

METANOIA
FINANCIAL STATEMENTS
JUNE 30, 2016 and 2015

METANOIA
FINANCIAL REPORT
JUNE 30, 2016 and 2015

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Metanoia
North Charleston, South Carolina

We have audited the accompanying financial statements of Metanoia, which comprise the statements of financial position as of June 30, 2016 and 2015 and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Metanoia as of June 30, 2016 and 2015 and the changes in their net assets, statement of functional expenses, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2016 on our consideration of Metanoia's 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Hubbard Davis CPAs, LLP

Mount Pleasant, South Carolina
November 7, 2016

METANOIA
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Assets		
Current Assets		
Cash	\$ 167,971	\$ 226,872
Grant receivables	197,655	123,903
OOB cost receivables	21,623	35,569
Prepaid expenses	32,480	31,280
Construction in progress	102,141	1,000
Assets limited as to use		
Cash, restricted	253,575	142,375
Cash, board designated	78,106	60,161
Cash held on behalf of others	8,177	9,805
Current portion of note receivable	133,745	-
Total Current Assets	<u>995,473</u>	<u>630,965</u>
Property and Equipment, net	<u>1,548,363</u>	<u>1,493,046</u>
Other Assets		
Investments	41,254	25,000
Lot inventory	116,418	154,341
Note receivable, net	422,464	-
Total Other Assets	<u>580,136</u>	<u>179,341</u>
Total Assets	\$ <u>3,123,972</u>	\$ <u>2,303,352</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 115,815	\$ 63,039
Accrued payroll	22,779	3,484
Deferred revenue	231,416	172,433
Note payable, current	29,645	29,645
Total Current Liabilities	<u>399,655</u>	<u>268,601</u>
Long Term Liabilities		
Custodial funds	1,277	4,091
Note payable, long term	236,656	266,304
Total Long Term Liabilities	<u>237,933</u>	<u>270,395</u>
Total Liabilities	<u>637,588</u>	<u>538,996</u>
Net Assets		
Unrestricted	1,053,439	1,040,002
Temporarily restricted	1,432,945	724,354
Total Net Assets	<u>2,486,384</u>	<u>1,764,356</u>
Total Liabilities and Net Assets	\$ <u>3,123,972</u>	\$ <u>2,303,352</u>

See Accompanying Notes and Independent Auditors' Report

METANOIA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and Other Support			
Public Support			
Contributions	\$ 284,403	\$ -	\$ 284,403
Contributions in-kind	49,000	-	49,000
Grant Revenue	1,536,552	780,430	2,316,982
Special events, net of expense \$58,410	96,260	-	96,260
Total Public Support	<u>1,966,215</u>	<u>780,430</u>	<u>2,746,645</u>
Revenue			
Rental income	96,995	-	96,995
Interest income	4,692	-	4,692
Loss on sale of property	(10,450)	-	(10,450)
Other income	56,093	-	56,093
Total Revenue	<u>147,330</u>	<u>-</u>	<u>147,330</u>
Net Assets Released from Restrictions	<u>71,839</u>	<u>(71,839)</u>	<u>-</u>
Total Revenues and Other Support	2,185,384	708,591	2,893,975
Expenses			
Program			
Housing	1,107,762	-	1,107,762
Youth	698,501	-	698,501
Other	182,937	-	182,937
	<u>1,989,200</u>	<u>-</u>	<u>1,989,200</u>
Support Service			
Management and general	59,444	-	59,444
Fund raising	123,303	-	123,303
Total Support Service	<u>182,747</u>	<u>-</u>	<u>182,747</u>
Total Expenses	<u>2,171,947</u>	<u>-</u>	<u>2,171,947</u>
Change in Net Assets	13,437	708,591	722,028
Net Assets at Beginning of Year	<u>1,040,002</u>	<u>724,354</u>	<u>1,764,356</u>
Net Assets at End of Year	<u>\$ 1,053,439</u>	<u>\$ 1,432,945</u>	<u>\$ 2,486,384</u>

See Accompanying Notes and Independent Auditors' Report

METANOIA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and Other Support			
Public support:			
Contributions	\$ 502,951	\$ 9,000	\$ 511,951
Contributions in-kind	51,973	-	51,973
Grant Revenue	1,110,862	76,113	1,186,975
Special events, net of expense \$36,994	94,729	-	94,729
Total public support	<u>1,760,515</u>	<u>85,113</u>	<u>1,845,628</u>
Revenue:			
Rental income	74,212	-	74,212
Interest income	249	-	249
Other income	26,279	-	26,279
Total Revenue	<u>100,740</u>	<u>-</u>	<u>100,740</u>
Net Assets Released from Restrictions	41,637	(41,637)	-
Total Revenues Other Support	<u>1,902,892</u>	<u>43,476</u>	<u>1,946,368</u>
Expenses			
Program			
Housing	716,475	-	716,475
Youth	600,110	-	600,110
Other	81,666	-	81,666
	<u>1,398,251</u>	<u>-</u>	<u>1,398,251</u>
Support Service			
Management and general	72,317	-	72,317
Fund raising	103,828	-	103,828
Total Support Service	<u>176,145</u>	<u>-</u>	<u>176,145</u>
Total Expenses	<u>1,574,396</u>	<u>-</u>	<u>1,574,396</u>
Change in Net Assets	328,496	43,476	371,972
Net Assets at Beginning of Year	651,889	740,495	1,392,384
Transfer of Net Assets	59,617	(59,617)	-
Net Assets at End of Year	<u>\$ 1,040,002</u>	<u>\$ 724,354</u>	<u>\$ 1,764,356</u>

See Accompanying Notes and Independent Auditors' Report

METANOIA
STATEMENT OF FUNCTIONAL EXPENSE
FOR THE YEAR ENDED JUNE 30, 2015

	Program				Support Service		Total Expenses
	Housing	Youth	Other	Total	Management and General	Fund-raising	
Salaries	\$ 70,223	\$ 321,000	42,604	\$ 433,827	\$ 23,653	\$ 73,341	\$ 530,821
Payroll taxes	5,811	24,758	2,050	32,619	2,228	5,683	40,530
Employee benefits	1,529	1,918	69	3,516	69	352	3,937
Retirement benefits	5,300	9,486	1,478	16,264	784	3,737	20,785
Total salaries and benefits	82,863	357,162	46,201	486,226	26,734	83,113	596,073
OOR expense	497,056	-	-	497,056	-	-	497,056
Education	2,695	18,448	3,264	24,407	16,723	718	41,848
Property maintenance expenses	57,729	11,032	470	69,231	1,898	195	71,324
Occupancy	21,661	49,547	338	71,546	-	0	71,546
Travel meals and entertainment	3,022	9,644	5,549	18,215	1,541	3,178	22,934
Program cost	8,717	51,457	6,729	66,903	468	457	67,828
Professional fees	5,851	54,907	11,845	72,603	6,545	4,047	83,195
Office supplies	2,167	12,638	857	15,662	1,288	4,874	21,824
Insurance	14,713	6,343	3,258	24,314	1,281	3,884	29,479
Dues	(3,620)	8,951	2,612	7,943	270	1,429	9,642
Telephone	1,467	2,930	30	4,427	150	-	4,577
Advertising	-	-	-	-	-	6,000	6,000
Property taxes	2,430	86	65	2,581	-	-	2,581
Postage and shipping	153	448	42	643	98	1,438	2,179
Interest	8,794	-	-	8,794	-	-	8,794
Miscellaneous	457	832	406	1,695	4,081	675	6,451
Commissions paid	5,766	-	-	5,766	-	-	5,766
Total Expenses Before Depreciation	711,921	584,425	81,666	1,378,012	61,077	110,008	1,549,097
Depreciation	4,554	15,685	-	20,239	5,060	-	25,299
Total Expenses	\$ 716,475	\$ 600,110	81,666	\$ 1,398,251	\$ 66,137	\$ 110,008	\$ 1,574,396

See Accompanying Notes and Independent Auditors' Report

METANOIA
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 722,028	\$ 371,972
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	49,984	25,299
Loan forgiven	-	(14,980)
(Increase) Decrease in:		
Grant receivables	(73,752)	(83,458)
OOR cost receivable	13,946	(35,569)
Prepaid expenses	(1,200)	(19,476)
Construction in progress	(101,141)	(143,468)
Increase (Decrease) in:		
Accounts payable	52,776	29,318
Accrued payroll	19,295	(26,411)
Other liabilities	(2,814)	(1,561)
Deferred Revenue	58,983	18,183
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>738,105</u>	<u>119,849</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Reduction in lots held for development	42,939	-
Purchase of investments	(16,254)	(25,000)
Purchase of fixed assets	(110,300)	(76,959)
Note receivable loan issued	(615,000)	-
Note receivable loan payments received	58,774	-
NET CASH (USED) BY INVESTING ACTIVITIES	<u>(639,841)</u>	<u>(101,959)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of note payable	-	-
Principal payments on note payable	(29,648)	(8,612)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>(29,648)</u>	<u>(8,612)</u>
INCREASE IN CASH AND EQUIVALENTS	68,616	9,278
CASH AND EQUIVALENTS AT BEGINNING OF YEAR	<u>439,213</u>	<u>429,935</u>
CASH AND EQUIVALENTS AT END OF YEAR	<u>\$ 507,829</u>	<u>\$ 439,213</u>
Cash	\$ 167,971	\$ 226,872
Cash - restricted	253,575	142,375
Cash - board designated	78,106	60,161
Cash - cash held on behalf of others	8,177	9,805
	<u>\$ 507,829</u>	<u>\$ 439,213</u>
SUPPLEMENTAL DISCLOSURES		
Noncash investing and financing activities:		
Debt forgiven	\$ -	\$ 14,980
Assets donated for use	\$ -	\$ 69,640
Interest paid	\$ 8,096	\$ 8,794

See Accompanying Notes and Independent Auditors' Report

METANOIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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

Nature of Activities

Metanoia is a not-for-profit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Metanoia is a Community Development Corporation focused on discovering and growing the assets of the southern half of North Charleston.

Metanoia envisions a diverse community of people that are inspired and empowered to make the community better for generations to come; where quality housing and livable wage jobs are accessible to all; where there are academically achieving schools; where businesses, and faith communities benefit the community; where the quality of life includes green space and recreational opportunities; and where Reynolds Avenue is a hub of economic and social activities. We recognize the people of our community are essential to the accomplishment of this vision.

Program descriptions

The following program and supporting services are included in the accompanying financial statements:

Housing Program

The housing program purchases existing vacant properties in the southern-half of North Charleston and either refurbishes them or builds new homes for sale or rent to the public. The program is aimed at stabilizing the housing in the area which will result in neighborhood improvement. Beneficiaries are generally at or below 80% of the Charleston County area median income.

Metanoia works with various partners including the City of North Charleston, Charleston County, the South Carolina Housing Finance and Development Authority and the National Fair Housing Alliance to rehabilitate homes for homeowners in need of repairs. Depending on the source of funding, beneficiaries make at or below 50% or 80% of the Charleston County area median income.

Metanoia operates an extended financial literacy and homeownership class to prepare homeowners by teaching budgeting, banking, credit repair and the responsibilities of home-buying and homeownership.

Youth Leadership Development Academy

The Metanoia Youth Leadership Academy operates year-round out-of-school programming that offers leadership development for students from grades 1-12. This includes daily after school programs for students and a summer Children's Defense Fund Freedom School. The Freedom School operates daily for six weeks in the summer. Students receive academic enhancement and character education in all of Metanoia's programming. The Leadership Academy is a pipeline to develop new leaders for the community.

Economic Development Initiative

In prior years, Metanoia has funded a minority contractor training academy, operated a local farmer's market, and funded a production kitchen for job training in culinary arts - all in an effort to enhance economic development in the community. Metanoia students have started two small businesses which are housed in Metanoia's Youth Entrepreneurship Center (a renovated commercial building in the neighborhood we serve), and Metanoia is nearing completion of the addition of a Café to the Youth Entrepreneurship Center. Metanoia also works closely with the City of North Charleston to encourage the establishment of local businesses that benefit the neighborhood. This includes working with the city to attract a grocery store to the neighborhood and work on the adaptive reuse of a former elementary school.

During the year ending June 30, 2016, Metanoia was awarded a Community Economic Development grant from the U.S. Department of Health and Human Services to be used for business expansion and job creation. Metanoia has entered into an agreement with the Urban Electric Company to loan them funds for expansion of their facilities to ensure permanent job creation of approximately 40 new jobs to benefit low-income households.

METANOIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –
Continued

Community Organizing and Development:

Metanoia organizes the community it serves around issues that are of particular interest to residents. This has included organizing the community to have speed limits reduced and to get a new public elementary school built in the community. All organizing is issue oriented and non-partisan. Metanoia also works with the neighborhoods it serves to enhance their quality of life through a community gardening initiative and the establishment of better public green and recreational space.

Management and General

Management and general includes the functions necessary to maintain an equitable employment program; ensure an adequate working environment; provide coordination and articulation of Metanoia's program strategy through the Office of the CEO; secure proper administrative functioning of the Board of Directors; maintain competent legal services for the program administration of Metanoia; and manage the financial and budgetary responsibilities of Metanoia.

Fundraising

Provides the structure necessary to encourage and secure private financial support from individuals, foundations, and corporations.

Basis of accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles of the United States of America, and accordingly reflect all significant receivables, payables, and other liabilities. Under this basis, revenue is recognized when earned and expenditures are recognized when incurred.

Basis of presentation

Metanoia follows accounting standards set by the Financial Accounting Standards Board (“FASB”). The FASB sets accounting principles generally accepted in the United States of America (“GAAP”) that Metanoia, Inc. follows to ensure the consistent reporting of its financial position, changes in net assets and cash flows. References to GAAP issued by the FASB in the accompanying footnotes are to the FASB Accounting Standards Codification (“ASC”).

Metanoia’s financial statements have been prepared in accordance with standards of accounting and financial reporting under ASC 958, *Not-for-Profit Entities* and the AICPA Audit and Accounting Guide, *Not-for-Profit Entities*. Under this authoritative guidance, Metanoia, Inc. is required to provide financial statements which are prepared to focus on Metanoia Inc. as a whole and present balances and transactions according to the existence or absence of donor-imposed restrictions.

Resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets having similar characteristics have been combined into similar categories.

- **Unrestricted** – Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors. Restricted net assets received and expended in the same year are classified as unrestricted.
- **Temporarily restricted** – Net assets whose use by Metanoia is subject to donor-imposed stipulations that can be fulfilled by actions of Metanoia pursuant to those stipulations or that expire through the passage of time.

METANOIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –
Continued

- **Permanently restricted** – Net assets that are subject to donor-imposed stipulations that assets be maintained permanently by Metanoia. The donors of these assets permit Metanoia to use all or part of the investment return of these assets for continuing operations which may be subject to certain restrictions.

Expenses are generally reported as decrease in unrestricted net assets. Expirations of donor-imposed stipulations that simultaneously increase one class of net assets and decrease another are reported as transfers between the applicable classes of net assets. Gains and losses on investments and other assets and liabilities are reported as increases and decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or law.

Cash and cash equivalents

For the purposes of the Statement of Cash Flows, Metanoia considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. Metanoia does not have any cash equivalents.

Promises to give

Unconditional promises to give are recognized as revenues in the period in which the promise is received and as assets, decreases in liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Metanoia does not have promises to give as of June 30, 2016 and 2015.

Grants receivable

The grants receivable represent amounts owned by various government and nonprofit entities. Based on its previous experience, Metanoia anticipates that these amounts will be collected in full. Accordingly, no allowance for uncollectible amounts has been established.

OOR cost receivable

The Owner Occupied Repair program requires Metanoia to expend funds renovating approved projects in advance and then apply for reimbursement from the City of North Charleston. Based on its previous experience, Metanoia anticipates that these amounts will be collected in full. Accordingly, no allowance for uncollectible amounts has been established.

Construction in progress

Construction in progress represents acquisitions and rehabilitation costs of residential housing units and the Entrepreneurship Center. Donated properties are recorded at fair value as of donation date. The costs associated with maintaining property including insurance, utilities, repairs and taxes are recorded as current period expenses, once rehabilitation is complete and the property is held for sale or transferred to a low income rental unit. Grant and government provisions require that units be sold to qualified low income families for approximate appraised value. Gains or losses on the subsequent sale of renovated properties are program related revenues and expense and are recognized in the year of sale.

Assets limited to use

Assets limited to use consist of cash restricted for program expense. One grantor requires Metanoia to maintain advanced funds separate and in an interest bearing account where interest earned is also restricted for the same purpose as the advances fund.

Donated assets

Donated materials for construction and lot inventory are recorded at their estimated fair market values at the date of the donation.

METANOIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –
Continued

Donated services

Donated services are recognized in accordance with Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958 *Not-For-Profit Entities* if services (a) create or enhance a non-financial asset, or (b) require special skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Volunteers perform a variety of tasks that assist Metanoia with specific programs, fund-raising, and various committee assignments throughout the year that are not recognized as contributions in the financial statements since the recognition criteria under FASB ASC 958 were not met.

Property and equipment

Purchased property and equipment are recorded at cost. Donated property and equipment are recorded at the approximate fair value at the date of donation. Expenditures for major additions and improvements, generally in excess of \$2,500, are capitalized and minor replacements, maintenance and repairs are charged to expense as incurred. When property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of the operations for the respective period. Depreciation is computed by the straight-line method over the estimated useful lives of the assets, ranging from 5 to 40 years. Major long-term improvements are not budgeted.

Lot inventory

Lot inventory includes acquisition costs of lots held for future construction. The cost associated with maintaining property in inventory including insurance, utilities, repairs and taxes are recorded as current period expenses.

Compensated absences

Full time and part-time employees of Metanoia are entitled to paid vacations, paid sick days and personal days off, depending on job classification and length of service.

Revenue recognition

In accordance with Standards FASB ASC 958-50, Accounting or Contributions Received and Contributions Made, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Metanoia reports contributions as restricted support if they are received with donor stipulations that limit the use of the donation. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction. Metanoia reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the assets must be used. It is Metanoia's policy to record restricted contributions received and released in the same year as unrestricted support. Metanoia did not have any permanently restricted contributions or assets as of the fiscal years ended June 30, 2016 and 2015.

Advertising

Cost of promotions and advertising are expensed as incurred. Advertising and promotion expenses total \$2,313 and \$6,000 for the years ended June 30, 2016 and 2015, respectively.

Expense allocation

The cost of providing various programs and other activities has been summarized on a functional basis in the Statements of Activities and in the Statements of Functional Expenses. Accordingly, certain costs have been allocated among the programs and support services benefited by Metanoia.

METANOIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –
Continued

Income tax status

Metanoia is exempt from federal income tax under Section 501 (c) (3) of the Internal Revenue Code. In addition, Metanoia qualifies for the charitable contribution deduction under Section 170(b) (A) and has been classified as an organization that is not a private foundation under Section 509(a) (2).

Management evaluated Metanoia's tax positions and concluded that Metanoia had maintained its tax exempt status and had taken no uncertain tax positions that require adjustment to the financial statements.

Therefore, no provision or liability for income taxes has been included in the financial statements. The Metanoia currently has no unrelated business income. Accordingly, no provision for income taxes has been recorded. With few exceptions, Metanoia is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities. Metanoia believes that it has appropriate support for income tax positions taken. Therefore, management has not identified any uncertain income tax positions.

Estimates

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

Fair Value Measurements

FASB's *Fair Value Measurements* defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurement. It also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under this standard, fair value measurements are disclosed by level within that hierarchy. Metanoia utilizes a three-tier fair value hierarchy that clarifies fair value as an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

NOTE B - RESTRICTED CASH

Included in cash for the fiscal year ended June 30, 2016 and 2015 is restricted cash of \$253,575 and \$142,375, which represents the following funds held by Metanoia:

	2016	2015
HOME revolving funds	\$ 9,805	\$ 14,188
Neighborhood Stabilization funds	1,005	1,026
Restricted - MYLA	93,750	65,000
Restricted - Café	95,105	62,161
CED Loan repayment + interest	53,910	-
Total restricted cash	\$ <u>253,575</u>	\$ <u>142,375</u>

Additionally, the Board has designated \$78,106 and \$60,161 for savings for the years ending June 30, 2016 and 2105, respectively. There is an additional \$8,177 and \$9,805 of cash that is held for student savings accounts on behalf of others for the years ending June 30, 2016 and 2015, respectively.

METANOIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE C - GRANTS RECEIVABLE

Grants receivable consist of amounts due from government agencies or private donors, based on the terms of the related grant agreements or corporate sponsorship. Management periodically reviews the status of all grants receivable for collectability. Each balance is assessed based on management's knowledge of and relationship with the government agency or the donor and the age of the receivable balance. As a result of these reviews, balances deemed to be uncollectible are charged directly to uncollected grants expense. Management believes that the use of the direct write-off method approximates the results that would be presented if an allowance for doubtful accounts was recorded. Grants receivable at fiscal years ended June 30, 2016 and 2015 was \$197,655 and \$123,903, respectively.

NOTE D - MORTGAGES RECEIVABLE

Metanoia has several notes receivable with collateral of second, third or fourth mortgage on properties sold through the housing program. These notes are secured by real property. The notes are forgivable and interest free contingent on the buyer's compliance with the mortgage agreement. The principal of the mortgages is forgiven at a rate of 5% of the original principal per year for twenty years, as long as the mortgagee retains the property as their primary residence.

Metanoia fully amortizes all the Mortgage Assistance Program balances and does not record any future Mortgage Assistance Program amounts as assets on the Statement of Financial Position. However, the detail balance of each client in the Mortgage Assistance Program is being maintained for grantor reporting purposes.

Through a U.S. Department of Health and Human Service Community Services Block Grant program, Metanoia loaned \$615,000 to a growing company for job creation on January 23, 2016. The loan will be repaid over five years and bears a fixed interest rate of 2%.

Mortgages receivable as of June 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Mortgage and note receivable at face value	\$ 697,967	\$ 156,179
Less: unamortized discount	<u>(141,757)</u>	<u>(156,179)</u>
Total	<u>\$ 556,210</u>	<u>\$ -</u>

Mortgage receivable amortization schedule over the next five years and thereafter is as follows:

2017	\$ 133,746
2018	136,155
2019	138,612
2020	141,119
2021	78,683
Thereafter	<u>69,652</u>
Total	<u>\$ 697,967</u>

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NOTE E - CONSTRUCTION IN PROGRESS

Costs associated with the acquisition, development, and construction of a project is capitalized. Such costs may include (1) pre-acquisition costs such as land acquisition or improvement; (2) infrastructure development or construction costs such as equipment rental, construction materials, or subcontractors; and (3) other costs such as interest, insurance, or construction benefits. Most of the projects included in construction in progress are currently expected to be completed by the year ending June 30, 2016. After completion they will be used for program, sold to low income qualified homeowners or converted to low income rental property. Construction in progress consists of the following at June 30:

	<u>2016</u>	<u>2015</u>
Entrepreneurship Center	\$ -	\$ 1,000
Entrepreneurship Center Café	96,541	
1914 Redwood St.	<u>5,600</u>	<u>-</u>
	<u>\$ 102,141</u>	<u>\$ 1,000</u>

NOTE F - PROPERTY HELD FOR SALE

Metanoia classifies properties as held for sale once they have been listed on the market for sale. Metanoia records property held for sale at the lower of estimated fair market value or net book value. Property held for sale for the fiscal years ended June 30, 2016 and 2015 were zero.

NOTE G - LOT INVENTORY

The following lots were held for development as of June 30:

	<u>2016</u>	<u>2015</u>
1909 Token Street	\$ 13,710	\$ 13,710
1911 Token Street	13,710	13,710
1913 Token Street	13,710	13,710
1915 Token Street	13,710	13,710
1917 Token Street	10,728	10,728
1927 Quitman Street	13,710	13,710
1929 Quitman Street	13,710	13,710
1910 Norwood Street	12,727	10,475
1912 Norwood Street	10,703	10,703
1919 Success Street	<u>-</u>	<u>20,375</u>
	<u>\$ 116,418</u>	<u>\$ 134,541</u>

METANOIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE H - PROPERTY AND EQUIPMENT

Acquisitions of property and equipment greater than \$500 and all expenditures for repairs, maintenance and betterments that materially prolong the useful lives of assets are capitalized at cost. Property and equipment, other than donated property, is stated at cost. Donated property is valued at fair market value at the date of the gift.

Depreciation is calculated using the straight-line method over the following estimated useful lives of the assets: buildings – 40 years; furniture and equipment – 3 to 5 years; software – 5 years; and vehicles – 3 to 7 years. Property and equipment consists of the following at June 30:

	<u>2016</u>	<u>2015</u>
Operating property and equipment:		
Office equipment and library	\$ 116,164	\$ 97,885
Cafe equipment	36,288	-
Office leasehold improvements	71,332	68,825
Rentals leasehold improvements	31,483	31,482
Low income rentals property:		
Land	105,000	100,000
Rental Homes	<u>1,353,315</u>	<u>1,310,089</u>
	1,713,582	1,608,281
Less accumulated depreciation	<u>(165,219)</u>	<u>(115,235)</u>
	<u>\$ 1,548,363</u>	<u>\$ 1,493,046</u>

Depreciation charged to operations in fiscal years ended June 30, 2016 and 2015 was \$49,984 and \$25,299, respectively.

NOTE I - NOTES PAYABLE

Notes payable consists of the following as of June 30:

	<u>2016</u>	<u>2015</u>
Lowcountry Housing Trust Neighborhood Stabilization Program interest free loan, collateralized by 2600 Ferrara home. Payable over 13 years.	\$ 64,283	\$ 69,640
Lowcountry Housing Trust Neighborhood Stabilization Program interest free loan, collateralized by Kent Avenue home. The loan will be repaid when the home is sold to a qualified low income buyer.	44,941	59,921
Lowcountry Housing Trust line of credit up to \$175,000;	<u>157,077</u>	<u>166,388</u>
	266,301	295,949
Less current maturities	<u>(29,645)</u>	<u>(29,645)</u>
Total Long Term Debt	<u>\$ 236,656</u>	<u>\$ 266,304</u>

METANOIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE I - NOTES PAYABLE POLICIES – Continued

The principal payment of the long-term debt is as follows the fiscal year ended June 30:

	2017	\$	29,645	
	2018		30,124	
	2019		30,625	
	2020		31,151	
	2021		16,724	
	Thereafter		<u>128,032</u>	
		\$	<u><u>266,301</u></u>	

Interest expense charged in fiscal years ended June 30, 2016 and 2015 was \$8,096 and \$8,794, respectively.

NOTE J - IN-KIND CONTRIBUTIONS

Donated materials and professional construction services are reflected as contributions in the accompanying financial statements at their estimated fair market values on the date of receipt. Recorded in-kind contributions consisted of the following for the years ended June 30:

		<u>2016</u>		<u>2015</u>
Construction services	\$	-	\$	3,260
Playground equipment		1,000		-
Office space		<u>48,000</u>		<u>48,000</u>
	\$	<u><u>49,000</u></u>	\$	<u><u>51,260</u></u>

Many individuals volunteer their time and perform a variety of tasks that assist Metanoia with specific programs, campaign solicitations, and various committee assignments. These amounts are not recorded.

NOTE K - RELATED PARTY TRANSACTIONS

Board members and employees from Metanoia made contributions for the years ending June 30, 2016 and 2015.

NOTE L - CONCENTRATION OF CREDIT RISK

Metanoia places its cash with reputable financial institutions and limits the amount of credit exposure for cash to any one financial institution. Accounts held by banking institutions are insured by the Federal Deposit Insurance Corporation up to \$250,000. Metanoia had \$133,532 and \$128,727 in uninsured cash balances as of June 30, 2016 and 2015.

Metanoia's programs are concentrated in Charleston County, South Carolina, the level of contributions, home sales and grant opportunities may be affected by changes in this local economy.

METANOIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE M - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets include those net assets whose use by Metanoia has been donor restricted by specified purpose or time limitations. Temporarily restricted net assets consist of the following as of fiscal years ended June 30:

Restricted Purpose	2016			
	Beginning Balance	Contributions	Transfers/ Distributions	Ending Balance
Youth program	\$ 50,318	\$ -	(46,565)	\$ 3,753
HOME Acquisition fund, net	231,947	-	-	231,947
HOME Construction fund, net	435,596	100,750	(95,740)	440,606
CED Grant	-	679,680	(58,791)	620,889
Owner Occupied Repair program	395	-	-	395
Neighborhood Stabilization Fund	6,098	-	129,257	135,355
Total	\$ 724,354	\$ 780,430	\$ (71,839)	\$ 1,432,945

Restricted Purpose	2015			
	Beginning Balance	Contributions	Distributions	Ending Balance
Youth program	\$ 82,485	\$ 9,000	(41,167)	\$ 50,318
HOME Acquisition fund, net	231,947	-	-	231,947
HOME Construction fund, net	359,483	76,113	-	435,596
Owner Occupied Repair program	865	-	(470)	395
Neighborhood Stabilization Fund	65,715	-	(59,617)	6,098
Total	\$ 740,495	\$ 85,113	\$ (101,254)	\$ 724,354

NOTE N - COMMITMENTS AND CONTINGENCIES

Collection of Mortgage Receivable

Metanoia issues contingent second mortgages for the value of restricted federal, state and grantor funds invested in the property through construction and renovation grant guidelines or down payment assistance programs. They are amortized over 20 years, or 5% per year. Should the homeowner pay off the primary mortgage early or default on the mortgage, the second mortgage would be triggered. Due to the recent and current decline in the real estate market, the second mortgage payoff is considered remote by Metanoia, and therefore no receivable has been recorded in the current year financial statements. During the years ended June 30, 2016 and 2015 no second mortgages were paid off early. See Note D.

NOTE O - SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 7, 2016, the report date and has concluded no significant subsequent events meet the criteria of professional accounting standards to be recognized or not recognized, but disclosed, in the financial statements.