

Metanoia

Report on Financial Statements

For the years ended June 30, 2023 and 2022

Metanoia

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Independent Auditor's Report

To the Board of Directors
Metanoia
North Charleston, South Carolina

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Metanoia, which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material aspects, the financial position of Metanoia as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States (*Government Auditing Standards*). 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 Metanoia and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Adoption of New Accounting Standards

As discussed in Note 1, Metanoia adopted new accounting guidance, Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)*, as of July 1, 2022. Our opinion is not modified with respect to these matters.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Metanoia's ability to continue as a going concern within one year after the date of the financial statements are available to be issued.

Auditor's Responsibilities 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 and *Government 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 judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks 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 Metanoia'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 judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Metanoia's ability to continue as a going concern for a reasonable period of time.

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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also included our report dated December 14, 2023, on our consideration of Metanoia’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 Metanoia’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 Metanoia’s internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Elliott Davis, LLC". The signature is written in a cursive, flowing style.

Charleston, South Carolina
December 14, 2023

Metanoia

Statements of Financial Position

As of June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Assets		
Current assets		
Cash	\$ 9,702,775	\$ 4,464,032
Assets limited as to use		
Cash, restricted	237,052	1,003,995
Cash, board designated	250,344	250,932
Cash held on behalf of others	2,003	3,029
Investments	2,304,345	-
Grant receivables	-	68,084
Accounts receivable	83,046	24,545
Notes receivable, current	145,529	121,098
Construction in progress	4,617,260	1,272,777
Prepaid expenses	54,250	28,387
Other assets	93,221	91,600
Total current assets	<u>17,489,825</u>	<u>7,328,479</u>
Non-current assets		
Property and equipment, net	6,106,930	5,688,483
Right-of-use assets	356,401	-
Notes receivable, long-term net	376,803	436,750
Total non-current assets	<u>6,840,134</u>	<u>6,125,233</u>
Total assets	<u>\$ 24,329,959</u>	<u>\$ 13,453,712</u>
Liabilities		
Current liabilities		
Accounts payable	\$ 569,323	\$ 312,506
Accrued payroll	67,045	68,017
Deferred revenue	352,912	787,990
Lease liabilities, current	32,253	-
Notes payable, current	438,429	246,155
Total current liabilities	<u>1,459,962</u>	<u>1,414,668</u>
Non-current liabilities		
Custodial funds	457,248	545,674
Lease liabilities, long-term	345,460	-
Notes payable, long-term	5,176,901	2,097,904
Total non-current liabilities	<u>5,979,609</u>	<u>2,643,578</u>
Total liabilities	<u>7,439,571</u>	<u>4,058,246</u>
Net assets		
Without donor restrictions		
Board designated	250,344	250,932
Undesignated	11,073,863	3,584,488
With donor restrictions	5,566,181	5,560,046
Total net assets	<u>16,890,388</u>	<u>9,395,466</u>
Total liabilities and net assets	<u>\$ 24,329,959</u>	<u>\$ 13,453,712</u>

See Notes to Financial Statements

Metanoia

Statement of Activities

For the year ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other support			
Public support			
Contributions	\$ 1,872,275	\$ 47,000	\$ 1,919,275
Contributed non-financial assets	120,000	-	120,000
Grants	168,631	656,120	824,751
Total public support	<u>2,160,906</u>	<u>703,120</u>	<u>2,864,026</u>
Revenue			
Rental income	313,142	-	313,142
Insurance proceeds	7,000,000	-	7,000,000
Interest income	58,776	-	58,776
Proceeds from sale of houses	400,000	-	400,000
Unrealized gain on investments	54,345	-	54,345
Other income	184,604	-	184,604
Total revenue	<u>8,010,867</u>	<u>-</u>	<u>8,010,867</u>
Net assets released from restrictions	<u>696,985</u>	<u>(696,985)</u>	<u>-</u>
Total revenues and other support	<u>10,868,758</u>	<u>6,135</u>	<u>10,874,893</u>
Expenses			
Program services			
Housing	1,385,184	-	1,385,184
Call to action	135,718	-	135,718
Youth	621,629	-	621,629
Economic development	489,985	-	489,985
Total program services	<u>2,632,516</u>	<u>-</u>	<u>2,632,516</u>
Supporting services			
Management and general	524,160	-	524,160
Fundraising	223,295	-	223,295
Total supporting services	<u>747,455</u>	<u>-</u>	<u>747,455</u>
Total expenses	<u>3,379,971</u>	<u>-</u>	<u>3,379,971</u>
Change in net assets	7,488,787	6,135	7,494,922
Net assets at beginning of year	<u>3,835,420</u>	<u>5,560,046</u>	<u>9,395,466</u>
Net assets at end of year	<u>\$ 11,324,207</u>	<u>\$ 5,566,181</u>	<u>\$ 16,890,388</u>

See Notes to Financial Statements

Metanoia

Statement of Activities

For the year ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other support			
Public support			
Contributions	\$ 2,419,008	\$ 47,000	\$ 2,466,008
Contributed non-financial assets	120,000	-	120,000
Grants	365,574	1,288,981	1,654,555
PPP Loan Forgiveness	199,070	-	199,070
Total public support	<u>3,103,652</u>	<u>1,335,981</u>	<u>4,439,633</u>
Revenue			
Rental income	306,572	-	306,572
Interest income	14,719	-	14,719
Proceeds from sale of houses	330,000	-	330,000
Gain on sale of assets	26,375	-	26,375
Other income	46,179	-	46,179
Total revenue	<u>723,845</u>	<u>-</u>	<u>723,845</u>
Net assets released from restrictions	<u>354,489</u>	<u>(354,489)</u>	<u>-</u>
Total revenues and other support	<u>4,181,986</u>	<u>981,492</u>	<u>5,163,478</u>
Expenses			
Program services			
Housing	1,182,656	-	1,182,656
Call to action	88,868	-	88,868
Youth	534,700	-	534,700
Economic development	440,288	-	440,288
Total program services	<u>2,246,512</u>	<u>-</u>	<u>2,246,512</u>
Supporting services			
Management and general	327,833	-	327,833
Fundraising	237,418	-	237,418
Total supporting services	<u>565,251</u>	<u>-</u>	<u>565,251</u>
Total expenses	<u>2,811,763</u>	<u>-</u>	<u>2,811,763</u>
Change in net assets	1,370,223	981,492	2,351,715
Net assets at beginning of year	<u>2,465,197</u>	<u>4,578,554</u>	<u>7,043,751</u>
Net assets at end of year	<u>\$ 3,835,420</u>	<u>\$ 5,560,046</u>	<u>\$ 9,395,466</u>

See Notes to Financial Statements

Metanoia**Statement of Functional Expenses****For the year ended June 30, 2023**

	Program Services				Total	Supporting Services		Total Expenses
	Housing	Call to Action	Youth	Economic Development		Management and General	Fundraising	
Salaries	\$ 129,850	\$ 47,318	\$ 292,305	\$ 70,758	\$ 540,231	\$ 81,331	\$ 135,271	\$ 756,833
Employee benefits	9,622	3,045	19,610	4,172	36,449	23,764	7,244	67,457
Payroll taxes	11,876	4,418	29,710	6,013	52,017	11,235	11,804	75,056
Retirement benefits	6,669	1,527	8,306	2,679	19,181	3,370	5,863	28,414
Total salaries and benefits	<u>158,017</u>	<u>56,308</u>	<u>349,931</u>	<u>83,622</u>	<u>647,878</u>	<u>119,700</u>	<u>160,182</u>	<u>927,760</u>
Professional fees	32,270	54,151	23,509	235,617	345,547	346,988	13,845	706,380
Cost on sale of houses	566,980	-	-	-	566,980	-	-	566,980
Property maintenance expenses	159,606	1,362	25,571	23,401	209,940	2,076	1,628	213,644
Occupancy	60,073	80	116,479	4,243	180,875	6,946	14,747	202,568
Insurance	58,114	787	5,200	22,870	86,971	20,977	3,039	110,987
Program cost	36,685	5,456	37,926	-	80,067	-	320	80,387
OOR expenses	78,629	-	-	-	78,629	-	-	78,629
Emergency repairs	73,882	-	-	-	73,882	-	-	73,882
Interest	8,699	-	968	55,527	65,194	68	150	65,412
Travel, meals, and entertainment	805	4,180	20,880	206	26,071	6,777	7,921	40,769
Commissions paid	38,894	-	-	-	38,894	-	-	38,894
Office supplies	755	3,999	7,456	667	12,877	3,591	8,614	25,082
Telephone	2,620	895	7,343	2,815	13,673	5,102	2,654	21,429
Computer and software	1,505	4,466	3,161	163	9,295	4,603	318	14,216
Property taxes	11,922	-	-	1,320	13,242	-	-	13,242
Education	485	1,000	8,997	-	10,482	-	1,603	12,085
Dues	310	834	1,275	107	2,526	4,073	4,016	10,615
Postage and shipping	329	2,173	43	6	2,551	201	2,157	4,909
Security	1,861	27	141	1,148	3,177	51	77	3,305
Total expenses before depreciation	<u>1,292,441</u>	<u>135,718</u>	<u>608,880</u>	<u>431,712</u>	<u>2,468,751</u>	<u>521,153</u>	<u>221,271</u>	<u>3,211,175</u>
Depreciation	92,743	-	12,749	58,273	163,765	3,007	2,024	168,796
Total expenses	<u>\$ 1,385,184</u>	<u>\$ 135,718</u>	<u>\$ 621,629</u>	<u>\$ 489,985</u>	<u>\$ 2,632,516</u>	<u>\$ 524,160</u>	<u>\$ 223,295</u>	<u>\$ 3,379,971</u>

Metanoia**Statement of Functional Expenses****For the year ended June 30, 2022**

	Program Services				Total	Supporting Services		Total Expenses
	Housing	Call to Action	Youth	Economic Development		Management and General	Fundraising	
Salaries	\$ 144,516	\$ 54,694	\$ 203,642	\$ 57,074	\$ 459,926	\$ 92,813	\$ 148,378	\$ 701,117
Employee benefits	7,320	3,266	21,434	2,750	34,770	23,129	8,060	65,959
Payroll taxes	10,532	4,227	14,775	4,235	33,769	12,294	11,200	57,263
Retirement benefits	5,158	2,045	7,915	2,081	17,199	3,320	5,281	25,800
Total salaries and benefits	<u>167,526</u>	<u>64,232</u>	<u>247,766</u>	<u>66,140</u>	<u>545,664</u>	<u>131,556</u>	<u>172,919</u>	<u>850,139</u>
Professional fees	39,271	8,135	98,792	240,331	386,529	117,161	20,012	523,702
Cost on sale of houses	426,589	-	-	-	426,589	-	-	426,589
Property maintenance expenses	130,601	2,212	14,399	42,398	189,610	5,829	5,831	201,270
Occupancy	30,743	93	120,907	17,152	168,895	8,696	14,701	192,292
OOR expenses	123,010	-	-	-	123,010	-	-	123,010
Insurance	47,355	842	8,074	18,066	74,337	9,089	2,145	85,571
Interest	33,379	-	-	22,469	55,848	-	-	55,848
Emergency repairs	38,776	-	-	-	38,776	-	-	38,776
Office supplies	2,283	2,450	5,148	831	10,712	10,430	9,146	30,288
Program cost	684	1,171	17,235	370	19,460	6,724	856	27,040
Commissions paid	26,064	-	-	-	26,064	-	-	26,064
Computer and software	2,502	6,087	4,808	84	13,481	8,769	1,716	23,966
Telephone	1,734	663	4,984	2,643	10,024	4,489	1,784	16,297
Travel, meals, and entertainment	1,211	1,566	5,602	260	8,639	1,128	1,912	11,679
Property taxes	10,389	-	-	-	10,389	-	-	10,389
Dues	761	159	850	429	2,199	2,949	4,124	9,272
Education	103	1,239	3,702	41	5,085	1,954	1,633	8,672
Security	1,999	12	144	1,618	3,773	22	31	3,826
Postage and shipping	1,274	7	22	4	1,307	30	608	1,945
Total expenses before depreciation	<u>1,086,254</u>	<u>88,868</u>	<u>532,433</u>	<u>412,836</u>	<u>2,120,391</u>	<u>308,826</u>	<u>237,418</u>	<u>2,666,635</u>
Depreciation	96,402	-	2,267	27,452	126,121	19,007	-	145,128
Total expenses	<u>\$ 1,182,656</u>	<u>\$ 88,868</u>	<u>\$ 534,700</u>	<u>\$ 440,288</u>	<u>\$ 2,246,512</u>	<u>\$ 327,833</u>	<u>\$ 237,418</u>	<u>\$ 2,811,763</u>

See Notes to Financial Statements

Metanoia

Statements of Cash Flows

For the years ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities		
Change in net assets	\$ 7,494,922	\$ 2,351,715
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	168,796	145,128
Noncash lease expense	21,312	-
Change in allowance and discount to present value	-	(346,108)
PPP loan forgiveness	-	(199,070)
Gain on sale of assets	-	(26,375)
Net unrealized gain on investments	(54,345)	-
(Increase) Decrease in:		
Grant receivables	68,084	(6,398)
Accounts receivable	(58,501)	(22,398)
Contributions receivable	-	445,686
Construction in progress	(3,344,483)	(563,818)
Prepaid expenses	(25,863)	7,223
Other assets	(1,621)	(77,755)
Increase (Decrease) in:		
Accounts payable	256,817	370
Accrued payroll	(972)	(25,218)
Deferred revenue	(435,078)	787,990
Custodial funds	(88,426)	(43,573)
Net cash provided by operating activities	<u>4,000,642</u>	<u>2,427,399</u>
Cash flows from investing activities		
Purchase of property and equipment	(587,243)	(487,963)
Purchase of investments	(2,250,000)	-
Note receivable issued	(130,000)	(556,075)
Note receivable loan payments received	165,516	1,057
Net cash used for investing activities	<u>(2,801,727)</u>	<u>(1,042,981)</u>
Cash flows from financing activities		
Proceeds from notes payable	3,509,541	194,409
Principal payments on notes payable	(238,270)	(289,001)
Net cash provided by (used for) financing activities	<u>3,271,271</u>	<u>(94,592)</u>
Increase in cash	4,470,186	1,289,826
Cash at beginning of year	<u>5,721,988</u>	<u>4,432,162</u>
Cash at end of year	<u>\$ 10,192,174</u>	<u>\$ 5,721,988</u>
Cash	\$ 9,702,775	\$ 4,464,032
Cash - restricted	237,052	1,003,995
Cash - board designated	250,344	250,932
Cash - cash held on behalf of others	2,003	3,029
	<u>\$ 10,192,174</u>	<u>\$ 5,721,988</u>
Supplemental disclosures		
Interest paid	\$ 65,412	\$ 55,848

See Notes to Financial Statements

Metanoia

Notes to Financial Statements

June 30, 2023 and 2022

Note 1. Nature of Activities and Summary of Significant Accounting Policies

Nature of activities:

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

Metanoia works to amplify opportunities for a thriving community with families in Chicora and surrounding historically Black neighborhoods by honing the unique assets that exist within those communities. The organization seeks to listen constantly to community voice and walk with families on their journeys to build happy and secure futures. As this is done, Metanoia discovers the strengths of individuals, families and communities and works to invest in those strengths so that the brilliance embedded in people and communities can be released. Metanoia also recognizes generational barriers that families have faced and we refuse to be held back by these barriers that may limit perspective and possibility.

Ultimately the organization's vision is to live in a community where hearts are open to all that is possible and achievable. We are here to live well.

Basis of accounting:

The financial statements of Metanoia have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accordingly, revenue is recognized when earned rather than when received and expenses are recognized when incurred rather than when paid.

Functional descriptions:

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

Housing program:

The housing program purchases properties in the southern half of North Charleston and either refurbishes them or builds new homes for sale or rent to the public. This area is plagued by the highest eviction rates in the nation and quickly rising property values. Metanoia's work brings stability to individual families and enhances community equity and inclusion in neighborhoods where housing costs are rapidly rising. Beneficiaries are generally below 80% of the Charleston County area median income.

Metanoia also works with various partners including the City of North Charleston (the "City"), Charleston County, the South Carolina Housing Finance and Development Authority, and Cummins to rehabilitate homes for homeowners in need of repairs. Depending on the source of funding, beneficiaries make at or below 50% or 80% of the Charleston County area median income. The program is designed to help local homeowners improve their most important asset and their ability to remain in place and live well.

Metanoia

Notes to Financial Statements

June 30, 2023 and 2022

Note 1. Nature of Activities and Summary of Significant Accounting Policies, Continued

Functional descriptions, continued:

Youth Leadership Development Academy:

The Metanoia Youth Leadership Academy operates year-round out-of-school programming that offers leadership development for students from grades 1-12. This includes daily after school programs for students and a summer Children's Defense Fund Freedom School. The Freedom School operates daily for six weeks in the summer. Students receive academic enhancement and character education in all of Metanoia's programming. The Leadership Academy is a pipeline to develop new leaders for the community. Metanoia walks closely with families of enrolled students to listen to their concerns and develop opportunities within the community that can help them release their own brilliance.

Economic development initiative:

In prior years, Metanoia has funded a minority contractor training academy, operated a local farmer's market, and funded a production kitchen for job training in culinary arts all in an effort to enhance economic development in the community. Metanoia students are currently placed in internships with local businesses like Daddy's Girls Bakery where they learn important job skills.

Metanoia has also been awarded several Community Economic Development Grants from the US Department of Health and Human Services. Two of these grants have allowed Metanoia to enter into an agreement with the Urban Electric Company to loan them funds for expansion of their facilities to ensure job creation of approximately 147 new jobs to benefit individuals with low incomes. Another grant assisted with the initial planning costs of an effort to start an early childhood development program at the Old Chicora School campus.

In 2020, Metanoia completed renovations on a storefront along Reynolds Avenue to serve as incubator space for local Black owned businesses that could bring new life to this vital commercial corridor. Daddy's Girls Bakery and the Creative Realm are the two Black owned businesses that now occupy this space and offer mentorship to community youth in addition to their regular business operations.

Call to action:

Metanoia organizes the community it serves around issues that are of particular interest to residents. This has included successfully organizing the community to have speed limits reduced, to get a new public elementary school built in the community, and to get a \$4 million mitigation agreement (see Note 17) from a new rail facility being constructed adjacent to the communities we serve. All organizing is issue oriented and non-partisan. Metanoia also works with the neighborhoods it serves to enhance their quality of life through support for a neighborhood operated community garden and the establishment of better public green and recreational space. Frequently, Metanoia organizes volunteers from the neighborhood and the surrounding community to accomplish these tasks and effective volunteer management is also a part of this program area.

Metanoia

Notes to Financial Statements

June 30, 2023 and 2022

Note 1. Nature of Activities and Summary of Significant Accounting Policies, Continued

Functional descriptions, continued:

Management and general:

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

Fundraising:

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

Basis of presentation:

Metanoia's net assets are classified as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of Metanoia. These net assets may be used at the discretion of the Metanoia's management and the Board of Directors. Net assets without donor restrictions include board designated net assets.

Net assets with donor restrictions: Net assets that are subject to donor-imposed restrictions. Some donor restrictions are temporary in nature; those restrictions will be met by actions of Metanoia or by the passage of time (that is, when stipulated time restriction ends or purpose restriction is accomplished). Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. As of June 30, 2023 and 2022, Metanoia did not have any net assets maintained in perpetuity.

Board designated net assets:

As of June 30, 2023 and 2022, the board has identified \$250,344 and \$250,932, respectively, of the net assets without donor restrictions to be set aside for future operations. Such net assets are intended to remain in the money market account unless needed for continued operation or further development of Metanoia and its programs.

Cash and cash equivalents:

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

Metanoia

Notes to Financial Statements

June 30, 2023 and 2022

Note 1. Nature of Activities and Summary of Significant Accounting Policies, Continued

Availability of funds for general expenditures:

Metanoia has certain net assets that are available for general expenditures within one year of June 30, 2023 and 2022 based on conducting the normal activities of its programs in the coming year. Accordingly, the related resources have been included in the quantitative information detailing the financial assets available to meet general expenditures within one year (see Note 2).

Revenue recognition:

Revenue is recognized upon the transfer of control of promised goods or services to customers in an amount that reflects the consideration Metanoia expects to receive in exchange for those products or services. Contracts are analyzed with the following steps: (i) identify the contract with the customer; (ii) determine whether the promised goods or services are separate performance obligations in the contract; (iii) determine the transaction price, including considering the constraint on variable consideration; (iv) allocate the transaction price to the performance obligations in the contract based on the standalone selling price or estimated standalone selling price of the good or service; and (v) recognize revenue when (or as) each performance obligation is satisfied.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account. Revenue is allocated to each performance obligation as the related performance obligation is satisfied, if applicable, as noted below.

Contributions/Grants: Contributions and grants that are with or without donor restrictions are earned and recognized when the donation is received or unconditionally pledged, as long as there is no performance requirement attached to the contribution or grant. In the instance where there is a performance obligation attached to the contribution or grant, the portion that is attached to a performance requirement is recorded as deferred revenue until it is earned when the performance requirement is met (either over time or at a point in time when an event occurs), while the portion that is considered to be a contribution or grant is recorded as revenue when received or unconditionally pledged.

Contributions and grants received are recorded as support without donor restrictions or support 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 Statements of Activities as net assets released from restrictions.

Rental income: Rental revenue is earned on properties which are owned by Metanoia and rented out to tenants. Revenue is recognized over the course of the rental agreement.

Insurance proceeds: Insurance proceeds are recognized when the case has been settled. For the year ended June 30, 2023, Metanoia received \$7,000,000 in insurance proceeds related to an insurance claim.

Metanoia

Notes to Financial Statements

June 30, 2023 and 2022

Note 1. Nature of Activities and Summary of Significant Accounting Policies, Continued

Contributions, grants, accounts receivable, and allowances for doubtful accounts:

Unconditional promises to give are recorded as contributions receivable in the year pledges are made. Contributions receivable for support of future time or purpose restrictions are reported as increases in net assets with donor restrictions based on their purpose and/or implied time restrictions in the Statements of Activities. Contributions are released from restriction as the nature of the restriction changes, or restrictions are satisfied, including time restrictions.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. As of June 30, 2023, there were no unconditional promises to give and therefore, no discount was applied. A discount rate of 1.50% was used as of June 30, 2022 for unconditional promises due after one year.

All receivables are stated at unpaid balances, less an appropriate discount, where applicable, and less an allowance for doubtful accounts. Metanoia provides for losses on contributions, grants, and accounts receivable using the allowance method. The allowance is based on experience and other circumstances which may affect the ability of donors, grantors, or customers to meet their obligations. Receivables are considered impaired if payments are not received in accordance with stated terms. It is Metanoia's policy to charge off uncollectible receivables when management determines the receivable will not be collected.

Allowance for doubtful accounts for contributions receivable as of June 30, 2023 and 2022 totaled \$0 and \$345,000, respectively. There is no allowance for grants or accounts receivable as of June 30, 2023 and 2022. There was no bad debt expense for the years ended June 30, 2023 and 2022.

Notes receivable:

Notes receivable are long term in nature and due to Metanoia, which includes an agreement for job creation initiatives.

Construction in progress:

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

Prepaid expenses:

Prepaid expenses are primarily expenses for initial down payments for insurance policies and payment for the Freedom School program.

Metanoia

Notes to Financial Statements

June 30, 2023 and 2022

Note 1. Nature of Activities and Summary of Significant Accounting Policies, Continued

Custodial funds:

Metanoia entered into an agreement with the Lowcountry Alliance for Model Communities in 2016. Under this agreement, the City of North Charleston transferred \$860,000 to Metanoia for services. The funds are required to be kept in a separate account. Metanoia will work with targeted neighborhoods to develop affordable housing units that will be financed with these funds (see Note 18).

Property and equipment:

Property and equipment are carried at cost and are depreciated over the estimated useful lives of the respective property items using the straight-line method. Leasehold improvements are depreciated over the term of the lease. Maintenance and repairs are expensed as incurred. Expenditures which result in substantial betterment of assets are capitalized at cost. When it is determined that the carrying value of a long-lived asset will not be fully recovered, an asset is considered impaired, and a loss is recognized as it is written down to its fair value.

Metanoia capitalizes all expenditures in excess of \$2,500 for property and equipment. Contributed property and equipment is recorded at fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. Depreciation is calculated using the straight-line method over the following estimated useful lives of the assets: buildings - 40 years; furniture, fixtures and equipment - 3 to 5 years; and vehicles - 3 to 7 years. Absent explicit donor stipulations about how long those long-lived assets must be maintained, Metanoia reports expirations of donor restrictions when the donated, acquired, or constructed long-lived assets are placed in service as instructed by the donor.

Contributed non-financial assets:

Metanoia received in-kind support in the form of donated facilities with an estimated fair market value of \$120,000 for the years ended June 30, 2023 and 2022. These amounts have been recorded as revenue and a corresponding expense in the accompanying Statements of Activities and Statements of Functional Expenses. Unless otherwise noted, the contributed nonfinancial assets did not have donor-imposed restrictions.

The fair market value of donated facilities is based on an assessment performed by the donor using fair market value square footage rates of similar buildings multiplied by the square footage donated. The fair market value of donated land is based on the estimated purchase price of the land.

Donated services:

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

Metanoia

Notes to Financial Statements

June 30, 2023 and 2022

Note 1. Nature of Activities and Summary of Significant Accounting Policies, Continued

Compensated absences:

Full time and part-time employees of Metanoia are entitled to paid time off, depending on job classification and length of service. Metanoia had accrued compensated absences of \$50,067 and \$58,568 as of June 30, 2023 and 2022, respectively, included in accrued payroll on the Statements of Financial Position.

Mortgage receivables:

Metanoia has several mortgages with collateral of second, third, or fourth mortgages on properties sold through the housing program. These mortgages are secured by real property, forgivable and interest free contingent on the buyer's compliance with the mortgage agreement. The principal of the mortgages is forgiven at a rate of 5% of the original principal per year for twenty years, if the mortgagee retains the property as their primary residence. Metanoia fully amortizes all the Mortgage Assistance Program balances and does not record any future Mortgage Assistance Program amounts as assets on the Statements of Financial Position. However, the detail balance of each client in the Mortgage Assistance Program is being maintained for grantor reporting purposes. Should the homeowner pay off the primary mortgage early or default on the mortgage, the second mortgage would be triggered. Due to the recent and current decline in the real estate market, the second mortgage payoff is considered remote by Metanoia, and therefore, no receivable has been recorded in the current year financial statements. During the fiscal years ended June 30, 2023 and 2022, no second mortgages were paid off early.

Use of estimates:

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Areas requiring significant estimates include the economic useful lives of fixed assets for depreciation purposes. It is at least reasonably possible that the significant estimates used will change within the next year.

Income tax status:

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

Management evaluated Metanoia's tax positions and concluded that Metanoia had maintained its tax-exempt status and had taken no uncertain tax positions that require adjustment to the financial statements for the years ended June 30, 2023 and 2022. Therefore, no provision or liability for income taxes has been included in the financial statements. Metanoia is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Expense allocation:

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

Metanoia

Notes to Financial Statements

June 30, 2023 and 2022

Note 1. Nature of Activities and Summary of Significant Accounting Policies, Continued

Expense allocation, continued:

The financial statements 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. Salaries, payroll taxes, and benefits are allocated based on time and effort. All remaining expenses are allocated based on direct costs by activity area.

Reclassifications:

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

New accounting pronouncements:

In February 2016, the FASB issued Accounting Standards Update (“ASU”) No. 2016-02, *Leases*, which is effective for fiscal years ending December 15, 2021 and after. The ASU establishes a dual approach for classifying leases as either financing or operating leases and requires recognition of an asset and liability on the Statements of Financial Position for both types of leases. The new lease standard only contains targeted changes to accounting by lessors; however, lessees are required to recognize most leases in their Statements of Financial Position as lease liabilities for payments and right-of-use assets representing the lessee’s rights to use the underlying assets for the lease terms for lease arrangements longer than 12 months. ASU 842, *Leases*, (“ASC 842”) establishes a right-of-use (“ROU”) model that requires a lessor to record a lease receivable or net investment in any sales-type or direct financing leases.

Effective July 1, 2022, Metanoia adopted ASU 842. Metanoia determines if an arrangement contains a lease at inception based on whether Metanoia has the right to control the asset during the contract period and other facts and circumstances. Metanoia elected to adopt ASU 842 using the modified retrospective method that allows Metanoia to initially apply the new lease standard at the adoption date and recognize a cumulative effect adjustment to the opening balance of net assets in the period of adoption, of which there was no such adjustment to net assets required related to Metanoia’s adoption of ASU 842. Metanoia also elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed it to carry forward the historical lease classification.

The adoption of FASB ASC 842 resulted in the recognition of right-of-use-assets of \$380,886 and operating lease liabilities of \$396,244 as of July 1, 2022. Results for periods beginning prior to July 1, 2022 continue to be reported in accordance with the historical accounting treatment under FASB ASC 840. The adoption of FASB ASC 842 did not have a material impact on Metanoia’s results of operations or cash flows (See Note 11).

Metanoia

Notes to Financial Statements

June 30, 2023 and 2022

Note 2. Availability and Liquidity

Financial assets available for general expenditure, that are without donor or other restrictions limiting their use within one year of the Statements of Financial Position date of June 30, 2023 and 2022, are comprised of the following at June 30:

	<u>2023</u>	<u>2022</u>
Assets at year end	\$ 24,329,959	\$ 13,453,712
Less amounts not available to be used within one year due to illiquidity:		
Construction in progress	(4,617,260)	(1,272,777)
Prepaid expenses	(54,250)	(28,387)
Other assets	(93,221)	(91,600)
Property and equipment, net	(6,106,930)	(5,688,483)
Right-of-use assets	(356,401)	-
Less amounts not available to be used within one year due to availability:		
Note receivable, due after one year	(376,803)	(436,750)
Assets limited as to use	(489,399)	(1,257,956)
Donor-imposed restrictions:		
Purpose-restricted net assets, less spending amounts and restricted property and equipment, net, and assets limited to use (included above)	<u>(3,441,362)</u>	<u>(3,446,412)</u>
Assets available to meet cash needs for general expenditures within one year	<u>\$ 8,794,333</u>	<u>\$ 1,231,347</u>

As part of its liquidity plan, Metanoia has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. Of the \$8,794,333, \$7 million is intended for the Old Chicora project with a total budget of cost of approximately \$34 million.

Note 3. Restricted Cash

Included in cash as of June 30, 2023 and 2022 is restricted cash of \$237,052 and \$1,003,995, respectively, which represents the following funds held by Metanoia:

	<u>2023</u>	<u>2022</u>
HOME revolving funds	\$ 122,362	\$ 290,082
CED loan repayment + interest	<u>114,690</u>	<u>713,913</u>
Total restricted cash	<u>\$ 237,052</u>	<u>\$ 1,003,995</u>

Additionally, the Board has designated \$250,344 and \$250,932 for savings as of June 30, 2023 and 2022, respectively. There is an additional \$2,003 and \$3,029 of cash that is held for student savings accounts on behalf of others as of June 30, 2023 and 2022, respectively.

Metanoia

Notes to Financial Statements

June 30, 2023 and 2022

Note 4. Investments

Investments are comprised of the following at June 30, 2023:

<u>Investment Type</u>	<u>Cost</u>	<u>Unrealized Gain (Loss)</u>	<u>Fair Value</u>
Treasury Bills	\$ 2,250,000	\$ 54,345	\$ 2,304,345

There were no investments held as of June 30, 2022.

Note 5. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. Generally accepted accounting principles require fair value measurements be classified and disclosed in one of the following three categories (fair value hierarchy):

- Level 1: Financial instruments with unadjusted, quoted prices listed on active market exchanges.
- Level 2: Financial instruments valued using inputs that include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3: Financial instruments that are not actively traded on a market exchange and require using significant unobservable inputs in determining fair value.

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

Treasury Bills - Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

Metanoia's financial assets measured at fair value on a recurring basis as June 30, 2023 is as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Treasury Bills	\$ -	\$ 2,304,345	\$ -	\$ 2,304,345

Metanoia

Notes to Financial Statements

June 30, 2023 and 2022

Note 6. Contributions Receivable, Net

Contributions receivable, net consisted of the following as of June 30:

	<u>2023</u>	<u>2022</u>
Contributions receivable, gross	\$ -	\$ 345,000
Less: discount on pledges	-	-
Less: allowance for uncollectible pledges	-	(345,000)
Contributions receivable, net	<u>\$ -</u>	<u>\$ -</u>

All contributions receivable were due within one year as of June 30, 2022.

Given challenges with the Old Chicora School Project, Metanoia believes in taking a conservative position with regard to stating these receivables as of June 30, 2022. Metanoia's Board of Directors and staff, along with most of its partners including the City of North Charleston, remain committed to the school project and continue to work with dedication for the school's renovation.

Note 7. Notes Receivable

In November 2021, Metanoia loaned a company \$615,000, related to the U.S. Department of Health and Human Service Community Services Block Grant program, for the creation of jobs. The loan required that the company create 35 jobs, 75% of which were to be filled with low-income individuals, over a three-year period. The note receivable bears interest at a fixed rate of 2% maturing in November of 2026. Principal payments of \$10,780 are required monthly. The loan is collateralized with hard equipment which can include machinery, equipment, or other personal property. The balance on this note as of June 30, 2023 and 2022, is \$436,747 and \$556,075, respectively, and it is included in notes receivable on the accompanying Statements of Financial Position.

In October 2022, Metanoia loaned an additional \$100,000 to the company, under the conditions listed above, related to the U.S. Department of Health and Human Service Community Services Block Grant program, for the creation of jobs. The note receivable bears interest at a fixed rate of 2% maturing in January of 2027. Principal payments of \$2,047 are required monthly. The loan is collateralized with hard equipment which can include machinery, equipment, or other personal property. The balance on this note as of June 30, 2023 is \$84,870 and it is included in notes receivable on the accompanying Statements of Financial Position.

In addition, Metanoia also has \$715 and \$1,773 of notes receivable due from another company, which are also included in the notes receivable balance as of June 30, 2023 and 2022, respectively.

Payment on notes receivable is as follows the fiscal years ending June 30:

2024	\$ 145,529
2025	147,736
2026	150,718
2027	<u>78,349</u>
	<u>\$ 522,332</u>

Metanoia

Notes to Financial Statements

June 30, 2023 and 2022

Note 8. Construction in Progress

Costs associated with the acquisition, development, and construction of a project are capitalized. Such costs may include (1) pre-acquisition costs such as land acquisition or improvement; (2) infrastructure development or construction costs such as equipment rental, construction materials, or subcontractors; and (3) other costs such as insurance or construction benefits. Most of the projects included in construction in progress are currently expected to be completed by the year ending June 30, 2024. After completion, they will be used for programs, sold to low-income qualified homeowners or converted to low-income rental property. Construction in progress consists of the following at June 30:

	<u>2023</u>	<u>2022</u>
Chicora Renewal Phase II	\$ 1,193,191	\$ 135,123
1919 Carlton	249,896	85,162
1927 Quitman	-	128,430
1929 Quitman	-	127,188
Golden Dream	3,061,497	774,494
Old Chicora Main	52,839	22,380
Token Street Home Ownership	59,837	-
	<u>\$ 4,617,260</u>	<u>\$ 1,272,777</u>
	<u>Estimated</u>	<u>Estimated</u>
	<u>Cost at</u>	<u>Completion</u>
	<u>Completion</u>	<u>Date</u>
Chicora Renewal Phase II	3,001,669	4/30/2024
Golden Dream	3,137,302	8/31/2023
1919 Carlton	249,896	8/4/2023
Token Street Home Ownership	1,653,089	11/1/2024
Old Chicora Main	34,272,416	TBD

Note 9. Property and Equipment, Net

Property and equipment, net consists of the following at June 30:

	<u>2023</u>	<u>2022</u>
Furniture, Fixtures, and Equipment	\$ 99,743	\$ 84,268
Leasehold Improvements	497,478	434,369
Land – Residential and Commercial	1,779,422	1,526,929
Buildings	4,542,356	4,288,387
Vehicles	46,131	46,131
	6,965,130	6,380,084
Less accumulated depreciation	(858,200)	(691,601)
	<u>\$ 6,106,930</u>	<u>\$ 5,688,483</u>

Metanoia

Notes to Financial Statements

June 30, 2023 and 2022

Note 9. Property and Equipment, Net, Continued

Depreciation charged to operations in fiscal years ended June 30, 2023 and 2022 was \$168,796 and \$145,128, respectively.

Note 10. Notes Payable and Lines of Credit

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

	<u>2023</u>	<u>2022</u>
Lowcountry Housing Trust Neighborhood Stabilization Program interest free loan, collateralized by 2600 Ferrara home. Payable over 13 years.	\$ 26,782	\$ 32,138
ServisFirst Bank issued a promissory note for \$200,000 dated June 30, 2020. The interest rate is 3.25% with monthly payments of \$980, including interest, until May 31, 2027. On June 30, 2027 a balloon payment of \$160,392 is due. Collateral includes a commercial building at 2021 Reynolds Ave.	182,815	188,497
Loan with ServisFirst Bank dated August 7, 2020 for \$1,575,000. The interest rate is 3.25% with monthly payments of \$7,715, including interest, until July 7, 2027. On August 7, 2027 a balloon payment of \$1,263,109 is due. Collateral includes approximately 20 affordable rental properties.	1,443,749	1,488,608
SC Housing Finance and Development Authority loan of \$119,017, forgivable over a period of 20 years including 0% interest if the properties have not been sold or otherwise conveyed. Collateral includes 4 low-income rental homes.	101,165	107,115
SC Housing Finance and Development Authority line of credit up to \$366,350; \$274,350 is forgivable over a period of 15 years; draws of \$92,000 are payable over 30 years including 0% interest once the project is complete. Collateral includes 4 low-income rental homes.	316,508	333,292
In May 2022, Metanoia entered into a line of credit with ServisFirst Bank up to the amount of \$350,000. The balance of the loan bears interest at 4.50%. Payments of interest only through May 3, 2023 which is the date on which the draws will terminate. Beginning June 3, 2023, the balance of the line of credit will be amortized using an interest rate of 4.50% and monthly payments will be made through the maturity date of May 3, 2029. The line of credit is collateralized by a construction mortgage.	351,784	36,395

Metanoia

Notes to Financial Statements

June 30, 2023 and 2022

Note 10. Notes Payable and Lines of Credit, Continued

	<u>2023</u>	<u>2022</u>
In February 2022, Metanoia entered into a line of credit with South State Bank up to the amount of \$320,000. The balance of the loan bears interest at 3.25%. Payments of interest only through March 16, 2022. The line of credit is collateralized by a construction mortgage. Loan was paid in full during 2023.	-	158,014
SC Housing Finance and Development Authority line of credit up to \$2,233,181. Once construction is completed, a portion of the loan does not incur interest and is forgivable over 20 years. The other portion incurs interest at 1% and is payable over 30 years. As of June 30, 2023, construction has not been completed. Collateral includes a multi-family building with 8 units.	1,309,231	-
SC Housing Finance and Development Authority line of credit up to \$575,000. Once construction is completed, the loan is forgivable over 30 years. As of June 30, 2023, construction has not been completed. Collateral includes 8 rental homes.	510,968	-
SC Housing Finance and Development Authority line of credit up to \$480,000. Once construction is completed, the loan is forgivable over 30 years. As of June 30, 2023, construction has not been completed. Collateral includes 8 rental homes.	66,307	-
In December 2022, Metanoia entered into a loan with South State Bank for \$227,500. The interest rate is 6.5% with monthly payments of \$1,709, including interest, until December 2027. In December 2027 a balloon payment of \$196,707 is due. Collateral includes 2 affordable rental properties	224,092	-
SC Housing Finance and Development Authority line of credit up to \$1,570,000. Once construction is completed, the loan is forgivable over 20 years. As of June 30, 2023, construction has not been completed. Collateral includes 10 rental homes.	1,029,937	-
SC Housing Finance and Development Authority line of credit up to \$720,800. Once construction is completed, the loan is forgivable over 20 years. As of June 30, 2023, construction has not been completed. Collateral includes 10 rental homes.	<u>51,992</u>	<u>-</u>
	5,615,330	2,344,059
Less current maturities	<u>(438,429)</u>	<u>(246,155)</u>
Total long-term debt	<u>\$ 5,176,901</u>	<u>\$ 2,097,904</u>

Metanoia

Notes to Financial Statements

June 30, 2023 and 2022

Note 10. Notes Payable and Lines of Credit, Continued

The principal payment of the long-term debt is as follows for the fiscal years ending June 30:

2024	\$	438,429
2025		187,752
2026		207,989
2027		366,372
2028		1,401,763
Thereafter		<u>3,013,026</u>
	\$	<u>5,615,330</u>

Interest expense charged on these notes payable and lines of credit in fiscal years ended June 30, 2023 and 2022 was \$62,343 and \$55,848, respectively, which is included in interest expenses in the Statements of Activities.

Note 11. Leases

As discussed in Note 1, Metanoia elected the package of practical expedients under the transition guidance within the new ASC 842 standard, which among other things, allowed it to carry forward the historical lease classification. All new leases entered into after July 1, 2022 were assessed under the new ASC 842 standard. These leases did not contain any material residual value guarantees or material restrictive covenants. Only lease options that Metanoia believes are reasonably certain to be exercised are included in the measurement of the lease terms.

Metanoia signed a three-year lease beginning May 1, 2016 with St. Matthews Church. They have renewed the lease twice under the 3-year renewal option, so the lease runs through April, 2025. It is the intention of Metanoia to renew the lease for another 3 years. Rent is \$1,800 per month.

Metanoia has a ground lease for land for the Golden Dreams project. The lease began January 1, 2020 and goes through December 31, 2069. At the end of the lease term, the building, which is to be built on the land, along with the land, will revert back to the ownership of the lessor.

The future maturities of lease liabilities were as follows for the years ending June 30:

		<u>Operating</u>
2024	\$	32,990
2025		29,504
2026		11,619
2027		11,735
2028		11,852
Thereafter		<u>764,470</u>
		862,170
Less amounts representing interest		<u>(484,457)</u>
Present value of minimum lease payments		377,713
Less current portion		<u>(32,253)</u>
Long-term portion	\$	<u>345,460</u>

Metanoia

Notes to Financial Statements

June 30, 2023 and 2022

Note 11. Leases, Continued

Total operating lease costs for the years ended June 30, 2023 and 2022 was \$202,568 and \$192,292, respectively.

The weighted average discount rate for operating leases as of June 30, 2023 were 3.80%. The weighted average lease term for operating leases as of June 30, 2023 was 46 years.

Metanoia leases several residential rental properties under various operating leases, which are for terms not greater than 12 months. Metanoia recognized lease revenue in the Statements of Activities for \$313,142 and \$306,572 for the years ended June 30, 2023 and 2022, respectively. All future payments are due within one year.

Note 12. Concentration of Credit Risk

Metanoia places its cash with reputable financial institutions and limits the amount of credit exposure for cash to any one financial institution. Cash accounts are guaranteed in aggregate by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000 per bank. From time to time, cash balances may exceed FDIC insured limits.

Metanoia had no contribution revenue or contribution receivable concentrations for the year ended June 30, 2023. Metanoia received 25% of contribution revenues from two sources for the year ended June 30, 2022 and 96% of gross contribution receivables from two sources for the year ended June 30, 2022.

Metanoia had no expenditure concentrations during the year ended June 30, 2023. Metanoia had 39% of expenditures to one vendor during the year ended June 30, 2022. Metanoia's programs are concentrated in Charleston County, South Carolina, and the level of contributions, home sales, and grant opportunities may be affected by changes in this local economy.

Note 13. Net Assets with Donor Restrictions

Net assets with donor restrictions include those net assets whose use by Metanoia has been donor restricted by specified purpose or time limitations. Net assets with donor restrictions consists of the following as of fiscal year ended June 30, 2023:

Restricted Purpose	2023			
	Beginning Balance	Contributions/ Transfers	Transfers/ Distributions	Ending Balance
HOME acquisition fund, net	\$ 221,005	\$ -	\$ (27,420)	\$ 193,585
HOME construction fund, net	440,606	-	-	440,606
CED grant	1,266,135	250,777	(146,893)	1,370,019
Neighborhood stabilization fund	135,355	-	-	135,355
Programs	230,656	232,500	(347,656)	115,500
Housing development	602,754	62,843	(175,016)	490,581
Palmetto rail	188,000	47,000	-	235,000
Old Chicora renovation	2,475,535	110,000	-	2,585,535
Total	<u>\$ 5,560,046</u>	<u>\$ 703,120</u>	<u>\$ (696,985)</u>	<u>\$ 5,566,181</u>

Metanoia

Notes to Financial Statements

June 30, 2023 and 2022

Note 13. Net Assets with Donor Restrictions, Continued

Net assets with donor restrictions consists of the following as of fiscal year ended June 30, 2022:

<u>Restricted Purpose</u>	<u>2022</u>			
	<u>Beginning Balance</u>	<u>Contributions/ Transfers</u>	<u>Transfers/ Distributions</u>	<u>Ending Balance</u>
HOME acquisition fund, net	\$ 231,947	\$ -	\$ (10,942)	\$ 221,005
HOME construction fund, net	440,606	-	-	440,606
CED grant	657,954	670,959	(62,778)	1,266,135
Neighborhood stabilization fund	135,355	-	-	135,355
Programs	108,500	266,750	(144,594)	230,656
Housing development	567,657	171,272	(136,175)	602,754
Palmetto rail	141,000	47,000	-	188,000
Old Chicora renovation	<u>2,295,535</u>	<u>180,000</u>	<u>-</u>	<u>2,475,535</u>
Total	<u>\$ 4,578,554</u>	<u>\$ 1,335,981</u>	<u>\$ (354,489)</u>	<u>\$ 5,560,046</u>

Note 14. Cummins Grant

In December 2021, Metanoia received a \$1,000,000 grant from Cummins Inc. which was subject to performance related events. The performance events were divided into three areas:

Property acquisition

Metanoia can use \$425,000 to acquire properties to re-develop them as affordable housing within the targeted area. The agreement states that Metanoia can use a maximum of \$25,000 per property acquired. As of June 30, 2023, Metanoia acquired thirteen properties recognizing \$414,000 of the total apportioned. As of June 30, 2022, Metanoia acquired seven properties recognizing \$167,262 of the total apportioned.

Property improvement

Metanoia can use \$200,000 to improve properties to re-develop them as affordable housing within the targeted area. The agreement states that Metanoia can use a maximum of \$25,000 per property acquired. As of June 30, 2023, Metanoia improved three properties recognizing \$75,000 of the total apportioned.

Emergency repairs

Metanoia can use \$225,000 for emergency repair and rehabilitation costs for existing units owned by low-to-moderate-income residents located in the targeted area. As of June 30, 2023, \$38,340 of costs have been incurred for emergency repairs. No costs had been incurred for emergency repairs as of June 30, 2022.

Operational support

Metanoia can use \$150,000 for organizational and capacity support that benefit the grant's purpose. For the years ended June 30, 2023 and 2022, \$75,000 and \$44,748, respectively, has been incurred for operational support.

As of June 30, 2023 and 2022, Metanoia has \$352,912 and \$787,990, respectively, in deferred grant revenue, which is expected to be used within the next fiscal year.

Metanoia

Notes to Financial Statements

June 30, 2023 and 2022

Note 15. Related Party Transactions

Board members and employees from Metanoia made contributions for the fiscal years ended June 30, 2023 and 2022 of \$23,961 and \$255,126, respectively.

Note 16. Endowment

Metanoia established two permanent endowment funds. These funds are held and managed by the Coastal Community Foundation and are excluded from the financial statements of Metanoia as a result of the Coastal Community Foundation's variance power over the funds. The primary purpose of these funds is to provide income to Metanoia in support of its mission. Disbursements are based on 4% of the fund's average market value over the previous twenty quarters. During the fiscal years ended June 30, 2023 and 2022, \$967 and \$3,978, respectively, were disbursed from these funds. Metanoia and the Coastal Community Foundation intend for these funds to be available to receive property for Youth Leadership Academy from Metanoia and other donors; the Coastal Community Foundation determines annual distributions.

The balance of the funds at June 30, 2023 and 2022 were as follows:

	<u>2023</u>		<u>2022</u>
Metanoia Youth Leadership Academy Endowment	\$ 26,362	\$	25,597
Zucker Family Endowment for Metanoia's Youth Leadership Academy	84,395		82,061

Note 17. Commitments and Contingencies

As part of the \$4 million mitigation agreement, Metanoia is to receive \$470,000 over the course of 10 years. These funds are deemed restricted until the condition is met (completion of a building project). As of June 30, 2023 and 2022, Metanoia has received \$235,000 and \$188,000, respectively.

Note 18. Custodial Funds

Metanoia entered a memorandum of understanding with the Lowcountry Alliance for Model Communities ("LAMC") on October 21, 2016. Under this agreement, the City of North Charleston transferred \$860,000 to Metanoia and the funds are required to be segregated in a separate cash account (see Note 3); these funds are to be spent according to the agreement. Metanoia will work with targeted communities in North Charleston to identify potential projects for new and renovated housing. Metanoia will develop as many homeownership units as the current market for such can hold and the agreement allows for development of affordable rental housing as well. The money transferred to a revolving account for short term (36 months per project) acquisition and construction financing of identified properties. After 36 months or once that project is complete, whichever is sooner, Metanoia will find long term financing for these properties. No more than 10% of a unit's financing from the funds outlined in the MOU may be left in an individual unit for long term financing. All homeowners or renters served by this grant must have household incomes at or below 120% of Area Median Income ("AMI") adjusted for family size. Housing projects under this agreement will operate within the scope of the Community Master Plan facilitated by the LAMC and adopted by the City of North Charleston. The total liability recorded at June 30, 2023 and 2022 is \$454,801 and \$542,200, respectively, related to this agreement is included within custodial funds within the Statements of Financial Position.

Metanoia

Notes to Financial Statements

June 30, 2023 and 2022

Note 19. Employee Retention Tax Credits

The Employee Retention Credit (“ERC”) program was created under the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) and was significantly modified, expanded, and extended into the first two quarters of calendar year 2021 by the Consolidated Appropriations Act, 2021 (the “Act”). The goal of the ERC program is to encourage employers to retain and continue paying employees during periods of pandemic-related reductions in business volume even if those employees are not actually working, and therefore, are not providing a service to the employer. Under the Act, eligible employers could take credits up to 50% of qualified wages with a limit of \$10,000 per employee per quarter for calendar year 2020 and 70% of qualified wages with a limit of \$10,000 per employee per quarter for the first three quarters of calendar year 2021. In order to qualify for the ERC, organizations have to experience at least a 50% or 20% drop in gross receipts, in the 2020 or 2021 quarter, respectively, compared to the same quarter in calendar year 2019.

Metanoia applied for the ERC in the amount of \$42,279 for the third and fourth quarters of calendar year 2020 and \$118,097 for the first three quarters of calendar year 2021. As of June 30, 2023, Metanoia has received \$160,376 of these tax credits.

Note 20. Subsequent Events

On August 29, 2023 Metanoia transferred ownership of the Old Chicora School into the hands of a wholly owned and disregarded entity, Old Chicora Landlord, LLC (“LLC”). This is to appropriately position the property for the use of SC Abandoned Building tax credits in the overall financing of the construction of the Old Chicora School renovation when that financing can be arranged. It is not anticipated that this LLC will conduct any business activities.

Reporting Under *Government Auditing Standards*



**Independent Auditor’s Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with *Government Auditing Standards***

Board of Directors
Metanoia
North Charleston, South Carolina

We have audited, in accordance with the 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, the financial statements of Metanoia, which comprise the Statement of Financial Position as of June 30, 2023 and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated December 14, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Metanoia’s internal control over financial reporting (“internal control”) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Metanoia’s internal control. Accordingly, we do not express an opinion on the effectiveness of Metanoia’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Metanoia’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Metanoia's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Elliott Davis, LLC". The signature is written in a cursive style with a large, sweeping initial 'E'.

Charleston, South Carolina
December 14, 2023

Reporting Under the *Uniform Guidance*



**Independent Auditor's Report on Compliance for Each Major
Federal Program and on Internal Control Over Compliance
Required by the *Uniform Guidance***

Board of Directors
Metanoia
North Charleston, South Carolina

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Metanoia's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Metanoia's major federal programs for the year ended June 30, 2023. Metanoia's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Metanoia complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Our responsibilities under those standards and the *Uniform Guidance* are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Metanoia and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of Metanoia's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Metanoia's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Metanoia's compliance based on our audit. 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 GAAS, *Government Auditing Standards*, and the *Uniform Guidance* will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Metanoia's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the *Uniform Guidance*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Metanoia's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Metanoia's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the *Uniform Guidance*, but not for the purpose of expressing an opinion on the effectiveness of Metanoia's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Report on Internal Control Over Compliance, Continued

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the *Uniform Guidance*. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Elliott Davis, LLC". The signature is written in a cursive, flowing style.

Charleston, South Carolina
December 14, 2023

Metanoia*Schedule of Expenditures of Federal Awards**For the year ended June 30, 2023*

Federal Grantor/ Program Title	CFDA Number	Award Number	Pass-through Grantor	Pass-through Grant Number	Federal Expenditures
U.S. Department of Health and Human Services CED Business Expansion Projects	93.570	90EE128-01-00	N/A	N/A	\$ 113,660
U.S. Department of Housing and Urban Development Home Investment Partnership Program	14.239	01-HOME-2066-18	North Charleston HOME	01-HOME-2066-18	14,399
	14.239	01-HOME-2066-19	North Charleston HOME	01-HOME-2066-19	63,773
	14.239	M19-SG450253	North Charleston HOME	M19-SG450253	1,309,231
	14.239	M20-SG450263	North Charleston HOME	M20-SG450263	1,029,937
Community Development Technical Assistance	14.239	01-CHDO-2157-2158-20	Charleston County and North Charleston HOME/CHDO	01-CHDO-2157-2158-20	6,788
	14.239	01-CHDO-2158-2182-21	Charleston County and North Charleston HOME/CHDO	01-CHDO-2158-2182-21	52,900
					<u>2,477,028</u>
Housing Trust Fund	14.275	HFT-8520	National Housing Trust Fund Program	HFT-8520	66,307
	14.275	F19-SG450253	HUD - Neighborhood Stabilization HOME	F19-SG450253	510,968
					<u>577,275</u>
Community Development Block Grant - Entitlement Grants Cluster	14.218	20-NSP263	HUD - Neighborhood Stabilization HOME	20-NSP263	51,992
Community Development Block Grant - State's Program and Non-Entitlement Grants in Hawaii	14.228	02-CDBG-05D-2168-21	Charleston County CDBG	02-CDBG-05D-2168-21	6,231
Total U. S. Department of Housing and Urban Development					<u>3,226,186</u>
Total Federal Expenditures					<u>\$ 3,226,186</u>

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the Federal contracts and grant activity of Metanoia and is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

Note 2. Indirect Cost Rate

Metanoia does not utilize an indirect cost rate with respect to its federal programs.

Metanoia***Schedule of Findings and Questioned Costs
For the year ended June 30, 2023***

Section I - Summary of Auditor's Results

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified? No

Significant deficiencies identified not considered to be material weaknesses? None noted

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

Material weaknesses identified? No

Significant deficiencies identified not considered to be material weaknesses? None noted

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)? No

Identification of major programs:

Assistance Listing Number	Name of Federal Program or Cluster
14.239	Home Investment Partnership Program/ Community Development Technical Assistance

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? No

Section II - Financial Statements Findings

None

Section III - Federal Award Findings and Questioned Costs

None

Section IV - Summary Schedule of Prior Audit Findings

None