Lighthouse MI

Consolidated Financial Statements
June 30, 2020

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LIGHTHOUSE MI

June 30, 2020

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Independent Auditors' Report

Board of Directors
Lighthouse MI

We have audited the accompanying consolidated financial statements of Lighthouse MI (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements (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.

Auditor's 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 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 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lighthouse MI as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Standard

As discussed in Note 2 to the financial statements, Lighthouse MI adopted Accounting Standards Codification 606, *Revenue from Contracts with Customers*. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2021, on our consideration of Lighthouse MI'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 effectiveness of Lighthouse MI's 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 Lighthouse MI's internal control over financial reporting and compliance.

Cohen & Company Ltd.

Detroit, Michigan
January 19, 2021

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2020

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	$ 2,922,789
Grants, contracts, and other receivables	600,022
Developer fee receivable	191,000
Prepaid expenses	32,412
	3,746,223
PROPERTY AND EQUIPMENT - NET	3,103,842
INVESTMENTS	
Investments, including endowments	3,336,901
Beneficial interest - Foundation assets	10,950
Investment in limited liability companies	197,700
	3,545,551
OTHER ASSETS	
Developer fee receivable - Long-term (net of discount of $25,215)	133,410
Property held for sale	151,700
Rental units - Net	889,592
	1,174,702
	$ 11,570,318

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable	$ 152,978
Accrued liabilities	259,409
Notes payable - Current portion	282,091
	694,478
LONG-TERM LIABILITIES	
Forgivable HUD loan	100,000
Notes payable - Net	605,930
	1,400,408
NET ASSETS	
Without donor restrictions	8,598,535
With donor restrictions	1,571,375
	10,169,910
	$ 11,570,318

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
PUBLIC SUPPORT, REVENUE, AND OTHER INCOME			
Government grants	$ 2,039,900		$ 2,039,900
Contributions			
General	1,865,974		1,865,974
Foundations and community trusts	1,420,163	$ 105,035	1,525,198
Donated goods and services	1,830,624		1,830,624
Rental income			
Rental units - Section 8	85,183		85,183
Non-operating	120,784		120,784
Program fees	223,908		223,908
Events revenue	540,877		540,877
Investment return - Net	55,970	32,331	88,301
Change in beneficial interest		(27,247)	(27,247)
Miscellaneous income	110,028		110,028
Developer fee	274,410		274,410
Net assets released from restrictions	124,782	(124,782)	
	8,692,603	(14,663)	8,677,940
EXPENSES			
Program services	5,327,267		5,327,267
Management and general	640,656		640,656
Fundraising	1,216,176		1,216,176
	7,184,099		7,184,099
OPERATING INCOME	1,508,504	(14,663)	1,493,841
ACQUISITION CONTRIBUTION	5,587,981	1,547,841	7,135,822
CHANGE IN NET ASSETS	7,096,485	1,533,178	8,629,663
NET ASSETS - BEGINNING OF YEAR	1,502,050	38,197	1,540,247
NET ASSETS - END OF YEAR	$ 8,598,535	$ 1,571,375	$ 10,169,910

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2020

	Program Services					
	Emergency Services	Stability Services	Housing and Community Development	Management and General	Fundraising	Total
Client needs	$ 1,507,757	$ 220,273				$ 1,728,030
Client housing aid	544,741	578,262				1,123,003
Home rehabilitation and construction			$ 21,110			21,110
Other	50,116	1,635			$ 77,179	128,930
Donated services				$ 105,725	405,338	511,063
Salaries	949,971	509,080	19,636	137,515	320,305	1,936,507
Payroll taxes and fringe benefits	149,447	100,239	3,700	115,324	58,923	427,633
Professional fees	63,744	28,416	716	23,855	127,994	244,725
Accounting and auditing	86,227	53,173	4,311	30,795	30,795	205,301
Travel and meeting expense	5,087	15,553		20,931	2,901	44,472
Supplies	3,872	2,523		9,045	1,262	16,702
Printing and publication				385	148,678	149,063
Volunteer/donor appreciation				1,193	377	1,570
Utilities	41,577	2,123		35,658		79,358
Facility maintenance	55,769	38,743	4,384	25,041	3,432	127,369
Insurance	9,057	16,340	7,235	33,527		66,159
Licenses and permits	399	1,862			150	2,411
Lease expense	19,996	13,893	1,570	13,529	7,570	56,558
Telephone and internet	18,534	15,816	587	19,565		54,502
Dues and subscriptions	1,289	2,750		1,946	3,510	9,495
Payroll processing	8,591	4,558	175	1,227	2,980	17,531
Office expense				4,784		4,784
Interest			27,954			27,954
Investment and bank fees				36,081	252	36,333
Total expenses before depreciation	3,516,174	1,605,239	91,378	616,126	1,191,646	7,020,563
Depreciation	57,605	27,147	29,724	24,530	24,530	163,536
	$ 3,573,779	$ 1,632,386	$ 121,102	$ 640,656	$ 1,216,176	$ 7,184,099

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2020

CASH FLOW PROVIDED FROM OPERATING ACTIVITIES	
Change in net assets	$ 8,629,663
Noncash items included in operations:	
Depreciation	163,536
Realized and unrealized gains on investments	(5,223)
Acquisition contribution	(7,135,822)
Change in beneficial interest	27,247
Increase (decrease) in cash caused by changes in current items:	
Grants, contracts, and other receivables	(213,973)
Developer fee receivable	(274,410)
Prepaid expenses	61,011
Other assets	8,810
Accounts payable and accrued liabilities	96,261
Net cash flow provided from operations	1,357,100
CASH FLOW PROVIDED FROM INVESTING ACTIVITIES	
Purchases of property and equipment	(29,274)
Investment in limited liability company	(56,185)
Purchases of investments and reinvested earnings	(790,872)
Proceeds from sales of investments	815,593
Cash acquired in acquisition	826,954
	766,216
CASH FLOW PROVIDED FROM FINANCING ACTIVITIES	
Proceeds from long-term debt	398,000
Repayments of long-term debt	(114,218)
	283,782
INCREASE IN CASH AND CASH EQUIVALENTS	2,407,098
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	515,691
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 2,922,789
SUPPLEMENTAL FINANCIAL INFORMATION	
Interest paid	$ 18,106
NONCASH INVESTING ACTIVITIES	
Assets and liabilities acquired in acquisition of not-for-profit entity:	
Current assets	$ 216,172
Property and equipment	2,776,587
Operating and endowment investments	3,126,091
Other noncurrent assets	1,070,700
Current liabilities	(274,452)
Long-term debt	(506,230)
Total noncash acquisition	$ 6,408,868

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF ENTITY

Business Combination

On July 1, 2019, South Oakland Shelter (SOS) acquired Lighthouse of Oakland County, Inc. (LOC), in accordance with an Acquisition Plan and Agreement (the Agreement). In accordance with accounting principles generally accepted in the United States (GAAP) the terms of the Agreement, the composition of each entity's management, composition of the new board of directors, as well as the respective assets and liabilities of each entity were considered in determining that the transaction was an acquisition, with SOS being the acquirer. Under GAAP, the assets acquired, and liabilities assumed as a result of the acquisition were recorded at their fair values as of July 1, 2019. Because the fair value of the acquired assets exceeded the fair value of liabilities assumed, the difference was recorded as an inherent contribution in the accompanying statement of activities in the amount of $7,135,822. No consideration was transferred in conjunction with the acquisition (see Note 3).

In connection with the transaction, SOS changed its name to "Lighthouse MI", and Lighthouse of Oakland County changed its legal structure from a non-stock directorship not-for-profit to become a non-stock membership not-for-profit, with SOS (Lighthouse MI) as the sole member.

SOS and LOC established the Agreement in order to increase effectiveness and better serve the needs of their respective clients and communities.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Lighthouse MI (Lighthouse, formerly known as SOS), and its wholly owned subsidiaries LOC and Spero Housing Group (Spero) (collectively "the Organization"). SOS originally formed Spero for the purpose of developing and operating affordable and supportive housing. Spero has partnered with an unrelated non-profit entity to form Coolidge Place Limited Dividend Housing Association (Coolidge Place LDHA). Spero is a limited partner of Coolidge Place LDHA. The general partner of Coolidge Place LDHA is Spero Coolidge Place, Inc., which is 100% owned by Spero.

All significant intercompany transactions have been eliminated in consolidation.

Nature of Operations

South Oakland Shelter (dba and hereafter referred to as Lighthouse MI, Lighthouse, or the Organization) is a 501(c)(3) non-profit social service agency located in Oakland County, Michigan. Established in 2019 when South Oakland Shelter and Lighthouse of Oakland County merged, Lighthouse has a combined history of 81 years of strengthening the local community in Oakland County, Michigan and serving people experiencing crisis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS (Continued)

Nature of Operations (continued)

Lighthouse serves men, women, and children living in poverty and at-risk of, experiencing, or recovering from homelessness. This includes people experiencing homelessness for the first time as well as those experiencing chronic homelessness and families escaping domestic violence. Many of the people served are living with a disability, including substance abuse and/or mental health conditions. Others are housed but are rent burdened and struggle from food and economic insecurities. With offices and residential properties in Lathrup Village, Pontiac, Oak Park and Clarkston, 65% of households served reside in Pontiac with the top three cities served being Pontiac, Waterford, and Clarkston. Lighthouse addresses the immediate, emergency needs of community members by quickly providing access to flexible, client-centered, and housing-first programming, and focuses on long-term systems change and affordable housing development.

Lighthouse's mission is to build equitable communities and alleviate poverty in partnership with and in service to individuals, families, and organizations.

Lighthouse's vision is to alleviate poverty through implementing adaptive programming and building meaningful and impactful relationships with the people served, community partners, and the community at large. Lighthouse's vision reflects a relentless pursuit of its values and mission and leverages its skills, assets, and resources to create long-lasting impact on the people and community we serve.

Nature of Program Services

Emergency Services

These program services include partnering with congregations throughout Oakland County to provide year-round emergency shelter; the operation of two food pantries in Pontiac and Clarkston; assisting households experiencing homelessness with obtaining safe and affordable housing through financial assistance for application fees, security deposits and short to medium rentals, among others; assistance with paying past due utilities and preventing disconnection; food delivery and help with special needs for senior citizens; and providing funds for day to day needs such as bus tickets, minor car repairs, household supplies, personal care items and infant care.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS (Continued)

Nature of Program Service (continued)

Stability Program

Lighthouse's Stability programs provide long-term services to households in need to help restabilize within their newly secured homes. Services include providing a two-year transitional housing program to homeless mothers with children. Lighthouse's transitional housing programs provide a safe and structured environment; intensive case management services; individual and group counseling focused around issues such as domestic violence, substance abuse, depression, and anxiety; and "Empowerment and Life Skill" classes to help improve financial literacy, better equip mothers essential parenting tools, and support their employment and educational goals. Stability programs also include providing permanent supportive housing to households experiencing chronic homelessness, often due to substance abuse and or mental illness, by combining long-term housing with intensive case management. Long-term housing activities also involve employment and financial coaching and income support. Households who successfully exit our transitional or permanent supportive housing programs are provided an additional one year of in-home case management services through Lighthouse's follow-up care program.

Housing and Community Development

These activities focus on affordable housing development. Part of Lighthouse's long-term impact strategy is to create systems-change largely by addressing affordable housing gaps throughout Oakland County. A chartered NeighborWorks America organization, Lighthouse's growing work in this area currently includes developing affordable and supportive housing, managing a portfolio of single- and multi-family housing, and partnering with a variety of organizations and businesses in Pontiac and within the region around community and economic development initiatives.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Estimates

Management uses estimates and assumptions in preparing its consolidated financial statements in accordance with GAAP. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Actual results could vary from the estimates that were used to prepare the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition and Adoption of New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued guidance (Accounting Standards Codification [ASC] 606, *Revenue from Contracts with Customers*) which provides a five-step analysis of contracts to determine when and how revenue from contracts is recognized and replaces most existing revenue guidance in GAAP. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. ASC 606 is effective for annual reporting periods beginning after December 15, 2018, however the FASB issued Accounting Standards Update (ASU) 2020-05 in June 2020, which deferred the effective date to annual reporting periods beginning after December 15, 2019, for certain entities that had not yet issued financial statements reflecting the adoption of ASC 606 upon issuance of the ASU. The Organization has adopted the provisions of ASC 606 using the modified retrospective approach with any cumulative catch-up adjustment being recorded as of July 1, 2019. The adoption of ASC 606 did not have a material impact on the Organization's consolidated financial statements, although the financial statement presentation and disclosures have changed. See Note 12 for further discussion regarding the transition method.

Concurrent with the adoption of ASC 606, the Organization has elected to apply certain practical expedients with respect to disclosure requirements.

The Organization's principal revenue streams under ASC 606 are as follows:

Events revenue - Events revenue includes amounts received from customers to sponsor special events, fundraise for special events, and attend special events. Events revenue typically includes an exchange and contribution portion. The exchange portion is considered to represent a single performance obligation of executing the special event and allowing customers to attend the special event and is recognized at a point in time once the special event has concluded.

Developer fee revenue - Developer fee revenue represents fees earned to co-develop Coolidge Place LDHA, a low-income housing tax credit project, by negotiating and assisting in the planning of construction, establishing and implementing appropriate administrative and financial controls, obtaining and maintaining insurance coverage, inspecting the progress of construction, and assembling and maintaining all documents related to the Coolidge Place LDHA project. All such contractual promises are considered to be inputs to achieve a single performance obligation, namely, timely completion of the project. The performance obligation is recognized over time, using the percentage-of-completion of the project as an output measurement to recognize revenue. The developer fee is considered to have a financing component and has been discounted to reflect the expected long-term collection period provided for in the development agreement.

Total revenue recognized under ASC 606 amounted to $278,454, for the year ended June 30, 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition and Adoption of New Accounting Pronouncements (continued)

The Organization has also adopted ASU No. 2018-08 *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958),* which is effective for annual periods beginning after December 15, 2018, for resource recipients. The ASU provides a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction. The ASU clarifies how a not-for-profit organization determines whether a resource provider is participating in an exchange transaction. ASU 2018-08 defines a contribution as "an unconditional transfer of cash or other assets, as well as unconditional promises to give, to an entity, or a reduction, settlement, or cancellation of its liabilities in a voluntary nonreciprocal transfer by another entity acting other than as an owner." Thus, the transfer of assets or settlement of liabilities must be both voluntary and nonreciprocal to be a contribution. These characteristics distinguish contributions from exchange transactions, which are reciprocal transfers in which each party receives and sacrifices approximate commensurate value. Contributions are accounted for within the scope of ASC 958, while exchange transactions are recognized as revenue under ASC 606 when performance obligations are satisfied.

The Organization adopted ASU 2018-08 on a modified prospective basis. Under the modified prospective basis, the Organization applied ASU 2018-08 to contracts that were not completed as of July 1, 2019, and entered into after July 1, 2019. Prior-period financial information was not restated.

The Organization recognizes contributions when cash, securities, or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give - that is, those with measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met.

A portion of the Organization's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position. The Organization did not receive any amounts prior to incurring qualifying expenditures as of June 30, 2020. The Organization received cost-reimbursable grants of $552,199 that have not been recognized at June 30, 2020, because qualifying expenditures have not yet been incurred. Grantors may, at their discretion, request reimbursement for unallowed expenses as a result of noncompliance by the Organization with the terms of the grant. On certain grants, if advances exceed eligible costs, the funds must be returned to the grantor. No funds were required to be returned during June 30, 2020.

A portion of the Organization's revenue is derived from unit of service grants in which the amount to be paid by the grantor is determined by a formula based on units of service provided by the Organization. A maximum amount to be paid over the course of the grant is specified within the grant contract. Units-of-service grants are recognized as revenue and receivables as the services are rendered using the agreed upon rate per unit that are billed in compliance with specific contract or grant provisions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition and Adoption of New Accounting Pronouncements (continued)

All donor-restricted support that was initially a conditional contribution and for which the donor-imposed conditions and restrictions are met in the same reporting period are reported as increases in net assets without donor restrictions. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Endowment contributions and related investments are restricted by the donor and recorded in net assets with donor restrictions. Investment earnings are recorded in net assets with donor restrictions and are released from restrictions when those amounts are appropriated for expenditure by the Organization.

Rental Income

The Organization receives rental income from leasing a portion of its corporate facilities, and from its U.S. Housing and Urban Development (HUD) Section 8 rental properties. Rental income is recognized on a monthly basis for the rent due for that month. Rents received in advance of the month to which they relate are reported as deferred income in the statement of financial position.

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments, except those held in the Organization’s investment and endowment accounts, purchased with an original maturity of three months or less.

From time to time throughout the year, the Organization’s cash balances in bank accounts may exceed the limits of related federal deposit insurance.

Developer Fee Receivable

The developer fee receivable is due under the related development agreement for Coolidge Place LDHA. Under the agreement, the fee is to be paid from project cash flow, and if not paid, is to be converted to equity upon expiration of the tax credit period. The receivable has been reduced to its estimated present value to reflect the expected long-term collection period using a discount rate of 5.00%. The Organization expects to collect portions of the developer fee each year subsequent to June 30, 2020, through June 30, 2027.

Grants, Contracts, and Other Receivables

Grants, contracts, and other receivables include amounts due from grants, program service fees, and contributions. These amounts are due under various payment terms and do not accrue interest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants, Contracts, and Other Receivables (continued)

The carrying amount of receivables is reduced by a valuation allowance that reflects management's best estimate of the amounts that will not be collected. Management individually reviews all receivable balances and estimates the portion, if any, of the balance that will not be collected. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to receivables. Management has determined that no valuation allowance was needed as of June 30, 2020.

Property and Equipment and Rental Units

Property and equipment purchased are recorded at cost. Donated property and equipment are recorded at fair value at the date of donation. The Organization capitalizes all individual expenditures, or for multiple units of the same asset, for property and equipment in excess of $5,000. Routine maintenance and repairs are charged to expense as incurred. Property and equipment acquired through the business combination (see Note 3) have been recorded at their fair values.

Depreciation of property and equipment is provided using the straight-line method over the estimated useful lives of the assets as follows:

Land improvements	3 - 21 years
Buildings	7 - 39 years
Equipment	3 - 21 years
Vehicles	3 years

As of June 30, 2020, the Organization's rental units have a carrying value of $705,792, consisting of their aggregate fair value as of July 1, 2019, of $735,250 and accumulated depreciation of $29,408.

Management reviews these assets for impairment whenever events or changes in circumstances indicate that carrying values may not be recoverable.

Operating and Endowment Investments

Operating and endowment investments are carried at fair value and consist of marketable equity and debt securities. Realized and unrealized gains or losses are reflected in the accompanying statement of activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment in Limited Liability Companies

The Organization is the managing member (the Non-Profit Managing Member) of Whittemore Street, L.L.C., (Whittemore LLC) a Michigan limited liability company, organized to acquire, construct, own, and operate the Whittemore Street apartments, a low income housing tax credit project (the Project). Whittemore LLC allocates income, losses, and credits to its members in accordance with their capital accounts. Lighthouse receives 0.0048% of all income or loss not arising from a sale or refinancing and LOC made an initial capital contribution of $700,000. A grant of $600,000 was used by LOC to substantially fund that investment. There have been other subsequent capital contributions in accordance with the agreement with the other members to fund Whittemore LLC's cash flow shortages.

The Organization oversees the property management function for the Project and is entitled to fees in accordance with the operating agreement. The Organization also has the right to assume the duties of Whittemore LLC's for-profit member at the "Transition Date" and has certain rights to purchase the Project as outlined in the operating agreement. Per the agreement between the members, the initial debt of approximately $235,000 and any accrued interest remaining unpaid, net of any outside funding obtained to directly pay these amounts, was due on December 31, 2013, and was assumed equally by LOC and another member. During 2014, LOC issued a note payable for $140,345 to this member for its share of the debt to be assumed and has recorded accrued interest of approximately $59,000 associated with this debt as of June 30, 2020. See Note 8.

The investment in Whittemore LLC was accounted for at fair value at July 1, 2019, and subsequently using the cost method due to Whittemore LLC being a limited liability company and the Organization's de minimus .0048% membership interest. The investment was recorded at $0 based on fair value at July 1, 2019. During the year ended June 30, 2020, an additional contribution into the Whittemore LLC of $56,185 was made by the Organization, and this amount is reflected in the statement of financial position. Management reviews this investment for impairment whenever events and circumstances indicate the carrying value may not be recoverable. Under GAAP, if a cost method investment is deemed by management to be other-than-temporarily impaired, it is written down to its estimated fair value, which becomes the new carrying value, with subsequent recoveries in fair value, if any, not recognized. Because of provisions in the operating agreement which provide that the Organization will receive certain proceeds upon a sale or refinancing of the property, management does not believe any impairment exists.

In addition, the Organization through its wholly owned subsidiary, Beacon Housing I, Inc., is a general partner of Beacon Housing Limited Partnership, which was organized to acquire, construct, own, and operate the Beacon Square apartments, a low-income housing tax credit project. There is also a limited partner that is unrelated to the Organization. The investment was accounted for its at fair value as of July 1, 2019, and since the Organization does not maintain control of the partnership as the limited partner possesses substantive participating rights, the investment is subsequently accounted for using the equity method. Because Beacon Housing I, Inc.'s general partnership percentage is .01%, the application of the equity method results in an immaterial amount, and thus no amounts are reflected in the accompanying consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment in Limited Liability Companies (continued)

Additionally, the Organization, through its wholly owned subsidiary, Spero, is a general partner of Coolidge Place LDHA. The Organization, along with the managing general partner, also has the right to purchase the project at the end of a certain amount of time as outlined in the Partnership Agreement. Coolidge Place LDHA distributes its Net Cash Flow, as defined, to its partners in accordance with their capital accounts. The Organization receives 47% of Net Cash Flow and was required to make a nominal initial capital contribution.

There is a limited partner that has made, or is legally committed to make, over 99% of the capital contributions to Coolidge Place LDHA. The Amended and Restated Agreement of the Limited Partnership enumerates several limitations upon the authority of the general partners, and as such, the limited partner is deemed to hold substantive participating rights in Coolidge Place LDHA. Accordingly, Coolidge Place LDHA is not consolidated in the accompanying consolidated financial statements of the Organization and its investment in Coolidge Place LDHA is accounted for using the equity method.

Management reviews these investments for impairment whenever events or circumstances indicate that their carrying values may not be fully recoverable.

Beneficial Interest - Foundation Assets

During 2010, the Organization established a fund that is held and managed with the Community Foundation of Southeast Michigan (CFSEM) (an unrelated non-profit foundation) by engaging in a “reciprocal transfer” as defined by GAAP. A “reciprocal transfer” involves a resource provider (the Organization) contributing assets to a recipient entity (CFSEM) and designating itself as the beneficiary of those assets and any income generated therefrom. The Organization granted “variance power” to CFSEM, whereby CFSEM has the duty and power to modify any restriction or condition on the distribution of the contributed funds if, in the judgment of CFSEM’s Board of Trustees, such restriction or condition becomes, in effect, unnecessary, incapable of fulfillment, or inconsistent with CFSEM’s charitable mission.

GAAP requires that the fair value of the reciprocal transfer, plus any undistributed earnings thereon, be included as an asset in the Organization’s statement of financial position. GAAP also requires that the original net asset classification of the underlying funds transferred be maintained. The fair value is adjusted annually based on the fair value of the fund, as reported by CFSEM.

Donated Services

The Organization recognizes the value of contributed services if the contributed service received creates or enhances non-financial assets or requires specialized skills (such as for professional services) that are provided by individuals possessing those skills, and would typically need to be purchased, if not provided by donation. The value of contributed services that do not meet these criteria is not recognized. The Organization has a significant number of non-specialized volunteers whose volunteer hours are an integral part of its mission. The value of such hours, however, is not recognized in the accompanying consolidated financial statements because the related services do not meet the requirements for recognition discussed above. Management has valued such non-recognized services at approximately $313,000 for the year ended June 30, 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Goods

Donated food is recorded as income and expense when the food is received, based on a value of $1.67 per pound, which approximates the average fair value of the food donated. Donated clothing and other goods are recorded as both income and expense on the date the donation is received and are valued at their estimated fair value. If fair value cannot be reasonably estimated, no value for the donated items is recorded. Donated food, clothing, and other goods that have not been distributed to the needy at year end are not recorded as donated inventory because management does not believe the value of such undistributed food, clothing, and other goods is material to the consolidated financial statements.

Functional Allocation of Expenses

The statements of activities and functional expenses report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy (facility) costs, which are allocated on a square footage basis, salaries and benefits, which are allocated on the basis of estimates of time and effort, and overhead costs, such as facility maintenance and depreciation, which are allocated based on budgeted revenue charged to each function. Supplies, mileage, travel, and training are charged on the basis of actual invoice costs.

Income Taxes

The Organization is a Michigan non-profit corporation exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

The Organization recognizes and discloses uncertain tax positions in accordance with GAAP. As of and for the years ended June 30, 2020, the Organization did not have a liability for unrecognized tax benefits.

Subsequent Events

Management has evaluated subsequent events through January 19, 2021, the date the consolidated financial statements were available to be issued.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. BUSINESS COMBINATION

The fair values of assets acquired, and liabilities assumed in connection with the business combination discussed in Note 1 are as follows at July 1, 2019:

Assets acquired:	
Cash and cash equivalents	$ 826,954
Grants, contracts, and other receivables	141,318
Prepaid expenses	74,854
Property and equipment	2,776,587
Property held for sale	151,700
Rental units	919,000
Operating and endowment investments	3,126,091
	8,016,504
Liabilities assumed:	
Accounts payable	52,947
Accrued liabilities	221,505
Forgivable HUD loan	100,000
Long-term debt	506,230
	880,682
Total identifiable net assets and acquisition contribution	$ 7,135,822

4. LIQUIDITY AND AVAILABILITY OF RESOURCES

The Organization’s financial assets are composed of the following approximate amounts:

Cash and cash equivalents	$ 2,923,000
Grants, contracts, and other receivables	600,000
Developer fee receivable	324,000
Operating and endowment investments	3,337,000
Total financial assets	$ 7,184,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. LIQUIDITY AND AVAILABILITY OF RESOURCES (Continued)

The below table reflects adjustment of the Organization's financial assets as of June 30, 2020, for approximate amounts not available for general expenditures within one year due to contractual or donor-imposed restrictions or internal designations.

Financial assets	$ 7,184,000
Less:	
Cash and investments subject to expenditure for specified purpose:	226,000
Endowments with donor restrictions:	
Principal portion (see Note 10)	1,140,000
Unspent income subject to appropriation (less $63,000 anticipated appropriation in fiscal year 2021)	134,000
Developer fee receivable not expected to be Collected in the next twelve months	133,000
Board designated endowment and capital reserve (less $46,000 anticipated appropriation in fiscal year 2021)	1,163,000
Financial assets available within one year to meet cash needs for general expenditures	$ 4,388,000

The Organization manages its liquidity by considering anticipated grant and contribution revenue against anticipated general expenses. As such, the Organization expects future grant and contribution revenue in the next twelve months to cover general expenditures. Additionally, the Organization maintains lines of credit with a bank (see Note 7) for the purposes of maintaining liquidity for general expenditures as necessary. The Organization also has board designated net assets. While the Organization does not intend to spend these board designated amounts for purposes other than those identified, the amounts could be made available for current operations if necessary.

5. PROPERTY AND EQUIPMENT – NET

Property and equipment – net consisted of the following assets at June 30, 2020:

Land and land improvements	$ 585,200
Buildings	2,766,959
Equipment	95,539
Vehicles	50,587
	3,498,285
Less: Accumulated depreciation	394,443
	$ 3,103,842

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. INVESTMENTS AND FAIR VALUE MEASUREMENT

The various inputs that may be used to determine the fair value of the Organization's assets are summarized in three broad levels:

Level 1 Quoted prices for identical assets or liabilities in active markets

Level 2 Other significant observable inputs (including quoted prices for similar securities, interest rates, credit risk, etc.)

Level 3 Significant unobservable inputs (including the Organization's own assumptions used to determine value)

Mutual funds and money market funds are valued at the daily closing price as reported by the fund. Mutual funds are open-end mutual funds that are registered with the U.S. Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds and money market funds are deemed to be actively traded.

Exchange traded funds are valued at the closing price reported on the active market on which the individual securities are traded.

The preceding methods described may produce a fair value calculation that may not be reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Assets measured at fair value on a recurring basis are comprised of the following investments at June 30, 2020:

	Level 1	Level 2	Level 3	Total
Investments, including endowments				
Mutual funds	$ 2,377,165			$ 2,377,165
Exchange traded funds	790,713			790,713
Money market funds	169,023			169,023
	$ 3,336,901	$	$	$ 3,336,901

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. INVESTMENTS AND FAIR VALUE MEASUREMENT (Continued)

Beneficial Interest - Foundation Assets

The beneficial interest is valued at net asset value (NAV) as a practical expedient in accordance with GAAP. The CFSEM invests funds in equities, fixed income, alternative, and other investments, and provides the Organization with the fair value of its share of the investment pool. CFSEM and its reporting of the NAV to the Organization meet the requirements for excluding the beneficial interest from the fair value hierarchy in accordance with GAAP. CFSEM has reported the fair value of these investments as $10,950 at June 30, 2020. As discussed in Note 2, due to the Organization granting variance power to CFSEM, the Organization may not redeem the investments, and may only receive distributions as determined by CFSEM.

7. LINES OF CREDIT

The Organization has two lines of credit with a bank that allow for borrowings up to $150,000 and $250,000, respectively. Borrowings on the lines, which are renewed annually, are due on demand. Borrowings under the lines of credit are secured by properties located at 46156 Woodward Avenue, Pontiac, Michigan and 130 Center Street, Pontiac, Michigan, respectively, and bear interest at the prime rate plus 0.25% (effective annual rate of 3.50% at June 30, 2020).

The Organization has an additional $100,000 line of credit with a bank. Borrowings are due on demand and bear interest at the prime rate plus 1% (effective annual rate of 4.25% at June 30, 2020). Borrowings are secured by property located at 130 Center Street, Pontiac, Michigan.

There were no outstanding borrowings on any of the lines at June 30, 2020.

8. NOTES PAYABLE

Notes payable consists of the following obligations at June 30, 2020:

Note payable to a bank; due in monthly installments of $4,512, including interest at 4.52% per annum, through July 2022 when the remaining unpaid principal balance is due; collateralized by real property. Cross-defaulted with all other debt.	$ 327,769
Note payable; due in quarterly installments of $4,000, plus interest at 6.00% per annum through December 2023. As of June 30, 2020, no interest or principal has been paid and unpaid interest is included with accrued liabilities. The note is unsecured.	140,345

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. NOTES PAYABLE (Continued)

*Paycheck Protection Program loan	398,000
Land contract; due in monthly installments of $3,182, plus interest at 5.00% per annum through January 2021. The note is collateralized by real property.	21,907
	888,021
Less: Current portion	282,091
	$ 605,930

* The Organization received proceeds from a bank of $398,000 as guaranteed by the Small Business Administration's Paycheck Protection Program. The Organization secured these funds in order to help keep its workforce employed during the COVID-19 pandemic. The loan can be 100% forgiven as long as the Organization meets specific criteria, as defined, for a period of up to twenty-four weeks following receipt of the loan proceeds. This includes maintaining a certain level of employee headcount and compensation during that time period as well as demonstrating that the money was used for payroll costs, rent, mortgage interest, or utilities. If the Organization does not apply for and receive loan forgiveness, the loan will be required to be repaid in monthly installments plus interest at 1.00%, beginning November 2020 through April 2022. Management expects the Organization to meet the criteria for forgiveness.

Future minimum principal payments of notes payable are scheduled as follows:

Year ending June 30,	
2021	$ 282,091
2022	569,603
2023	36,327
	$ 888,021

Total interest expense was $27,954 for the year ended June 30, 2020.

9. FORGIVABLE HUD LOAN

The Organization has a City of Pontiac development loan agreement dated July 28, 2011, issued by HUD as part of the HOME Investment Partnership Program for the purposes of increasing the supply of decent, safe, sanitary, and affordable housing for low income persons. This agreement has an affordability period of 15 years from inception, and requires the dwelling units acquired and rehabilitated using these funds be occupied by individuals at or below 80% of the area median income. The loan is non-interest bearing and is secured by the real estate acquired with the loan funds. At the conclusion of the 15 year affordability period, the loan principal will be forgiven by HUD, with no payments being required, as long as the terms of the agreement as described above have been met.

The forgivable nature of the loan, along with the zero percent interest rate, allowed the balance to be written down to $100,000 to reflect fair value at July 1, 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. NET ASSETS

Net assets with donor restrictions are restricted for the following purposes or periods as follows at June 30, 2020:

Subject to expenditure for specified purpose:	
Emergency services	$ 108,958
Restricted for future investment in HUD programs	117,311
	226,269
Endowments (see Note 11)	
Subject to Organization spending policy and appropriation	194,626
Principal portion	1,139,530
	1,334,156
Beneficial interest – Foundation assets	10,950
	$ 1,571,375

The Organization's net assets without donor restrictions consist of the following undesignated and Board designated amounts at June 30, 2020:

Board designated	
Operating reserve	$ 488,133
Board designated endowment	922,301
Capital reserve	286,373
	1,696,807
Undesignated	7,001,728
	$ 8,698,535

11. ENDOWMENTS

The Organization's endowment funds consist of funds with donor restrictions and board designated funds. The Board of Directors has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as net assets with donor restrictions not subject to appropriation or expenditure (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is classified as net assets with donor restrictions will be released from restrictions when those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by SPMIFA.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. ENDOWMENTS (Continued)

The endowment funds are managed according to the Organization's investment policy. That policy's objective is the preservation of capital and appreciation of principal on an inflation-adjusted basis, while supporting the Organization's activities. The objective is accomplished by utilizing a strategy of equities and fixed income investments within certain percentage ranges of assets held as approved by the investment committee of the Board.

The Organization considers the following factors in making a determination to appropriate or accumulate earnings on donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization

Return Objectives and Risk Parameters

The Organization has adopted investment policies for donor-restricted endowment assets to achieve a consistent total rate of return (income and reinvested funds) within reasonable and prudent levels of risk that will generate a sufficient income stream while preserving and enhancing the original principal of funds invested.

Strategies Employed for Achieving Objectives

The Organization's endowment investment strategy is to emphasize total return, that is, the aggregate return from capital appreciation and dividend and interest income. Specifically, the primary objective in the investment management for endowment assets shall be to preserve purchasing power after spending to achieve returns in excess of the rate of inflation plus spending over the investment horizon in order to preserve purchasing power of endowment assets. Risk control is an important element in the investment of endowment assets. The secondary objective is long-term growth of capital while avoiding excessive risk. Short-term volatility will be tolerated in as much as it is consistent with the volatility of a comparable market index. Allowable assets include cash equivalents, fixed income securities, equity securities, and mutual funds.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The spending policy provides enough flexibility to meet the shorter-term operating obligations and yet meet a long-term goal of yielding an absolute real rate of return of 4.5% above inflation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. ENDOWMENTS (Continued)

Community Foundation of Southeastern Michigan

The Organization is the beneficiary of an endowment fund (the Fund) established by third-party gifts at the CFSEM. As beneficiary, the Organization is entitled to an annual distribution of the Fund's earnings. However, assets in the Fund, which totaled approximately $1,896,000 at fair value at June 30, 2020, are excluded from the accompanying consolidated financial statements because the CFSEM has explicit variance power over such assets.

The funds are maintained and administered by the CFSEM for the purpose of providing support to the Organization's objectives for as long as such support shall be necessary, and if such support is no longer necessary, to provide support in furtherance of the general charitable purposes of the Organization. Total income distributed was approximately $44,000 for the year ended June 30, 2020, and is included with foundations and community trusts in the statement of activities.

Donor - Restricted Endowments

Net assets with donor restrictions at June 30, 2020, include donor endowments of $1,334,156.

Donor endowments are composed of the Noreen Keating Endowment, which began with an initial donation of $1,000,000, the William Randolph Hearst Endowment, which began with an initial donation of $100,000, and other individual gifts.

Earnings from the William Randolph Hearst Endowment are to be used to assist with funding programs on financial education, financial counseling, and home ownership.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Organization to retain as a fund of perpetual duration. There were no deficiencies of this nature at June 30, 2020. The Organization has a policy of first using endowment earnings to restore any portion of the endowment that is under water.

Changes in endowment net assets for the year ended June 30, 2020, are summarized as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - July 1, 2019			
Net assets of LOC acquired	$ 948,014	$ 1,366,004	$ 2,314,018
Investment return - Net		32,331	32,331
Appropriations	(25,713)	(64,179)	(89,892)
Endowment net assets - June 30, 2020	$ 922,301	$ 1,334,156	$ 2,256,457

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. REVENUE FROM CONTRACTS WITH CUSTOMERS

Disaggregation of Revenue

The Organization disaggregates revenue based on the method of measuring satisfaction of the performance obligation either over time or at a point in time. Revenue is otherwise disaggregated as presented in the accompanying statement of activities. The following table shows disaggregated net revenue satisfied over time and at a point in time for the year ended June 30, 2020:

Satisfied over time	$ 274,410
Satisfied at a point in time	4,044
Net revenue from contracts with customers	$ 278,454

Modified Retrospective Transition Method

As discussed in Note 2, the Organization adopted the requirements of ASC 606 as of July 1, 2019, utilizing a modified retrospective method of transition. The adoption of ASC 606 did not have a significant impact on the Organization's financial position, results of operations, or cash flows for 2019. The majority of the Organization's revenue arrangements consist of a single performance obligation to transfer services. Based on the Organization's evaluation of its contracts, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under the new standard. The adoption did not result in any cumulative adjustment to net assets at July 1, 2019.

As part of the adoption of ASC 606, the Organization elected to use the following transition practical expedients: (1) all contract modifications that occurred prior to the date of initial application when identifying the satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price have been reflected in the aggregate; and (2) ASC 606 is applied only to contracts that are not completed at the initial date of application. Because contract modifications are minimal, there is not a significant impact as a result of electing these practical expedients.

13. NON-OPERATING RENTAL INCOME

The Organization is leasing a portion of its operating facility to an unrelated third party under a non-cancellable operating lease agreement. The lease requires monthly lease payments of $7,917 per month through August 2020 and then monthly lease payments of $8,399 per month through August 2023.

Future minimum rental receipts for the years subsequent to June 30, 2020, are scheduled as follows:

Year ending June 30,	
2021	$ 99,823
2022	100,788
2023	100,788
2024	16,798
	$ 318,197

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. NON-OPERATING RENTAL INCOME (Continued)

In addition, the Organization leases a portion of its PATH facility on a month-to-month basis to an unrelated third party for $2,425 per month.

Total non-operating rental income was $120,784 for the year ended June 30, 2020.

14. RETIREMENT PLAN

The Organization sponsors a 401(k) retirement plan (the Plan). Under the Plan, all eligible employees are permitted to contribute up to a stipulated percentage of gross compensation, up to a maximum determined by the Internal Revenue Code. Employees may also make taxable Roth contributions into the Plan. The Organization may make discretionary contributions to eligible employees based on an employee's taxable wage base. The Organization's contributions to the Plan were approximately $28,500 for the year ended June 30, 2020.

15. COMMITMENTS

The Organization has non-cancellable operating leases for office space and various office equipment, which expire at various dates through June 2022. Lease payments range from approximately $170 to $800 per month.

Total future minimum rental payments required on non-cancellable operating leases with initial or remaining lease terms in excess of one year as of June 30, 2020, are as follows:

Year ending June 30,		
2021	$	49,000
2022		24,000
	$	73,000

Rent expense amounted to approximately $57,000 for the year ended June 30, 2020.

16. RISKS AND UNCERTAINTIES

The impact of the coronavirus (COVID-19) outbreak on the financial performance of the Organization's investments, donor support, and federal funding, will depend on future developments, including the duration and spread of the outbreak and related advisories and restrictions. These developments and the impact of COVID-19 on the financial markets and the overall economy are highly uncertain and cannot be predicted. If the financial markets and/or overall economy are impacted for an extended period, the Organization's financial results may be materially affected.