504,706	1,819,685	755,792	-	2,010,878	(3,602,442)	9,015,879
Total liabilities	3,252,705	281,132	3,479,320	3,049,457	533,166	1,859,797	773,772	-	2,420,854	(4,026,275)	11,623,928
Net assets											
Without donor restrictions	5,967,402	1,117,216	(1,283,226)	1,935,324	75,558	20,266	(182)	281,903	(90,748)	(397,862)	7,625,651
With donor restrictions	284,098	-	-	-	-	-	-	-	-	-	284,098
Non-controlling interest	-	-	-	-	2,410,403	2,603,956	4,740,908	-	-	-	9,755,267
Total net assets	6,251,500	1,117,216	(1,283,226)	1,935,324	2,485,961	2,624,222	4,740,726	281,903	(90,748)	(397,862)	17,665,016
	\$ 9,504,205	\$ 1,398,348	\$ 2,196,094	\$ 4,984,781	\$ 3,019,127	\$ 4,484,019	\$ 5,514,498	\$ 281,903	\$ 2,330,106	\$ (4,424,137)	\$ 29,288,944

**SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES
(AN INDIANA NOT-FOR-PROFIT CORPORATION)**

**CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2021**

	South Bend Heritage Foundation	Scattered Sites	Robertson's Building	South Bend Heritage Properties	Historic Rushton	New Heritage Homes Southeast	South Bend Permanent Supportive Housing	Chapin Market	Gemini Apartments	Eliminations	Total
Public support and revenue											
Public support											
Contributions and grants	\$ 586,130	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 100,000	\$ -	\$ 686,130
Federal grants	3,636,855	-	-	-	-	-	-	-	-	-	3,636,855
Total public support	4,222,985	-	-	-	-	-	-	-	100,000	-	4,322,985
Other revenue:											
Management and project fees	466,246	-	-	-	-	-	-	-	-	(157,701)	308,545
Section 1602 forgiveness	-	-	-	415,002	-	-	-	-	-	-	415,002
Rental revenue	319,412	149,467	702,282	560,367	133,774	360,367	266,715	-	257,280	-	2,749,664
Interest revenue	104,814	-	-	2,031	38	146	21	-	-	(99,164)	7,886
Change in beneficial interest	11,580	-	-	-	-	-	-	-	-	-	11,580
Gain/(Loss) on real estate held for resale	42,478	-	-	-	-	-	-	-	-	-	42,478
Valuation expense	(95,925)	-	-	-	-	-	-	-	-	-	(95,925)
Miscellaneous revenue	63,797	1,217	9,975	5,877	949	1,805	7,483	-	3,823	-	94,926
Total revenue	5,135,387	150,684	712,257	983,277	134,761	362,318	274,219	-	361,103	(256,865)	7,857,141
Expenses											
Program expenses:											
Operating and maintenance	508,676	72,430	148,186	242,492	59,745	158,255	106,653	-	64,363	(171,076)	1,189,724
Utilities	142,374	28,581	110,818	60,791	24,538	55,789	51,379	-	38,826	-	513,096
Taxes and insurance	283,718	27,054	116,861	42,762	11,973	44,016	42,672	-	3,123	-	572,179
Financial	54,426	9,781	126,081	47,713	-	91,768	18,990	-	89,459	(99,093)	339,125
Depreciation	169,233	74,637	301,061	244,145	137,862	216,332	463,481	-	78,802	-	1,685,553
Amortization	-	-	-	-	1,644	2,712	2,836	-	-	-	7,192
Other	-	-	-	-	13,047	6,523	20,320	-	-	-	39,890
Total program expenses	1,158,427	212,483	803,007	637,903	248,809	575,395	706,331	-	274,573	(270,169)	4,346,759
Management and general:											
Advertising and marketing	2,314	-	3,401	3,220	1,971	2,898	-	-	2,898	-	16,702
Office expenses	107,085	4,291	15,857	17,627	12,260	8,441	10,319	-	7,745	-	183,625
Salaries	63,031	28,194	91,720	86,658	22,254	53,430	74,827	-	57,920	-	478,034
Professional fees	19,663	5,913	15,535	12,914	14,501	13,172	9,250	-	354	-	91,302
Bad debts	-	-	15,017	2,777	2,109	2,882	3,975	-	-	-	26,760
Utilities	25,125	-	-	-	-	-	-	-	-	-	25,125
Taxes and insurance	50,066	-	-	-	-	-	-	-	-	-	50,066
Interest	26,696	-	-	-	-	-	-	-	-	-	26,696
Depreciation	29,865	-	-	-	-	-	-	-	-	-	29,865
Other	-	-	464	2,996	1,494	4,660	3,429	-	-	-	13,043
Total management and general	323,845	38,398	141,994	126,192	54,589	85,483	101,800	-	68,917	-	941,218
Fundraising:											
Advertising and marketing	29,375	-	-	-	-	-	-	-	-	-	29,375
Salaries	10,505	-	-	-	-	-	-	-	-	-	10,505
Total fundraising	39,880	-	-	-	-	-	-	-	-	-	39,880
Total expenses	1,522,152	250,881	945,001	764,095	303,398	660,878	808,131	-	343,490	(270,169)	5,327,857
Change in net assets	3,613,235	(100,197)	(232,744)	219,182	(168,637)	(298,560)	(533,912)	-	17,613	13,304	2,529,284

**SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES
(AN INDIANA NOT-FOR-PROFIT CORPORATION)**

**CONSOLIDATING STATEMENT OF ACTIVITIES (CONTINUED)
YEAR ENDED DECEMBER 31, 2020**

	South Bend Heritage Foundation	Scattered Sites	Robertson's Building	South Bend Heritage Properties	Historic Rushton	New Heritage Homes Southeast	South Bend Permanent Supportive Housing	Chapin Market	Gemini Apartments	Eliminations	Total
Public support and revenue											
Public support											
Contributions and grants	\$ 345,694	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 345,694
Federal grants	1,174,158	-	-	-	-	-	-	-	-	-	1,174,158
Total public support	1,519,852	-	-	-	-	-	-	-	-	-	1,519,852
Other revenue:											
Management and project fees	449,093	-	-	-	-	-	-	-	-	(127,394)	321,699
Section 1602 forgiveness	-	-	-	415,002	-	-	-	-	-	-	415,002
SBA loan forgiveness	123,652	11,020	29,136	31,215	9,806	20,496	-	-	12,060	-	237,385
Rental revenue	333,034	173,249	686,209	526,927	131,288	354,279	267,002	-	221,211	-	2,693,199
Interest revenue	101,060	2	113	3,526	87	228	1,619	-	-	(95,411)	11,224
Change in beneficial interest	10,266	-	-	-	-	-	-	-	-	-	10,266
Loss on real estate held for resale	(125,314)	-	-	-	-	-	-	-	-	-	(125,314)
Valuation expense	(159,477)	-	-	-	-	-	-	-	-	-	(159,477)
Miscellaneous revenue	107,792	4,708	11,479	11,001	1,837	29,690	69,484	-	10,155	-	246,146
Total revenue	2,359,958	188,979	726,937	987,671	143,018	404,693	338,105	-	243,426	(222,805)	5,169,982
Expenses											
Program expenses:											
Operating and maintenance	532,513	34,450	214,533	150,488	34,387	137,956	95,357	-	63,393	(99,192)	1,163,885
Utilities	152,088	29,225	100,292	58,776	21,859	48,363	49,382	-	37,973	-	497,958
Taxes and insurance	263,271	29,779	126,692	64,476	19,375	64,705	16,922	-	10,902	-	596,122
Financial	66,246	14,001	128,311	48,951	-	87,935	18,990	-	111,044	(95,411)	380,067
Depreciation	163,467	76,637	301,061	244,479	137,862	216,332	436,004	-	79,803	-	1,655,645
Amortization	-	-	-	-	1,644	2,712	2,836	-	-	-	7,192
Other	-	-	-	-	12,667	6,333	19,728	-	-	-	38,728
Total program expenses	1,177,585	184,092	870,889	567,170	227,794	564,336	639,219	-	303,115	(194,603)	4,339,597
Management and general:											
Advertising and marketing	3,716	333	3,864	4,781	2,409	4,314	61	-	4,029	-	23,507
Office expenses	77,104	2,588	15,716	15,881	8,493	6,906	9,531	-	5,150	-	141,369
Salaries	61,884	40,684	100,469	104,329	28,198	60,003	58,541	-	42,598	-	496,706
Professional fees	32,954	3,063	22,267	22,049	19,846	13,210	19,348	-	1,450	-	134,187
Bad debts	2,329	-	4,323	13,578	4,964	1,843	776	-	-	-	27,813
Utilities	26,839	-	-	-	-	-	-	-	-	-	26,839
Taxes and insurance	46,459	-	-	-	-	-	-	-	-	-	46,459
Interest	32,494	-	-	-	-	-	-	-	-	-	32,494
Depreciation	28,847	-	-	-	-	-	-	-	-	-	28,847
Other	-	-	1,041	6,025	4,577	4,995	6,293	-	-	-	22,931
Total management and general	312,626	46,668	147,680	166,643	68,487	91,271	94,550	-	53,227	-	981,152
Fundraising:											
Advertising and marketing	17,312	-	-	-	-	-	-	-	-	-	17,312
Salaries	10,314	-	-	-	-	-	-	-	-	-	10,314
Total fundraising	27,626	-	-	-	-	-	-	-	-	-	27,626
Total expenses	1,517,837	230,760	1,018,569	733,813	296,281	655,607	733,769	-	356,342	(194,603)	5,348,375
Change in net assets	842,121	(41,781)	(291,632)	253,858	(153,263)	(250,914)	(395,664)	-	(112,916)	(28,202)	(178,393)

**SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES
(AN INDIANA NOT-FOR-PROFIT CORPORATION)**

**SUPPLEMENTAL SCHEDULE OF FINANCIAL POSITION OF NEIGHBORWORKS AMERICA
DECEMBER 31, 2021 AND 2020**

ASSETS

	<u>2021</u>	<u>2020</u>
Cash	\$ 168,615	\$ 93,616
Land, building and equipment	<u>1,426,606</u>	<u>1,426,605</u>
Total assets	<u>1,595,221</u>	<u>1,520,221</u>

NET ASSETS

Without Donor Restriction	1,426,606	1,426,605
With Donor Restriction	<u>168,615</u>	<u>93,616</u>
Total Net Assets	<u>\$ 1,595,221</u>	<u>\$ 1,520,221</u>

**SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES
(AN INDIANA NOT-FOR-PROFIT CORPORATION)**

**SUPPLEMENTAL SCHEDULE OF ACTIVITIES OF NEIGHBORWORKS AMERICA
YEARS ENDED DECEMBER 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
Revenue, Gains, and Other Support		
Expendable grants - NeighborWorks America	\$ 270,000	\$ 252,500
Capital Grant - NeighborWorks America	75,000	75,000
	<u>345,000</u>	<u>327,500</u>
Total revenue, gains and other support	345,000	327,500
Expenses		
Funds expensed	270,000	400,500
	<u>270,000</u>	<u>400,500</u>
Change in net assets	75,000	(73,000)
Net assets, beginning of year	<u>1,520,221</u>	<u>1,593,221</u>
Net assets, end of year	<u>\$ 1,595,221</u>	<u>\$ 1,520,221</u>

**SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES
(AN INDIANA NOT-FOR-PROFIT CORPORATION)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2021**

Federal Grantor

<i>Pass-through Grantor</i> "Program Title"	Assistance Listing Number	Pass-Through Identification Number	Federal Expenditures
U.S. Department of Treasury			
NeighborWorks America - Restricted Until First Use	21.000	R-NEC-2021-60997	\$ 75,000
NeighborWorks America - Unrestricted	21.000	R-PRI-2021-62688	20,000
NeighborWorks America - Unrestricted	21.000	R-NWW-2021-62144	500
NeighborWorks America - Unrestricted	21.000	R-SUPEXT-2021-62948	50,000
NeighborWorks America - Unrestricted	21.000	R-NEC-2021-60997	155,000
NeighborWorks America - Unrestricted	21.000		9,500
NeighborWorks America - Unrestricted	21.000		20,000
NeighborWorks America - Unrestricted	21.000		15,000
			<u>345,000</u>
Department of Housing and Urban Development			
<i>St. Joseph County Housing Consortium</i>			
"Home Investment Partnerships Program"	14.239	20-JH-04/HTF-020-003	2,421,258
"Home Investment Partnerships Program"	14.239	18-JH-04(01)	13,726
"Home Investment Partnership Program"	14.239	18-JH-04(02)	39,037
			<u>2,474,021</u>
<i>City of South Bend</i>			
"Community Development Block Grants/Entitlement Grants"	14.218	20-JC-25	280,025
"Community Development Block Grants/Entitlement Grants"	14.218	19-JC-26	238,258
"Community Development Block Grants/Entitlement Grants"	14.218	20-JC-58	58,078
"Community Development Block Grants/Entitlement Grants"	14.218	20-JC-26	6,370
"Community Development Block Grants/Entitlement Grants"	14.218	20-JC-15	100,000
			<u>682,731</u>
Total Department of Housing and Urban Development			<u>3,156,752</u>
Total Expenditures of Federal Awards			<u>\$ 3,501,752</u>

Note 1: The schedule of expenditures of federal awards is prepared on the accrual basis of accounting and the Corporation elected not to use the 10% de minimis cost rule.

Note 2: The accompanying schedule of expenditures of federal awards includes the federal grant activity of South Bend Heritage Foundation, Inc. and Subsidiaries and its Subsidiaries and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 3: Federal Grant Reconciliation

Federal grants on the Consolidated Statements of Activities	\$ 3,636,855
Prior year grant advances on the Consolidated Statements of Financial Position	(273,103)
Current year grant advances on the Consolidated Statements of Financial Position	138,000
Federal expenditures on Schedule for Expenditures of Federal Awards	<u>\$ 3,501,752</u>

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of
South Bend Heritage Foundation, Inc. and Subsidiaries
(An Indiana Not-for-Profit Corporation)

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the consolidated financial statements of South Bend Heritage Foundation, Inc. and Subsidiaries, which comprise the consolidated statement of financial position as of December 31, 2021, and the related consolidated statements of activities, change in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated June 9, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered South Bend Heritage Foundation, Inc. and Subsidiaries' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of South Bend Heritage Foundation, Inc. and Subsidiaries' internal control. Accordingly, we do not express an opinion on the effectiveness of South Bend Heritage Foundation, Inc. and Subsidiaries' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of South Bend Heritage Foundation, Inc. and Subsidiaries' financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

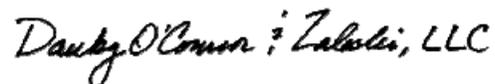
Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether South Bend Heritage Foundation, Inc. and Subsidiaries' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of South Bend Heritage Foundation, Inc. and Subsidiaries' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering South Bend Heritage Foundation, Inc. and Subsidiaries' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

June 9, 2022
Carmel, Indiana



Dauby O'Connor & Zaleski, LLC
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors of
South Bend Heritage Foundation, Inc. and Subsidiaries
(An Indiana Not-for-Profit Corporation)

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited South Bend Heritage Foundation, Inc. and Subsidiaries' compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of South Bend Heritage Foundation, Inc. and Subsidiaries' major federal programs for the year ended December 31, 2021. South Bend Heritage Foundation, Inc. and Subsidiaries' major federal programs are identified in the summary of auditor's results section of the accompanying summary of auditor's results.

In our opinion, South Bend Heritage Foundation, Inc. and Subsidiaries complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2021.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of South Bend Heritage Foundation, Inc. and Subsidiaries and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of South Bend Heritage Foundation, Inc. and Subsidiaries' compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to South Bend Heritage Foundation, Inc. and Subsidiaries' federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on South Bend Heritage Foundation, Inc. and Subsidiaries' compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance, and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above are considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about South Bend Heritage Foundation, Inc. and Subsidiaries' compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding South Bend Heritage Foundation, Inc. and Subsidiaries' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of South Bend Heritage Foundation, Inc. and Subsidiaries' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances, and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of South Bend Heritage Foundation, Inc. and Subsidiaries' internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Report on Internal Control over Compliance (continued)

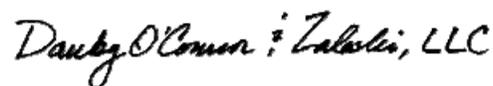
Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section, and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purposes of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

June 9, 2022
Carmel, Indiana



Dauby O'Connor & Zaleski, LLC
Certified Public Accountant

**SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES
(AN INDIANA NOT-FOR-PROFIT CORPORATION)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2021**

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiencies identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiencies identified that are not considered to be material weaknesses? yes no
- Dollar threshold used to distinguish between Type A and Type B programs \$ 750,000
- Auditee qualifies as a low-risk auditee? yes no

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes no

Identification of major programs:

Assistance Listing Number(s)	Name of Federal Program or Cluster
14.218	Community Development Block Grants/Entitlement Grants
14.239	Home Investment Partnerships Program

**SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES
(AN INDIANA NOT-FOR-PROFIT CORPORATION)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2021**

Section II-Financial Statement Findings

Our audit disclosed no findings or questioned costs that are required to be reported.

Section III-Federal Award Findings and Questioned Costs

Our audit disclosed no findings or questioned costs that are required to be reported.

**SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES
(AN INDIANA NOT-FOR-PROFIT CORPORATION)**

**CORRECTIVE ACTION PLAN
YEAR ENDED DECEMBER 31, 2021**

Name of auditee: South Bend Heritage Foundation, Inc. and Subsidiaries

HUD auditee identification number: N/A

Name of audit firm: Dauby O'Connor & Zaleski, LLC

Period covered by the audit: Year ended December 31, 2021

CAP prepared by

Name: Marco Mariani

Position: Executive Director

Telephone number: (574)289-1066

Current Findings on the Schedule of Findings, Questioned Costs, and Recommendations

Comments on the Finding and Each Recommendation

No corrective action plan is required to be reported.

**SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES
(AN INDIANA NOT-FOR-PROFIT CORPORATION)**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2021**

There are no open findings or questioned costs from the prior year audit report.