

**FELLOWSHIP HOUSING CORPORATION**

**FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2020 AND 2019**

**TOGETHER WITH AUDITOR'S REPORT**



Certified Public Accountants

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Fellowship Housing Corporation:

We have audited the accompanying financial statements of Fellowship Housing Corporation (a nonprofit organization) which comprise the statement of assets, liabilities and net assets - modified cash basis as of December 31, 2020, and the related statements of revenues, expenses and changes in net assets and functional expenses - modified cash basis 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 the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *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. 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.

Independent Auditor's Report  
To the Board of Directors of  
Fellowship Housing Corporation  
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***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and net assets of Fellowship Housing Corporation as of December 31, 2020, and its revenue, expenses and change in net assets for the year then ended in accordance with the modified cash basis of accounting as described in Note 1.

***Basis of Accounting***

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

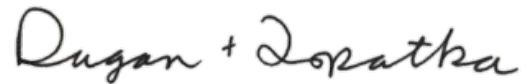
***Report on 2019 Financial Statements***

The financial statements of Fellowship Housing Corporation as of December 31, 2019, were audited by other accountants whose report dated August 10, 2020, expressed an unmodified opinion on those statements.

As part of our audit of the 2020 financial statements, we also audited adjustments described in Note 10 that were applied to restate the 2019 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2019 financial statements of Fellowship Housing Corporation other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2019 financial statements as a whole.

***Correction of Error***

As described in Note 10 to the financial statements, Fellowship Housing Corporation understated net assets with donor restrictions in the previous year due to a misclassification of contributions. Our opinion is not modified with respect to that matter.



DUGAN & LOPATKA

Warrenville, Illinois  
May 3, 2021

FELLOWSHIP HOUSING CORPORATION  
STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS -  
MODIFIED CASH BASIS  
DECEMBER 31, 2020 AND 2019

<u>ASSETS</u>	<u>2020</u>	<u>2019</u> <u>(restated)</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 594,290	\$ 201,672
Investments	359,067	340,950
Gift cards inventory	5,040	5,500
Total current assets	<u>958,397</u>	<u>548,122</u>
PROPERTY AND EQUIPMENT:		
Building and building improvements	430,273	430,273
Equipment	26,298	26,298
Software	18,500	12,333
Less - Accumulated depreciation	<u>(249,817)</u>	<u>(234,281)</u>
Net property and equipment	<u>225,254</u>	<u>234,623</u>
Total assets	<u>\$ 1,183,651</u>	<u>\$ 782,745</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES:		
Pass-through funds	\$ 782	\$ -
Note payable, current maturities	<u>42,893</u>	<u>-</u>
Total current liabilities	<u>43,675</u>	<u>-</u>
LONG-TERM LIABILITIES:		
Note payable, net of current maturities	<u>35,160</u>	<u>-</u>
Total liabilities	<u>78,835</u>	<u>-</u>
NET ASSETS:		
Without donor restrictions	1,082,316	748,529
With donor restrictions	<u>22,500</u>	<u>34,216</u>
Total net assets	<u>1,104,816</u>	<u>782,745</u>
Total liabilities and net assets	<u>\$ 1,183,651</u>	<u>\$ 782,745</u>

The accompanying notes are an integral part of this statement.

FELLOWSHIP HOUSING CORPORATION  
STATEMENT OF REVENUE, EXPENSES AND CHANGE IN NET ASSETS - MODIFIED CASH BASIS  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020			2019 (restated)		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>PUBLIC SUPPORT AND REVENUE:</b>						
Contributions -						
Individuals & Foundations	\$ 848,287	\$ 30,000	\$ 878,287	\$ 431,525	\$ 47,500	\$ 479,025
In-kind	51,970	-	51,970	53,510	-	53,510
Special events, net of direct expenses of \$112,451 and \$132,555 for 2020 and 2019, respectively	208,230	-	208,230	251,681	-	251,681
Government grants	32,846	-	32,846	42,619	-	42,619
Rental income	120,009	-	120,009	158,801	-	158,801
Investment income	33,760	-	33,760	40,167	-	40,167
Net assets released from restrictions	41,716	(41,716)	-	27,595	(27,595)	-
Total public support and revenue	<u>1,336,818</u>	<u>(11,716)</u>	<u>1,325,102</u>	<u>1,005,898</u>	<u>19,905</u>	<u>1,025,803</u>
<b>EXPENSES:</b>						
Program Services	698,641	-	698,641	667,080	-	667,080
Management & General	133,195	-	133,195	84,161	-	84,161
Fundraising	171,195	-	171,195	143,209	-	143,209
Total expenses	<u>1,003,031</u>	<u>-</u>	<u>1,003,031</u>	<u>894,450</u>	<u>-</u>	<u>894,450</u>
Change in net assets	333,787	(11,716)	322,071	111,448	19,905	131,353
NET ASSETS, beginning of year	<u>748,529</u>	<u>34,216</u>	<u>782,745</u>	<u>637,081</u>	<u>14,311</u>	<u>651,392</u>
NET ASSETS, end of year	<u>\$ 1,082,316</u>	<u>\$ 22,500</u>	<u>\$ 1,104,816</u>	<u>\$ 748,529</u>	<u>\$ 34,216</u>	<u>\$ 782,745</u>

The accompanying notes are an integral part of this statement.

FELLOWSHIP HOUSING CORPORATION  
STATEMENT OF FUNCTIONAL EXPENSES - MODIFIED CASH BASIS  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020			2019				
	Program Services	Management and General	Fundraising	Total Expenses	Program Services	Management and General	Fundraising	Total Expenses
Personnel expense	\$ 238,226	\$ 83,666	\$ 128,032	\$ 449,924	\$ 240,649	\$ 50,564	\$ 120,920	\$ 412,133
Apartment rental and maintenance	286,030	-	-	286,030	271,939	-	-	271,939
Client support	162	-	-	162	1,135	-	-	1,135
Benevolence	70,173	-	-	70,173	52,727	-	-	52,727
Building maintenance and utilities	38,901	-	-	38,901	36,021	-	-	36,021
Depreciation	15,536	-	-	15,536	11,559	-	-	11,559
Marketing expense	-	-	35,810	35,810	-	-	17,025	17,025
Office rent	18,283	6,094	-	24,377	21,226	7,075	-	28,301
Office expenses	17,751	5,917	5,328	28,996	17,575	6,571	3,021	27,167
Insurance	11,012	-	-	11,012	10,423	-	-	10,423
Professional fees	-	18,260	-	18,260	-	14,397	-	14,397
Special event expenses	-	-	112,451	112,451	-	-	132,555	132,555
Staff training	1,120	396	840	2,356	2,381	568	56	3,005
Other expenses	1,447	18,862	1,185	21,494	1,445	4,986	2,187	8,618
<b>Total expenses by function</b>	<b>698,641</b>	<b>133,195</b>	<b>283,646</b>	<b>1,115,482</b>	<b>667,080</b>	<b>84,161</b>	<b>275,764</b>	<b>1,027,005</b>
Less expenses included with revenue on the statement of revenue, expenses and change in net assets	-	-	(112,451)	(112,451)	-	-	(132,555)	(132,555)
	<u>\$ 698,641</u>	<u>\$ 133,195</u>	<u>\$ 171,195</u>	<u>\$ 1,003,031</u>	<u>\$ 667,080</u>	<u>\$ 84,161</u>	<u>\$ 143,209</u>	<u>\$ 894,450</u>

The accompanying notes are an integral part of this statement.

FELLOWSHIP HOUSING CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020 AND 2019

(1) NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Fellowship Housing Corporation (FHC) is a nonprofit organization that was founded in 1991 for the purpose of providing safe, affordable housing to single-parent families in need. The FHC program fosters growth and long-term independence by supporting, encouraging, and holding each family accountable in the development of their personal, family, and financial skills. FHC's primary revenue sources are contributions from the public, special events and rent from program participants.

The financial statements were available to be issued on May 3, 2021, with subsequent events being evaluated through this date.

Basis of Accounting -

FHC's accompanying financial statements have been prepared using the modified cash method of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under the modified cash basis of accounting, revenues are recognized when received and expenses are recognized when disbursed. In addition to the reporting of cash receipts and disbursements, property and equipment, inventory, investments, and notes payable, in-kind goods and services and unrealized gains have been reflected in the accompanying financial statements.

Basis of Presentation -

Financial statement presentation follows the recommendations of the Accounting Standards Codification (ASC), *Financial Statements for Not-for-Profit Organizations*. Under the ASC, FHC is required to report information regarding two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

*Without donor restrictions* - Net assets that are not subject to donor-imposed stipulations and may be expensed for any purpose in performing the primary objectives of FHC. These net assets may be used at the discretion of management and the board of directors.

*With donor restrictions* - Net assets subject to donor-imposed stipulations. Some donor restrictions are temporary in nature; those restrictions will be met either by actions of FHC and/or the passage of time. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity.

Cash and Cash Equivalents -

FHC considers all highly liquid instruments with an original maturity of three months or less to be cash equivalents.

Concentrations of Credit Risk -

Financial instruments which potentially subject the FHC to concentrations of credit risk consist principally of cash. FHC places its cash and deposits with high credit quality financial institutions; however, deposits may exceed the federally insured limits in various banks from time to time.

(1) NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:  
(Continued)

Investments -

Investments are recorded at fair market value. Realized and unrealized gains and losses are reflected in the statement of revenues, expenses, and change in net assets – modified cash basis. Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of market risk associated with certain investment securities, it is possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

Gift Card Inventory -

Inventory includes gift cards held for program use. Donated gift cards are booked at face value when received. Purchased gift cards are recorded as inventory until they are disbursed to program participants and expensed.

Property and Equipment -

Property and equipment in excess of \$1,000 with a useful life of three years or more are recorded at cost if purchased. Donated property and equipment are stated at fair market value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. The useful lives of the assets range from 3 to 31 years. Routine maintenance and repairs are expensed as incurred. Gains and losses on dispositions of equipment are included in the statement of revenues, expenses, and changes in net assets - modified cash basis in the year of disposition. Depreciation expense for the years ended December 31, 2020 and 2019 was \$15,536 and \$11,559, respectively.

Use of Estimates -

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

Income Taxes -

FHC has been determined by the Internal Revenue Service to be exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income tax has been established.

FHC files informational tax returns in the U.S. federal jurisdiction and Illinois. With few exceptions, FHC is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for fiscal years before 2017. FHC does not expect a material net change in unrecognized tax benefits in the next twelve months.

(1) NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:  
(Continued)

Revenue -

Contributions received are recorded as without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of revenue, expenses and changes in net assets – modified cash basis as net assets released from restrictions. Donor-imposed contributions whose restrictions are met in the same reporting period are reported as net assets without donor restrictions.

Functional Allocation of Expenses -

The financial statements report certain categories of expenses that are attributed to a program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include personnel expense, office rent, and staff training, which are allocated on the basis of estimates of time and effort.

Reclassifications -

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

(2) INVESTMENTS:

Investments consist of the following on December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Mutual funds	\$ <u>359,067</u>	\$ <u>340,950</u>

Investment income consists of the following for the years ended December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Interest and dividends	\$ 11,110	\$ 12,169
Realized gain (loss) on investments	3,311	(62)
Unrealized gain on investments	21,705	30,287
Investment fees	<u>(2,366)</u>	<u>(2,227)</u>
Total	<u>\$ 33,760</u>	<u>\$ 40,167</u>

(3) FAIR VALUE MEASUREMENTS:

The Accounting Standards Codification for Fair Value Measurements establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1:

Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that FHC has the ability to access.

Level 2:

Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets.
- quoted prices for identical or similar assets or liabilities in inactive markets.
- inputs other than quoted prices that are observable for the asset or liability.
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3:

Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodology used for assets measured at fair value.

*Mutual Funds* - Valued at the daily closing price as reported by the fund. Mutual funds held by FHC are open-ended mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds held by FHC are deemed to be actively traded.

The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although FHC believes its valuation method is 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.

(3) FAIR VALUE MEASUREMENTS: (Continued)

The following table sets forth by level, within the fair value hierarchy, FHC's assets at fair value as of December 31, 2020 and 2019:

Description	Assets at Fair Value as of December 31, 2020			
	Level 1	Level 2	Level 3	Total
Mutual Funds	\$ 359,067	\$ -	\$ -	\$ 359,067
Total assets at fair value	<u>\$ 359,067</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 359,067</u>

Description	Assets at Fair Value as of December 31, 2019			
	Level 1	Level 2	Level 3	Total
Mutual Funds	\$ 340,950	\$ -	\$ -	\$ 340,950
Total assets at fair value	<u>\$ 340,950</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 340,950</u>

(4) COMMITMENTS AND CONTINGENCIES:

FHC is obligated under an operating lease for office space, which expires December 31, 2025. Rent expense is \$24,377 and \$28,301 for the years ended December 31, 2020 and 2019, respectively. Future minimum lease payment are as follows:

2021	\$ 27,562
2022	28,655
2023	29,767
2024	30,870
2025	<u>31,975</u>
Total	<u>\$ 148,829</u>

As of December 31, 2020, FHC was leasing 18 apartments with varying terms for program use. The total rental expense was \$240,910 and \$228,139 for the years ended December 31, 2020 and 2019, respectively. The monthly payments total \$20,105 and future minimum lease payments by year as follows:

2021	\$ 187,203
2022	<u>32,555</u>
	<u>\$ 219,758</u>

(5) NOTES PAYABLE:

Notes payable consists of the following as of December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Payroll Protection Program (PPP) loan payable to a bank as part of the Coronavirus Aid, Relief and Economic Security (CARES) Act, interest at 1% with the amount to be repaid in equal installments of principal and interest, beginning at the earlier of the date the SBA remits the loan forgiveness amount or 10 months after the end of the forgivable period, with the final payment due April 2022. As part of the loan agreement, the entire loan or a portion can be forgiven. FHC intends to maximize the forgivable portion of this loan. FHC has adopted ASC 470 to account for the PPP loan and will record a gain from the forgiven portion of the loan when it is forgiven.	\$ 78,053	\$ -
Less - Current portion	<u>42,893</u>	<u>-</u>
Long-term portion	<u>\$ 35,160</u>	<u>\$ -</u>

Aggregate maturities required on notes payable as of December 31, 2020, are due in future years as follows:

2021	\$ 42,893
2022	<u>35,160</u>
	<u>\$ 78,053</u>

Subsequent to year end, FHC was notified by the SBA that its PPP loan was forgiven for the full amount of \$78,053.

(6) NET ASSETS WITH DONOR RESTRICTIONS:

Net assets with donor restrictions on December 31, 2020 and 2019, are as follows:

	<u>2020</u>	<u>2019</u>
Debt Reduction	\$ -	\$ 11,716
Legacy Scholarships	12,500	15,000
Town of Elgin	<u>10,000</u>	<u>7,500</u>
	<u>\$ 22,500</u>	<u>\$ 34,216</u>

(7) EMPLOYEE PENSION PLAN:

FHC has a 403(b) employee pension plan covering all eligible employees; however, FHC does not contribute to the plan. The plan was terminated in December 2020 and replaced with a SIMPLE IRA plan in early 2021.

(8) DONATION OF FACILITIES:

Six program apartment units have been rented to FHC at a significantly reduced rental rate by donors. The difference between the reduced rental charged and the cost of similar FHC rentals is recorded as gift in kind income and expensed as apartment rental program expense. The gift in kind income/expense for the years ended December 31, 2020 and 2019 was \$45,120 and \$43,800, respectively.

(9) LIQUIDITY AND AVAILABILITY:

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year, comprise the following at December 31, 2020 and 2019:

	December 31,	
	<u>2020</u>	<u>2019</u>
Financial assets -		
Cash and cash equivalents	\$ 594,290	\$ 201,672
Investments	<u>359,067</u>	<u>340,950</u>
Total financial assets	953,357	542,622
Donor imposed restrictions	<u>22,500</u>	<u>34,216</u>
Financial assets available to meet cash needs for general expenditures that is without donor or other restrictions limiting their use within one year	<u>\$ 930,857</u>	<u>\$ 508,406</u>

FHC manages its liquidity and reserves following three guiding principles:

- operating within a prudent range of financial soundness and stability.
- maintaining adequate liquid assets to fund near-term operating needs.
- maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

(10) PRIOR PERIOD ADJUSTMENT:

During the year ended December 31, 2020, it was determined that beginning net assets with donor restrictions as of December 31, 2019 were understated by \$22,500 and beginning net assets without donor restrictions were overstated by \$22,500. FHC discovered that two contributions were classified as net assets without donor restrictions. Accordingly, the 2019 financial statements have been restated to reflect the correction of the error.

(11) MANAGEMENT RESPONSE TO COVID-19 PANDEMIC:

In March 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. As part of these mitigation measures, FHC has had to make changes in how to operate its programs. In response to the effects of COVID-19, management is implementing strategies to help mitigate the losses in relation to this pandemic. FHC cannot reasonably estimate the continued length or severity of this pandemic, or the extent to which the disruption from this pandemic may impact FHC's operations and financial statements in the future.