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

**CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
WITH INDEPENDENT AUDITOR'S REPORT**

**YEARS ENDED DECEMBER 31, 2022 AND 2021**

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**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

#### Opinion

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, 2022 and 2021, 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, 2022 and 2021, 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 Opinion

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

#### Correction of Error

As described in Note 15 to the consolidated financial statements, the 2021 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to that matter.

#### Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, South Bend Heritage Foundation, Inc. and Subsidiaries adopted the Leases topic of the FASB ASC 842 during the year ended December 31, 2022. Our opinion is not modified with respect to that matter.

#### Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated 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 within one year after the date that the financial statements are available to be issued.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated 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 opinion. 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements as a whole. 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 consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated 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 29, 2023, 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 29, 2023  
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, 2022 AND 2021**

	<b>ASSETS</b>	
	<b>2022</b>	<b>Restated 2021</b>
<b>Current assets</b>		
Cash and cash equivalents		
Cash	\$ 2,029,453	\$ 2,327,475
Resident security deposits	105,142	101,093
Replacement reserves	430,916	538,895
Operating reserves	804,260	842,001
Deficit reserve	34,251	34,251
Supportive service reserve	305,514	335,423
	<b>3,709,536</b>	<b>4,179,138</b>
Accounts receivable - residents	246,524	184,013
Accounts receivable - related parties	9,143	9,143
Grants receivable	98,984	25,859
Prepaid expenses	18,272	17,595
	<b>4,082,459</b>	<b>4,415,748</b>
<b>Property and equipment</b>		
Land	1,875,157	1,121,179
Buildings and improvements	45,915,293	44,433,194
Furniture and equipment	1,799,285	1,683,820
	<b>49,589,735</b>	<b>47,238,193</b>
Less: Accumulated depreciation	(23,325,439)	(21,474,386)
	<b>26,264,296</b>	<b>25,763,807</b>
<b>Other assets</b>		
Notes receivable	634,861	629,212
Beneficial interest in assets held by the Community Foundation	86,305	105,597
Real estate held for resale, net	285,690	261,915
Investment in subsidiaries	236,159	368,062
Unamortized costs, net	45,946	53,138
	<b>1,288,961</b>	<b>1,417,924</b>
	<b>\$ 31,635,716</b>	<b>\$ 31,597,479</b>

See notes to consolidated financial statements

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

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2022 AND 2021**

**LIABILITIES AND NET ASSETS**

	<b>2022</b>	<b>Restated 2021</b>
	<u>2022</u>	<u>2021</u>
<b>Current liabilities</b>		
Accounts payable	\$ 467,959	\$ 670,093
Accrued expenses	99,835	71,738
Prepaid revenue	73,076	67,253
Notes payable - current maturities	98,560	1,837,821
Accrued interest	55,863	43,118
Grant advances	49,233	138,000
	<u>844,526</u>	<u>2,828,023</u>
<b>Total current liabilities</b>	<b>844,526</b>	<b>2,828,023</b>
<b>Deposit liabilities, resident security deposits</b>	<b>94,437</b>	<b>78,069</b>
	<u>94,437</u>	<u>78,069</u>
<b>Long term liabilities</b>		
Notes payable, net of current maturities	8,111,402	6,452,268
Line of credit	340,000	-
1602 Funds payable	1,521,680	1,936,682
Accrued interest	-	30,618
Less: unamortized debt issuance costs	(111,562)	(118,252)
Accrued expenses	147,042	195,771
	<u>10,008,562</u>	<u>8,497,087</u>
<b>Total long term liabilities</b>	<b>10,008,562</b>	<b>8,497,087</b>
<b>Total liabilities</b>	<b>10,947,525</b>	<b>11,403,179</b>
	<u>10,947,525</u>	<u>11,403,179</u>
<b>Net assets</b>		
Without donor restrictions	12,164,534	11,093,967
With donor restrictions	844,104	344,406
Non-controlling interest	7,679,553	8,755,927
	<u>20,688,191</u>	<u>20,194,300</u>
<b>Total net assets</b>	<b>20,688,191</b>	<b>20,194,300</b>
	<u>20,688,191</u>	<u>20,194,300</u>
	<u><b>\$ 31,635,716</b></u>	<u><b>\$ 31,597,479</b></u>

See notes to consolidated financial statements

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

**CONSOLIDATED STATEMENTS OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2022**

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
<b>Public support and revenue</b>			
Public support			
Contributions and grants	\$ 195,984	\$ 411,047	\$ 607,031
Federal grants	2,489,107	175,000	2,664,107
<b>Total public support</b>	<b><u>2,685,091</u></b>	<b><u>586,047</u></b>	<b><u>3,271,138</u></b>
Other revenue:			
Management and project fees	381,292	-	381,292
Section 1602 forgiveness	415,002	-	415,002
Rental revenue	2,950,933	-	2,950,933
Interest revenue	10,525	-	10,525
Change in beneficial interest	(19,292)	-	(19,292)
Loss on real estate held for resale	(119,956)	-	(119,956)
Valuation expense	(71,995)	-	(71,995)
Miscellaneous revenue	111,695	-	111,695
<b>Total other revenue</b>	<b><u>3,658,204</u></b>	<b><u>-</u></b>	<b><u>3,658,204</u></b>
<b>Total revenue</b>	<b><u>6,343,295</u></b>	<b><u>586,047</u></b>	<b><u>6,929,342</u></b>
<b>Reclassification of restrictions:</b>			
Satisfaction of restrictions	86,349	(86,349)	-
<b>Expenses</b>			
Program expenses	5,180,315	-	5,180,315
Management and general	1,216,669	-	1,216,669
Fundraising	38,467	-	38,467
<b>Total expenses</b>	<b><u>6,435,451</u></b>	<b><u>-</u></b>	<b><u>6,435,451</u></b>
<b>Change in net assets</b>	<b><u>(5,807)</u></b>	<b><u>499,698</u></b>	<b><u>493,891</u></b>
<b>Change in non-controlling interest</b>	<b><u>(1,076,374)</u></b>	<b><u>-</u></b>	<b><u>(1,076,374)</u></b>
<b>Change in controlling interest</b>	<b><u>1,070,567</u></b>	<b><u>499,698</u></b>	<b><u>1,570,265</u></b>
	<b><u>\$ (5,807)</u></b>	<b><u>\$ 499,698</u></b>	<b><u>\$ 493,891</u></b>

See notes to consolidated financial statements



**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>Restated Total</u>
<b>Public support and revenue</b>			
Public support			
Contributions and grants	\$ 531,017	\$ 155,113	\$ 686,130
Federal grants	3,561,855	75,000	3,636,855
<b>Total public support</b>	<b><u>4,092,872</u></b>	<b><u>230,113</u></b>	<b><u>4,322,985</u></b>
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
<b>Total other revenue</b>	<b><u>3,534,156</u></b>	<b><u>-</u></b>	<b><u>3,534,156</u></b>
<b>Total revenue</b>	<b><u>7,627,028</u></b>	<b><u>230,113</u></b>	<b><u>7,857,141</u></b>
<b>Reclassification of restrictions:</b>			
Satisfaction of restrictions	169,805	(169,805)	-
<b>Expenses</b>			
Program expenses	4,346,759	-	4,346,759
Management and general	941,218	-	941,218
Fundraising	39,880	-	39,880
<b>Total expenses</b>	<b><u>5,327,857</u></b>	<b><u>-</u></b>	<b><u>5,327,857</u></b>
<b>Change in net assets</b>	<b><u>2,468,976</u></b>	<b><u>60,308</u></b>	<b><u>2,529,284</u></b>
<b>Change in non-controlling interest</b>	<b><u>(999,340)</u></b>	<b><u>-</u></b>	<b><u>(999,340)</u></b>
<b>Change in controlling interest</b>	<b><u>3,468,316</u></b>	<b><u>60,308</u></b>	<b><u>3,528,624</u></b>
	<b><u>\$ 2,468,976</u></b>	<b><u>\$ 60,308</u></b>	<b><u>\$ 2,529,284</u></b>

See notes to consolidated financial statements

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

**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS  
YEARS ENDED DECEMBER 31, 2022 AND 2021**

	Without donor restriction		With donor restriction	Total
	Controlling Interest	Non-controlling Interest		
<b>Balance, January 1, 2021, restated</b>	<b>\$ 7,625,651</b>	<b>\$ 9,755,267</b>	<b>\$ 284,098</b>	<b>\$ 17,665,016</b>
Change in net assets, restated	3,468,316	(999,340)	60,308	2,529,284
<b>Balance, December 31, 2021, restated</b>	<b>11,093,967</b>	<b>8,755,927</b>	<b>344,406</b>	<b>20,194,300</b>
Change in net assets	1,070,567	(1,076,374)	499,698	493,891
<b>Balance, December 31, 2022</b>	<b><u>\$ 12,164,534</u></b>	<b><u>\$ 7,679,553</u></b>	<b><u>\$ 844,104</u></b>	<b><u>\$ 20,688,191</u></b>

See notes to consolidated financial statements

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2022 AND 2021**

	<u>2022</u>	<u>Restated 2021</u>
<b>Cash flow from operating activities</b>		
Change in net assets	<u>\$ 493,891</u>	<u>\$ 2,529,284</u>
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:		
Depreciation	1,851,053	1,715,418
Amortization	7,192	7,192
Amortization of debt issuance costs	22,329	21,589
Write off of debt issuance costs	57,044	-
Valuation expense	71,995	95,925
Beneficial interest in assets	19,292	(11,580)
Section 1602 forgiveness	(415,002)	(415,002)
Loss on investment in subsidiaries	131,903	-
(Gain)/Loss on real estate held for resale	119,956	(42,478)
Changes in:		
Accounts receivable - residents	(62,511)	(31,611)
Accounts receivable - related parties	-	(480)
Grants receivable	(73,125)	95,942
Notes receivable	(5,649)	(5,649)
Prepaid expenses	(677)	300
Accounts payable	92,368	41,550
Accrued expenses	(20,632)	36,015
Prepaid revenue	5,823	27,895
Accrued interest	(17,873)	24,165
Grant advances	(88,767)	(135,103)
<b>Net cash provided by (used in) operating activities</b>	<u><b>2,188,610</b></u>	<u><b>3,953,372</b></u>
<b>Cash flow from investing activities</b>		
Purchase of property and equipment	(2,669,395)	(2,281,721)
Purchase of real estate held for resale	(198,755)	(340,134)
Proceeds from sale of homes	47,342	453,300
<b>Net cash provided by (used in) investing activities</b>	<u><b>\$ (2,820,808)</b></u>	<u><b>\$ (2,168,555)</b></u>

See notes to consolidated financial statements

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2022 AND 2021**

	<u>2022</u>	<u>Restated 2021</u>
<b>Cash flow from financing activities</b>		
Principal payments on notes payable	\$ (6,531,426)	\$ (204,489)
Proceeds from notes payable	6,426,705	-
Change in line of credit	340,000	(92,764)
Payment of debt issuance costs	(72,683)	-
<b>Net cash provided by (used in) financing activities</b>	<u><b>162,596</b></u>	<u><b>(297,253)</b></u>
<b>Net change in cash and cash equivalents</b>	<b>(469,602)</b>	<b>1,487,564</b>
<b>Cash and cash equivalents, beginning</b>	<u><b>4,179,138</b></u>	<u><b>2,691,574</b></u>
<b>Cash and cash equivalents, ending</b>	<u><u><b>\$ 3,709,536</b></u></u>	<u><u><b>\$ 4,179,138</b></u></u>
<b>Supplemental information</b>		
Cash paid during the year for interest	<u><u>\$ 362,417</u></u>	<u><u>\$ 369,981</u></u>

Cash flow from investing activities related to the purchase of property and equipment for the year ended December 31, 2022 excludes \$224,302, which is included in accounts payable at December 31, 2022 and includes \$542,155, which was included in accounts payable at December 31, 2021.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2022 AND 2021**

**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>
<b>Wholly owned or controlled subsidiaries</b>			
Robertson's Building Corporation			
Historic Rushton GP, Inc.			
NHHS GP Corporation			
SBPSH, LLC			
Scattered Sites			
Gemini Apartments			
Hope Avenue Homes			
Hoose Ct.			
<b>Limited Liability Entities (the "Properties")</b>			
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
<b>Equity Method Investments</b>			
SBHF MH GP, LLC	South Bend Mutual Homes Apartments	24	0.00396
Chapin Market, LLC	-	-	40.00

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

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### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2022 AND 2021**

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

Chapin Market, LLC is 40% owned by South Bend Heritage Foundation, Inc. and is treated as an equity method investment. During the year ended December 31, 2022, the land asset was sold to an unrelated third party. See note 9.

Cash flow from operating activities generated by the Properties is payable in accordance with the 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 Financial Accounting Standards Board ("FASB") issued *Accounting Standards Update* ("ASU") 2016-02, *Leases*, which requires the lessee to recognize leased assets and corresponding lease liabilities on the balance sheets. This standard was effective for the Corporation on January 1, 2022. The adoption of the lease standard did not 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 or controlled subsidiaries, 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  
YEARS ENDED DECEMBER 31, 2022 AND 2021**

**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, 2022 and 2021.

**Cash**

For the Consolidated Statements of Cash Flows, all unrestricted investments with original maturities of three months or less are cash. At December 31, 2022 and 2021, 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 Corporation's 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 Corporation does 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, 2022 and 2021. Bad debts expensed for the years ended December 31, 2022 and 2021 was \$59,944 and \$26,760, 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.

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, 2022 and 2021. There is no allowance for doubtful accounts as of December 31, 2022 and 2021.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**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, 2022 and 2021.

**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.

**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, 2022 and 2021.

**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.



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**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.

**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.

**Section 1602 forgiveness**

Amounts received from the forgivable loan related to the exchange of low-income housing credits are recognized over the 15-year tax credit compliance period beginning when the property was placed into service. See Note 4.

**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 842 and are not within the scope of FASB ASU 2014-09.

**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 Consolidated Statements of Activities.

**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 management and general 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.

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**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>2022</u>	<u>2021</u>
Program services:		
Operating and maintenance	\$ 1,899,798	\$ 1,360,800
Utilities	556,249	513,096
Taxes and insurance	606,665	572,179
Financial	587,395	438,218
Depreciation	1,814,489	1,685,553
Amortization	7,192	7,192
Other	45,247	39,890
Subtotal program services	5,517,035	4,616,928
Less eliminations	<u>( 336,720)</u>	<u>( 270,169)</u>
Total program services	<u><b>\$ 5,180,315</b></u>	<u><b>\$ 4,346,759</b></u>
Management and general:		
Advertising and marketing	\$ 2,517	\$ 16,702
Office expenses	181,491	183,625
Salaries	551,692	478,034
Professional fees	100,841	91,302
Bad debts	59,944	26,760
Utilities	24,608	25,125
Taxes and insurance	47,578	50,066
Interest	62,082	26,696
Depreciation	36,565	29,865
Other administrative	149,351	13,043
Subtotal administrative	1,216,669	941,218
Less eliminations	<u>-</u>	<u>-</u>
Total administrative	<u><b>\$ 1,216,669</b></u>	<u><b>\$ 941,218</b></u>
Fundraising:		
Advertising and marketing	\$ 25,926	\$ 29,375
Salaries	12,541	10,505
Subtotal fundraising	38,467	39,880
Less eliminations	<u>-</u>	<u>-</u>
Total fundraising	<u><b>\$ 38,467</b></u>	<u><b>\$ 39,880</b></u>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**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.

**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, 2022 and 2021, the Corporation had no uncertain tax positions requiring accrual.

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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, 2022 and 2021. 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 29, 2023, 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.

**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 the years ended December 31, 2022 and 2021 totaled \$7,192 and \$7,192, respectively.

**NOTE 3-FINANCING**

Various debt agreements have been entered into 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>2022</u>	<u>2021</u>
<b>South Bend Heritage Foundation, Inc.</b>						
1/19/18	8/15/21*	Northwest Bank	5.41%	\$ 1,918,291	\$ -*	\$ 1,642,471*
8/1/22	8/1/32	Northwest Bank	6.63%	3,826,705	3,803,060	-
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  
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<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>2022</u>	<u>2021</u>
<b>Scattered Sites</b>						
4/15/05	2/1/25	St. Joseph County Housing Consortium	1.00%	\$ 22,362	\$ 5,098	\$ 6,141
1/19/18	1/19/28	Northwest Bank	5.18%	327,000	-	228,005
8/1/22	8/1/32	SBHF, Inc.	5.50%	212,748	212,287	-
<b>Robertson's Building, LLC</b>						
3/1/11	4/1/46	Centennial Mortgage, Inc. Business Development Corporation	4.35%	2,640,000	-	2,204,501
3/1/11	3/1/46	Centier Bank	5.00%	370,679	-	333,927
7/21/22	7/21/32		5.29%	2,600,000	2,585,935	-
<b>South Bend Heritage Properties, LLC</b>						
8/22/14	8/20/24	Teacher's Credit Union	4.00%	865,000	673,598	699,860
<b>Gemini Apartments</b>						
11/22/19	11/22/39	Northwest Bank	Variable	2,124,304	-	2,021,890
8/1/22	8/1/32	SBHF, Inc.	5.20%	1,989,886	1,979,661	-
<b>New Heritage Homes Southeast, LP</b>						
12/5/12	12/5/27	Lake City Bank	6.40%	240,000	157,271	168,295
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
<b>South Bend Permanent Supportive Housing, LP</b>						
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, extending the maturity date to June 10, 2022. The note payable was repaid in full during 2022.

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

2023	\$ 98,560
2024	726,119
2025	86,291
2026	92,177
2027	188,978
Thereafter	<u>7,357,837</u>
	<b>8,549,962</b>
Debt issuance costs	<u>( 111,562)</u>
	<b><u>\$ 8,438,400</u></b>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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The long term debts 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 the years ended December 31, 2022 and 2021, \$415,002 and \$415,002, respectively, was recognized as income. This income is tax exempt.

**NOTE 5-LINE OF CREDIT**

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.

During 2022, the Corporation entered into a line of credit with Lake City Bank to fund development costs of Hoose Ct. The line of credit agreement calls for interest only payments at a variable interest rate until completion, at which the loan will convert to rate of 6%. At December 31, 2022, \$340,000 was drawn upon the line of credit and accrued interest totaled \$1,252.

**NOTE 6-DEBT ISSUANCE COSTS**

Financing costs were incurred in connection with obtaining financing. The costs are being amortized using the straight line method over the terms of the mortgage. Amortization expense for the years ended December 31, 2022 and 2021 totaled \$22,329 and \$21,589, respectively.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 7-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, 2022 and 2021:

<u>Property Name</u>	<u>Receivable at December 31, 2021</u>	<u>Developer Fee Earned</u>	<u>Developer Fee Paid</u>	<u>Receivable at December 31, 2022</u>
Historic Rushton Apartments	\$ 119,624	\$ -	\$ -	\$ 119,624
Robertson's Senior Apartments	302,838	-	( 30,335)	272,503
Hope Avenue Homes	-	305,977	( 305,977)	-
Hoose Ct	-	47,375	( 47,375)	-
Total	422,462	353,352	( 383,687)	392,127
Eliminated in consolidation	( 422,462)	( 353,352)	383,687	( 392,127)
<b>Total after consolidation</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

<u>Property Name</u>	<u>Receivable at January 1, 2021</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)
<b>Total after consolidation</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**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.

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**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>2022</u>	<u>2021</u>
<b>New Heritage Homes Southeast, LP</b>					
10/14/11	10/30/41	3.75%	\$ 585,000	\$ 820,828	\$ 798,890
10/14/11	10/30/41	7.00%	480,000	953,497	891,119
<b>South Bend Mutual Homes, LP</b>					
6/30/15	12/31/35	3.00%	400,000	634,861	629,212
<b>South Bend Permanent Supporting Housing, LP</b>					
4/24/17	12/31/36	3.00%	700,000	745,300	726,310
<b>Gemini Apartments</b>					
8/1/22	8/1/32	5.20%	1,989,886	1,979,661	-
<b>Scattered Sites</b>					
8/1/22	8/1/32	5.50%	212,748	212,287	-
			Subtotal	5,346,434	3,045,531
			Less: elimination	( 4,711,573)	( 2,416,319)
			Notes receivable	<u>\$ 634,861</u>	<u>\$ 629,212</u>

**NOTE 8-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 are 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, 2022, the Corporation has positive working capital and approximately 140 days of cash on hand.



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The following reflects the Corporation's financial assets as of December 31, 2022, reduced by amounts not available for general use within one year of December 31, 2022 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	\$ 2,029,453
Resident security deposits	105,142
Replacement reserves	430,916
Operating reserves	804,260
Deficit reserve	34,251
Supportive service reserve	305,514
Accounts receivable, net	246,524
Accounts receivable - related parties	9,143
Grants receivable	<u>98,984</u>
	<u>4,064,187</u>
Internal designations	
Restricted cash	( 675,488)
Resident security deposit liability	( 105,142)
Replacement reserves held by mortgagor	( 430,916)
Restricted operating reserves	( 804,260)
Restricted deficit reserve	( 34,251)
Restricted supportive service reserve	<u>( 305,514)</u>
	<u>( 2,355,571)</u>
Financial assets available to meet cash needs for general expenditures within one year	<b><u>\$ 1,708,616</u></b>

**NOTE 9-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, 2022, 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  
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**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.

**Sale of Chapin Market, LLC**

In 2022, the 60% unrelated owner of Chapin Market, LLC, sold the land assets (parking lot) in connection with the sale of an adjacent grocery store. The parking lot had an appraised value of \$375,000. The Corporation has recognized a loss on investments in subsidiaries of \$131,903, which is the difference in the Corporation's investment in Chapin Market LLC and its portion of the appraised value. The Corporation is pursuing litigation against its partner in Chapin Market, LLC to obtain its portion of the sales proceeds. As of the date of the audit report, the outcome of the litigation is uncertain.

**NOTE 10-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.

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.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2022 AND 2021**

The beneficial interest in CFSJC 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 organization's interest in the underlying fair value of pooled investments purchased by CFSJC, with the resulting realized and unrealized gain or losses reported in the Consolidated Statements of Activities as "change in beneficial interest."

The total market value of the fund held and managed by CFSJC as of December 31, 2022 was \$389,757, of which \$86,305 was contributed to the fund directly by the Corporation, or is appreciation (depreciation) on those monies. At December 31, 2021 total market value of the fund was \$476,883, of which \$105,597 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, 2022 and 2021 were \$20,028 and \$18,418, respectively.

The following is a summary of the transactions for the fund for the years ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Beginning balance	\$ 105,597	\$ 94,017
Change in value:		
Realized and unrealized gain (loss)	( 14,857)	15,658
Contributions and appreciation (depreciation)	15,593	14,340
Distributions	<u>( 20,028)</u>	<u>( 18,418)</u>
	<u><b>\$ 86,305</b></u>	<u><b>\$ 105,597</b></u>

**NOTE 11-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, 2022 and 2021 is \$285,690 and \$261,915, respectively.

Real estate held for resale consists of the following:

	<u>2022</u>	<u>2021</u>
Real estate held for resale	\$ 1,390,360	\$ 1,096,713
Valuation allowance	<u>( 1,104,670)</u>	<u>( 834,798)</u>
Net properties held for resale	<u><b>\$ 285,690</b></u>	<u><b>\$ 261,915</b></u>

**SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES  
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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>2022</u>	<u>2021</u>
January 1	\$ 261,915	\$ 542,692
Real estate purchased	-	-
Development and construction costs	198,755	340,134
Change in market value	( 71,995)	( 95,925)
Real estate sold	( 105,985)	( 445,009)
Transfer to rental property	-	( 79,977)
December 31	<u><b>\$ 285,690</b></u>	<u><b>\$ 261,915</b></u>

**NOTE 12-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, 2022. Lease income for the years ended December 31, 2022 and 2021 was \$359,016 and \$319,412, respectively.

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

2023	\$ 225,006
2024	79,181
2025	48,734
2026	42,504
2027	<u>21,252</u>
Total	<u><b>\$ 416,677</b></u>

**NOTE 13-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, 2022 and 2021, no contributions were made.

**SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2022 AND 2021**

**NOTE 14-NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions at December 31, 2022 and 2021 consist of the following:

	<u>2022</u>	<u>2021</u>
Grant for down payment assistance for loans held by Fifth Third Bank	\$ 4,000	\$ 4,000
MLK scholarship funds	107,804	108,004
CMYC Fundraiser	63,287	63,787
Robertsons RLC	36,475	-
Team Heat	14,922	-
Other restricted assets	274,000	-
NeighborWorks America	<u>343,616</u>	<u>168,615</u>
Ending balance	<u><b>\$ 844,104</b></u>	<u><b>\$ 344,406</b></u>

**NOTE 15-PRIOR PERIOD ADJUSTMENT**

During the year ended December 31, 2022, management determined that Chapin Market, LLC should be treated as an equity method investment rather than a wholly owned subsidiary. An adjustment has been made to certain accounts in the statements of financial position as of and for the year ended December 31, 2021. Management determined that \$281,903 of land previously consolidated with Chapin Market, LLC should have been reported as investment in subsidiaries by the Corporation. The restatement is in accordance with generally accepted accounting principles. The following summarizes the restatement:

	<u>Previously Reported</u>	<u>Adjustment</u>	<u>Restated 2021</u>
Land	\$ 1,403,082	\$( 281,903)	\$ 1,121,179
Investment in subsidiaries	86,159	281,903	368,062

**SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES**  
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**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2022**

	South Bend Heritage Foundation	Scattered Sites	Robertson's Building, LLC	South Bend Heritage Properties, LLC	Historic Rushton, LP	New Heritage Homes Southeast, LP	South Bend Permanent Supportive Housing, LP	Gemini Apartments	Hope Avenue Homes	Eliminations	Total
<b>Current assets</b>											
Cash and cash equivalents											
Cash	\$ 1,315,560	\$ 5,814	\$ 32,617	\$ 123,231	\$ 15,034	\$ 12,480	\$ 41,783	\$ 451,752	\$ 31,182	\$ -	\$ 2,029,453
Resident security deposits	-	12,016	23,361	32,861	8,278	17,871	-	10,755	-	-	105,142
Replacement reserves	-	6,997	138,250	86,143	39,318	99,932	60,276	-	-	-	430,916
Operating reserves	-	-	-	402,379	72,499	125,966	203,416	-	-	-	804,260
Deficit reserve	-	-	-	-	-	34,251	-	-	-	-	34,251
Supportive service reserve	-	-	-	-	-	-	305,514	-	-	-	305,514
<b>Total cash and cash equivalents</b>	<b>1,315,560</b>	<b>24,827</b>	<b>194,228</b>	<b>644,614</b>	<b>135,129</b>	<b>290,500</b>	<b>610,989</b>	<b>462,507</b>	<b>31,182</b>	<b>-</b>	<b>3,709,536</b>
Accounts receivable, net	117,688	13,823	27,287	28,412	3,382	11,595	20,838	15,872	7,627	-	246,524
Accounts receivable - related parties	1,513,465	28,803	-	7,000	508	-	-	3,000	-	(1,543,633)	9,143
Developer fees receivable	392,127	-	-	-	-	-	-	-	-	(392,127)	-
Grants receivable	98,984	-	-	-	-	-	-	-	-	-	98,984
Prepaid expenses	100	8,171	5,448	3,225	281	765	282	-	-	-	18,272
<b>Total current assets</b>	<b>3,437,924</b>	<b>75,624</b>	<b>226,963</b>	<b>683,251</b>	<b>139,300</b>	<b>302,860</b>	<b>632,109</b>	<b>481,379</b>	<b>38,809</b>	<b>(1,935,760)</b>	<b>4,082,459</b>
<b>Property and equipment</b>											
Land	205,561	-	12,364	62,000	57,500	46,500	652,436	-	838,796	-	1,875,157
Buildings and improvements	8,304,866	3,040,402	8,545,692	6,759,152	3,791,579	5,945,923	4,385,191	2,447,580	3,375,583	(680,675)	45,915,293
Furniture and equipment	142,153	-	106,972	91,267	92,387	123,308	1,171,708	-	71,490	-	1,799,285
	<b>8,652,580</b>	<b>3,040,402</b>	<b>8,665,028</b>	<b>6,912,419</b>	<b>3,941,466</b>	<b>6,115,731</b>	<b>6,209,335</b>	<b>2,447,580</b>	<b>4,285,869</b>	<b>(680,675)</b>	<b>49,589,735</b>
Less: Accumulated depreciation	(5,624,713)	(1,070,031)	(7,098,008)	(3,078,632)	(1,361,884)	(2,427,519)	(2,338,588)	(240,191)	(85,873)	-	(23,325,439)
<b>Total property and equipment</b>	<b>3,027,867</b>	<b>1,970,371</b>	<b>1,567,020</b>	<b>3,833,787</b>	<b>2,579,582</b>	<b>3,688,212</b>	<b>3,870,747</b>	<b>2,207,389</b>	<b>4,199,996</b>	<b>(680,675)</b>	<b>26,264,296</b>
<b>Other assets</b>											
Notes receivable	5,371,436	-	-	-	-	-	-	-	-	(4,736,575)	634,861
Beneficial interest in assets held by the Community Foundation	86,305	-	-	-	-	-	-	-	-	-	86,305
Real estate held for resale, net	285,690	-	-	-	-	-	-	-	-	-	285,690
Investment in subsidiaries	5,919,982	-	-	-	-	-	-	-	-	(5,683,823)	236,159
Unamortized costs, net	-	-	-	-	8,165	10,131	27,650	-	-	-	45,946
<b>Total other assets</b>	<b>11,663,413</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,165</b>	<b>10,131</b>	<b>27,650</b>	<b>-</b>	<b>-</b>	<b>(10,420,398)</b>	<b>1,288,961</b>
	<b>\$ 18,129,204</b>	<b>\$ 2,045,995</b>	<b>\$ 1,793,983</b>	<b>\$ 4,517,038</b>	<b>\$ 2,727,047</b>	<b>\$ 4,001,203</b>	<b>\$ 4,530,506</b>	<b>\$ 2,688,768</b>	<b>\$ 4,238,805</b>	<b>\$ (13,036,833)</b>	<b>\$ 31,635,716</b>

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

**CONSOLIDATING STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2022**

	South Bend Heritage Foundation	Scattered Sites	Robertson's Building, LLC	South Bend Heritage Properties, LLC	Historic Rushton, LP	New Heritage Homes Southeast, LP	South Bend Permanent Supportive Housing, LP	Gemini Apartments	Hope Avenue Homes	Eliminations	Total
<b>Public support and revenue</b>											
Public support											
Contributions and grants	\$ 607,031	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 607,031
Federal grants	2,664,107	-	-	-	-	-	-	-	-	-	2,664,107
<b>Total public support</b>	<b>3,271,138</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,271,138</b>
Other revenue:											
Management and project fees	1,237,690	-	-	-	-	-	-	-	-	(856,398)	381,292
Section 1602 forgiveness	-	-	-	415,002	-	-	-	-	-	-	415,002
Rental revenue	359,015	181,591	690,696	582,798	157,154	364,392	271,716	278,508	65,063	-	2,950,933
Interest revenue	171,226	-	-	2,256	43	121	2,455	-	-	(165,576)	10,525
Change in beneficial interest	(19,292)	-	-	-	-	-	-	-	-	-	(19,292)
Gain/(Loss) on real estate held for resale	(119,956)	-	-	-	-	-	-	-	-	-	(119,956)
Valuation expense	(71,995)	-	-	-	-	-	-	-	-	-	(71,995)
Miscellaneous revenue	33,437	4,652	27,231	18,092	1,178	13,302	5,883	7,720	200	-	111,695
<b>Total revenue</b>	<b>4,861,263</b>	<b>186,243</b>	<b>717,927</b>	<b>1,018,148</b>	<b>158,375</b>	<b>377,815</b>	<b>280,054</b>	<b>286,228</b>	<b>65,263</b>	<b>(1,021,974)</b>	<b>6,929,342</b>
<b>Expenses</b>											
Program expenses:											
Operating and maintenance	842,451	55,619	188,500	306,978	63,353	204,650	151,293	63,513	23,441	(317,730)	1,582,068
Utilities	139,442	34,417	136,223	64,348	25,026	61,754	55,391	32,945	6,703	-	556,249
Taxes and insurance	269,620	21,706	110,849	61,231	19,126	58,754	47,065	17,698	616	-	606,665
Financial	129,061	11,347	203,015	46,970	-	96,317	18,990	81,695	-	(18,990)	568,405
Depreciation	207,198	75,071	302,315	244,765	137,862	216,332	463,487	81,586	85,873	-	1,814,489
Amortization	-	-	-	-	1,644	2,712	2,836	-	-	-	7,192
Other	-	-	-	-	13,440	6,719	20,930	-	4,158	-	45,247
<b>Total program expenses</b>	<b>1,587,772</b>	<b>198,160</b>	<b>940,902</b>	<b>724,292</b>	<b>260,451</b>	<b>647,238</b>	<b>759,992</b>	<b>277,437</b>	<b>120,791</b>	<b>(336,720)</b>	<b>5,180,315</b>
Management and general:											
Advertising and marketing	2,251	-	168	-	-	-	98	-	-	-	2,517
Office expenses	83,448	4,575	23,004	20,419	16,737	10,645	10,177	9,014	3,472	-	181,491
Salaries	75,245	31,032	134,356	106,232	26,809	56,650	43,780	75,259	2,329	-	551,692
Professional fees	16,940	5,681	19,833	18,271	17,396	19,421	2,338	961	-	-	100,841
Bad debts	50,842	-	-	3,570	754	4,281	497	-	-	-	59,944
Utilities	24,608	-	-	-	-	-	-	-	-	-	24,608
Taxes and insurance	47,578	-	-	-	-	-	-	-	-	-	47,578
Interest	62,082	-	-	-	-	-	-	-	-	-	62,082
Depreciation	36,565	-	-	-	-	-	-	-	-	-	36,565
Other	131,903	-	-	-	2,811	5,518	8,785	-	334	-	149,351
<b>Total management and general</b>	<b>531,462</b>	<b>41,288</b>	<b>177,361</b>	<b>148,492</b>	<b>64,507</b>	<b>96,515</b>	<b>65,675</b>	<b>85,234</b>	<b>6,135</b>	<b>-</b>	<b>1,216,669</b>
Fundraising:											
Advertising and marketing	25,926	-	-	-	-	-	-	-	-	-	25,926
Salaries	12,541	-	-	-	-	-	-	-	-	-	12,541
<b>Total fundraising</b>	<b>38,467</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>38,467</b>
<b>Total expenses</b>	<b>2,157,701</b>	<b>239,448</b>	<b>1,118,263</b>	<b>872,784</b>	<b>324,958</b>	<b>743,753</b>	<b>825,667</b>	<b>362,671</b>	<b>126,926</b>	<b>(336,720)</b>	<b>6,435,451</b>
<b>Change in net assets</b>	<b>2,703,562</b>	<b>(53,205)</b>	<b>(400,336)</b>	<b>145,364</b>	<b>(166,583)</b>	<b>(365,938)</b>	<b>(545,613)</b>	<b>(76,443)</b>	<b>(61,663)</b>	<b>(685,254)</b>	<b>493,891</b>

**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, LLC	South Bend Heritage Properties, LLC	Historic Rushton, LP	New Heritage Homes Southeast, LP	South Bend Permanent Supportive Housing, LP	Gemini Apartments	Eliminations	Restated Total
<b>Current assets</b>										
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
<b>Total cash and cash equivalents</b>	<b>1,853,767</b>	<b>17,193</b>	<b>265,388</b>	<b>733,017</b>	<b>140,475</b>	<b>348,326</b>	<b>666,830</b>	<b>154,142</b>	<b>-</b>	<b>4,179,138</b>
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
<b>Total current assets</b>	<b>3,847,590</b>	<b>64,519</b>	<b>287,626</b>	<b>766,377</b>	<b>147,149</b>	<b>355,269</b>	<b>672,402</b>	<b>163,730</b>	<b>(1,888,914)</b>	<b>4,415,748</b>
<b>Property and equipment</b>										
Land	290,379	-	12,364	62,000	57,500	46,500	652,436	-	-	1,121,179
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
	<b>10,955,768</b>	<b>2,235,209</b>	<b>8,510,052</b>	<b>6,850,551</b>	<b>3,941,466</b>	<b>6,115,731</b>	<b>6,209,335</b>	<b>2,420,081</b>	<b>-</b>	<b>47,238,193</b>
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)
<b>Total property and equipment</b>	<b>5,574,817</b>	<b>1,240,249</b>	<b>1,714,359</b>	<b>4,016,684</b>	<b>2,717,444</b>	<b>3,904,544</b>	<b>4,334,234</b>	<b>2,261,476</b>	<b>-</b>	<b>25,763,807</b>
<b>Other assets</b>										
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	-	-	-	-	-	-	-	(156,502)	368,062
Unamortized costs, net	-	-	-	-	9,809	12,843	30,486	-	-	53,138
<b>Total other assets</b>	<b>3,937,679</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,809</b>	<b>12,843</b>	<b>30,486</b>	<b>-</b>	<b>(2,572,893)</b>	<b>1,417,924</b>
	<b>\$ 13,360,086</b>	<b>\$ 1,304,768</b>	<b>\$ 2,001,985</b>	<b>\$ 4,783,061</b>	<b>\$ 2,874,402</b>	<b>\$ 4,272,656</b>	<b>\$ 5,037,122</b>	<b>\$ 2,425,206</b>	<b>\$ (4,461,807)</b>	<b>\$ 31,597,479</b>



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

**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2022**

	South Bend Heritage Foundation	Scattered Sites	Robertson's Building, LLC	South Bend Heritage Properties, LLC	Historic Rushton, LP	New Heritage Homes Southeast, LP	South Bend Permanent Supportive Housing, LP	Gemini Apartments	Hope Avenue Homes	Eliminations	Total
<b>Current liabilities</b>											
Operating:											
Accounts payable	\$ 299,930	\$ 31,016	\$ 26,482	\$ 29,997	\$ 12,647	\$ 31,550	\$ 25,527	\$ 369	\$ 10,441	\$ -	\$ 467,959
Accrued expenses	75,913	-	12,385	-	-	-	11,337	13,669	1,875	(15,344)	99,835
Prepaid revenue	27,077	950	13,091	13,784	3,159	3,509	2,627	7,095	1,784	-	73,076
Notes payable - current maturities	58,305	4,260	-	27,562	-	11,640	-	32,752	-	(35,959)	98,560
Accrued interest	22,978	3,054	14,033	-	18,345	507	-	21,877	-	(24,931)	55,863
Accounts payable - related parties	15,026	17,955	-	5,937	7,454	1,696	-	460,677	-	(508,745)	-
Grant advances	49,233	-	-	-	-	-	-	-	-	-	49,233
<b>Total current liabilities</b>	<b>548,462</b>	<b>57,235</b>	<b>65,991</b>	<b>77,280</b>	<b>41,605</b>	<b>48,902</b>	<b>39,491</b>	<b>536,439</b>	<b>14,100</b>	<b>(584,979)</b>	<b>844,526</b>
<b>Deposit liabilities, resident security deposits</b>	<b>-</b>	<b>6,628</b>	<b>25,611</b>	<b>33,842</b>	<b>9,085</b>	<b>19,271</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>94,437</b>
<b>Long term liabilities</b>											
Notes payable, net of current maturities	4,729,755	213,125	2,585,935	646,036	-	1,210,631	633,004	1,946,909	-	(3,853,993)	8,111,402
Line of credit	340,000	-	-	-	-	-	-	-	-	-	340,000
1602 Funds payable	-	-	-	1,521,680	-	-	-	-	-	-	1,521,680
Accrued interest	-	-	-	-	-	709,325	112,296	-	-	(821,621)	-
Less: unamortized debt issuance costs	(57,318)	-	(12,574)	(41,670)	-	-	-	-	-	-	(111,562)
Accrued expenses	-	-	-	-	92,050	53,348	84,513	-	-	(82,869)	147,042
Accounts payable - related parties	-	-	622,824	-	313,999	-	-	-	-	(936,823)	-
Deferred developer fee	-	-	272,503	-	119,569	-	-	-	-	(392,072)	-
<b>Total long term liabilities</b>	<b>5,012,437</b>	<b>213,125</b>	<b>3,468,688</b>	<b>2,126,046</b>	<b>525,618</b>	<b>1,973,304</b>	<b>829,813</b>	<b>1,946,909</b>	<b>-</b>	<b>(6,087,378)</b>	<b>10,008,562</b>
<b>Total liabilities</b>	<b>5,560,899</b>	<b>276,988</b>	<b>3,560,290</b>	<b>2,237,168</b>	<b>576,308</b>	<b>2,041,477</b>	<b>869,304</b>	<b>2,483,348</b>	<b>14,100</b>	<b>(6,672,357)</b>	<b>10,947,525</b>
<b>Net assets</b>											
Without donor restrictions	11,724,201	1,769,007	(1,766,307)	2,279,870	72,204	20,201	(291)	205,420	4,224,705	(6,364,476)	12,164,534
With donor restrictions	844,104	-	-	-	-	-	-	-	-	-	844,104
Non-controlling interest	-	-	-	-	2,078,535	1,939,525	3,661,493	-	-	-	7,679,553
<b>Total net assets</b>	<b>12,568,305</b>	<b>1,769,007</b>	<b>(1,766,307)</b>	<b>2,279,870</b>	<b>2,150,739</b>	<b>1,959,726</b>	<b>3,661,202</b>	<b>205,420</b>	<b>4,224,705</b>	<b>(6,364,476)</b>	<b>20,688,191</b>
<b>\$ 18,129,204</b>	<b>\$ 2,045,995</b>	<b>\$ 1,793,983</b>	<b>\$ 4,517,038</b>	<b>\$ 2,727,047</b>	<b>\$ 4,001,203</b>	<b>\$ 4,530,506</b>	<b>\$ 2,688,768</b>	<b>\$ 4,238,805</b>	<b>\$ (13,036,833)</b>	<b>\$ 31,635,716</b>	

**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, LLC	South Bend Heritage Properties, LLC	Historic Rushton, LP	New Heritage Homes Southeast, LP	South Bend Permanent Supportive Housing, LP	Gemini Apartments	Eliminations	Restated Total
<b>Current liabilities</b>										
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
<b>Total current liabilities</b>	<b>2,510,343</b>	<b>86,007</b>	<b>116,420</b>	<b>47,156</b>	<b>34,755</b>	<b>34,954</b>	<b>37,771</b>	<b>549,872</b>	<b>(589,255)</b>	<b>2,828,023</b>
<b>Deposit liabilities, resident security deposits</b>	<b>-</b>	<b>-</b>	<b>21,971</b>	<b>32,242</b>	<b>7,485</b>	<b>16,371</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>78,069</b>
<b>Long term liabilities</b>										
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)	-
<b>Total long term liabilities</b>	<b>985,000</b>	<b>201,742</b>	<b>3,310,825</b>	<b>2,549,157</b>	<b>514,840</b>	<b>1,895,667</b>	<b>792,536</b>	<b>1,948,471</b>	<b>(3,701,151)</b>	<b>8,497,087</b>
<b>Total liabilities</b>	<b>3,495,343</b>	<b>287,749</b>	<b>3,449,216</b>	<b>2,628,555</b>	<b>557,080</b>	<b>1,946,992</b>	<b>830,307</b>	<b>2,498,343</b>	<b>(4,290,406)</b>	<b>11,403,179</b>
<b>Net assets</b>										
Without donor restrictions	9,520,337	1,017,019	(1,447,231)	2,154,506	73,870	20,238	(234)	(73,137)	(171,401)	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
<b>Total net assets</b>	<b>9,864,743</b>	<b>1,017,019</b>	<b>(1,447,231)</b>	<b>2,154,506</b>	<b>2,317,322</b>	<b>2,325,664</b>	<b>4,206,815</b>	<b>(73,137)</b>	<b>(171,401)</b>	<b>20,194,300</b>
	<b>\$ 13,360,086</b>	<b>\$ 1,304,768</b>	<b>\$ 2,001,985</b>	<b>\$ 4,783,061</b>	<b>\$ 2,874,402</b>	<b>\$ 4,272,656</b>	<b>\$ 5,037,122</b>	<b>\$ 2,425,206</b>	<b>\$ (4,461,807)</b>	<b>\$ 31,597,479</b>

**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, LLC	South Bend Heritage Properties, LLC	Historic Rushton, LP	New Heritage Homes Southeast, LP	South Bend Permanent Supportive Housing, LP	Gemini Apartments	Eliminations	Restated Total
<b>Public support and revenue</b>										
Public support										
Contributions and grants	\$ 586,130	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 100,000	\$ -	\$ 686,130
Federal grants	3,636,855	-	-	-	-	-	-	-	-	3,636,855
<b>Total public support</b>	<b>4,222,985</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>100,000</b>	<b>-</b>	<b>4,322,985</b>
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
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
<b>Total revenue</b>	<b>5,135,387</b>	<b>150,684</b>	<b>712,257</b>	<b>983,277</b>	<b>134,761</b>	<b>362,318</b>	<b>274,219</b>	<b>361,103</b>	<b>(256,865)</b>	<b>7,857,141</b>
<b>Expenses</b>										
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
<b>Total program expenses</b>	<b>1,158,427</b>	<b>212,483</b>	<b>803,007</b>	<b>637,903</b>	<b>248,809</b>	<b>575,395</b>	<b>706,331</b>	<b>274,573</b>	<b>(270,169)</b>	<b>4,346,759</b>
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
<b>Total management and general</b>	<b>323,845</b>	<b>38,398</b>	<b>141,994</b>	<b>126,192</b>	<b>54,589</b>	<b>85,483</b>	<b>101,800</b>	<b>68,917</b>	<b>-</b>	<b>941,218</b>
Fundraising:										
Advertising and marketing	29,375	-	-	-	-	-	-	-	-	29,375
Salaries	10,505	-	-	-	-	-	-	-	-	10,505
<b>Total fundraising</b>	<b>39,880</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>39,880</b>
<b>Total expenses</b>	<b>1,522,152</b>	<b>250,881</b>	<b>945,001</b>	<b>764,095</b>	<b>303,398</b>	<b>660,878</b>	<b>808,131</b>	<b>343,490</b>	<b>(270,169)</b>	<b>5,327,857</b>
<b>Change in net assets</b>	<b>\$ 3,613,235</b>	<b>\$ (100,197)</b>	<b>\$ (232,744)</b>	<b>\$ 219,182</b>	<b>\$ (168,637)</b>	<b>\$ (298,560)</b>	<b>\$ (533,912)</b>	<b>\$ 17,613</b>	<b>\$ 13,304</b>	<b>\$ 2,529,284</b>

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

**SUPPLEMENTARY INFORMATION - NEIGHBORWORKS AMERICA  
DECEMBER 31, 2022 AND 2021**

	<b>ASSETS</b>	
	<b>2022</b>	<b>Restated 2021</b>
Cash	\$ 343,615	\$ 168,615
Land, building and equipment	1,426,606	1,426,606
<b>Total assets</b>	<b>1,770,221</b>	<b>1,595,221</b>
	<b>NET ASSETS</b>	
Without Donor Restriction	1,426,606	1,426,606
With Donor Restriction	343,615	168,615
<b>Total Net Assets</b>	<b>\$ 1,770,221</b>	<b>\$ 1,595,221</b>

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

**SUPPLEMENTARY INFORMATION  
YEARS ENDED DECEMBER 31, 2022 AND 2021**

	<u>2022</u>	<u>Restated 2021</u>
Revenue, Gains, and Other Support		
Expendable grants - NeighborWorks America	\$ 315,750	\$ 270,000
Capital Grant - NeighborWorks America	<u>75,000</u>	<u>75,000</u>
<b>Total revenue, gains and other support</b>	<b>390,750</b>	<b>345,000</b>
Expenses		
Funds expensed	<u>215,750</u>	<u>270,000</u>
<b>Change in net assets</b>	<b>175,000</b>	<b>75,000</b>
<b>Net assets, beginning of year</b>	<b><u>1,595,221</u></b>	<b><u>1,520,221</u></b>
<b>Net assets, end of year</b>	<b><u>\$ 1,770,221</u></b>	<b><u>\$ 1,595,221</u></b>

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED DECEMBER 31, 2022**

Federal Grantor	Assistance Listing Number	Pass-Through Identification Number	Federal Expenditures
<i>Pass-through Grantor</i> "Program Title"			
<b>U.S. Department of Treasury</b>			
NeighborWorks America - Restricted Until First Use	21.000		\$ 75,000
NeighborWorks America - Unrestricted	21.000		160,000
NeighborWorks America - Restricted Until First Use	21.000		4,500
NeighborWorks America - Unrestricted	21.000	R-SUPEXT-2022-67507	50,000
NeighborWorks America - Unrestricted	21.000		1,000
NeighborWorks America - Unrestricted	21.000		100,000
NeighborWorks America - Unrestricted	21.000		250
			<b><u>390,750</u></b>
<b>Department of Housing and Urban Development</b>			
<i>St. Joseph County Housing Consortium</i>			
"Home Investment Partnerships Program"	14.239	20-JH-04/HTF-020-003	1,632,710
"Home Investment Partnerships Program"	14.239	18-JH-04(01)	10,270
"Home Investment Partnership Program"	14.239	22-JH-02	47,359
			<b><u>1,690,339</u></b>
<i>City of South Bend</i>			
"Community Development Block Grants/Entitlement Grants"	14.218	19-JC-26	241,657
"Community Development Block Grants/Entitlement Grants"	14.218	20-JC-26	2,250
"Community Development Block Grants/Entitlement Grants"	14.218	21-JC-58(02)	49,233
"Community Development Block Grants/Entitlement Grants"	14.218	21-JC-25	74,554
"Community Development Block Grants/Entitlement Grants"	14.218	20-JC-02	81,713
"Community Development Block Grants/Entitlement Grants"	14.218	21-JC-58(01)	44,844
			<b><u>494,251</u></b>
<b>Total Department of Housing and Urban Development</b>			<b><u>2,184,590</u></b>
<b>Total Expenditures of Federal Awards</b>			<b><u>\$ 2,575,340</u></b>

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	\$ 2,664,107
Prior year grant advances on the Consolidated Statements of Financial Position	(138,000)
Current year grant advances on the Consolidated Statements of Financial Position	49,233
Federal expenditures on Schedule for Expenditures of Federal Awards	<b><u>\$ 2,575,340</u></b>

## **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, 2022, and the related statements of activities, changes 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 29, 2023.

### **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 the entity's 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 the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

June 29, 2023  
Carmel, Indiana

*Dauby O'Connor & Zaleski, LLC*  
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, 2022. South Bend Heritage Foundation, Inc. and Subsidiaries' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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, 2022.

#### **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; and 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 is 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.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above 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 purpose 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 29, 2023  
Carmel, Indiana

*Dauby O'Connor & Zaleski, LLC*  
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, 2022**

**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  
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED DECEMBER 31, 2022**

**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  
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**CORRECTIVE ACTION PLAN  
YEAR ENDED DECEMBER 31, 2022**

**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, 2022

**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)**

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**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED DECEMBER 31, 2022**

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