



South Bend Heritage

ANNUAL REPORT
December 31, 2019

SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES

South Bend, Indiana

ANNUAL REPORT

December 31, 2019

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
South Bend Heritage Foundation, Inc. and Subsidiaries
South Bend, Indiana

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of South Bend Heritage Foundation, Inc. (a nonprofit organization) and Subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the 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, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other 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* 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 audits 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 information 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 May 28, 2020, 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 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.

Respectfully submitted,



Certified Public Accountants

Elkhart, Indiana
May 28, 2020

SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES

South Bend, Indiana

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	355,228	705,780
Accounts receivable, net	113,680	198,474
Related party receivables	5,730	5,684
Grants receivable	175,223	135,442
Contribution receivable	110,640	0
Prepaid expenses	50,746	48,355
Total Current Assets	811,247	1,093,735
PROPERTY AND EQUIPMENT		
Land and land improvements	1,317,346	1,317,346
Buildings and building improvements	41,190,262	38,565,512
Furniture and equipment	1,682,277	1,681,232
Construction in process	0	1,748,673
Total	44,189,885	43,312,763
Accumulated depreciation	18,076,477	16,468,397
Net Property and Equipment	26,113,408	26,844,366
OTHER ASSETS		
Notes receivable	617,914	601,462
Beneficial interest in assets held by the Community Foundation	83,751	74,575
Real estate held for resale, net	553,871	377,580
Investment in subsidiaries	86,159	86,159
Resident security deposits	71,724	62,084
Capitalized costs, net	166,888	193,312
Replacement reserves	469,500	421,067
Operating reserves	956,889	953,117
Deficit reserve	34,299	34,329
Supportive service reserve	396,096	388,323
Total Other Assets	3,437,091	3,192,008
TOTAL ASSETS	30,361,746	31,130,109

The Notes to Consolidated Financial Statements are an integral part of this statement.

SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES

South Bend, Indiana

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Line of credit	28,736	1,307,411
Current portion of long-term debt	230,662	288,419
Accounts payable	230,015	280,652
Deferred revenue	48,402	19,256
Grant advances	345,280	216,999
Accrued interest	40,487	45,433
Other accrued expenses	467,167	328,751
Total Current Liabilities	1,390,749	2,486,921
LONG-TERM LIABILITIES		
Long-term debt, net of unamortized deferred financing costs of \$62,064 and \$64,421 at December 31, 2019 and 2018, respectively	8,360,902	6,419,821
Forgivable loan	2,766,686	3,181,686
Total Long-Term Liabilities	11,127,588	9,601,507
TOTAL LIABILITIES	12,518,337	12,088,428
NET ASSETS		
Without donor restrictions	6,189,060	6,173,626
With donor restrictions	1,070,637	1,186,934
Non-controlling interest	10,583,712	11,681,121
TOTAL NET ASSETS	17,843,409	19,041,681
TOTAL LIABILITIES AND NET ASSETS	30,361,746	31,130,109

The Notes to Consolidated Financial Statements are an integral part of this statement.

SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES

South Bend, Indiana

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2019

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Total</u>
PUBLIC SUPPORT AND REVENUE			
Public Support			
Contributions and grants	397,433	47,090	444,523
Federal grants	735,165	75,000	810,165
Total Public Support	1,132,598	122,090	1,254,688
Other Revenue			
Management and project fees	522,577	0	522,577
Forgiveness of debt income	415,000	0	415,000
Rents	2,426,728	0	2,426,728
Interest income	42,868	0	42,868
Change in beneficial interest	9,176	0	9,176
Loss on real estate held for resale	(167,531)	0	(167,531)
Valuation expense	(86,802)	0	(86,802)
Miscellaneous income	147,188	0	147,188
Total Other Revenue	3,309,204	0	3,309,204
Total Public Support and Revenue	4,441,802	122,090	4,563,892
Reclassification of restrictions			
Satisfaction of restrictions	238,387	(238,387)	0
EXPENSES			
Program expenses	5,251,884	0	5,251,884
Management and general	455,696	0	455,696
Fundraising	54,584	0	54,584
Total Expenses	5,762,164	0	5,762,164
CHANGE IN NET ASSETS	(1,081,975)	(116,297)	(1,198,272)
NON-CONTROLLING INTEREST IN NET LOSSES OF SUBSIDIARIES	1,097,409	0	1,097,409
CHANGES IN NET ASSETS EXCLUDING NON-CONTROLLING INTEREST	15,434	(116,297)	(100,863)

The Notes to Consolidated Financial Statements are an integral part of this statement.

SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES

South Bend, Indiana

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2018

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Total</u>
PUBLIC SUPPORT AND REVENUE			
Public Support			
Contributions and grants	208,489	300	208,789
Federal grants	1,211,401	75,000	1,286,401
Total Public Support	1,419,890	75,300	1,495,190
Other Revenue			
Management and project fees	702,184	0	702,184
Forgiveness of debt income	415,000	0	415,000
Rents	2,315,098	0	2,315,098
Interest income	17,736	0	17,736
Change in beneficial interest	545	0	545
Loss on real estate held for resale	(550,238)	0	(550,238)
Valuation expense	(111,507)	0	(111,507)
Miscellaneous income	88,451	0	88,451
Total Other Revenue	2,877,269	0	2,877,269
Total Public Support and Revenue	4,297,159	75,300	4,372,459
Reclassification of restrictions			
Satisfaction of restrictions	2,000	(2,000)	0
Donor release from restriction	247,044	(247,044)	0
EXPENSES			
Program expenses	5,134,283	0	5,134,283
Management and general	476,392	0	476,392
Fundraising	56,018	0	56,018
Total Expenses	5,666,693	0	5,666,693
CHANGE IN NET ASSETS	(1,120,490)	(173,744)	(1,294,234)
NON-CONTROLLING INTEREST IN NET LOSSES OF SUBSIDIARIES	1,037,208	0	1,037,208
CHANGES IN NET ASSETS EXCLUDING NON-CONTROLLING INTEREST	(83,282)	(173,744)	(257,026)

The Notes to Consolidated Financial Statements are an integral part of this statement.

SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES

South Bend, Indiana

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2019

	Program								Total Program	Management & General	Fundraising	Grand Total
	South Bend Heritage Foundation	Scattered Sites	Robertson's Building	South Bend Heritage Properties	Historic Rushton	New Heritage Homes Southeast	South Bend Permanent Supportive Housing	Gemini Apartments				
Salaries and wages	496,996	37,027	115,744	125,837	27,280	87,846	50,113	21,015	961,858	90,363	15,060	1,067,281
Employee benefits	49,357	7,262	12,499	7,446	7,009	24,353	3,178	2,074	113,178	8,710	0	121,888
Payroll taxes	47,862	3,260	10,223	10,765	2,544	7,615	4,232	1,918	88,419	8,446	0	96,865
Supplies	27,521	98	796	1,492	2,019	2,387	0	262	34,575	6,101	0	40,676
Telephone	14,181	610	6,887	2,927	2,390	777	2,332	79	30,183	5,326	0	35,509
Postage and shipping	255	72	154	310	120	107	50	27	1,095	611	2,369	4,075
Advertising	277	0	940	3,580	639	1,073	17	1,100	7,626	1,346	0	8,972
Printing and publications	1,742	0	0	0	0	0	0	0	1,742	1,136	4,697	7,575
Gallery	5,699	0	0	0	0	0	0	0	5,699	1,006	0	6,705
Maintenance	61,813	60,123	94,721	195,505	20,738	89,778	45,273	58,469	626,420	97,375	32,458	756,253
Insurance	79,138	23,003	60,565	33,814	8,743	22,072	13,176	368	240,879	13,965	0	254,844
Utilities	148,951	26,287	120,060	72,759	31,483	50,840	51,453	35,630	537,463	26,285	0	563,748
Dues	5,949	0	107	200	9	41	0	30	6,336	1,118	0	7,454
Travel	2,211	244	0	988	0	0	1,273	0	4,716	832	0	5,548
Entertainment	5,732	0	0	0	0	0	0	0	5,732	1,012	0	6,744
Project	34,459	0	0	0	0	0	0	0	34,459	0	0	34,459
Education	3,338	961	563	4,394	0	691	200	0	10,147	1,791	0	11,938
Truck	2,571	0	0	0	0	0	0	0	2,571	454	0	3,025
Professional fees	51,263	15,780	57,462	43,181	20,437	32,426	52,199	15,924	288,672	50,942	0	339,614
Interest expense	84,290	12,144	102,310	24,624	0	10,909	0	0	234,277	41,345	0	275,622
Security	3,331	540	0	5,328	384	0	51,252	0	60,835	588	0	61,423
Bad debt expense	27,195	0	0	4,887	0	2,241	8,254	2,729	45,306	7,995	0	53,301
Property tax	20,540	1,435	12,049	258	182	10,066	100,500	30,231	175,261	3,625	0	178,886
Miscellaneous expense	91,656	1,731	9,878	3,306	7,620	8,749	4,992	1,747	129,679	55,579	0	185,258
SUBTOTAL	1,266,327	190,577	604,958	541,601	131,597	351,971	388,494	171,603	3,647,128	425,951	54,584	4,127,663
Depreciation	168,555	74,637	301,061	243,881	137,862	216,332	436,004	0	1,578,332	29,745	0	1,608,077
Amortization	0	0	0	19,232	1,644	2,712	2,836	0	26,424	0	0	26,424
TOTAL FUNCTIONAL EXPENSES	1,434,882	265,214	906,019	804,714	271,103	571,015	827,334	171,603	5,251,884	455,696	54,584	5,762,164

The Notes to Consolidated Financial Statements are an integral part of this statement.

SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES

South Bend, Indiana

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2018

	Program								Total	Management	Fundraising	Grand Total
	South Bend Heritage Foundation	Scattered Sites	Robertson's Building	South Bend Heritage Properties	Historic Rushton	New Heritage Homes Southeast	South Bend Permanent Supportive Housing	Gemini Apartments	Program	& General		
Salaries and wages	602,956	23,476	105,848	80,271	38,675	58,781	47,061	10,861	967,929	109,628	18,271	1,095,828
Employee benefits	76,224	1,546	11,242	4,553	11,515	18,151	0	0	123,231	13,451	0	136,682
Payroll taxes	66,093	1,641	7,359	6,189	2,734	4,392	4,289	667	93,364	11,663	0	105,027
Supplies	51,683	0	2,247	0	0	0	0	188	54,118	9,550	0	63,668
Telephone	12,250	80	6,520	3,749	5,854	1,428	2,336	0	32,217	5,685	0	37,902
Postage and shipping	1,193	17	27	225	22	49	89	0	1,622	901	3,480	6,003
Advertising	1,020	173	225	7,366	46	275	254	28	9,387	1,656	0	11,043
Printing and publications	3,589	0	0	0	0	0	0	0	3,589	2,340	9,674	15,603
Gallery	8,902	0	0	0	0	0	0	0	8,902	1,571	0	10,473
Maintenance	31,003	35,233	161,614	86,648	25,095	64,239	21,056	20,663	445,551	73,780	24,593	543,924
Insurance	107,133	15,651	60,230	29,241	5,582	18,973	4,675	0	241,485	18,906	0	260,391
Utilities	150,447	24,244	103,776	79,167	26,226	72,399	139,364	19,992	615,615	26,549	0	642,164
Dues	33,633	0	1,564	0	0	0	13,461	0	48,658	8,587	0	57,245
Travel	3,890	0	0	0	0	0	0	0	3,890	686	0	4,576
Entertainment	9,219	0	0	0	0	0	0	0	9,219	1,627	0	10,846
Project	82,036	12,334	0	11,899	12,025	0	0	0	118,294	0	0	118,294
Education	4,222	0	0	0	0	0	0	0	4,222	745	0	4,967
Truck	1,993	0	0	0	0	0	0	0	1,993	352	0	2,345
Professional fees	56,513	10,597	11,920	4,114	1,132	12,730	16,521	213	113,740	20,072	0	133,812
Interest expense	95,039	12,650	104,042	26,274	0	10,754	53,099	16,564	318,422	56,193	0	374,615
Security	5,438	0	0	360	0	0	0	0	5,798	960	0	6,758
Bad debt expense	9,033	7,112	0	0	0	0	1,174	0	17,319	3,056	0	20,375
Property tax	38,689	39	7,701	434	575	10,370	61,771	0	119,579	6,828	0	126,407
Miscellaneous expense	113,167	1,229	20,040	5,586	10,476	11,253	7,715	307	169,773	72,759	0	242,532
SUBTOTAL	1,565,365	146,022	604,355	346,076	139,957	283,794	372,865	69,483	3,527,917	447,545	56,018	4,031,480
Depreciation	163,467	74,346	300,741	244,919	147,101	216,035	433,333	0	1,579,942	28,847	0	1,608,789
Amortization	0	0	0	19,232	1,644	2,712	2,836	0	26,424	0	0	26,424
TOTAL FUNCTIONAL EXPENSES	1,728,832	220,368	905,096	610,227	288,702	502,541	809,034	69,483	5,134,283	476,392	56,018	5,666,693

The Notes to Consolidated Financial Statements are an integral part of this statement.

SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES

South Bend, Indiana

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the Years Ended December 31, 2019 and 2018

	WITHOUT DONOR RESTRICTIONS		WITH DONOR RESTRICTIONS	TOTAL
	Controlled interest	Non-controlling interest		
Net assets at January 1, 2018	6,256,908	9,789,738	1,360,678	17,407,324
Contributions	0	2,928,591	0	2,928,591
Changes in net assets	(83,282)	(1,037,208)	(173,744)	(1,294,234)
Net assets at December 31, 2018	6,173,626	11,681,121	1,186,934	19,041,681
Changes in net assets	15,434	(1,097,409)	(116,297)	(1,198,272)
Net assets at December 31, 2019	6,189,060	10,583,712	1,070,637	17,843,409

The Notes to Consolidated Financial Statements are an integral part of this statement.

SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES

South Bend, Indiana

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Year Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	(1,198,272)	(1,294,234)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	1,608,077	1,608,789
Amortization	26,424	26,423
Valuation expense	86,802	111,507
Beneficial interest in assets held by the Community Foundation	(9,176)	(545)
Amortization of forgivable loan	(415,000)	(415,000)
Loss on real estate held for resale	167,531	550,238
Provision for bad debt	53,301	20,375
Adjustments for changes in operating assets and liabilities:		
Accounts receivable, net	31,493	146
Related party receivables	(46)	108,697
Grants receivable	(39,781)	(135,442)
Contribution receivable	(110,640)	0
Prepaid expenses	(2,391)	(16,472)
Notes receivable	(16,452)	(17,378)
Resident security deposits	(9,640)	106,171
Accounts payable	(50,637)	(171,719)
Deferred revenue	29,146	(8,365)
Grant advances	128,281	(217,703)
Accrued interest	(4,946)	(38,140)
Other accrued expenses	138,416	163,981
Net Cash Flows Provided By Operating Activities	412,490	381,329
CASH FLOWS USED IN INVESTING ACTIVITIES		
Purchase of property and equipment	(877,119)	(1,993,488)
Purchase of real estate held for resale	(430,624)	(386,182)
Net Cash Used In Investing Activities	(1,307,743)	(2,379,670)
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES		
Net change in line-of-credit	(1,278,675)	0
Proceeds from issuance of long-term debt	2,185,591	204,074
Principal payments on long-term debt, net of amortization on debt issuance costs of \$2,357 for both years	(302,267)	(581,861)
Contributed capital	0	2,928,591
Net Cash Flows Provided By Financing Activities	604,649	2,550,804
CHANGE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(290,604)	552,463
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, BEGINNING OF YEAR	2,502,616	1,950,153
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, END OF YEAR	2,212,012	2,502,616
SUPPLEMENTARY DISCLOSURE OF CASH FLOWS		
Interest paid	280,568	412,755
SUPPLEMENTAL DISCLOSURES OF NONCASH FINANCING ACTIVITIES		
Purchase of property and equipment financed by line of credit	699,456	1,277,718
Debt paid with loan refinance	0	122,926

The Notes to Consolidated Financial Statements are an integral part of this statement.

SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES

South Bend, Indiana

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019 and 2018

NATURE OF BUSINESS

South Bend Heritage Foundation, Inc. is a not-for-profit organization focusing its 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 consolidated financial statements include the results of operations and account balances of South Bend Heritage Foundation, Inc. and its wholly owned operating subsidiaries; Robertson's Building, LLC, South Bend Heritage Properties, LLC, and Chapin Market, LLC. The consolidated financial statements also include Historic Rushton, LP, New Heritage Homes Southeast, LP, and South Bend Permanent Supportive Housing, LP. All are reported collectively as South Bend Heritage Foundation, Inc. and Subsidiaries (the "Organization"). All material intercompany balances and transactions have been eliminated in consolidation.

Scattered Sites and Gemini Apartments are accounted for as independent units of South Bend Heritage Foundation, Inc. but are not separate entities from South Bend Heritage Foundation, Inc.

Robertson's Building, LLC ("Robertson's") is a wholly owned subsidiary of Robertson's Building Corporation which is wholly owned by South Bend Heritage Foundation, Inc. Robertson's was formed to develop commercial retail outlets and residential housing. Robertson's operates eighty low income residential units and twelve market rate units. The 92 units are restricted to individuals 55 years of age or older. The project qualifies for the Low Income Housing Tax Credit established by the Tax Reform Act of 1986. The property was placed in service in 1998. On March 16, 2011, the project was refinanced with a loan issued by Federal Housing Administration under Section 223(f) of the National Housing Act, multifamily rental housing, and is administered by the U.S. Department of Housing and Urban Development (HUD). Robertson's shall continue until August 31, 2036.

South Bend Heritage Properties, LLC ("SBHP"), a wholly owned subsidiary of South Bend Heritage Foundation, Inc., is a single member limited liability company which operates low income affordable housing. SBHP owns property containing eighty residential units located in South Bend, Indiana. The project qualifies for the Low Income Housing Tax Credit established by the Tax Reform Act of 1986. The term of the partnership shall continue in perpetuity unless it is determined by South Bend Heritage Foundation, Inc. that the company shall be dissolved. There were 77 and 78 tenants at December 31, 2019 and 2018.

Historic Rushton, LP ("HR") is a Limited Partnership that was formed to develop residential housing. HR operates twenty-three low income restricted units in South Bend, Indiana. Nineteen of the units are restricted to individuals aged 55 and older. Pursuant to the terms of the partnership agreement, the general partner is Historic Rushton GP, Inc., a wholly owned subsidiary of South Bend Heritage Foundation, Inc., having a 1% ownership, and the limited partner, GL-Historic Rushton, having a 99% ownership. The term of the partnership shall extend until March 31, 2062, unless sooner terminated as provided in the partnership agreement. HR qualifies for the Low Income Housing Tax Credit established by the Tax Reform Act of 1986.

SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES

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New Heritage Homes Southeast, LP ("NHHS") is a Limited Partnership which operates fifty-four residential units on the southeast side of South Bend, Indiana. Pursuant to the terms of the partnership agreement, the general partner is NHHS GP Corporation, a wholly owned subsidiary of South Bend Heritage Foundation, Inc., having a 0.01% ownership and the limited partner, National Equity Fund, Inc., having a 99.99% ownership. The term of the partnership shall extend until December 31, 2061, unless sooner termination as provided in the partnership agreement. NHHS qualifies for the low-income housing tax credit in accordance with Section 42 of the Internal Revenue Code which regulates the use of the project as to occupant eligibility and gross unit rent, among the requirements. The project must meet the provisions of these requirements during each of the 15 consecutive years in order to remain qualified to receive the credits.

South Bend Permanent Supportive Housing ("SBPSH") was formed as a limited partnership under the laws of the State of Indiana on November 4, 2016 for the purpose of ownership in housing development consisting of 32 units intended for rental to low-income persons in South Bend, Indiana. Pursuant to the terms of the partnership agreement, the general partner is SBPSH, LLC, a wholly owned subsidiary of South Bend Heritage Foundation, Inc., having a 0.01% ownership and the limited partners, Cinnaire Fund For Housing Limited Partnership 31 and Cinnaire Indiana Community Fund Limited Partnership 19-4, having a 99.99% ownership. The term of the partnership shall extend until December 31, 2115, unless sooner termination as provided in the partnership agreement. SBPSH qualifies for the low-income housing tax credit in accordance with Section 42 of the Internal Revenue Code which govern the operation of the property and restricts the persons eligible to reside at the property.

Chapin Market, LLC is a wholly owned subsidiary of South Bend Heritage Foundation, Inc. and owns the land for a supermarket's parking lot. There was no activity in Chapin Market, LLC for the years ended December 31, 2019 and 2018.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America on the accrual basis of accounting.

The Organization adheres to Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, which sets standards for reporting on financial statements of not-for-profit organizations. FASB ASC 958-205 requires the classification and presentation of net assets in two categories: net assets with donor restrictions and net assets without donor restrictions.

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

Net assets with donor restrictions are subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES

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BASIS OF CONSOLIDATION

In accordance with FASB ASC 810-10, the consolidated financial statements include the accounts of South Bend Heritage Foundation, Inc. and its wholly owned partnerships, after elimination of all material intercompany accounts, transactions, and profit.

The consolidated financial statements also consolidate the assets, liabilities, and activities of the South Bend Heritage Foundation, Inc. and various limited partnerships for which a wholly owned subsidiary of South Bend Heritage Foundation, Inc., as the general partner, has a controlling interest. All significant intercompany transactions have been eliminated in consolidation.

INVESTMENT IN OTHER ENTITIES

South Bend Mutual Homes ("SBMH") GP, LLC, a wholly owned subsidiary of South Bend Heritage Foundation, Inc., owns .00396% of the general partner's .0099% interest in SBMH, LP. SBMH, LP owns property containing 24 single-family homes on the west side of South Bend, Indiana. The investment in SBMH is accounted for under the cost method since South Bend Heritage Foundation, Inc. does not hold the controlling interest. SBMH GP, LLC does not meet the threshold for consolidation, and therefore, the activity of SBMH GP, LLC has not been eliminated in these consolidated financial statements.

USE OF ESTIMATES

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

CASH AND CASH EQUIVALENTS

For purposes of the Consolidated Statements of Cash Flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. Cash is held at local banks and each account is insured up to the respective limits by the FDIC.

Donor restricted cash consists of the following at December 31:

	<u>2019</u>	<u>2018</u>
Grant for down payment assistance for loans held by Fifth Third Bank	4,000	4,000
Home Ownership Grant from Chemical Bank	0	300
MLK scholarship funds	59,844	59,457
NeighborWorks America capital grant	18,616	111,743
Total	82,460	175,500

CONTRIBUTIONS

The Organization records contributions, including promises to give, when the contribution is deemed unconditional. Contributions are reflected in the consolidated financial statements at the earlier of the transfer of the assets or at the time an unconditional promise to give is made. The Organization had a significant contribution receivable from one donor family in the amount of \$110,640 at December 31, 2019 which has been collected in 2020.

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All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received designated for future periods or restricted by the donor for specific purposes are reported as support that increases net assets with donor restrictions. A donor restrictions expires when a stipulated time restrictions ends or when a purpose restriction is accomplished. Upon expiration, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Consolidated Statements of Activities as net assets released from restrictions. Contributions restricted by the donor are reported as an increase in net assets without donor restriction if the restrictions are met in the fiscal year in which the contributions are received.

PROPERTY AND EQUIPMENT

Donations of property and equipment are recorded at their estimated fair value. The donation is recorded as current support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long these donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service. Net assets with donor restrictions are reclassified to net assets without donor restrictions at that time. The Organization did not receive any donated property and equipment for the years ended December 31, 2019 and 2018.

Purchased property and equipment are stated at cost. Expenditures for additions, improvements, and replacements are added to the property and equipment accounts. Repairs and maintenance are charged to expense as incurred. When equipment is retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the respective accounts and any gain or loss arising from the disposition is reflected in income. Depreciation is provided for over the estimated useful lives of the assets on straight-line and accelerated methods. Depreciation expense for the years ended December 31, 2019 and 2018 was \$1,608,077 and \$1,608,789, respectively.

A summary of the range of lives by asset category is as follows:

Land improvements	15-20 years
Buildings and building improvements	10-39 years
Furniture and equipment	5-7 years

The Organization reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. For assets held and used, if management's estimate of the aggregate future cash flows to be generated by the property, undiscounted and without interest charges, including the low income housing tax credits and any estimated proceeds from the eventual disposition of the real estate, are less than their carrying amounts, an impairment loss has occurred. The amount of the impairment loss is equal to the excess of the asset's carrying value over its estimated aggregate future cash flows. There was no impairment loss recognized for the years ended December 31, 2019 or 2018.

REVENUE AND RECEIVABLES

Contract Revenue

The Organization enters into construction contracts for various projects as the construction manager. The contracts are cost-plus contracts. The Organization generally earns 10 to 15 percent fees for services rendered.

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Other Income

The Organization collects management fees from its various subsidiaries on terms established in management fee agreements. These fees are recognized monthly as earned.

Rental Income

The Organization generates rental revenue from tenant housing. The Organization recognizes revenue from these services on a ratable basis over the lease term beginning on the date the lease commences. Lease contracts are generally one year in length and are billed monthly. Advance receipts of rental income are recorded as deferred revenue until earned.

Other Income

The Organization collects other income from management fees that the Organization has contracts with the different subsidiaries. These contracts with "customers" occurs as soon as the services are provided. These fees are calculated on a monthly basis and are considered performed at the end of the month.

The Organization generates other income such as late fees, application fees and damage reimbursements that occur over the regular course of operating a tenant housing facility. Revenue is recognized at the point in time when control of the promised goods or services is transferred to tenants in an amount that is measurable and reflects the consideration the Organization expects to be entitled to in exchange for those goods or services.

Accounts Receivable

Accounts receivable generally represent amounts due from performance based service contracts, rental activities, and other miscellaneous projects and activities. Receivables are recorded at the amount billed or expected to be collected and are presented net of an allowance for doubtful accounts, which is estimated to be at \$37,512 and \$24,784 at December 31, 2019 and 2018, respectively. Factors considered in determining collectibility include grantors' and tenants' past collection history, an aged analysis of receivables, economic conditions, as well as historical trends. The Organization does not charge interest on past due accounts, but may assess late fees.

Grants Receivable

Grants receivable relate primarily to activities funded under federal programs. Grants receivable represent cost reimbursements requested for expenses already incurred. The Organization believes that it is operating in compliance with regulatory requirements and as such no allowance for doubtful accounts is deemed necessary.

ADVERTISING COSTS

Various costs relating to advertising are considered period costs and are expensed as incurred. Advertising costs for the years ended December 31, 2019 and 2018 were \$8,972 and \$11,043, respectively.

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the program and other activities have been summarized on a functional basis in the Consolidated Statements of Activities. Accordingly, certain costs have been allocated between program and supporting services based upon personnel time and space utilized for the related activities.

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Expenses that are allocated include the following:

Expense	Method of Allocation
Salaries and wages, employee benefits, payroll taxes, supplies, insurance, entertainment, professional fees, postage and shipping, advertising and printing, occupancy related expenses, interest, bad debts, dues, travel and entertainment and miscellaneous expenses	Time and effort

All other expenses are allocated based on estimated actual usage or direct assignment.

INCOME TAXES

South Bend Heritage Foundation, Inc. is a nonprofit organization exempt from federal and state income taxes under provisions of Section 501(c)(3) of the Internal Revenue Code and corresponding state provisions. The Internal Revenue Service has determined that South Bend Heritage Foundation, Inc. is not a private foundation within the meaning of Section 509(a).

Robertson's, SBHP and Chapin Market, LLC are wholly owned subsidiaries whose results are reported in the tax return of South Bend Heritage Foundation, Inc. Historic Rushton, LP, New Heritage Homes Southeast, LP and South Bend Permanent Supportive Housing, LP each file individual partnership returns. Consequently, each of the corporations wholly owned by South Bend Heritage Foundation, Inc. file individual corporate returns.

The Income Taxes Topic of FASB ASC 740 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements. FASB ASC 740 requires an organization to disclose the nature of uncertain tax positions taken, if any, when filing its income tax return utilizing a two-step process to recognize and measure any uncertain tax positions taken. The entity recognizes a tax benefit only if it is more likely than not the position would be sustained in a tax examination, with a tax examination being presumed to occur. No tax benefit will be recorded on tax positions not meeting the more likely than not test. Interest and penalties accrued or incurred, if any, as a result of applying FASB ASC 740 will be recorded to interest expense and other expense, respectively.

Based on its evaluation, the Organization has concluded that there are no uncertain tax positions requiring recognition in its consolidated financial statements. The Organization's evaluation was performed for all federal and state tax periods still subject to examination. The Organization's 2016 through 2018 federal and state tax returns remain subject to examination by the IRS and state taxing authority.

CONTRIBUTED SERVICES

In order to recognize donated services as contributions in the Organization's consolidated financial statements the services must require special skills, be provided by individuals who possess those skills, and typically need to be purchased if not contributed. The Organization has a number of unpaid volunteers that have made significant contributions of their time to the Organization. The value of the contributed time is not reflected in the accompanying consolidated financial statements since the volunteers' time does not meet the requirements for recognition under FASB ASC 958.

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CAPITALIZED COSTS

Certain pre-occupancy costs have been deferred and are being amortized over 15 years using the straight-line method.

	<u>2019</u>	<u>2018</u>
Indiana Housing and Community Development Authority fees - 15 years	43,473	43,473
Asset management fee	120,000	120,000
Finance service agent	125,000	125,000
Historic Rushton organization costs	24,601	24,601
New Heritage Homes Southeast organization costs	40,675	40,675
South Bend Permanent Supportive Housing tax credit application	42,539	42,539
Total capitalized costs	396,288	396,288
Less accumulated amortization	229,400	202,976
Net capitalized costs	166,888	193,312

ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

On November 17, 2016, the FASB issued Accounting Standards Update 2016-18, *Restricted Cash (Topic 230)* (“ASU 2016-18”), which addresses classification and presentation of changes in restricted cash on the Consolidated Statements of Cash Flows. ASU 2016-18 requires an entity’s reconciliation of the beginning-of-period and end-of-period total amounts shown on the statement of cash flows to include in cash and cash equivalents amounts generally described as restricted cash and restricted cash equivalents. ASU 2016-18 is effective for public business entities for annual periods beginning after December 15, 2017 and interim periods within those fiscal years. It is effective for annual periods beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019 for all other entities. The Organization adopted ASU 2016-18 for the fiscal year ended December 31, 2019 using a retrospective transition method for each period presented.

On May 28, 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* and later, various subsequent amendments (collectively “ASC 606”). This standard outlines a single comprehensive model for companies to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition, including industry-specific guidance. ASC 606 requires that revenue is recognized when a customer obtains control of a good or service, which is when a customer has the ability to direct the use of and obtain benefits of the good or service. ASC 606 was scheduled to be effective for fiscal years beginning after December 15, 2018. However, on May 20, 2020, the FASB delayed the effective date of ASC 606 to annual reporting periods beginning after December 15, 2020 if an entity’s financial statements for 2019 were not yet issued as of that date. The Organization has elected to early adopt ASC 606 for the fiscal year ended December 31, 2019 using the modified retrospective method applied to all contracts not completed as of January 1, 2019. Prior period amounts continue to be reported in accordance with legacy GAAP. The adoption of ASC 606 did not result in a material change in the accounting for any revenue streams. As such, no cumulative effect adjustment was recorded.

On June 21, 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The standard was intended to clarify and improve the scope and the accounting guidance for contributions received and made, primarily by not-for-profit organizations. ASU 2018-08 is effective for resource recipients for annual periods beginning after December 15, 2018. The Organization adopted ASU 2018-08 for the fiscal year ended December 31, 2019. The adoption of this ASU did not result in any material changes in the accounting for contributions received.

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The Organization has not yet implemented ASU 2016-02, *Leases (Topic 842)* which was issued by FASB in February 2016. This ASU affects any entity that enters into a lease, with some specified scope exceptions. The main difference between previous GAAP and this ASU is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. Lessor accounting will not fundamentally change. Operating lease income will be recognized on a straight line basis over the lease term. As of May 2020, the amendments in this ASU have been delayed again and are now effective for fiscal years beginning after December 15, 2021. The Organization is in the process of assessing the effect of this ASU on these consolidated financial statements.

RECENT ACCOUNTING PRONOUNCEMENT

On August 18, 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization adopted the ASU and adjusted the presentation of these consolidated statements to comply with this ASU in the year ended December 31, 2018.

RECLASSIFICATIONS

Certain items in the 2018 financial statements have been reclassified to conform with 2019 presentation. The reclassifications have no effect on total assets, liabilities, change in net assets, or net cash flows as previously reported.

SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 2 - LIQUIDITY AND AVAILABILITY

As of December 31, 2019, the Organization has no working capital and average days cash on hand of 30. The table below represents financial assets available for general expenditures within one year at December 31:

Account	<u>2019</u>	<u>2018</u>
Financial assets at year end:		
Cash and cash equivalents	355,228	705,780
Accounts receivable, net	113,680	198,474
Related party receivable, net	5,730	5,684
Grants receivable	175,223	0
Pledge receivable	110,640	48,355
Notes receivable	617,914	601,462
Beneficial interest in assets held by Community Foundation	83,751	74,575
Resident security deposits	71,724	62,084
Restricted reserves	1,856,784	1,796,836
Total financial assets	3,390,674	3,493,250
Less amounts not available to be used for general expenditure within one year:		
Restricted cash	82,460	175,500
Long-term notes receivable	617,914	601,462
Beneficial interest in assets Community Foundation	83,751	74,575
Resident security deposits	71,724	62,084
Restricted reserves	1,856,784	1,796,836
Financial assets not available to be used within a year	2,712,633	2,710,457
Financial assets available to meet general expenditures within 1 year	678,041	782,793

The Organization has assets limited to use for donor-restricted purposes. The Organization also has board designated assets held in a Community Foundation. Other assets are restricted by NeighborWorks America. These assets are limited to uses which are more fully described in Note 11 and are not available for general expenditure within the next year. Amounts earned on the Organization's beneficial interest in assets held by Community Foundation are available for expenditure within the next annual period. In addition, the Organization has an available line of credit with Mutual Bank that can be drawn upon if need for liquidity purposes (Note 8).

NOTE 3 - NOTES RECEIVABLE

The Organization 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, usually in the inner city of South Bend. Repayment terms are unique to each particular transaction or program. The Organization believes that all general and project receivables will be collected over time.

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The balance on the notes receivable, including accrued interest, is as follows at December 31:

<u>Date of Note</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Face Amount</u>	<u>2019</u>	<u>2018</u>
New Heritage Homes Southeast, LP					
10/14/2011	10/30/2041	3.75%	585,000	755,015	733,123
10/14/2011	10/30/2041	7.00%	480,000	778,399	727,480
South Bend Mutual Homes, LP					
6/30/2015	12/31/2035	3.00%	400,000	617,914	601,462
South Bend Permanent Supportive Housing, LP					
4/24/2017	12/31/2036	3.00%	700,000	688,401	735,441
Sub-total				2,839,729	2,797,506
Less eliminations				2,221,815	2,196,044
Total notes receivable				617,914	601,462

The notes accrue interest at the stated rates. Payments of principal and interest are not required until maturity.

NOTE 4 - BENEFICIAL INTEREST IN ASSETS HELD BY THE COMMUNITY FOUNDATION

South Bend Heritage Foundation, Inc. has entered into an agreement with a local Community Foundation in which a fund was established for the purpose of providing support to South Bend Heritage Foundation, Inc. Distributions from the fund are currently based upon the Community Foundations' spending policies. Annual distributions from the fund are reported as investment income that increase net assets without donor restrictions. Net realized and unrealized gains (losses) are reported as changes in net assets without donor restrictions in beneficial interest in assets held by the Community Foundation.

The fund agreement provides the Community Foundation 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 the Community Foundation.

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

The total market value of the fund held and managed by the Community Foundation of St. Joseph County as of December 31, 2019 was \$378,228, of which \$294,477 was contributed to the fund directly by donors or through restricted donations, or is appreciation (depreciation) on those monies. At December 31, 2018, the total market value of the endowment was \$329,389, of which \$254,814 was contributed directly by donors or through restricted donations, or is appreciation (depreciation) on those monies.

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The following is a summary of endowment net asset composition by type of fund at December 31, 2019:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Totals</u>
Endowment net assets, end of year	83,751	0	83,751

The following is a summary of endowment net asset composition by type of fund at December 31, 2018:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Totals</u>
Endowment net assets, end of year	74,575	0	74,575

NOTE 5 - FAIR VALUE MEASUREMENTS

The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Basis of Fair Value Measurement

- Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 - Quoted prices for similar assets or liabilities in active markets or identical assets or liabilities in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;
- Level 3 - Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. As required by FASB ASC 820, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The Organization utilizes the market approach to measure the fair value of its financial assets and liabilities. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

The following table presents the Organization's fair value hierarchy for the Organization's assets at fair value, as of December 31, 2019:

	<u>Level 3</u>	<u>Total</u>
Real estate held for resale, net	553,871	553,871
Beneficial interest in assets held by the Community Foundation	83,751	83,751
Total	637,622	637,622

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The following table presents the Organization's fair value hierarchy for the Organization's assets at fair value, as of December 31, 2018:

	<u>Level 3</u>	<u>Total</u>
Real estate held for resale, net	377,580	377,580
Beneficial interest in assets held by the Community Foundation	74,575	74,575
Total	452,155	452,155

Original Cost Plus Improvements of Real Estate Held for Resale:

	<u>2019</u>	<u>2018</u>
Total real estate held for resale	1,688,763	1,642,394
Valuation allowance	(1,134,892)	(1,264,814)
Real estate held for resale, net	553,871	377,580

Real estate held for resale is stated at historical cost plus the cost of improvements. A valuation reserve has been established to adjust properties to fair market value. Fair market value is estimated based on historical sales of similar properties. The eventual sales proceeds from these properties may be less than the carrying value of the properties. If the sales proceeds are less than the carrying value, a loss on sale of real estate held for resale will be recorded. A gain will be recorded if the sales proceeds are greater than the carrying value of the property sold.

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

	<u>2019</u>	<u>2018</u>
Beginning balance	377,580	653,143
Real estate purchased	28,736	53,550
Development and construction costs	401,888	146,819
Change in market value	(86,801)	326,456
Real estate sold	(167,532)	(802,388)
Ending balance	553,871	377,580

The beneficial interest in assets held by the Community Foundation of St. Joseph County ("Community Foundation") is considered a level 3 instrument and is based upon externally developed models that use unobservable inputs due to limited market activity of the instrument. The change in the beneficial interest measured at fair value for which the Organization has used level 3 inputs to determine fair value for the years ended December 31, 2019 and 2018 consisted of an unrealized gain (loss) of \$9,176 and \$545, respectively, which is included in the change in net assets without donor restriction on the Consolidated Statements of Activities.

The reconciliation of the changes in the beneficial interest in assets held by the Community Foundation, which is measured on a recurring basis using significant unobservable inputs (level 3), is as follows:

	<u>2019</u>	<u>2018</u>
Beginning balance	74,575	74,030
Other changes	0	0
Change in market value	9,176	545
Ending balance	83,751	74,575

SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES

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NOTE 6 - INVESTMENT IN SUBSIDIARIES

The composition of investments in subsidiaries consisted of the following at December 31:

	<u>2019</u>	<u>2018</u>
New Heritage Homes Southeast Corporation, Inc.	1,000	1,000
Historic Rushton GP, Inc.	77,662	77,662
Chapin Market, LLC	281,903	281,903
South Bend Mutual Homes GP, LLC	86,159	86,159
Robertson's Building Corp	9,000	9,000
SB Permanent Supportive Housing LLC	100	100
<hr/> Total investment in subsidiaries	455,824	455,824
Less eliminations	(369,665)	(369,665)
<hr/> Total	86,159	86,159

NOTE 7 - RECONCILIATION OF CASH

Cash, cash equivalents and restricted cash on the Consolidated Statements of Cash Flows consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
Cash	355,228	705,780
Restricted cash:		
Replacement reserve	469,500	421,067
Operating reserve	956,889	953,117
Deficit reserve	34,299	34,329
Supportive service reserve	396,096	388,323
<hr/> Total cash and restricted cash:	2,212,012	2,502,616

Various operating and loan agreements require the establishment of restricted deposits and funded reserves, including reserve for replacements, operating reserves, or resident security deposits, which must be maintained in separate interest bearing accounts. At December 31, 2019 and 2018, the balance of restricted deposits and funded reserves is \$1,928,508 and \$1,858,920, respectively.

NOTE 8 - LINE OF CREDIT

South Bend Heritage Foundation, Inc. opened a \$2,130,000 variable interest rate line of credit with Mutual Bank to be used to fund the Gemini Apartments project. The balance outstanding on the line of credit was \$1,307,411 at December 31, 2018. The line of credit was set to mature on July 19, 2019. The Organization refinanced the outstanding debt balance into a term loan with a new agreement in November 2019 (Note 9).

During 2019, South Bend Heritage Foundation, Inc. opened a \$150,000 line of credit with Mutual Bank that matures on July 29, 2020. Interest is charged at the prime rate (4.75% at December 31, 2019) plus 0.25%. The line of credit is secured by commercial real estate. The balance outstanding on the line of credit was \$28,736 at December 31, 2019.

SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES

South Bend, Indiana

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE 9 - LONG-TERM DEBT

The Organization has entered into various notes payable agreements with multiple financial institutions and governmental agencies to fund acquisitions, pre-development, construction, and normal operations. The outstanding balances and terms of notes payable are as follows as of December 31:

<u>Date of Note</u>	<u>Maturity Date</u>	<u>Lender</u>	<u>Interest Rate</u>	<u>Face Amount</u>	<u>2019</u>	<u>2018</u>
South Bend Heritage Foundation, Inc.						
01/19/18	01/28/28	Mutual Bank	5.41%	1,918,291	1,691,136	1,802,409
08/04/14	08/01/19	Mutual Bank	4.63%	194,442	0	25,891
06/30/15	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
Scattered Sites						
04/15/05	02/01/25	St. Joseph County Housing Consortium	1.00%	22,362	8,193	8,531
01/19/18	01/19/2028	Mutual Bank	5.18%	327,000	274,627	298,966
Robertson's Building, LLC						
03/01/11	04/01/46	Centennial Mortgage, Inc.	4.35%	2,640,000	2,302,217	2,347,984
03/01/11	03/01/46	Business Development Corporation	5.00%	370,679	336,274	337,119
South Bend Heritage Properties						
08/22/14	08/20/24	Teachers Credit Union	4.00%	865,000	749,660	770,191
Gemini Apartments						
11/22/2019	11/22/2039	Mutual Bank.	4.49%**	2,124,304	2,118,595	0
New Heritage Homes Southeast, L.P.						
12/05/12	12/05/27	Lake City Bank	6.40%	240,000	187,926	196,570
10/14/11	12/31/41	SBHF, Inc.	7.00%	480,000	480,000	480,000
10/14/11	10/30/41	SBHF, Inc.	7.00%	585,000	585,000	585,000
South Bend Permanent Supportive Housing, L.P.						
4/24/2017	12/31/36	SBHF, Inc.	3.00%	700,000	633,004	700,000
Subtotal					10,351,632	8,537,661
Less eliminations					(1,698,004)	(1,765,000)
Less unamortized debt financing costs					(62,064)	(64,421)
Less current portion					(230,662)	(288,419)
Long term debt					8,360,902	6,419,821

**The note calls for 60 monthly principal and interest payments in the initial amount of \$13,509 with interest at 4.49%, then 179 monthly principal and interest payments of \$13,446 each beginning December 2024 with interest charged at the average weekly yield of US Treasury Securities adjusted to a constant maturity of five years plus a margin of 2.75% and one final payment of \$10,852 on November 22, 2039 at the same rate.

SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES

South Bend, Indiana

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019 and 2018

Long-term debt, less current portion, is scheduled to mature as follows for the years ending December 31:

2021	1,835,069
2022	200,887
2023	210,378
2024	837,259
Thereafter	7,037,377
Less unamortized debt issuance costs	(62,064)
Sub-total	10,058,906
Less eliminations	(1,698,004)
Long-term debt	8,360,902

Interest expense, net of capitalized interest of \$105,484 for the year ended December 31, 2019, was \$275,622 and \$374,615, for the years ended December 31, 2019 and 2018, respectively. Amortization of deferred financing costs, included in interest expense, was \$2,357 for each of the years ended December 31, 2019 and 2018.

The loans are generally secured by the assignment of rents and leases, personal property, and the related real estate.

NOTE 10 - FORGIVABLE LOAN

South Bend Heritage Properties, LLC was awarded \$6,225,032 of 1602 Exchange Funds as a forgivable interest free loan as determined by the Indiana Housing and Community Development Authority. The loan was in exchange for 2008 low income Housing Tax Credits that were awarded to South Bend Heritage Properties, LLC. The loan is being forgiven over a fifteen year period. The loan amortization period began after various compliance requirements were achieved. The compliance requirements were met in 2011, and the amortization of the loan began. The balance of the loan outstanding at December 31, 2019 and 2018 was \$2,766,686 and \$3,181,686, respectively.

NOTE 11 - NET ASSETS WITH DONOR RESTRICTIONS

Net Assets with Donor Restrictions consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
Grant for down payment assistance for loans held by Fifth Third Bank	4,000	4,000
Home Ownership Grant from Chemical Bank	0	300
MLK scholarship funds	59,844	59,457
NeighborWorks America	1,006,793	1,123,177
Total	1,070,637	1,186,934

The amount from NeighborWorks America represents funds that are restricted until first use or invested in perpetuity until a request for release is submitted to and approved by the donor. \$988,177 was considered invested in perpetuity at December 31, 2019 and 2018. During 2019 and 2018, NeighborWorks America granted the release of \$0 and \$247,044, respectively, of net assets that were previously restricted in perpetuity.

SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES

South Bend, Indiana

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE 12 - RETIREMENT PLAN

South Bend Heritage Foundation, Inc. is a member of a defined contribution retirement plan. The entity 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. No contributions were made to the plan for the years ended December 31, 2019 or 2018.

NOTE 13 - LEASE INCOME

The Organization's wholly owned subsidiaries, South Bend Heritage Properties, LLC and Robertson's Building, LLC own property containing one hundred and seventy-two residential units located in South Bend, Indiana. The consolidated financial statements also include Historic Rushton, LP, New Heritage Homes Southeast, LP, and South Bend Permanent Supportive Housing, LP. Those entities contain 109 residential units located in South Bend, Indiana. In addition, the Scattered Sites (a component unit of South Bend Heritage Foundation, Inc.) operates eight residential rental properties located in South Bend, Indiana and the Gemini Apartments (a component unit of South Bend Heritage Foundation, Inc.) operates 60 apartments in two buildings, of which 42 and 21 apartments were used in 2019 and 2018, respectively. The Scattered Sites and the Gemini Apartments are included in these consolidated financial statements.

The Organization also leases commercial space at the locations listed below:

- Colfax Cultural Center
- Charles Martin Youth Center
- Studio 815
- Blume's Building
- Marycrest Complex
- Chapin Market, LLC
- Teachers Credit Union

Rental income for the years ended December 31, 2019 and 2018 totaled \$2,426,728 and \$2,315,098, respectively. The majority of the leases are month-to-month or are expiring in 12 months from December 31, 2019. As a result, future minimum rentals to be received consist primarily of amounts due in 2020.

Future minimum rental income from noncancellable leases on commercial properties are as follows at December 31:

2020	133,981
2021	99,198
2022	65,624
2023	35,697
2024	13,422
Total future minimum lease payments	347,922

SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES

South Bend, Indiana

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE 14 - RELATED PARTY TRANSACTIONS

The Organization acted as the developer for the Historic Rushton Apartments project and is entitled to receive up to \$181,000 in fees according to the development agreement. The balance outstanding as of December 31, 2019 and 2018 was \$119,624. This receivable has been eliminated in consolidation.

The Organization acted as the developer for the Robertson's Building project and is to receive fees of \$302,838 in accordance with the Developer Fee Agreement. The balance to be received was \$302,838 at December 31, 2019 and 2018. The balance has been eliminated in consolidation.

The Organization acted as the developer for the South Bend Mutual Homes project. The Organization is entitled to receive a management fee in accordance with the Partnership Agreement. The balance to be received was \$5,730 and \$5,684 as of December 31, 2019 and 2018, respectively.

The Organization acted as the developer for the SB Permanent Supportive Housing project and received fees of \$51,737 during the year ended December 31, 2017 in accordance with the Developer Fee Agreement. The balance to be received was \$10,245 at December 31, 2019 and 2018. The balance has been eliminated in consolidation.

The Organization acts as property manager for all except one of the consolidated entities. Related party receivables and related party payables at December 31, 2019 consist primarily of usual expenses related to property management, such as management fees, wages and benefits, and other miscellaneous operating expenses due from the entities to the Organization. These related party transactions are eliminated upon consolidation.

NOTE 15 - CONCENTRATIONS

The Organization receives a substantial amount of its support from federal, state and local agencies. A significant reduction in the level of support, if this were to occur, may have a significant effect on the Organization's programs and activities.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

The Organization receives funds under numerous contracts, grants and agreements with federal, state, and local governmental agencies. In the event of noncompliance with these requirements, the Organization may be subject to repayment of the funds received. The Organization'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 Organization 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 Organization within 30 days of non-compliance. Special rules apply to projects with the Federal Housing Administration (FHA) mortgage insurance. As of December 31, 2019, the Organization remains responsible for certain HOME contracts entered into on or after January 1, 2000. 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.

SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES

South Bend, Indiana

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019 and 2018

The Organization recognizes revenue from most of its federal grants and contracts as eligible expenses are incurred in accordance with the applicable program guidelines. Under the terms of State and Federal grants, periodic audits are required and certain costs may be challenged as to allowability under the terms of the grants. Grant resources are expendable only for operating purposes specified by the grants. Such audits could lead to reimbursement to the grantor agencies.

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 non-compliance 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.

NOTE 17 - SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through May 28, 2020, the date the consolidated financial statements were available to be issued. On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Organization’s financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation and the impact on its financial condition, liquidity, tenants, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Organization is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2020. Although the Organization cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time, if the pandemic continues, it may have an adverse effect on the Organization’s results of future operations, financial position, and liquidity in fiscal year 2020. No other events or transactions occurred during this period which require recognition or disclosure in the consolidated financial statements.



INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors
South Bend Heritage Foundation, Inc. and Subsidiaries
South Bend, Indiana

We have audited the consolidated financial statements of South Bend Heritage Foundation, Inc. (a nonprofit organization) and Subsidiaries' as of and for the years ended December 31, 2019 and 2018, and our report thereon dated May 28, 2020, which expressed an unmodified opinion on those consolidated financial statements appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The following supplemental schedules are presented for purposes of additional analysis and are 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 information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Respectfully submitted,


Certified Public Accountants

Elkhart, Indiana
May 28, 2020

SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES

South Bend, Indiana

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2019

	<u>South Bend Heritage Foundation</u>	<u>Scattered Sites</u>	<u>Robertson's Building</u>	<u>South Bend Heritage Properties</u>	<u>Historic Rushton</u>	<u>New Heritage Homes Southeast</u>	<u>South Bend Permanent Supportive Housing</u>	<u>Chapin Market</u>	<u>Gemini Apartments</u>	<u>Eliminations</u>	<u>Total</u>
ASSETS											
CURRENT ASSETS											
Cash and cash equivalents	106,036	15,739	53,948	108,943	8,104	2,491	19,727	0	40,240	0	355,228
Accounts receivable, net	71,397	2,227	6,967	11,698	1,051	5,275	9,960	0	5,105	0	113,680
Related party receivables	1,098,437	43,398	0	0	6,093	0	0	0	0	(1,142,198)	5,730
Developer fees receivable	432,707	0	0	0	0	0	0	0	0	(432,707)	0
Grants receivable	175,223	0	0	0	0	0	0	0	0	0	175,223
Contribution receivable	110,640	0	0	0	0	0	0	0	0	0	110,640
Prepaid expenses	100	4,570	17,083	10,065	2,188	5,747	10,993	0	0	0	50,746
Total Current Assets	1,994,540	65,934	77,998	130,706	17,436	13,513	40,680	0	45,345	(1,574,905)	811,247
PROPERTY AND EQUIPMENT											
Land and land improvements	204,643	0	12,364	62,000	57,500	46,500	652,436	281,903	0	0	1,317,346
Buildings and building improvements	7,483,928	2,235,209	8,321,976	6,711,280	3,791,579	5,945,923	4,380,402	0	2,319,965	0	41,190,262
Furniture and equipment	112,174	0	106,972	77,271	92,387	123,308	1,170,165	0	0	0	1,682,277
Total	7,800,745	2,235,209	8,441,312	6,850,551	3,941,466	6,115,731	6,203,003	281,903	2,319,965	0	44,189,885
Accumulated depreciation	4,989,540	845,686	6,193,571	2,345,243	948,298	1,778,523	975,616	0	0	0	18,076,477
Net Property and Equipment	2,811,205	1,389,523	2,247,741	4,505,308	2,993,168	4,337,208	5,227,387	281,903	2,319,965	0	26,113,408
OTHER ASSETS											
Notes receivable	2,839,729	0	0	0	0	0	0	0	0	(2,221,815)	617,914
Beneficial interest in assets held by Community Foundation	83,751	0	0	0	0	0	0	0	0	0	83,751
Assets held for resale, net	553,871	0	0	0	0	0	0	0	0	0	553,871
Investment in subsidiaries	455,824	0	0	0	0	0	0	0	0	(369,665)	86,159
Resident security deposits	0	7,901	17,413	26,792	3,797	11,771	0	0	4,050	0	71,724
Capitalized costs, net	0	0	0	99,366	13,097	18,267	36,158	0	0	0	166,888
Replacement reserves	0	4,905	154,021	133,270	48,274	103,767	25,263	0	0	0	469,500
Operating reserves	0	0	0	395,314	86,578	166,320	308,677	0	0	0	956,889
Deficit reserve	0	0	0	0	0	34,299	0	0	0	0	34,299
Supportive service reserve	0	0	0	0	0	0	396,096	0	0	0	396,096
Total Other Assets	3,933,175	12,806	171,434	654,742	151,746	334,424	766,194	0	4,050	(2,591,480)	3,437,091
TOTAL ASSETS	8,738,920	1,468,263	2,497,173	5,290,756	3,162,350	4,685,145	6,034,261	281,903	2,369,360	(4,166,385)	30,361,746

SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES

South Bend, Indiana

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2019

	<u>South Bend</u> <u>Heritage</u> <u>Foundation</u>	<u>Scattered Sites</u>	<u>Robertson's</u> <u>Building</u>	<u>South Bend</u> <u>Heritage</u> <u>Properties</u>	<u>Historic</u> <u>Rushton</u>	<u>New Heritage</u> <u>Homes</u> <u>Southeast</u>	<u>South Bend</u> <u>Permanent</u> <u>Supportive</u> <u>Housing</u>	<u>Chapin Market</u>	<u>Gemini</u> <u>Apartments</u>	<u>Eliminations</u>	<u>Total</u>
LIABILITIES AND NET ASSETS											
CURRENT LIABILITIES											
Line of credit	28,736	0	0	0	0	0	0	0	0	0	28,736
Current portion of long-term debt	47,898	29,662	52,552	24,361	0	9,557	0	0	66,632	0	230,662
Accounts payable	176,747	7,681	5,011	12,924	3,797	12,460	3,864	0	7,721	(190)	230,015
Deferred revenue	19,735	0	5,389	9,306	448	2,992	10,532	0	0	0	48,402
Due to related parties	8,879	8,769	554,613	33,658	317,900	23,932	0	0	194,444	(1,142,195)	0
Deferred development fee	0	0	302,838	10,245	119,569	0	0	0	0	(432,652)	0
Grant advances	345,280	0	0	0	0	0	0	0	0	0	345,280
Accrued interest	6,777	0	13,920	0	15,183	935	0	0	3,672	0	40,487
Other accrued expenses	67,250	9,996	30,566	26,810	66,229	48,411	250,471	0	22,760	(55,326)	467,167
Total Current Liabilities	701,302	56,108	964,889	117,304	523,126	98,287	264,867	0	295,229	(1,630,363)	1,390,749
LONG-TERM LIABILITIES											
Long-term debt, net	2,628,238	253,158	2,523,875	725,299	0	1,243,369	633,004	0	2,051,963	(1,698,004)	8,360,902
Forgivable loan	0	0	0	2,766,686	0	0	0	0	0	0	2,766,686
Accrued interest	0	0	0	0	0	468,353	0	0	0	(468,353)	0
Total Long-Term Liabilities	2,628,238	253,158	2,523,875	3,491,985	0	1,711,722	633,004	0	2,051,963	(2,166,357)	11,127,588
TOTAL LIABILITIES	3,329,540	309,266	3,488,764	3,609,289	523,126	1,810,009	897,871	0	2,347,192	(3,796,720)	12,518,337
NET ASSETS											
Without donor restriction	4,338,743	1,158,997	(991,591)	1,681,467	67,383	(203)	(142)	281,903	22,168	(369,665)	6,189,060
With donor restriction	1,070,637	0	0	0	0	0	0	0	0	0	1,070,637
Non-controlling interest	0	0	0	0	2,571,841	2,875,339	5,136,532	0	0	0	10,583,712
Total Net Assets	5,409,380	1,158,997	(991,591)	1,681,467	2,639,224	2,875,136	5,136,390	281,903	22,168	(369,665)	17,843,409
TOTAL LIABILITIES AND NET ASSETS	8,738,920	1,468,263	2,497,173	5,290,756	3,162,350	4,685,145	6,034,261	281,903	2,369,360	(4,166,385)	30,361,746

SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES

South Bend, Indiana

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2018

	<u>South Bend</u> <u>Heritage</u> <u>Foundation</u>	<u>Scattered Sites</u>	<u>Robertson's</u> <u>Building</u>	<u>South Bend</u> <u>Heritage</u> <u>Properties</u>	<u>Historic</u> <u>Rushton</u>	<u>New Heritage</u> <u>Homes</u> <u>Southeast</u>	<u>South Bend</u> <u>Permanent</u> <u>Supportive</u> <u>Housing</u>	<u>Chapin Market</u>	<u>Gemini</u> <u>Apartments</u>	<u>Eliminations</u>	<u>Total</u>
ASSETS											
CURRENT ASSETS											
Cash and cash equivalents	231,274	91,782	88,360	114,973	24,389	46,660	96,599	0	11,743	0	705,780
Accounts receivable, net	96,488	32,717	9,237	16,362	3,992	12,042	22,718	0	4,918	0	198,474
Related party receivables	874,562	20,543	0	0	0	1,644	21,353	0	0	(912,418)	5,684
Developer fees receivable	432,707	0	0	0	0	0	0	0	0	(432,707)	0
Grants receivable	135,442	0	0	0	0	0	0	0	0	0	135,442
Prepaid expenses	100	5,613	18,303	7,647	1,487	4,227	10,978	0	0	0	48,355
Total Current Assets	1,770,573	150,655	115,900	138,982	29,868	64,573	151,648	0	16,661	(1,345,125)	1,093,735
PROPERTY AND EQUIPMENT											
Land and land improvements	204,643	0	12,364	62,000	57,500	46,500	652,436	281,903	0	0	1,317,346
Buildings and building improvements	7,184,691	2,229,661	8,321,976	6,711,280	3,791,579	5,945,923	4,380,402	0	0	0	38,565,512
Furniture and equipment	112,174	0	106,972	76,226	92,387	123,308	1,170,165	0	0	0	1,681,232
Construction in process	233,648	0	0	0	0	0	0	0	1,515,025	0	1,748,673
Total	7,735,156	2,229,661	8,441,312	6,849,506	3,941,466	6,115,731	6,203,003	281,903	1,515,025	0	43,312,763
Accumulated depreciation	(4,791,237)	(771,049)	(5,892,510)	(2,101,362)	(810,436)	(1,562,191)	(539,612)	0	0	0	(16,468,397)
Net Property and Equipment	2,943,919	1,458,612	2,548,802	4,748,144	3,131,030	4,553,540	5,663,391	281,903	1,515,025	0	26,844,366
OTHER ASSETS											
Notes receivable	2,797,506	0	0	0	0	0	0	0	0	(2,196,044)	601,462
Beneficial interest in assets held by the Community Foundation	74,575	0	0	0	0	0	0	0	0	0	74,575
Assets held for resale, net	377,580	0	0	0	0	0	0	0	0	0	377,580
Investment in subsidiaries	455,824	0	0	0	0	0	0	0	0	(369,665)	86,159
Resident security deposits	0	7,753	17,503	22,060	3,997	10,771	0	0	0	0	62,084
Capitalized costs, net	0	0	0	118,598	14,741	20,979	38,994	0	0	0	193,312
Replacement reserves	0	2,500	122,112	163,490	38,965	94,000	0	0	0	0	421,067
Operating reserves	0	0	0	391,518	86,548	166,374	308,677	0	0	0	953,117
Deficit reserve	0	0	0	0	0	34,329	0	0	0	0	34,329
Supportive service reserve	0	0	0	0	0	0	388,323	0	0	0	388,323
Total Other Assets	3,705,485	10,253	139,615	695,666	144,251	326,453	735,994	0	0	(2,565,709)	3,192,008
TOTAL ASSETS	8,419,977	1,619,520	2,804,317	5,582,792	3,305,149	4,944,566	6,551,033	281,903	1,531,686	(3,910,834)	31,130,109

SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES

South Bend, Indiana

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2018

	<u>South Bend Heritage Foundation</u>	<u>Scattered Sites</u>	<u>Robertson's Building</u>	<u>South Bend Heritage Properties</u>	<u>Historic Rushton</u>	<u>New Heritage Homes Southeast</u>	<u>South Bend Permanent Supportive Housing</u>	<u>Chapin Market</u>	<u>Gemini Apartments</u>	<u>Eliminations</u>	<u>Total</u>
LIABILITIES AND NET ASSETS											
CURRENT LIABILITIES											
Line of credit	0	0	0	0	0	0	0	0	1,307,411	0	1,307,411
Current portion of long-term debt	181,890	28,040	46,613	23,448	0	8,428	0	0	0	0	288,419
Accounts payable	51,667	6,350	1,190	0	1,345	3,519	14,430	0	202,312	(161)	280,652
Deferred revenue	0	0	5,694	7,463	2,459	2,542	1,098	0	0	0	19,256
Due to South Bend Heritage Foundation, Inc.	27,720	1,348	516,777	19,484	315,973	1,754	0	0	29,362	(912,418)	0
Deferred development fee	0	0	302,838	10,245	119,569	0	0	0	0	(432,652)	0
Grant advances	216,999	0	0	0	0	0	0	0	0	0	216,999
Accrued interest	6,777	0	17,808	0	12,437	935	0	0	7,476	0	45,433
Other accrued expenses	65,855	10,445	37,222	31,148	58,610	48,868	74,893	0	1,710	0	328,751
Total Current Liabilities	550,908	46,183	928,142	91,788	510,393	66,046	90,421	0	1,548,271	(1,345,231)	2,486,921
LONG-TERM LIABILITIES											
Long-term debt net of unamortized deferred financing costs of \$64,421	2,631,410	279,457	2,574,069	746,743	0	1,253,142	700,000	0	0	(1,765,000)	6,419,821
Forgivable loan	0	0	0	3,181,686	0	0	0	0	0	0	3,181,686
Accrued interest	0	0	0	0	0	395,497	35,441	0	0	(430,938)	0
Total Long-Term Liabilities	2,631,410	279,457	2,574,069	3,928,429	0	1,648,639	735,441	0	0	(2,195,938)	9,601,507
TOTAL LIABILITIES	3,182,318	325,640	3,502,211	4,020,217	510,393	1,714,685	825,862	0	1,548,271	(3,541,169)	12,088,428
NET ASSETS											
Without donor restriction	4,050,725	1,293,880	(697,894)	1,562,575	68,938	(168)	(83)	281,903	(16,585)	(369,665)	6,173,626
With donor restriction	1,186,934	0	0	0	0	0	0	0	0	0	1,186,934
Non-controlling interest	0	0	0	0	2,725,818	3,230,049	5,725,254	0	0	0	11,681,121
Total Net Assets	5,237,659	1,293,880	(697,894)	1,562,575	2,794,756	3,229,881	5,725,171	281,903	(16,585)	(369,665)	19,041,681
TOTAL LIABILITIES AND NET ASSETS	8,419,977	1,619,520	2,804,317	5,582,792	3,305,149	4,944,566	6,551,033	281,903	1,531,686	(3,910,834)	31,130,109

SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES

South Bend, Indiana

CONSOLIDATING STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2019

	<u>South Bend Heritage Foundation</u>	<u>Scattered Sites</u>	<u>Robertson's Building</u>	<u>South Bend Heritage Properties</u>	<u>Historic Rushton</u>	<u>New Heritage Homes Southeast</u>	<u>South Bend Permanent Supportive Housing</u>	<u>Gemini Apartments</u>	<u>Eliminations</u>	<u>Total</u>	<u>%</u>
REVENUES											
Contributions and grants	329,523	0	0	0	0	0	0	115,000	0	444,523	9.74
Federal grants	810,165	0	0	0	0	0	0	0	0	810,165	17.75
Management and project fees	522,577	0	0	0	0	0	0	0	0	522,577	11.45
Forgiveness of debt income	0	0	0	415,000	0	0	0	0	0	415,000	9.09
Rents	328,283	142,991	658,297	490,228	126,202	306,943	263,496	110,288	0	2,426,728	53.17
Interest income	122,122	292	224	4,624	60	513	7,774	0	(92,741)	42,868	0.94
Change in beneficial interest	9,176	0	0	0	0	0	0	0	0	9,176	0.20
Loss on real estate held for resale	(167,531)	0	0	0	0	0	0	0	0	(167,531)	(3.67)
Valuation expense	(86,802)	0	0	0	0	0	0	0	0	(86,802)	(1.90)
Miscellaneous income	22,347	8,290	11,987	80,155	2,599	17,088	659	4,063	0	147,188	3.23
Total Revenues	1,889,860	151,573	670,508	990,007	128,861	324,544	271,929	229,351	(92,741)	4,563,892	100.00
EXPENSES											
Program expenses	1,434,882	265,214	906,019	804,714	271,103	632,943	844,236	171,603	(78,830)	5,251,884	115.07
Management and general	262,921	17,322	51,917	53,479	11,722	40,493	16,474	15,279	(13,911)	455,696	9.98
Fundraising	20,336	3,920	6,269	12,922	1,568	5,853	0	3,716	0	54,584	1.20
Total Functional Expenses	1,718,139	286,456	964,205	871,115	284,393	679,289	860,710	190,598	(92,741)	5,762,164	126.25
CHANGE IN NET ASSETS	171,721	(134,883)	(293,697)	118,892	(155,532)	(354,745)	(588,781)	38,753	0	(1,198,272)	(26.25)

SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES

South Bend, Indiana

CONSOLIDATING STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2018

	<u>South Bend</u> <u>Heritage</u> <u>Foundation</u>	<u>Scattered</u> <u>Sites</u>	<u>Robertson's</u> <u>Building</u>	<u>South Bend</u> <u>Heritage</u> <u>Properties</u>	<u>Historic</u> <u>Rushton</u>	<u>New</u> <u>Heritage</u> <u>Homes</u> <u>Southeast</u>	<u>South Bend</u> <u>Permanent</u> <u>Supportive</u> <u>Housing</u>	<u>Gemini</u> <u>Apartments</u>	<u>Eliminations</u>	<u>Total</u>	<u>%</u>
REVENUES											
Contributions and grants	208,789	0	0	0	0	0	0	0	0	208,789	4.77
Federal grants	1,286,401	0	0	0	0	0	0	0	0	1,286,401	29.42
Management and project fees	702,184	0	0	0	0	0	0	0	0	702,184	16.06
Forgiveness of debt income	0	0	0	415,000	0	0	0	0	0	415,000	9.49
Rents	283,824	138,783	674,797	487,403	122,357	328,163	240,980	38,791	0	2,315,098	52.95
Interest income	105,475	0	5	1,092	66	1	2,193	0	(91,096)	17,736	0.41
Change in beneficial interest	545	0	0	0	0	0	0	0	0	545	0.01
Loss on real estate held for resale	(550,238)	0	0	0	0	0	0	0	0	(550,238)	(12.58)
Valuation expense	(111,507)	0	0	0	0	0	0	0	0	(111,507)	(2.55)
Miscellaneous income	28,966	2,935	7,242	12,176	1,313	9,116	4,300	22,403	0	88,451	2.02
Total Revenues	1,954,439	141,718	682,044	915,671	123,736	337,280	247,473	61,194	(91,096)	4,372,459	100.00
EXPENSES											
Program expenses	1,728,832	220,368	905,096	610,227	288,702	562,123	826,884	69,483	(77,432)	5,134,283	117.42
Management and General	319,078	12,545	61,233	26,094	10,448	31,855	21,798	7,005	(13,664)	476,392	10.90
Fundraising	30,652	2,240	10,163	5,926	1,619	4,127	0	1,291	0	56,018	1.28
Total Functional Expenses	2,078,562	235,153	976,492	642,247	300,769	598,105	848,682	77,779	(91,096)	5,666,693	129.60
CHANGE IN NET ASSETS	(124,123)	(93,435)	(294,448)	273,424	(177,033)	(260,825)	(601,209)	(16,585)	0	(1,294,234)	(29.60)

SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES

South Bend, Indiana

CONSOLIDATING STATEMENTS OF CHANGES IN NET ASSETS

For the Years Ended December 31, 2019 and 2018

	<u>South Bend Heritage Foundation</u>	<u>Scattered Sites</u>	<u>Robertson's Building</u>	<u>South Bend Heritage Properties</u>	<u>Historic Rushton</u>	<u>New Heritage Homes Southeast</u>	<u>South Bend Permanent Supportive Housing</u>	<u>Chapin Market</u>	<u>Gemini Apartments</u>	<u>Eliminations</u>	<u>Total</u>
NET ASSETS, JANUARY 1, 2018	5,361,782	1,387,315	(403,446)	1,289,151	2,971,789	3,490,706	3,397,789	281,903	0	(369,665)	17,407,324
Contributions	0	0	0	0	0	0	2,928,591	0	0	0	2,928,591
Changes in net assets	(124,123)	(93,435)	(294,448)	273,424	(177,033)	(260,825)	(601,209)	0	(16,585)	0	(1,294,234)
NET ASSETS, DECEMBER 31, 2018	5,237,659	1,293,880	(697,894)	1,562,575	2,794,756	3,229,881	5,725,171	281,903	(16,585)	(369,665)	19,041,681
Changes in net assets	171,721	(134,883)	(293,697)	118,892	(155,532)	(354,745)	(588,781)	0	38,753	0	(1,198,272)
NET ASSETS, DECEMBER 31, 2019	5,409,380	1,158,997	(991,591)	1,681,467	2,639,224	2,875,136	5,136,390	281,903	22,168	(369,665)	17,843,409

SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES

South Bend, Indiana

SUPPLEMENTAL SCHEDULE OF FINANCIAL POSITION**NEIGHBORWORKS AMERICA**

December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>ASSETS</u>		
Cash	166,616	259,742
Land, building and equipment	1,426,605	1,258,479
Total Assets	1,593,221	1,518,221
<u>NET ASSETS</u>		
Without Donor Restriction	586,428	395,044
With Donor Restriction	1,006,793	1,123,177
Total Net Assets	1,593,221	1,518,221

SUPPLEMENTAL SCHEDULE OF ACTIVITIES**NEIGHBORWORKS AMERICA**

For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>REVENUE, GAINS, AND OTHER SUPPORT</u>		
Expendable grants - NeighborWorks America	216,900	207,940
Capital Grant - NeighborWorks America	75,000	75,000
Total revenue, gains, and other support	291,900	282,940
<u>EXPENSES</u>		
Funds expended	216,900	132,940
CHANGE IN NET ASSETS	75,000	150,000
NET ASSETS, BEGINNING OF YEAR	1,518,221	1,368,221
NET ASSETS, END OF YEAR	1,593,221	1,518,221

SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES

South Bend, Indiana

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number / Public Law Number	Pass Through Entity Identifying Number	Total Federal Expenditures	Expenditures Passed to Subrecipients
Congressional Appropriation - NeighborWorks® America				
NeighborWorks® America - Unrestricted	21.000	R-SIF-2019-53619	50,000	0
NeighborWorks® America - Restricted Until First Use	21.000	R-NEC-2019-51901	75,000	0
NeighborWorks® America - Unrestricted	21.000	R-NEC-2019-51901	135,000	0
NeighborWorks® America - Unrestricted	21.000	R-CLI-2019-52258	4,000	0
NeighborWorks® America - Unrestricted	21.000	R-SUPEXT-2019-54377	8,000	0
NeighborWorks® America - Unrestricted	21.000	R-SUPEXT-2019-54376	7,000	0
NeighborWorks® America - Unrestricted	21.000	R-SUPEXT-2019-54375	10,000	0
NeighborWorks® America - Unrestricted	21.000	R-SUPEXT-2019-52853	500	0
NeighborWorks® America - Unrestricted	21.000	R-SUPINT-2020-55812	1,920	0
NeighborWorks® America - Unrestricted	21.000	R-SUPINT-2019-55363	480	0
Total Congressional Appropriation - NeighborWorks® America			291,900	
Department of Housing and Urban Development				
Passed-through City of South Bend				
CDBG - Entitlement Grants Cluster				
Community Development Block Grants/Entitlement Grants	14.218	19-JC-15	100,000	0
Community Development Block Grants/Entitlement Grants	14.218	17-JC-25 (01)	42,747	0
Community Development Block Grants/Entitlement Grants	14.218	17-JC-25 (02)	92,960	0
Community Development Block Grants/Entitlement Grants	14.218	17-JC-26	36,032	0
Community Development Block Grants/Entitlement Grants	14.218	18-JC-26	28,538	0
Community Development Block Grants/Entitlement Grants	14.218	17-JC-58	94,698	0
Total CDBG - Entitlement Grants Cluster			394,975	0
Total passed-through City of South Bend			394,975	0
Passed-through St. Joseph County Housing Consortium				
Home Investment Partnerships Program				
Home Investment Partnerships Program	14.239	18-JH-02	176,856	0
Home Investment Partnerships Program	14.239	18-JH-04 (01)	45,632	0
Home Investment Partnerships Program	14.239	18-JH-04 (02)	1,434	0
Home Investment Partnerships Program	14.239	19-JH-04	27,649	0
Total Home Investment Partnerships Program			251,571	0
Total passed-through St. Joseph County Housing Consortium			251,571	0
Total Department of Housing and Urban Development			646,546	0
Total Expenditures of Federal Awards			938,446	0

See accompanying Notes to Schedule of Expenditures of Federal Awards

SOUTH BEND HERITAGE FOUNDATION, INC. AND SUBSIDIARIES

South Bend, Indiana

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2019

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards ("Schedule") includes the federal award activity of South Bend Heritage Foundation, Inc. and Subsidiaries (the "Organization") under programs of the federal government for the year ended December 31, 2019. The information in this schedule is presented in accordance with the 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). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allocable or are limited as to reimbursement.
2. The Organization has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 3 - FEDERAL GRANT RECONCILIATION

Federal grants on the Consolidated Statements of Activities	810,165
Prior year grant advances on the Consolidated Statements of Financial Position	(216,999)
Current year grant advances on the Consolidated Statements of Financial Position	345,280
Federal expenditures on Schedule of Expenditures of Federal Awards	<u>938,446</u>