

**FELLOWSHIP HOUSING CORPORATION**

**FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2022 AND 2021**

**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:

### *Opinion*

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, 2022 and 2021, and the related statements of revenues, expenses and change in net assets and functional expenses - modified cash basis for the years then end, and the related notes to the financial statements.

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, 2022 and 2021, and its support, revenue and expenses for the years then ended in accordance with the modified cash basis as described in Note 1.

### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Fellowship Housing Corporation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Correction of Error*

As discussed in Note 10 to the financial statements, Fellowship Housing Corporation understated cash and revenue in the previous years due to a cash account that was unknown to management and discovered during 2022. Accordingly, amounts reported for cash and revenue have been restated in the 2021 financial statements now presented, and an adjustment has been made to net assets to correct the error. Our opinion is not modified with respect to that matter.

### *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.

***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; and for 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 for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risk of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Fellowship Housing Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, which raise substantial doubt about Fellowship Housing Corporation's ability to continue as a going concern for a reasonable period of time.

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To the Board of Directors of  
Fellowship Housing Corporation  
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We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*Dugan + Lopatka*  
DUGAN & LOPATKA

Warrenville, Illinois  
April 17, 2023

FELLOWSHIP HOUSING CORPORATION  
STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS -  
MODIFIED CASH BASIS  
DECEMBER 31, 2022 AND 2021

	2022	2021 (Restated)
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 443,024	\$ 738,439
Investments	798,499	385,156
Gift cards inventory	8,225	4,900
Total current assets	1,249,748	1,128,495
PROPERTY AND EQUIPMENT:		
Building and building improvements	430,273	430,273
Equipment	26,298	26,298
Software	18,500	18,500
Less - Accumulated depreciation	(289,941)	(269,895)
Net property and equipment	185,130	205,176
Total assets	\$ 1,434,878	\$ 1,333,671
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES	\$ -	\$ -
NET ASSETS:		
Without donor restrictions	\$ 1,391,700	1,282,207
With donor restrictions	43,178	51,464
Total net assets	1,434,878	1,333,671
Total liabilities and net assets	\$ 1,434,878	\$ 1,333,671

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, 2022 AND 2021

	2022			2021 (Restated)		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>PUBLIC SUPPORT AND REVENUE:</b>						
Contributions -						
Individuals & Foundations	\$ 890,770	\$ 68,465	\$ 959,235	\$ 634,052	\$ 91,800	\$ 725,852
In-kind	78,975	-	78,975	73,505	-	73,505
Special events, net of direct expenses of \$160,730 and \$104,430 for 2022 and 2021, respectively	352,978	-	352,978	184,895	-	184,895
Government grants	39,201	-	39,201	23,491	-	23,491
Rental income	217,827	-	217,827	154,198	-	154,198
Investment income (loss)	(86,475)	-	(86,475)	26,316	-	26,316
PPP forgiveness income	-	-	-	78,053	-	78,053
Other income	35,955	-	35,955	87,588	-	87,588
Net assets released from restrictions	76,751	(76,751)	-	62,836	(62,836)	-
 Total public support and revenue	 1,605,982	 (8,286)	 1,597,696	 1,324,934	 28,964	 1,353,898
<b>EXPENSES:</b>						
Program Services	1,109,874	-	1,109,874	827,766	-	827,766
Management & General	156,195	-	156,195	121,993	-	121,993
Fundraising	230,420	-	230,420	182,546	-	182,546
 Total expenses	 1,496,489	 -	 1,496,489	 1,132,305	 -	 1,132,305
 Change in net assets	 109,493	 (8,286)	 101,207	 192,629	 28,964	 221,593
NET ASSETS, beginning of year as previously stated	1,282,207	51,464	1,333,671	1,082,316	22,500	1,104,816
 Adjustment for contributions	 -	 -	 -	 7,262	 -	 7,262
 Balance at beginning of year, restated	 1,282,207	 51,464	 1,333,671	 1,089,578	 22,500	 1,112,078
NET ASSETS, end of year restated	\$ 1,391,700	\$ 43,178	\$ 1,434,878	\$ 1,282,207	\$ 51,464	\$ 1,333,671

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, 2022 AND 2021

	2022				2021			
	Program Services	Management and General	Fundraising	Total Expenses	Program Services	Management and General	Fundraising	Total Expenses
Personnel expense	\$ 435,953	\$ 103,749	\$ 164,102	\$ 703,804	\$ 334,464	\$ 83,955	\$ 135,862	\$ 554,281
Apartment rental and maintenance	442,340	-	-	442,340	310,506	-	-	310,506
Client support	1,547	-	-	1,547	2,078	-	-	2,078
Benevolence	67,011	-	-	67,011	59,609	-	-	59,609
Building maintenance and utilities	54,468	-	-	54,468	45,248	-	-	45,248
Depreciation	20,046	-	-	20,046	20,077	-	-	20,077
Marketing expense	-	-	51,105	51,105	-	-	36,970	36,970
Office rent	22,061	7,354	-	29,415	19,556	6,519	-	26,075
Office expenses	24,619	7,904	6,623	39,146	15,044	5,015	5,947	26,006
Insurance	14,421	-	-	14,421	12,301	-	-	12,301
Professional fees	-	21,868	-	21,868	-	19,711	-	19,711
Special event expenses	-	-	160,730	160,730	-	-	104,430	104,430
Staff training	11,544	-	-	11,544	1,843	407	876	3,126
Other expenses	15,864	15,320	8,590	39,774	7,040	6,386	2,891	16,317
	<u>1,109,874</u>	<u>156,195</u>	<u>391,150</u>	<u>1,657,219</u>	<u>827,766</u>	<u>121,993</u>	<u>286,976</u>	<u>1,236,735</u>
Total expenses by function								
Less expenses included with revenue on the statement of revenue, expenses and change in net assets	<u>-</u>	<u>-</u>	<u>(160,730)</u>	<u>(160,730)</u>	<u>-</u>	<u>-</u>	<u>(104,430)</u>	<u>(104,430)</u>
	<u>\$ 1,109,874</u>	<u>\$ 156,195</u>	<u>\$ 230,420</u>	<u>\$ 1,496,489</u>	<u>\$ 827,766</u>	<u>\$ 121,993</u>	<u>\$ 182,546</u>	<u>\$ 1,132,305</u>

The accompanying notes are an integral part of this statement.

FELLOWSHIP HOUSING CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021

(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 April 17, 2023, 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, notes payable, in-kind goods and services and unrealized gains and losses 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 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, 2022 and 2021 was \$20,046 and \$20,077, 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 2019. 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.

In-Kind Contributions -

FHC receives contributed nonfinancial assets that include donated facilities and other goods and supplies. Gifts in-kind revenue is recorded at the respective fair values of the goods or services received at the time of the donation.

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.

(2) INVESTMENTS:

Investments consist of the following on December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Mutual funds	\$ <u>798,499</u>	\$ <u>385,156</u>

Investment income (loss) consists of the following for the years ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Interest and dividends	\$ 25,855	\$ 25,293
Realized gain (loss) on investments	(4,497)	2,385
Unrealized gain (loss) on investments	(103,828)	1,423
Investment fees	<u>(4,005)</u>	<u>(2,785)</u>
Total	<u>\$ (86,475)</u>	<u>\$ 26,316</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. There have been no changes in the methodology used at December 31, 2022 and 2021.

*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.

(3) FAIR VALUE MEASUREMENTS: (Continued)

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.

The following table sets forth by level, within the fair value hierarchy, FHC’s assets at fair value as of December 31, 2022 and 2021:

<u>Description</u>	<u>Assets at Fair Value as of December 31, 2022</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds	\$ 798,499	\$ -	\$ -	\$ 798,499

  

<u>Description</u>	<u>Assets at Fair Value as of December 31, 2021</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds	\$ 385,156	\$ -	\$ -	\$ 385,156

(4) PAYROLL PROTECTION PROGRAM LOAN:

In April 2020, FHC entered into an agreement with a lender and the Small Business Administration (SBA) to obtain a Payroll Protection Program (PPP) loan offered as a result of the Coronavirus Aid, Relief and Economic Security (CARES) Act. The PPP loan totaled \$78,053, bearing an interest rate of 1% and matured in April 2022. As part of the loan agreement, all or a portion of the loan was eligible for forgiveness if FHC met certain criteria including utilization of the loan for eligible expenses and maintaining or restoring employee counts and salary levels to pre-pandemic levels. During the year ended December 31, 2021, FHC received notice that the loan was forgiven in full, and the amount was properly recognized as revenue in accordance with ASC 470.

(5) NET ASSETS WITH DONOR RESTRICTIONS:

Net assets with donor restrictions on December 31, 2022, and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
McHenry County Expansion	\$ -	\$ 28,770
Legacy Scholarships	29,671	22,694
Schaumburg Rotary	3,507	-
Town of Elgin	10,000	-
	<u>\$ 43,178</u>	<u>\$ 51,464</u>

(6) COMMITMENTS AND CONTINGENCIES:

FHC is obligated under an operating lease for office space, which expires December 31, 2025. Rent expense is \$29,415 and \$26,075 for the years ended December 31, 2022 and 2021, respectively. Future minimum lease payment are as follows:

2023	\$	29,767
2024		30,870
2025		<u>31,976</u>
Total	\$	<u>92,613</u>

As of December 31, 2022, FHC was leasing 29 apartments with varying terms for program use. The total rental expense was \$377,370 and \$246,206 for the years ended December 31, 2022 and 2021, respectively. The monthly payments total \$39,959 and future minimum lease payments by year as follows:

2023	\$	399,603
2024		<u>61,493</u>
	\$	<u>461,096</u>

(7) IN KIND CONTRIBUTIONS:

FHC received in-kind contributions for the years ended December 31, 2022 and 2021 as follows:

	<u>2022</u>	<u>2021</u>
Facilities	\$ 63,000	\$ 62,400
Goods and gift cards	<u>15,975</u>	<u>11,105</u>
Total	<u>\$ 78,975</u>	<u>\$ 73,505</u>

Fair value of in-kind contributions is determined as follows:

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.

Goods and supplies: The donated goods and gift cards are used by FHC for program services. FHC valued at fair value using estimated wholesale prices of identical or similar items using pricing data under a “like-kind” methodology considering the items’ condition and utility for use.

(8) 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, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Financial assets -		
Cash and cash equivalents	\$ 443,024	\$ 738,459
Investments	<u>798,499</u>	<u>385,156</u>
 Total financial assets	 1,241,523	 1,123,615
 Less - Donor imposed restrictions	 <u>43,178</u>	 <u>51,464</u>
 Financial assets available to meet cash needs for general expenditures that are without donor or other restrictions limiting their use within one year	  <u>\$ 1,198,345</u>	  <u>\$ 1,072,151</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.

(9) RETIREMENT PLAN:

FHC has a SIMPLE IRA plan covering all eligible employees. FHC contributes 2% of an employee's eligible compensation. FHC's contribution for the years ended December 31, 2022 and 2021 was \$12,939 and \$10,162, respectively.

(10) PRIOR PERIOD ADJUSTMENT:

Certain errors resulting in an understatement of previously reported cash and contribution revenue were discovered during the current year. Accordingly, an adjustment of \$12,620 was made during 2022 to increase cash for the beginning of the year at January 1, 2022. A corresponding entry was made to increase previously reported net assets. The 2021 statement of financial position has been restated to increase cash by \$7,262 and the statement of activities was restated to increase contributions by \$5,358 for this error.