

**METANOIA**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**METANOIA**  
**FINANCIAL REPORT**  
**JUNE 30, 2018**

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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 statement of financial position as of June 30, 2018 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, 2018 and the changes in their net assets, statement of functional expenses, and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

The financial statements of Metanoia as of June 30, 2017 were audited by other auditors whose report dated December 11, 2017, expressed an unmodified opinion on those statements.

*DCPAS, LLC dba Davis + Company CPAs*

Mount Pleasant, South Carolina

December 20, 2018

**METANOIA**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
<b>Assets</b>		
Current Assets		
Cash	\$ 158,809	\$ 49,590
Grant receivables	180,678	185,315
OOB cost receivables	44,564	24,354
Prepaid expenses	31,859	35,207
Construction in progress	392,091	471,389
Assets limited as to use		
Cash, restricted	814,103	844,839
Cash, board designated	105,471	90,347
Cash held on behalf of others	6,369	7,078
Current portion of note receivable	124,191	121,734
Total Current Assets	<u>1,858,135</u>	<u>1,829,853</u>
Property and Equipment, net	<u>2,436,651</u>	<u>1,709,652</u>
Other Assets		
Deposits	54,500	90,215
Lot inventory	851,944	493,239
Note receivable, net	190,976	315,167
Total Other Assets	<u>1,097,420</u>	<u>898,621</u>
<b>Total Assets</b>	<b>\$ <u>5,392,206</u></b>	<b>\$ <u>4,438,126</u></b>
<b>Liabilities and Net Assets</b>		
Current Liabilities		
Accounts payable	\$ 187,583	\$ 89,596
Accrued payroll	29,942	20,723
Deferred revenue	258,960	347,468
Line of credit	92,534	52,000
Note payable, current	33,431	30,124
Total Current Liabilities	<u>602,450</u>	<u>539,911</u>
Long Term Liabilities		
Custodial funds	858,593	858,174
Note payable, long term	396,622	206,053
Total Long Term Liabilities	<u>1,255,215</u>	<u>1,064,227</u>
<b>Total Liabilities</b>	<b><u>1,857,665</u></b>	<b><u>1,604,138</u></b>
Net Assets		
Unrestricted	1,835,923	1,390,991
Temporarily restricted	1,698,618	1,442,997
<b>Total Net Assets</b>	<b><u>3,534,541</u></b>	<b><u>2,833,988</u></b>
<b>Total Liabilities and Net Assets</b>	<b>\$ <u>5,392,206</u></b>	<b>\$ <u>4,438,126</u></b>

See accompanying notes

**METANOIA**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Revenues and Other Support</b>			
Public Support:			
Contributions	\$ 424,536	\$ -	\$ 424,536
Contributions in-kind	125,616	-	125,616
Grant revenue	1,549,432	379,360	1,928,792
Special events, net of expense \$66,241	98,699	-	98,699
Total Public Support	<u>2,198,283</u>	<u>379,360</u>	<u>2,577,643</u>
Revenue			
Rental income	121,372	-	121,372
Interest income	15,095	-	15,095
Other income	43,566	-	43,566
Total Revenue	<u>180,033</u>	<u>-</u>	<u>180,033</u>
Net Assets Released from Restrictions	<u>123,739</u>	<u>(123,739)</u>	<u>-</u>
<b>Total Revenues and Other Support</b>	<b>2,502,055</b>	<b>255,621</b>	<b>2,757,676</b>
<b>Expenses</b>			
Program			
Housing	781,578	-	781,578
Youth	749,935	-	749,935
Other	252,555	-	252,555
	<u>1,784,068</u>	<u>-</u>	<u>1,784,068</u>
Support Service			
Management and general	113,059	-	113,059
Fundraising	159,996	-	159,996
Total Support Service	<u>273,055</u>	<u>-</u>	<u>273,055</u>
<b>Total Expenses</b>	<u>2,057,123</u>	<u>-</u>	<u>2,057,123</u>
<b>Change in Net Assets</b>	<b>444,932</b>	<b>255,621</b>	<b>700,553</b>
Net Assets at Beginning of Year	<u>1,390,991</u>	<u>1,442,997</u>	<u>2,833,988</u>
<b>Net Assets at End of Year</b>	<b>\$ <u>1,835,923</u></b>	<b>\$ <u>1,698,618</u></b>	<b>\$ <u>3,534,541</u></b>

See accompanying notes

**METANOIA**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Revenues and Other Support</b>			
Public Support:			
Contributions	\$ 195,794	\$ -	\$ 195,794
Contributions in-kind	139,720	-	139,720
Grant revenue	1,334,326	129,831	1,464,157
Special events, net of expense \$48,415	77,072	-	77,072
Total Public Support	<u>1,746,912</u>	<u>129,831</u>	<u>1,876,743</u>
Revenue:			
Rental income	125,994	-	125,994
Interest income	17,937	-	17,937
Other income	31,183	-	31,183
Total Revenue	<u>175,114</u>	<u>-</u>	<u>175,114</u>
Net Assets Released from Restrictions	<u>119,779</u>	<u>(119,779)</u>	<u>-</u>
<b>Total Revenues Other Support</b>	2,041,805	10,052	2,051,857
<b>Expenses</b>			
Program			
Housing	688,418	-	688,418
Youth	686,054	-	686,054
Other	131,117	-	131,117
	<u>1,505,589</u>	<u>-</u>	<u>1,505,589</u>
Support Service			
Management and general	68,134	-	68,134
Fundraising	130,530	-	130,530
Total Support Service	<u>198,664</u>	<u>-</u>	<u>198,664</u>
<b>Total Expenses</b>	<u>1,704,253</u>	<u>-</u>	<u>1,704,253</u>
<b>Change in Net Assets</b>	337,552	10,052	347,604
Net Assets at Beginning of Year	<u>1,053,439</u>	<u>1,432,945</u>	<u>2,486,384</u>
<b>Net Assets at End of Year</b>	<u>\$ 1,390,991</u>	<u>\$ 1,442,997</u>	<u>\$ 2,833,988</u>

See accompanying notes

**METANOIA**  
**STATEMENT OF FUNCTIONAL EXPENSE**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Program</u>				<u>Support Service</u>		<u>Total Expenses</u>
	<u>Housing</u>	<u>Youth</u>	<u>Other</u>	<u>Total</u>	<u>Management and General</u>	<u>Fund-raising</u>	
Salaries	\$ 147,834	\$ 414,492	\$ 51,823	\$ 614,149	\$ 45,490	\$ 120,414	\$ 780,053
Payroll taxes	11,078	31,887	3,952	46,917	3,337	9,312	59,566
Employee benefits	1,645	2,576	865	5,086	241	722	6,049
Retirement benefits	7,686	14,317	2,856	24,859	2,587	5,566	33,012
Total Salaries and Benefits	<u>168,243</u>	<u>463,272</u>	<u>59,496</u>	<u>691,011</u>	<u>51,655</u>	<u>136,014</u>	<u>878,680</u>
OOR expense	159,976	-	-	159,976	-	-	159,976
Emergency repairs	165,650	-	-	165,650	-	-	165,650
Professional fees	13,817	80,654	107,110	201,581	458	2,628	204,667
Occupancy	29,102	50,022	4,391	83,515	-	3,705	87,220
Property maintenance expenses	61,312	13,275	13,825	88,412	701	425	89,538
Program cost	13,428	16,093	12,410	41,931	-	90	42,021
Education	1,519	83,404	3,899	88,822	6,352	2,325	97,499
Insurance	35,008	8,941	5,885	49,834	3,493	603	53,930
Travel meals and entertainment	3,502	15,013	9,235	27,750	2,022	4,355	34,127
Office supplies	5,012	6,383	8,885	20,280	3,395	4,425	28,100
Dues	2,416	7,854	24,861	35,131	362	2,964	38,457
Interest	15,080	-	-	15,080	-	-	15,080
Miscellaneous	7,956	30,784	2,647	41,387	169	-	41,556
Advertising	579	-	674	1,253	-	180	1,433
Commissions paid	10,030	-	-	10,030	-	-	10,030
Telephone	706	4,531	960	6,197	892	817	7,906
Property taxes	19,269	-	343	19,612	-	-	19,612
Postage and shipping	538	24	144	706	108	1,465	2,279
Total Expenses Before Depreciation	<u>713,143</u>	<u>780,250</u>	<u>254,765</u>	<u>1,748,158</u>	<u>69,607</u>	<u>159,996</u>	<u>1,977,761</u>
Depreciation	<u>70,645</u>	<u>-</u>	<u>-</u>	<u>70,645</u>	<u>8,716</u>	<u>-</u>	<u>79,361</u>
Total Expenses	<u>\$ 783,788</u>	<u>\$ 780,250</u>	<u>\$ 254,765</u>	<u>\$ 1,818,803</u>	<u>\$ 78,323</u>	<u>\$ 159,996</u>	<u>\$ 2,057,122</u>

See accompanying notes





**METANOIA**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in net assets	\$ 700,553	\$ 347,604
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	79,361	58,977
(Increase) Decrease in:		
Grant receivables	4,637	12,340
OOR cost receivable	(20,210)	(2,731)
Prepaid expenses	3,348	(2,727)
Construction in progress	233,816	(438,288)
Deposits	35,715	(48,961)
Increase (Decrease) in:		
Accounts payable	97,987	(26,219)
Accrued payroll	9,219	(2,056)
Custodial funds	419	856,897
Deferred revenue	(88,508)	116,052
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>1,056,337</u>	<u>870,888</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of lots held for development	(513,223)	(402,291)
Purchase of property and equipment	(806,359)	(125,756)
Note receivable loan payments received	121,734	119,308
<b>NET CASH (USED) BY INVESTING ACTIVITIES</b>	<u>(1,197,848)</u>	<u>(408,739)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Draw on line of credit	270,624	77,000
Principal payments on line of credit	-	(25,000)
Principal payments on note payable	(36,215)	(30,124)
<b>NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES</b>	<u>234,409</u>	<u>21,876</u>
<b>INCREASE IN CASH AND EQUIVALENTS</b>	92,898	484,025
<b>CASH AND EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>991,854</u>	<u>507,829</u>
<b>CASH AND EQUIVALENTS AT END OF YEAR</b>	<u>\$ 1,084,752</u>	<u>\$ 991,854</u>
Cash	\$ 158,809	\$ 49,590
Cash - restricted	814,103	844,839
Cash - board designated	105,471	90,347
Cash - cash held on behalf of others	6,369	7,078
	<u>\$ 1,084,752</u>	<u>\$ 991,854</u>
<b>SUPPLEMENTAL DISCLOSURES</b>		
Noncash investing and financing activities:		
Assets donated for use	\$ 55,000	\$ 91,100
Interest paid	\$ 15,080	\$ 7,943

See accompanying notes

**METANOIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**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 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 below 80% of the Charleston County area median income.

Metanoia also 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 several small businesses which are housed in Metanoia's Youth Entrepreneurship Center (a renovated commercial building in the neighborhood we serve), and Metanoia is also incubating a minority owned restaurant within our youth entrepreneurship and volunteer 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, 2018 AND 2017**

**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 successfully organizing the community to have speed limits reduced, to get a new public elementary school built in the community, and to get a \$4 million mitigation agreement from a new rail facility being constructed adjacent to the communities we serve. 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, 2018 AND 2017**

**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, 2018 and 2017.

**Grants receivable**

The grants receivable represents 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, 2018 AND 2017**

**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.

**Deposits**

Deposits include earnest money paid as a deposit with the intention to purchase property.

**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 time 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, 2018 and 2017.

**Advertising**

Cost of promotions and advertising are expensed as incurred. Advertising and promotion expenses total \$1,433 and \$464 for the years ended June 30, 2018 and 2017, 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, 2018 AND 2017**

**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. Metanoia currently has no unrelated business income. Accordingly, no provision for income taxes has been recorded. Metanoia is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

**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 years ended June 30, 2018 and 2017 is restricted cash of \$814,103 and \$844,839, which represents the following funds held by Metanoia:

	2018	2017
HOME revolving funds	\$ 11,171	\$ 8,103
Neighborhood stabilization funds	3,757	1,005
Housing development	474,920	641,537
CED loan repayment + interest	324,255	194,194
Total restricted cash	<u>\$ 814,103</u>	<u>\$ 844,839</u>

Additionally, the Board has designated \$105,471 and \$90,347 for savings for the years ending June 30, 2018 and 2017, respectively. There is an additional \$6,369 and \$7,078 of cash that is held for student savings accounts on behalf of others for the years ending June 30, 2018 and 2017, respectively.

**METANOIA**  
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**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, 2018 and 2017 was \$180,678 and \$185,315, 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, if 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, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Mortgage and note receivable at face value	\$ 428,081	\$ 564,237
Less: unamortized discount	<u>(112,914)</u>	<u>(127,336)</u>
Total	<u>\$ 315,167</u>	<u>\$ 436,901</u>

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

2019	\$ 138,612
2020	141,119
2021	78,699
2022	14,421
2023	<u>55,230</u>
Total	<u>\$ 428,081</u>



**METANOIA**  
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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, 2018. 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>2018</u>	<u>2017</u>
2019B Reynolds	\$ 55,659	\$ 6,664
2019 Reynolds	181,914	-
1914 Carlton	70,480	-
1913 Baxter	84,038	-
1910 Norwood	-	121,905
1912 Norwood	-	112,700
1914 Redwood St.	-	202,542
	<u>\$ 392,091</u>	<u>\$ 443,811</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, 2018 and 2017 were zero.

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**METANOIA**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE G - LOT INVENTORY**

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

	<u>2018</u>	<u>2017</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	10,775	10,728
1927 Quitman Street	13,710	13,710
1929 Quitman Street	13,710	13,710
1914 Carlton	-	15,600
1913 Baxter	-	16,500
1925 Baxter	25,646	15,458
1909 Grayson St	51,496	31,198
1908 Grayson	19,779	13,359
1907 Grayson	21,275	16,403
3211 Chicora	20,355	16,348
1908 Leland	22,778	16,502
1910 Leland	39,322	27,825
3309 Proctor	19,621	13,208
3307 Proctor	30,764	20,491
2038 Arbutus	13,715	13,215
2040 Arbutus	13,715	13,215
2018 Success St	52,790	35,619
2020 Success	54,437	35,586
2146 Garfield	17,886	10,584
3308 Kraft	25,711	25,711
3310 Kraft	46,240	25,211
3312 Kraft	41,527	24,160
2018 Hugo St	40,417	14,058
1906 Redwood	14,058	-
Old Chicora-Office/Rental	21,488	-
1912 Grayson	18,401	-
1914 Grayson	19,448	-
2016 Comstock	17,798	-
2015 Beech	10,000	-
2134 Misroon	6,090	-
1904 Redwood	10,191	-
2222 Suffolk	57,721	-
2134 Misroon	13,218	-
1915 Baxter	13,022	-
	<u>\$ 851,944</u>	<u>\$ 493,239</u>

**METANOIA**  
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**NOTE H - PROPERTY AND EQUIPMENT**

Acquisitions of property and equipment greater than \$2,500 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 consist of the following at June 30:

	<u>2018</u>	<u>2017</u>
Operating property and equipment:		
Office equipment and library	\$ 122,843	\$ 117,092
Cafe equipment	50,437	49,725
Office leasehold improvements	73,397	64,897
Rentals leasehold improvements	33,632	31,482
Low income rentals property:		
Land	153,430	125,000
Rental homes	<u>2,295,349</u>	<u>1,545,652</u>
	2,729,088	1,933,848
Less accumulated depreciation	<u>(292,437)</u>	<u>(224,196)</u>
	<u>\$ 2,436,651</u>	<u>\$ 1,709,652</u>

Depreciation charged to operations in fiscal years ended June 30, 2018 and 2017 was \$79,361 and \$58,977, respectively.

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**METANOIA**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE I - NOTES PAYABLE AND LINES OF CREDIT**

Notes payable and lines of credit consists of the following as of June 30:

	2018	2017
Lowcountry Housing Trust Neighborhood Stabilization Program interest free loan, collateralized by 2600 Ferrara home. Payable over 13 years.	\$ 53,569	\$ 58,923
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.	14,981	29,961
Lowcountry Housing Trust line of credit up to \$175,000; draws are payable over 15 years including 5% fixed interest collateral includes 7 low income rental homes.	137,037	147,763
South State Bank issued two promissory notes for \$57,950 each including 4% interest rate. Interest only payments are made for the first 9 months followed by 50 payments of interest and principal of \$307.78 beginning April 5, 2017 with a balloon payment of \$52,052 due June 5, 2021 for each loan.	114,019	-
Line of Credit with TD Bank on a \$100,000 revolving	92,534	52,000
Line of Credit with Woodforest Bank on a \$225,000 revolving basis for 24 months with a final balloon payment of all principal and interest at 4.25% due January 5, 2020.	110,447	-
	522,587	288,647
Less current maturities	(125,965)	(30,124)
Total Long Term Debt	\$ 396,622	\$ 258,523

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

	2019	\$	125,965
	2020		129,798
	2021		123,871
	2022		17,916
	2023		97,366
	Thereafter		27,671
		\$	522,587

Interest expense charged in fiscal years ended June 30, 2018 and 2017 was \$15,080 and \$8,008, respectively.

**METANOIA**  
**NOTES TO FINANCIAL STATEMENTS**  
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**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>2018</u>	<u>2017</u>
House	\$ 55,000	\$ 91,100
Freedom school	20,000	-
Office space	48,000	48,000
	<u>\$ 123,000</u>	<u>\$ 139,100</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 fiscal years ending June 30, 2018 and 2017.

**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 \$179,726 and \$133,532 in uninsured cash balances as of June 30, 2018 and 2017. Metanoia places funds in a money market account held with a brokerage firm that is insured by the Securities Investor Protection Corporation up to \$500,000. Metanoia had \$0 and \$110,648 in uninsured money market funds as of June 30, 2018 and 2017.

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.

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**METANOIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**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	2018			
	Beginning Balance	Contributions	Transfers/ Distributions	Ending Balance
Youth program	\$ 3,753	\$ -	(1,610)	2,143
HOME acquisition fund, net	231,947	-	-	231,947
HOME construction fund, net	440,606	-	-	440,606
CED grant	630,941	129,360	(121,734)	638,567
Owner occupied repair program	395	-	(395)	-
Neighborhood stabilization fund	135,355	-	-	135,355
Housing development	-	250,000	-	250,000
Total	\$ 1,442,997	\$ 379,360	(123,739)	1,698,618

Restricted Purpose	2017			
	Beginning Balance	Contributions	Transfers/ Distributions	Ending Balance
Youth program	\$ 3,753	\$ -	-	\$ 3,753
HOME acquisition fund, net	231,947	-	-	231,947
HOME construction fund, net	440,606	-	-	440,606
CED grant	620,889	129,361	(119,309)	630,941
Owner occupied repair program	395	470	(470)	395
Neighborhood stabilization fund	135,355	-	-	135,355
Total	\$ 1,432,945	\$ 129,831	\$ (119,779)	\$ 1,442,997

**NOTE N - ENDOWMENT**

Metanoia established a permanent endowment fund. This fund is held and managed by the Coastal Community Foundation and is excluded from the financial statements of Metanoia as a result of the Coastal Community Foundation's variance power over the funds. The primary purpose of this fund is to provide income to Metanoia in support of its mission. Disbursements are based on 4% of the fund's average market value over the previous twenty quarters. During the fiscal year ended June 30, 2018 there were no disbursements. Metanoia and the Coastal Community Foundation intend for this fund to be available to receive additional property from Metanoia and other donors; the Coastal Community Foundation determines annual distributions. The balance of the fund at June 30, 2018 was \$77,289.

**NOTE O - 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 fiscal years ended June 30, 2018 and 2017, no second mortgages were paid off early. See Note D - Mortgage Receivables.

**METANOIA**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE P - CUSTODIAL FUNDS**

Metanoia entered a memorandum of understanding with the Lowcountry Alliance for Model Communities (LAMC) on October 21, 2016. Under this agreement the City of North Charleston transferred \$860,000 to Metanoia and the funds are required to be segregated in a separate cash account, see Note B - Restricted Cash; these funds are to be spent according to the agreement. Metanoia will work with targeted communities in North Charleston to identify potential projects for new and renovated housing. Metanoia will develop as many homeownership units as the current market for such can hold. The money transferred to a revolving account for short term (36 months per project) acquisition and construction financing of identified properties. After 36 months or once that project is complete, whichever is sooner, Metanoia will find long term financing for these properties. No more than 10% of a unit's financing from the funds outlined in the MOU may be left in an individual unit for long term financing. All homeowners who utilize this grant must have household incomes at or below 120% of AMI adjusted for family size. Housing projects under this agreement will operate within the scope of the Community Master Plan facilitated by the LAMC and adopted by the City of North Charleston.

**NOTE Q - SUBSEQUENT EVENTS**

Management has evaluated subsequent events through 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.