

EAST END COOPERATIVE MINISTRY, INC. AND AFFILIATES  
Pittsburgh, Pennsylvania

Combined Financial Statements  
For the years ended June 30, 2019 and 2018  
and Independent Auditors' Report Thereon



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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
East End Cooperative Ministry, Inc. and Affiliates  
Pittsburgh, Pennsylvania

We have audited the accompanying combined financial statements of East End Cooperative Ministry, Inc. and Affiliates (EECM and Affiliates), which comprise the combined statements of financial position as of June 30, 2019 and 2018, and the related combined statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the combined financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of EECM and Affiliates as of June 30, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of a Matter***

As discussed in Note 2 to the combined financial statements, in the year ended June 30, 2019, EECM and Affiliates adopted Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities. Our opinion is not modified with respect to this matter.

*Schneider Downs & Co., Inc.*

Pittsburgh, Pennsylvania  
December 4, 2019

EAST END COOPERATIVE MINISTRY, INC. AND AFFILIATES

COMBINED STATEMENTS OF FINANCIAL POSITION

	June 30	
	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 11,696	\$ 24,625
Restricted cash	279,078	195,714
Accounts receivable, net	938,288	505,152
Prepaid expenses and other assets	<u>63,426</u>	<u>35,806</u>
Total Current Assets	1,292,488	761,297
PROPERTY AND EQUIPMENT, net	12,330,581	12,807,795
OTHER ASSETS		
Note receivable	<u>250,000</u>	<u>250,000</u>
	<u>\$ 13,873,069</u>	<u>\$ 13,819,092</u>
LIABILITIES		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 28,827	\$ 52,513
Line of credit	1,791,479	1,783,979
Accounts payable and other current liabilities	<u>207,613</u>	<u>245,432</u>
Total Current Liabilities	2,027,919	2,081,924
LONG-TERM LIABILITIES		
Long-term debt	<u>1,201,018</u>	<u>4,929,934</u>
	3,228,937	7,011,858
NET ASSETS		
Without donor restrictions	9,605,527	6,095,527
With donor restrictions	<u>1,038,605</u>	<u>711,707</u>
	<u>10,644,132</u>	<u>6,807,234</u>
	<u>\$ 13,873,069</u>	<u>\$ 13,819,092</u>

See notes to combined financial statements.

EAST END COOPERATIVE MINISTRY, INC. AND AFFILIATES

COMBINED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019		Total
	Without Donor Restrictions	With Donor Restrictions	
<b>REVENUES AND SUPPORT</b>			
Contractual	\$ 1,255,491	-	\$ 1,255,491
Congregational	54,812	-	54,812
Foundation and corporate grants	1,627,827	\$ 835,966	2,463,793
Individual donations	302,253	-	302,253
Program service fees	50,741	-	50,741
In-kind donations	575,225	-	575,225
Other revenue	477,900	-	477,900
Debt forgiveness	3,879,000	-	3,879,000
Net assets released from operating restrictions	509,068	(509,068)	-
	<u>8,732,317</u>	<u>326,898</u>	<u>9,059,215</u>
<b>EXPENSES</b>			
Program services:			
Housing	1,899,611	-	1,899,611
Hunger	1,265,746	-	1,265,746
Children and youth	827,322	-	827,322
Workforce	351,715	-	351,715
Supporting services:			
Administration:			
General and operating	730,265	-	730,265
Fundraising	147,658	-	147,658
	<u>5,222,317</u>	<u>-</u>	<u>5,222,317</u>
Change In Net Assets	3,510,000	326,898	3,836,898
<b>NET ASSETS</b>			
Beginning of year	<u>6,095,527</u>	<u>711,707</u>	<u>6,807,234</u>
End of year	<u>\$ 9,605,527</u>	<u>\$ 1,038,605</u>	<u>\$ 10,644,132</u>

2018		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 1,116,891	\$ 1,900	\$ 1,118,791
47,810	13,200	61,010
495,952	481,212	977,164
318,427	4,500	322,927
69,694	-	69,694
343,843	-	343,843
165,560	-	165,560
-	-	-
773,609	(773,609)	-
<u>3,331,786</u>	<u>(272,797)</u>	<u>3,058,989</u>
1,939,355	-	1,939,355
1,052,617	-	1,052,617
1,017,889	-	1,017,889
421,163	-	421,163
461,777	-	461,777
203,967	-	203,967
<u>5,096,768</u>	<u>-</u>	<u>5,096,768</u>
(1,764,982)	(272,797)	(2,037,779)
<u>7,860,509</u>	<u>984,504</u>	<u>8,845,013</u>
<u>\$ 6,095,527</u>	<u>\$ 711,707</u>	<u>\$ 6,807,234</u>

See notes to combined financial statements.

EAST END COOPERATIVE MINISTRY, INC. AND AFFILIATES

COMBINED STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2019

	Program Services				
	Housing	Hunger	Children and Youth	Workforce	Total
PERSONNEL EXPENSES					
Salaries and wages	\$ 807,528	\$ 298,412	\$ 469,322	\$ 225,990	\$ 1,801,252
Payroll taxes	59,088	22,339	33,746	17,503	132,676
Insurance	80,614	28,893	51,477	27,692	188,676
	<u>947,230</u>	<u>349,644</u>	<u>554,545</u>	<u>271,185</u>	<u>2,122,604</u>
OPERATING EXPENSES					
Professional and contract services	93,628	30,007	54,973	11,951	190,559
Occupancy	227,896	86,625	49,687	24,940	389,148
Office	10,820	20,396	6,920	4,414	42,550
Insurance	20,777	13,251	12,489	1,317	47,834
Equipment	25,246	8,102	5,409	3,627	42,384
Program activities and supplies	366,852	602,648	14,055	8,360	991,915
Other expenses	446	36	47	82	611
	<u>745,665</u>	<u>761,065</u>	<u>143,580</u>	<u>54,691</u>	<u>1,705,001</u>
Depreciation and amortization	<u>206,716</u>	<u>155,037</u>	<u>129,197</u>	<u>25,839</u>	<u>516,789</u>
	<u>\$ 1,899,611</u>	<u>\$ 1,265,746</u>	<u>\$ 827,322</u>	<u>\$ 351,715</u>	<u>\$ 4,344,394</u>



<u>Administration</u>	<u>Fundraising</u>	<u>Total Expenses</u>
\$ 61,435	\$ 10,523	\$ 1,873,210
3,494	705	136,875
26,572	17,990	233,238
<u>91,501</u>	<u>29,218</u>	<u>2,243,323</u>
121,542	31,316	343,417
137,383	6,994	533,525
19,450	43,035	105,035
6,374	1,038	55,246
4,126	563	47,073
1,358	3,195	996,468
251,633	-	252,244
<u>541,866</u>	<u>86,141</u>	<u>2,333,008</u>
96,898	32,299	645,986
<u>\$ 730,265</u>	<u>\$ 147,658</u>	<u>\$ 5,222,317</u>

See notes to combined financial statements.

EAST END COOPERATIVE MINISTRY, INC. AND AFFILIATES

COMBINED STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2018

	Program Services				Total
	Housing	Hunger	Children and Youth	Workforce	
<b>PERSONNEL EXPENSES</b>					
Salaries and wages	\$ 794,315	\$ 294,985	\$ 575,374	\$ 255,027	\$ 1,919,701
Payroll taxes	58,247	22,155	43,795	18,925	143,122
Insurance	136,888	43,553	90,474	50,278	321,193
	989,450	360,693	709,643	324,230	2,384,016
<b>OPERATING EXPENSES</b>					
Professional and contract services	38,460	19,268	37,703	5,125	100,556
Occupancy	299,041	111,962	68,716	19,161	498,880
Office	5,824	2,086	2,383	1,049	11,342
Insurance	20,771	9,757	8,417	1,697	40,642
Equipment	30,760	18,710	22,287	24,821	96,578
Program activities and supplies	388,265	404,331	64,494	23,702	880,792
Other expenses	30	745	25	534	1,334
	783,151	566,859	204,025	76,089	1,630,124
Depreciation and amortization	166,754	125,065	104,221	20,844	416,884
	\$ 1,939,355	\$ 1,052,617	\$ 1,017,889	\$ 421,163	\$ 4,431,024

<u>Administration</u>	<u>Fundraising</u>	<u>Total Expenses</u>
\$ 13,000	\$ 62,448	\$ 1,995,149
995	4,484	148,601
2,438	9,039	332,670
<u>16,433</u>	<u>75,971</u>	<u>2,476,420</u>
128,851	20,607	250,014
130,209	9,742	638,831
27,039	17,237	55,618
1,796	840	43,278
-	4,689	101,267
20,279	49,361	950,432
60,615	-	61,949
<u>368,789</u>	<u>102,476</u>	<u>2,101,389</u>
<u>76,555</u>	<u>25,520</u>	<u>518,959</u>
<u><u>\$ 461,777</u></u>	<u><u>\$ 203,967</u></u>	<u><u>\$ 5,096,768</u></u>

See notes to combined financial statements.

EAST END COOPERATIVE MINISTRY, INC. AND AFFILIATES

COMBINED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 3,836,898	\$ (2,037,779)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	645,986	518,959
Debt forgiveness	(3,879,000)	-
Changes in assets and liabilities:		
Accounts receivable	(433,136)	(121,884)
Prepaid expenses	(27,620)	55,161
Accounts payable and other current liabilities	(37,819)	42,831
Net Cash Provided By (Used In) Operating Activities	<u>105,309</u>	<u>(1,542,712)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(23,427)	-
Redemptions of certificates of deposit	-	100,103
Net Cash (Used In) Provided By Investing Activities	<u>(23,427)</u>	<u>100,103</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from line of credit, net	7,500	1,209,530
Payments on debt	(18,947)	(34,512)
Net Cash (Used In) Provided By Financing Activities	<u>(11,447)</u>	<u>1,175,018</u>
Net Increase (Decrease) In Cash And Cash Equivalents	70,435	(267,591)
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>220,339</u>	<u>487,930</u>
End of year	<u>\$ 290,774</u>	<u>\$ 220,339</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the year for interest	<u>\$ 250,483</u>	<u>\$ 75,000</u>

**SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES**

During 2018, EECM and Affiliates took out a note for \$57,000 to finance the purchase of a vehicle.

See notes to combined financial statements.

EAST END COOPERATIVE MINISTRY, INC. AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

NOTE 1 - DESCRIPTION OF ORGANIZATION

East End Cooperative Ministry, Inc. and Affiliates (EECM and Affiliates) are composed of East End Cooperative Ministry, Inc. (EECM), EECM Workforce, Inc. (Workforce) and East End Community House Building Fund (Building Fund). At the close of the New Market Tax Credit deal on June 14, 2019, the Building Fund was liquidated. (See Note 4.)

Funding is received primarily through government and foundation grants. Other funding sources include in-kind and individual, congregational and corporate donations, commercial sewing, landscaping, snow removal and custodial services revenue.

EECM was founded in 1970 when local congregations joined together believing that they could accomplish more by working together than by working individually. The mission of EECM is to change the lives of people facing the impact of poverty. EECM provides direct, hands-on services to the hungry, the homeless, the elderly and the disadvantaged urban children and youth living in Pittsburgh's economically distressed East End neighborhoods (East Liberty, Homewood, Lincoln-Lemington, Larimer and Garfield).

EECM has a Board of Directors (Board) consisting of up to 25 members with full fiduciary and governance responsibilities. There are currently 11 members on the Board.

The Building Fund was formed in 2012 for the purpose of completing a New Market Tax Credit transaction as described in Note 4 and is classified as a Type I supporting organization of EECM as defined by the Internal Revenue Code Section 501(c)(3).

Workforce, a subsidiary of EECM, was incorporated as a for-profit PA Benefit Corporation in mid-2015. Workforce creates opportunities for individuals who graduate from the Work Therapy training program provided by EECM to its clients and underserved populations, many of whom are difficult to employ. Some of the services that Workforce offers include professional landscaping, snow removal, custodial services to local businesses and commercial sewing services to sewing manufacturers.

The following describes EECM's programs and services:

Housing Services Program

Emergency Shelter - Every night of the year, EECM provides homeless people with beds, showers, laundry facilities, hot meals and a safe haven from the street. Caring staff work with each person on a treatment plan to help him/her move towards self-sufficiency. The shelter in the Community House serves both men and women and is equipped with two handicapped-accessible beds.

Education & Employment Program - This program helps individuals, both from EECM's housing program and the community, overcome their barriers, identify the gifts and talents they have to offer an employer, and be prepared to highlight those qualities on their resumes and in interviews.

Bridge Housing - This one-year transitional 12-bed residential program provides a safe and supportive living space for homeless men who are making the transition from crisis shelter to independent living. While at Bridge, staff help the men overcome their barriers toward self-sufficiency such as lack of education, unhealthy behaviors and attitudes that led to their being homeless.

EAST END COOPERATIVE MINISTRY, INC. AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

NOTE 1 - DESCRIPTION OF ORGANIZATION (Continued)

Recovery House - This is a 14-bed, 90-day, recovery-based program for men. Staff helps residents move from either jail or inpatient rehab to community-based living. The focus while at the facility is on employment, long-term recovery and housing.

William and Mildred Orr Compassionate Care Center - The William and Mildred Orr Compassionate Care Center (Orr) is a nonmedical respite care facility where individuals, whether homeless adults, mentally ill men and women, or individuals unable to care for themselves in the short term can recuperate after being discharged from local hospitals. This program was merged into our emergency shelter program due to low referral rates.

Safe Haven Program - Safe Haven, a HUD-funded Housing First model, provides long-term housing and support for up to 10 chronically homeless, mentally ill men who had previously been living on the streets. This program ended in March 2018.

Families Achieving Independence Through Housing (FAITH) - FAITH is a supportive housing program for families with a family member who is mentally or physically disabled.

Hunger Programs

Food Pantry - The Food Pantry provides emergency food and staples to people living in EECM's designated service area. In addition, clients are referred to and helped to access various social service programs.

Community Kitchen - The Community Kitchen serves hot, nutritious noon meals five days a week to the underserved community.

Children and Youth Programs

EECM Children and Youth Programs are designed to help young people succeed in school, explore personal interests and avoid substance abuse and violent influences prevalent in the community. EECM programs reach out to disadvantaged urban youth to help them discover and work towards a more promising future.

Children & Youth Programs - A number of in-school and after-school prevention and intervention programs provide recreation, life skills lessons, career exploration and mentoring to children and youth at multiple sites, including public schools and member congregation facilities. Although each specific program has its own goals and objectives, they all provide safe, healthy environments where young people in the community may learn and grow physically, mentally, emotionally and spiritually.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies consistently applied by management in the preparation of the accompanying combined financial statements follows:

Basis of Accounting - The financial statements of EECM and Affiliates are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

EAST END COOPERATIVE MINISTRY, INC. AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates - The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Principles of Combination - The combined financial statements include the accounts of EECM, EECM Workforce and the Building Fund, collectively EECM and Affiliates. All intercompany balances and transactions have been eliminated in combination.

Net Assets - EECM and Affiliates classifies resources for accounting and reporting purposes into separate net asset classes based on the absence or existence of donor-imposed restrictions. In the accompanying combined financial statements, net assets that have similar characteristics have been combined into similar categories.

A description of EECM and Affiliates' net asset categories is as follows:

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed restrictions related to purpose or time. Some donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated purpose or time for which the resource was restricted has been fulfilled.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Contractual revenue is recognized when earned under the terms of the contracts. Gains and losses on investments and other assets are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law. Expirations of temporary restrictions on net assets are reported as reclassifications to net assets without donor restrictions.

Cash and Cash Equivalents - EECM and Affiliates consider all highly liquid investments with an original maturity of three months or less to be cash equivalents. Restricted cash represents cash related to the new markets tax credit financing transaction and the endowment. (See Note 4.) Cash is maintained at several financial institutions, which may exceed federally insured amounts at times.

Accounts Receivable - Accounts receivable consist of amounts due under contracts and grants. Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. A reserve is recorded based on management's evaluation of potential uncollectible receivable balances at year-end. A reserve of \$21,000 and \$28,000 was recorded as of June 30, 2019 and 2018, respectively.

EAST END COOPERATIVE MINISTRY, INC. AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment - Property and equipment acquired are recorded at lower of cost or fair value. Depreciation is provided by the straight-line method over the estimated useful lives of the assets as follows:

	<u>Estimated Life</u>
Building and improvements	7-40
Furniture and fixtures	7
Equipment	5-10
Vehicles	5

Maintenance and repairs that are not considered to extend the useful lives of assets are charged to operations as incurred. Expenditures for additions and improvements are capitalized. Upon sale or retirement, the cost of assets and related allowances are removed from the accounts, and any resulting gains or losses are included in income (expense) for the year.

Impairment of Long-Lived Assets - Management of EECM and Affiliates reviews the carrying amount of land, buildings and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset might not be recoverable. Management considers the undiscounted cash flow expected to be generated by the use of the asset and its eventual disposition to determine when, and if, impairment has occurred. Any write-downs due to impairment are charged to the statement of activities at the time impairment is identified. No such write-downs were required in 2019 and 2018.

In-Kind Donations - Donated materials and services meeting the requirements of accounting principles generally accepted in the United States of America are reflected as contributions at their estimated values at date of receipt. In-kind donations consist of food and program supplies of \$575,000 and \$344,000 for the years ended June 30, 2019 and 2018, respectively.

Administrative Cost Allocation Plan - EECM follows the Allegheny County Cost Allocation Plan. Administrative expenses are distributed to functional expense categories in a way that management believes is fair and equitable.

Functional Allocation of Expenses - The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. EECM allocates occupancy and facility costs based on square footage, IT costs based on the number of employees in each department, and personnel costs based on time incurred by employees.

Employee Benefit Plan - EECM sponsors a salary reduction contribution plan pursuant to Section 403(b) of the Internal Revenue Code, covering substantially all employees. Under the plan, employees contribute a specified percentage of their salary, or a fixed-dollar amount, to the plan. EECM may agree to make nonelective contributions to participants' accounts. There were no nonelective contributions made by EECM for the years ended June 30, 2019 and 2018.



EAST END COOPERATIVE MINISTRY, INC. AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes - The Internal Revenue Service (IRS) has ruled that EECM and the Building Fund are each individually tax-exempt under Section 501(c)(3) of the Internal Revenue Code (IRC); accordingly, no provision for income taxes has been made in the accompanying financial statements.

EECM and Affiliates follow the Financial Accounting Standards Board (FASB) Accounting Standards Codification (Codification) topic on Income Taxes, which prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in combined financial statements. EECM and Affiliates' combined statements of financial position at June 30, 2019 and 2018 do not include any liabilities associated with uncertain tax positions; further, EECM and Affiliates have no unrecognized tax benefits. EECM and Affiliates accrue interest and penalties related to unrecognized tax benefits in income tax expense. EECM and Affiliates are no longer subject to examination of their tax returns for years before 2016.

Fair Value Measurement - The framework for measuring fair value provides for 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 and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The three levels of the fair value hierarchy are defined as follows:

Level 1 - Inputs to the valuation methodology are based on unadjusted quoted prices for identical assets or liabilities in active markets. As of June 30, 2019 and 2018, all of EECM and Affiliates' investments consisted of certificates of deposits, which are classified as Level 1.

Level 2 - Inputs to the valuation methodology are based on quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived from or corroborated by observable market data by correlation or other means.

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.

Recently Adopted Accounting Pronouncement - In August 2016, the FASB completed Phase I of its Presentation of Financial Statements of Not-for-Profit Entities and issued Accounting Standards Update (ASU) No. 2016-14 Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities (ASU 2016-14), which is intended to simplify and improve not-for-profit financial reporting, including current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017. EECM adopted the provisions of ASU 2016-14 on its financial statements in the current year. The adoption of ASU 2016-14 has been applied on a retrospective basis; and unrestricted net assets and temporarily restricted net assets are now presented as net assets without donor restrictions and net assets with donor restrictions, respectively. This accounting method change requires restricted funds associated with capital assets to be reclassified when they are placed in service compared to the prior option to release these over time to match the depreciation. As a result, net assets without donor restrictions increased and net assets with donor restrictions decreased by \$8,253,841.

EAST END COOPERATIVE MINISTRY, INC. AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A recap of the net asset reclassifications recorded by the adoption of ASU 2016-14 as of July 1, 2017 follows:

	<u>ASU 2016-14 Classifications</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Net Assets</u>
As previously presented:			
Unrestricted	\$ (1,010,462)	-	\$ (1,010,462)
Temporarily Restricted	-	\$ 9,576,781	9,576,781
Permanently Restricted	-	278,694	278,694
Net assets previously presented	(1,010,462)	9,855,475	8,845,013
Required change in accounting method associated with the adoption of ASU 2016-14	<u>8,870,971</u>	<u>(8,870,971)</u>	<u>-</u>
Net assets, as restated	<u>\$ 7,860,509</u>	<u>\$ 984,504</u>	<u>\$ 8,845,013</u>

Recently Issued Accounting Pronouncements - The FASB issued ASU No. 2014-09 Revenue from Contracts with Customers (Topic 606) (ASU 2014-09). ASU 2014-09 is the result of a joint project of FASB and the International Accounting Standards Board to clarify the principles for recognizing revenue and to develop a common revenue standard for use in the U.S. and internationally. ASU 2014-09 supersedes the revenue recognition requirements in Topic 605 of the FASB Codification and most industry-specific guidance throughout the Industry Topics of the Codification. ASU 2014-09 enhances comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets, reduces the number of requirements an entity must consider for recognizing revenue, and requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. ASU 2014-09 requires either retrospective application by restating each prior period presented in the financial statements, or retrospective application by recording the cumulative effect on prior reporting periods to beginning retained earnings in the year that the standard becomes effective. In August 2015, the FASB issued ASU 2015-14, which deferred the effective date by one year. In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Principal Versus Agent Considerations), to clarify the implantation guidance on principal versus agent considerations. The standard will be effective for annual reporting periods beginning after December 15, 2018. EECM is assessing the impact that that this standard will have on its combined financial statements and corresponding disclosures.

EAST END COOPERATIVE MINISTRY, INC. AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The FASB has issued ASU 2016-02 Leases (Topic 842) (ASU 2016-02), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. ASU 2016-02 supersedes the previous leases standard, Leases (Topic 840). The standard is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. EECM is assessing the impact that ASU 2016-12 will have on its combined financial statements and corresponding disclosures.

In June 2018, the FASB issued ASU No. 2018-08 Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (ASU 2018-08) to clarify and improve the scope and accounting guidance for contributions received and contributions made. The amendments in ASU 2018-08 should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958 Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. ASU 2018-08 is effective for transactions in which the entity serves as the resource recipient for annual periods beginning after December 15, 2018. For transactions in which the entity serves as the resource provider, ASU 2018-08 is effective for annual periods beginning after December 15, 2019. EECM is currently in the process of evaluating the impact that the adoption of ASU 2018-18 will have on its combined financial statements.

Subsequent Events - EECM and Affiliates have evaluated subsequent events through December 4, 2019, the date on which the financial statements were available to be issued.

NOTE 3 - LIQUIDITY

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	<u>2019</u>
Cash and cash equivalents	\$ 11,696
Accounts receivable	<u>180,000</u>
	<u>\$ 191,696</u>

EECM and Affiliates saw a significant increase in net assets in the year ended June 30, 2019 as a result of the unwinding of New Markets Tax Credit transaction. EECM and Affiliates have approximately \$200,000 of remaining availability on their line of credit as of June 30, 2019 and 2018; however, in July 2019 a significant unrestricted grant of \$500,000 was received. The increase in net assets and additional grant funding has significantly improved the liquidity and financial position of EECM and Affiliates.

EAST END COOPERATIVE MINISTRY, INC. AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

NOTE 3 - LIQUIDITY (Continued)

During 2018, EECM and Affiliates hired a new Executive Director, who continues to focus on operations and has been working to develop a larger and more diverse donor base. In addition, management has taken steps to reduce costs in excess of \$400,000 a year and has renegotiated their debt.

The outcome of these efforts had a positive effect on the year's financial results. EECM and Affiliates has proven its ability to continue to operate and meet their obligations and expects to increase their donations and streamline their operations to produce adequate cash flows.

NOTE 4 - NEW MARKETS TAX CREDIT FINANCING

In June 2012, EECM participated in a new markets tax credit (NMTC) transaction pursuant to Section 45D of the IRC. The strategy of the transaction was to finance the project costs of the new East End Community House in East Liberty. An NMTC transaction assists eligible businesses in making investments in certain communities. After the financing transactions and eliminating transactions associated with the Building Fund, EECM had a mortgage of \$3,729,000 (Note C).

Details of the standard NMTC transactions are as follows:

Pittsburgh Urban Initiatives, LLC (PUI) received an allocation of NMTC and allocated a portion to a Community Development Entity (CDE) along with a \$1,500 investment for 0.01% ownership interest. Another entity, the Investment Fund, contributed \$15,000,000 for a 99.99% ownership interest to the CDE. The CDE in turn loaned EECM three mortgages, Note A for \$9,371,000, Note B for \$1,300,000 and Note C for \$3,729,000. However, Notes A and B were eliminated through consolidation with the Building Fund.

The Building Fund loaned \$10,671,000 to an Investment Fund. In addition, another nonrelated entity contributed cash of \$4,329,000 to the Investment Fund. This allowed the Investment Fund to make the \$15,000,000 contribution to the CDE.

On June 30, 2019, the CDE liquidated and distributed its assets to the Investment Fund. EECM acquired all the interests in the Investment Fund in the predetermined amount of \$1,000 and the Investment Fund was also liquidated. After the exit transactions were completed, EECM became the holder of Note C. Also, the Building Fund liquidated and distributed its assets to EECM, and Note A, Note B and Note C were forgiven.

EAST END COOPERATIVE MINISTRY, INC. AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Building and improvements	\$ 13,486,031	\$ 13,482,031
Furniture and fixtures	459,859	448,630
Equipment	525,154	355,393
Vehicles	348,635	348,635
	<u>14,819,679</u>	<u>14,634,689</u>
Less - Accumulated depreciation	3,250,522	2,749,880
	<u>11,569,157</u>	<u>11,884,809</u>
Land	761,424	761,424
Equipment not yet placed in service	-	161,562
	<u>\$ 12,330,581</u>	<u>\$ 12,807,795</u>

NOTE 6 - NOTE RECEIVABLE

EECM received a \$250,000 grant through East Liberty Development, Inc. (ELDI) from the Heinz Endowments for the purpose of making a co-investment with ELDI in a hotel development in East Liberty in 2013. Pursuant to the subject loan, 50% of the interest and principal repayments will be retained by EECM for its use and control with no restrictions. Management expects payments to begin in fiscal year 2021 and continue through fiscal year 2035 on total payment amounts received by ELDI.

NOTE 7 - DEBT

Debt consisted of the following at June 30:

	<u>2019</u>	<u>2018</u>
Loan from the CDE for \$3,729,000. This loan was forgiven on June 30, 2019 (See Note 4).	-	\$ 3,729,000
Loan from the Urban Redevelopment Authority of Pittsburgh for \$1,300,000. Interest-only payments at 1.0%, beginning January 2021. Balloon payment is due January 2028. \$150,000 of this balance was forgiven in the year ended June 30, 2019.	<u>\$ 1,150,000</u>	<u>1,300,000</u>
Subtotal	1,150,000	5,029,000

EAST END COOPERATIVE MINISTRY, INC. AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

NOTE 7 - DEBT (Continued)

	<u>2019</u>	<u>2018</u>
Balance forward	\$ 1,150,000	\$ 5,029,000
Notes payable related to vehicle financing. Interest rates ranging from 2.9% to 5.2%. Maturity dates ranging from August 2021 to August 2022.	<u>79,845</u> 1,229,845	<u>98,792</u> 5,127,792
Less - Current portion of long-term debt	<u>(28,827)</u> 1,201,018	<u>(52,513)</u> 5,075,279
Less - Deferred financing costs	<u>-</u>	<u>(145,345)</u>
	<u>\$ 1,201,018</u>	<u>\$ 4,929,934</u>

In addition, EECM has an open commitment from a bank for a \$2,000,000 line of credit. The terms of the underlying agreement provide for monthly interest payments at the prime interest rate. Borrowings are payable on demand and are collateralized by substantially all the assets without donor restrictions of EECM. Total outstanding borrowings on the line of credit totaled \$1,791,479 and \$1,783,979 for the years ended June 30, 2019 and 2018, respectively.

NOTE 8 - RESTRICTED NET ASSETS

Net assets with donor restrictions are available at June 30 subject to expenditure for specified purpose:

<u>Program</u>	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose:		
Homeless & Hunger	\$ 32,942	\$ 43,076
Workforce	-	26,823
Children and Youth Services	381,033	67,500
Administration	34,992	39,200
Business Development	60,560	6,414
ELDI Receivable	<u>250,000</u>	<u>250,000</u>
	759,527	433,013
Perpetual in nature:	<u>279,078</u>	<u>278,694</u>
	<u>\$ 1,038,605</u>	<u>\$ 711,707</u>

EAST END COOPERATIVE MINISTRY, INC. AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

NOTE 8 - RESTRICTED NET ASSETS (Continued)

Net assets were released from donor restrictions during fiscal years ended June 30 are as follows:

	<u>2019</u>	<u>2018</u>
Satisfaction of purpose restrictions:		
Homeless & Hunger	\$ 230,716	\$ 254,109
Workforce	26,823	223,225
Children and Youth Services	171,467	210,201
Administration	29,208	62,026
Business Development	50,854	24,048
	<u>\$ 509,068</u>	<u>\$ 773,609</u>

NOTE 9 - LEASE OBLIGATIONS

EECM and Affiliates leases property and office equipment under operating leases with various expiration dates through December 2024. Total rent expense under these leases was approximately \$18,000 and \$64,000 for the years ended June 30, 2019 and 2018, respectively. Future approximate minimum rentals for these leases are as follows:

<u>Year Ending</u> <u>June 30</u>	<u>Amount</u>
2020	\$ 9,057
2021	8,772
2022	5,640
2023	5,640
2024	4,700
Thereafter	<u>-</u>
	<u>\$ 33,809</u>

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Financial awards from federal, state and local governmental entities in the form of grants are subject to audit. Such audits could result in claims against the EECM for disallowed costs or noncompliance with grantor restrictions. Management of EECM is not currently aware of potential disallowed costs and has made no provision for any liabilities that may arise from such audits.

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