

**SOUTHWEST PARTNERSHIP, INC. AND SUBSIDIARY**  
AUDITED CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2018 AND 2017

Approved By: \_\_\_\_\_

# **SOUTHWEST PARTNERSHIP, INC. AND SUBSIDIARY**

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## Independent Auditors' Report

Board of Directors  
Southwest Partnership, Inc. and Subsidiary  
Baltimore, Maryland

We have audited the accompanying consolidated financial statements of Southwest Partnership, Inc. (a nonprofit organization) and Subsidiary, which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

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

### **Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Independent Auditors' Report (continued)

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Southwest Partnership, Inc. and Subsidiary as of December 31, 2018 and 2017, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Hunt Valley, Maryland  
DATE TBD

DRAFT

**SOUTHWEST PARTNERSHIP, INC. AND SUBSIDIARY**Consolidated Statement of Financial Position  
December 31, 2018 and 2017ASSETS

|                                     | 2018       | 2017       |
|-------------------------------------|------------|------------|
| CURRENT ASSETS:                     |            |            |
| Cash                                | \$ 389,207 | \$ 170,558 |
| Grants and contributions receivable | 161,861    | 135,854    |
| Loan receivable, current portion    | 4,930      | 5,069      |
| Prepaid expenses                    | 375        | 915        |
| Total Current Assets                | 556,373    | 312,396    |
| PROPERTY AND EQUIPMENT, NET         | 4,151      | 2,320      |
| OTHER ASSETS:                       |            |            |
| Building held for sale              | - 0 -      | 332,149    |
| Loan receivable                     | 235,029    | 239,958    |
| Security deposits                   | 3,500      | 6,000      |
| Total Other Assets                  | 238,529    | 578,107    |
| TOTAL ASSETS                        | \$ 799,053 | \$ 892,823 |

LIABILITIES AND NET ASSETS

|  |            |            |
|--|------------|------------|
| CURRENT LIABILITIES:                               |            |            |
| Accounts payable and accrued expenses              | \$ 26,629  | \$ 26,847  |
| Grant refund payable                               | - 0 -      | 14,800     |
| Capital lease obligation, current portion          | 916        | - 0 -      |
| Custodial funds                                    | 15,000     | - 0 -      |
| Total Current Liabilities                          | 42,545     | 41,647     |
| LONG-TERM LIABILITIES:                             |            |            |
| Capital lease obligation                           | 1,742      | - 0 -      |
| Grant advance                                      | 180,000    | - 0 -      |
| Loan payable, less unamortized debt issuance costs | - 0 -      | 314,328    |
| Total Long-Term Liabilities                        | 181,742    | 314,328    |
| Total Liabilities                                  | 224,287    | 355,975    |
| NET ASSETS:  |            |            |
| Without donor restrictions                         | 475,766    | 497,848    |
| With donor restrictions                            | 99,000     | 39,000     |
| Total Net Assets                                   | 574,766    | 536,848    |
| TOTAL LIABILITIES AND NET ASSETS                   | \$ 799,053 | \$ 892,823 |

See accompanying notes to financial statements

# SOUTHWEST PARTNERSHIP, INC. AND SUBSIDIARY

## Consolidated Statement of Activities and Changes in Net Assets For the Year Ended December 31, 2018

|                                      | Without Donor<br>Restrictions | With Donor<br>Restrictions | Total          |
|--------------------------------------|-------------------------------|----------------------------|----------------|
| <b>SUPPORT AND REVENUE:</b>          |                               |                            |                |
| Grants                               | \$ 800,897                    | \$ 60,000                  | \$ 860,897     |
| Contributions                        | 14,287                        | - 0 -                      | 14,287         |
| Loss on disposal of subsidiary       | (110,957)                     | - 0 -                      | (110,957)      |
| Other income                         | 1,684                         | - 0 -                      | 1,684          |
| Net assets released from restriction | - 0 -                         | - 0 -                      | - 0 -          |
| <br>Total Support and Revenue        | <br>705,911                   | <br>60,000                 | <br>765,911    |
| <b>EXPENSES:</b>                     |                               |                            |                |
| Program services                     | 631,038                       | - 0 -                      | 631,038        |
| Supporting services:                 |                               |                            |                |
| Management and general               | 76,093                        | - 0 -                      | 76,093         |
| Fundraising                          | 20,862                        | - 0 -                      | 20,862         |
| <br>Total Expenses                   | <br>727,993                   | <br>- 0 -                  | <br>727,993    |
| <br>CHANGE IN NET ASSETS             | <br>(22,082)                  | <br>60,000                 | <br>37,918     |
| <br>NET ASSETS AT BEGINNING OF YEAR  | <br>497,848                   | <br>39,000                 | <br>536,848    |
| <br>NET ASSETS AT END OF YEAR        | <br>\$ 475,766                | <br>\$ 99,000              | <br>\$ 574,766 |

See accompanying notes to financial statements

# SOUTHWEST PARTNERSHIP, INC. AND SUBSIDIARY

## Consolidated Statement of Activities and Changes in Net Assets For the Year Ended December 31, 2017

|                                 | Without Donor<br>Restrictions | With Donor<br>Restrictions | Total             |
|---------------------------------|-------------------------------|----------------------------|-------------------|
| SUPPORT AND REVENUE:            |                               |                            |                   |
| Grants                          | \$ 378,845                    | \$ 39,000                  | \$ 417,845        |
| Contributions                   | 28,541                        | - 0 -                      | 28,541            |
| Other income                    | 550                           | - 0 -                      | 550               |
|                                 | <u>407,936</u>                | <u>39,000</u>              | <u>446,936</u>    |
| Total Support and Revenue       |                               |                            |                   |
|                                 | <u>407,936</u>                | <u>39,000</u>              | <u>446,936</u>    |
| EXPENSES:                       |                               |                            |                   |
| Program services                | 239,556                       | - 0 -                      | 239,556           |
| Supporting services:            |                               |                            |                   |
| Management and general          | 42,260                        | - 0 -                      | 42,260            |
| Fundraising                     | 12,625                        | - 0 -                      | 12,625            |
|                                 | <u>294,441</u>                | <u>- 0 -</u>               | <u>294,441</u>    |
| Total Expenses                  |                               |                            |                   |
|                                 | <u>294,441</u>                | <u>- 0 -</u>               | <u>294,441</u>    |
| CHANGE IN NET ASSETS            | 113,495                       | 39,000                     | 152,495           |
| NET ASSETS AT BEGINNING OF YEAR | 384,353                       | - 0 -                      | 384,353           |
| NET ASSETS AT END OF YEAR       | <u>\$ 497,848</u>             | <u>\$ 39,000</u>           | <u>\$ 536,848</u> |

See accompanying notes to financial statements

# SOUTHWEST PARTNERSHIP, INC. AND SUBSIDIARY

## Consolidated Statement of Functional Expenses For the Year Ended December 31, 2018

|                                    |                             | <u>Supporting Services</u>        |                    |                   |
|------------------------------------|-----------------------------|-----------------------------------|--------------------|-------------------|
|                                    | <u>Program<br/>Services</u> | <u>Management<br/>and General</u> | <u>Fundraising</u> | <u>Total</u>      |
| Salaries                           | \$ 178,213                  | \$ 28,333                         | \$ 13,497          | \$ 220,043        |
| Payroll taxes                      | 13,374                      | 2,126                             | 1,013              | 16,513            |
|                                    | 191,587                     | 30,459                            | 14,510             | 236,556           |
| Accounting and audit               | - 0 -                       | 2,661                             | - 0 -              | 2,661             |
| Community repairs and improvements | 176,355                     | - 0 -                             | - 0 -              | 176,355           |
| Computer equipment and software    | - 0 -                       | 3,521                             | - 0 -              | 3,521             |
| Consultants                        | 14,333                      | - 0 -                             | - 0 -              | 14,333            |
| Grants                             | 183,449                     | - 0 -                             | - 0 -              | 183,449           |
| Insurance                          | 741                         | 118                               | 56                 | 915               |
| Interest                           | - 0 -                       | 28                                | - 0 -              | 28                |
| Marketing and events               | - 0 -                       | 3,780                             | - 0 -              | 3,780             |
| Meetings                           | - 0 -                       | 13,641                            | - 0 -              | 13,641            |
| Miscellaneous                      | 6,883                       | 13,649                            | - 0 -              | 20,532            |
| Postage                            | 261                         | 87                                | 87                 | 435               |
| Printing and copying               | 9,298                       | 3,100                             | 3,100              | 15,498            |
| Rent                               | 15,590                      | 2,479                             | 1,181              | 19,250            |
| Special events                     | 20,801                      | - 0 -                             | - 0 -              | 20,801            |
| Supplies                           | 3,754                       | 1,251                             | 1,251              | 6,256             |
| Travel                             | 280                         | 94                                | 94                 | 468               |
| Utilities                          | 6,846                       | 1,088                             | 518                | 8,452             |
|                                    | 630,178                     | 75,956                            | 20,797             | 726,931           |
| Depreciation                       | 860                         | 137                               | 65                 | 1,062             |
| Total Expenses                     | <u>\$ 631,038</u>           | <u>\$ 76,093</u>                  | <u>\$ 20,862</u>   | <u>\$ 727,993</u> |

See accompanying notes to financial statements



# SOUTHWEST PARTNERSHIP, INC. AND SUBSIDIARY

## Consolidated Statement of Functional Expenses For the Year Ended December 31, 2017

|                                    |                             | <u>Supporting Services</u>        |                    |                   |
|------------------------------------|-----------------------------|-----------------------------------|--------------------|-------------------|
|                                    | <u>Program<br/>Services</u> | <u>Management<br/>and General</u> | <u>Fundraising</u> | <u>Total</u>      |
| Salaries                           | \$ 122,367                  | \$ 12,339                         | \$ 8,294           | \$ 143,000        |
| Payroll taxes                      | 9,362                       | 944                               | 634                | 10,940            |
|                                    | 131,729                     | 13,283                            | 8,928              | 153,940           |
| Accounting and audit               | - 0 -                       | 1,623                             | - 0 -              | 1,623             |
| Community repairs and improvements | 2,497                       | - 0 -                             | - 0 -              | 2,497             |
| Computer equipment and software    | 1,156                       | 11,116                            | 78                 | 12,350            |
| Consultants                        | 45,593                      | - 0 -                             | - 0 -              | 45,593            |
| Grants                             | 1,402                       | - 0 -                             | - 0 -              | 1,402             |
| Insurance                          | 466                         | 47                                | 32                 | 545               |
| Interest                           | - 0 -                       | - 0 -                             | - 0 -              | - 0 -             |
| Marketing and events               | - 0 -                       | 483                               | - 0 -              | 483               |
| Meetings                           | - 0 -                       | 7,020                             | - 0 -              | 7,020             |
| Miscellaneous                      | 8,320                       | 4,147                             | - 0 -              | 12,467            |
| Postage                            | 1,761                       | 587                               | 587                | 2,935             |
| Printing and copying               | 3,043                       | 1,015                             | 1,015              | 5,073             |
| Rent                               | 17,970                      | 1,812                             | 1,218              | 21,000            |
| Special events                     | 17,328                      | - 0 -                             | - 0 -              | 17,328            |
| Supplies                           | 904                         | 302                               | 302                | 1,508             |
| Travel                             | 533                         | 133                               | - 0 -              | 666               |
| Utilities                          | 6,412                       | 647                               | 435                | 7,494             |
|                                    | 239,114                     | 42,215                            | 12,595             | 293,924           |
| Depreciation                       | 442                         | 45                                | 30                 | 517               |
| Total Expenses                     | <u>\$ 239,556</u>           | <u>\$ 42,260</u>                  | <u>\$ 12,625</u>   | <u>\$ 294,441</u> |

See accompanying notes to financial statements

# SOUTHWEST PARTNERSHIP, INC. AND SUBSIDIARY

## Consolidated Statement of Cash Flows For the Years Ended December 31, 2018 and 2017

|   | 2018                     | 2017                     |
|---|--------------------------|--------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES:   |                          |                          |
| Change in net assets  | \$ 37,918                | \$ 152,495               |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: |                          |                          |
| Depreciation  | 1,062                    | 517                      |
| Loss on disposal of subsidiary  | 110,957                  | - 0 -                    |
| (Increase) decrease in operating assets:  |                          |                          |
| Grants and contributions receivable   | (26,007)                 | (107,354)                |
| Prepaid expenses  | 540                      | (915)                    |
| Increase (decrease) in operating liabilities:   |                          |                          |
| Accounts payable and accrued expenses   | (218)                    | 10,614                   |
| Grant refund payable  | (14,800)                 | (5,000)                  |
| Custodial funds   | 15,000                   | - 0 -                    |
| Net cash provided by operating activities   | <u>124,452</u>           | <u>50,357</u>            |
| CASH FLOWS FROM INVESTING ACTIVITIES:   |                          |                          |
| Proceeds on sale of subsidiary  | 9,364                    | - 0 -                    |
| Acquisition of building held for sale   | - 0 -                    | (326,667)                |
| Payments for improvements to building held for sale   | (27,482)                 | - 0 -                    |
| Purchase of property and equipment  | - 0 -                    | (1,562)                  |
| Net cash used in investing activities   | <u>(18,118)</u>          | <u>(328,229)</u>         |
| CASH FLOWS FROM FINANCING ACTIVITIES:   |                          |                          |
| Repayments on loan receivable   | 5,068                    | 4,973                    |
| Repayment of capital lease obligation   | (235)                    | - 0 -                    |
| Borrowing on loan payable   | 27,482                   | 336,280                  |
| Repayment of loan payable   | (100,000)                | - 0 -                    |
| Proceeds of grant advance   | 180,000                  | - 0 -                    |
| Payment of debt issuance costs  | - 0 -                    | (29,934)                 |
| Net cash provided by financing activities   | <u>112,315</u>           | <u>311,319</u>           |
| NET INCREASE IN CASH  | 218,649                  | 33,447                   |
| CASH AT BEGINNING OF YEAR   | <u>170,558</u>           | <u>137,111</u>           |
| CASH AT END OF YEAR   | <u><u>\$ 389,207</u></u> | <u><u>\$ 170,558</u></u> |
| SUPPLEMENTAL CASH FLOW INFORMATION:   |                          |                          |
| Acquisition of equipment under capital lease  | \$ 2,893                 | \$ - 0 -                 |
| Capitalized interest  | \$ 6,738                 | \$ 14,049                |
| Capitalized amortization costs  | \$ 3,992                 | \$ 7,982                 |

See accompanying notes to financial statements

## **SOUTHWEST PARTNERSHIP, INC. AND SUBSIDIARY**

### Notes to Consolidated Financial Statements December 31, 2018

#### **1. Organization and Summary of Significant Accounting Policies**

**Nature of Organization** - Southwest Partnership, Inc. and Subsidiary (the Organization) is a nonprofit organization, incorporated in the State of Maryland, that works to improve and develop the neighborhoods and communities of the southwest area of Baltimore, Maryland. It was formed in 2014 as coalition of seven neighborhood associations and six anchor institutions. The Organization's focus area includes the neighborhoods of Barre Circle, Franklin Square, Hollins Roundhouse, Mount Clare, Pigtown, Poppleton, and Union Square.

1518WBaltimore, LLC (the LLC), is a limited liability company formed in 2017 for the purpose of acquiring a development property to be held for sale. Southwest Partnership held a 100% membership interest in the LLC as of December 31, 2017. In 2018, Southwest Partnership sold its entire interest in the LLC (see Note 12).

**Basis of Accounting** - The accompanying consolidated financial statements are presented in accordance with the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities. As such, revenue is recognized when earned and expenditures when incurred.

**Financial Statement Presentation** - The Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions represent the portion of net assets that is not subject to donor-imposed restrictions. Such net assets are available for use at the discretion of management and/or the Board of Directors for general operating purposes. The Board of Directors may designate a portion of these net assets for specific purposes, which makes them unavailable for use at management's discretion.

Net assets with donor restrictions represent the portion of net assets that is subject to donor-imposed restrictions. Such restrictions may specify a purpose for which, or time in which, resources can be used. Some net assets with donor restrictions include stipulations that assets provided be maintained permanently (perpetual in nature) while permitting the Organization to expend the income generated by the assets in accordance with the provisions of additional donor-imposed stipulations or a Board-approved spending policy.

**Principles of Consolidation** - The accompanying consolidated financial statements include the accounts of the Organization and its wholly owned subsidiary, 1518WBaltimore, LLC, collectively referred to as the Organization, up through the sale of this subsidiary in April 2018 (see Note 12). This subsidiary was formed in 2017 for the purpose of acquiring a development property to be held for sale. All interorganization transactions have been eliminated in consolidation. Consolidated assets consisted of a building held for sale stated at \$332,149 and a loan payable, less unamortized debt issuance costs, of \$314,328 at December 31, 2017 attributable to the subsidiary.

## **SOUTHWEST PARTNERSHIP, INC. AND SUBSIDIARY**

### Notes to Consolidated Financial Statements December 31, 2018

#### 1. Organization and Summary of Significant Accounting Policies (continued)

**Use of Estimates** - The preparation of 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 amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

**Grants and Contributions Receivable** - Grants and contributions receivable represent amounts due from government agencies, foundations, and other organizations and are recorded at their net realizable value. No allowance has been deemed necessary. Long-term grants and contracts receivable represent amounts due in more than one year. Grants and contracts made to the Organization are recorded as a receivable and as revenue as of the date the grants are awarded, if the awards are unconditional or if the conditions for recognition have been met. These amounts are recorded at the present value of such future payments.

**Property and Equipment** - Property and equipment are stated at cost, if purchased, or at fair market value at the date of the gift, if donated. Such donations are reported as contributions without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as contributions with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Expenditures for maintenance and repairs are charged against operations as expended. Renewals and betterments that materially extend the life of the assets are capitalized. The Organization's policy is to capitalize all property expenditures and renewals and betterments greater than \$1,000 with a useful life of a year or more. The cost or fair market value of property and equipment is depreciated over the estimated useful lives of the related assets using the straight-line method. The following represents the estimated useful lives:

| <u>Category</u>         | <u>Years</u> |
|-------------------------|--------------|
| Furniture and equipment | 3 - 5        |

**Custodial Funds** - The Organization acts as custodian of funds for certain other organizations, which are primarily contributions raised by or on behalf of these organizations. As an agent, the Organization receives, holds, and disburses the custodial funds as directed by the other organizations. The Organization does not exercise discretionary control over the use of these funds. These intermediary transactions are included in the statements of cash flows and are shown as a liability in the statements of financial position.

## **SOUTHWEST PARTNERSHIP, INC. AND SUBSIDIARY**

### Notes to Consolidated Financial Statements December 31, 2018

#### 1. Organization and Summary of Significant Accounting Policies (continued)

**Debt Issuance Costs** - The Organization records all costs incurred in the process of acquiring debt as a discount against the debt. These costs are then amortized over the term of the debt. Amortization during the development period was capitalized to building held for sale.

**Revenue and Support** - Grants and contributions received are recorded as revenue with or without donor restrictions depending on the existence and nature of any such restrictions. All donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires (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 consolidated statements of activities and changes in net assets as net assets released from restrictions. Contributions and support that are restricted by donors are recorded as revenue without donor restrictions if the restriction is satisfied in the same year as the contribution is received. Revenue under grants and contributions is recognized when unconditional promises to give are made by donors or when conditions are substantially met.

When grants are treated as exchange transactions, wherein the Organization has to perform services in order to earn the income, revenue is recognized when the services are performed or other conditions are met. Accordingly, deferred revenue is recorded on these types of grants when funds are received but revenue has not been earned. Such amounts are reflected as grant advances in the statements of financial position.

Grant refund payable represents an amount due back to a grantor, which has been determined not to be realizable by the Organization and which will ultimately be repaid to the grantor rather than recognized as revenue.

**Contributed Services** - Contributed professional services are recognized if the services received (a) create or enhance long-lived assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. No amounts relating to donated services have been recognized in the consolidated statements of activities and changes in net assets as contributions because the criteria for recognition have not been satisfied.

**Functional Allocation of Expenses** - Expenses are presented by both function and natural classification in the statements of functional expenses. Expenses that are directly identifiable with a particular function are charged to the program or supporting service benefited. Other expenses may benefit more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Expenses that are allocated include salaries and payroll taxes, which are allocated on the basis of estimates of time and effort. Occupancy costs, such as rent and utilities, have also been allocated based on these estimates as the Organization's facilities consist primarily of offices used by Organization personnel.

## **SOUTHWEST PARTNERSHIP, INC. AND SUBSIDIARY**

### Notes to Consolidated Financial Statements December 31, 2018

#### 1. Organization and Summary of Significant Accounting Policies (continued)

Income Tax Status - Southwest Partnership, Inc. has received a letter of determination from the Internal Revenue Service advising that it qualifies as a nonprofit organization under Section 501(c)(3) of the Internal Revenue Code and, therefore, is not subject to income tax. Southwest Partnership, Inc. is not a private foundation.

1518WBaltimore, LLC (the LLC) is a for-profit entity. Because Southwest Partnership, Inc. owned the LLC 100%, all transactions were consolidated with the activity of the parent organization (up through the date of sale of the LLC in April 2018) and, consequently, were exempt from income taxation.

The Organization is generally no longer subject to examination by the Internal Revenue Service for fiscal years before 2015.

#### 2. Grants and Contributions Receivable

The Organization receives grants and contributions from various organizations, some of which include donor-stipulated restrictions as to the purpose for which the funds can be spent, or which carry time restrictions related to when the funds will be received by the Organization. Grants and contributions receivable as of December 31, 2018 and 2017 totaled \$161,861 and \$135,854, respectively, and are expected to be collected within one year.

#### 3. Property and Equipment

Property and equipment consisted of the following at December 31, 2018 and 2017:

|                                | <u>2018</u>     | <u>2017</u>     |
|--------------------------------|-----------------|-----------------|
| Furniture and equipment        | \$ 5,954        | \$ 3,061        |
| Less: accumulated depreciation | <u>(1,803)</u>  | <u>(741)</u>    |
|                                | <u>\$ 4,151</u> | <u>\$ 2,320</u> |

Depreciation expense for the years ended December 31, 2018 and 2017 was \$1,062 and \$517, respectively.

#### 4. Building Held for Sale

In May 2017, the Organization acquired a building, as part of its ongoing community development efforts, with the intention of holding the property for sale. Title to this property is held by the subsidiary, 1518WBaltimore, LLC. The building was stated at cost, including capitalized interest on the loan used to acquire the property and amortization of related debt issuance costs (see Note 6), of \$332,149 at December 31, 2017. In April 2018, when then stated at a cost of \$372,861, this building was sold as part of the sale of the Organization's subsidiary (see Note 12).

## **SOUTHWEST PARTNERSHIP, INC. AND SUBSIDIARY**

### Notes to Consolidated Financial Statements December 31, 2018

#### **5. Loan Receivable**

The Organization has a loan receivable, dated July 8, 2016, in the original amount of \$250,000, due from a real estate developer in connection with the acquisition and development of a property in Baltimore City. The loan carries a stated interest rate of 2% with payments of interest-only due semi-annually. However, all payments made are treated as a reduction of principal due at maturity, which occurs on the earlier of July 7, 2046 or sale of the associated property.

Principal payments are due as are follows:

Years Ending December 31:

|            |    |                |
|------------|----|----------------|
| 2019       | \$ | 4,930          |
| 2020       |    | 4,677          |
| 2021       |    | 4,584          |
| 2022       |    | 4,493          |
| 2023       |    | 4,403          |
| Thereafter |    | <u>216,872</u> |
|            | \$ | <u>239,959</u> |

#### **6. Capital Lease Obligation**

The Organizations leases a photocopier under a capital lease arrangement, which began in October 2018 with a 36 month term. The cost of this lease obligation consists of a capital lease, payable in 36 monthly installments of \$88, including interest, collateralized by the related photocopier.

Future minimum future lease payments at December 31, 2018 are as follows:

Years Ending December 31:

|   |    |              |
|---|----|--------------|
| 2019  | \$ | 1,051        |
| 2020  |    | 1,051        |
| 2021  |    | <u>788</u>   |
|   |    | 2,890        |
| Less amount representing interest           |    | <u>232</u>   |
| Present value of net minimum lease payments | \$ | <u>2,658</u> |

## SOUTHWEST PARTNERSHIP, INC. AND SUBSIDIARY

### Notes to Consolidated Financial Statements December 31, 2018

#### 6. Capital Lease Obligation (continued)

The following is a schedule of the carrying values of equipment acquired under this capital lease:

|                          | <u>2018</u>     | <u>2017</u>     |
|--------------------------|-----------------|-----------------|
| Cost                     | \$ 2,893        | \$ - 0 -        |
| Accumulated depreciation | <u>241</u>      | <u>- 0 -</u>    |
|                          | <u>\$ 2,652</u> | <u>\$ - 0 -</u> |

These balances are included in the statements of financial position within property and equipment, net of accumulated depreciation. Annual depreciation expense relating to this equipment totaled \$241 and \$-0- during the years ended December 31, 2018 and 2017, respectively.

#### 7. Loan Payable

The Organization had a loan payable with a financial institution, in connection with the acquisition of a property acquired for development and held for sale (see Note 4), in the original amount of \$331,164 plus accrued interest of \$5,116, for a total outstanding obligation of \$336,280 at December 31, 2017. Interest only payments are due each month or added to the outstanding balance up to a maximum of \$386,256. The loan bears variable interest at the Wall Street Journal prime rate plus 2%, but not less than 6% (the interest rate at December 31, 2017 was 6%). In 2018 and 2017, a portion of the interest payments were made on the Organization's behalf by a developer who ultimately acquired a 100% interest in the Organization's subsidiary, 1518WBaltimore, LLC, in April 2018 (see Notes 12 and 15). In April 2018, just prior to the sale of 1518WBaltimore, LLC, the loan had a balance of \$270,500, after additional borrowings and repayments during 2018. Principal and any unpaid interest were due in November 2019, 30 months after the closing date of the associated property. The loan was secured by the associated real property. The obligation was guaranteed up to \$60,000 by a not-for-profit foundation.

The Organization incurred debt issuance costs of \$29,934 in connection with this loan. These costs were being amortized over the life of the loan. Debt issuance costs are reported on the consolidated statements of financial position as a direct deduction from the face amount of the loan payable. Amortization of debt issuance costs in the amount of \$3,992 and \$7,982 for the years ended December 31, 2018 and 2017, respectively, was capitalized as part of the building held for sale prior to its sale in April 2018. As Southwest Partnership, Inc. no longer has any interest in 1518WBaltimore, LLC at December 31, 2018, the Organization has no further obligation under this agreement.



# SOUTHWEST PARTNERSHIP, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements December 31, 2018

### 7. Loan Payable (continued)

Loan payable consisted of the following at December 31, 2018 and 2017:

|                                      | <u>2018</u>            | <u>2017</u>              |
|--------------------------------------|------------------------|--------------------------|
| Principal amount                     | \$ - 0 -               | \$ 336,280               |
| Less unamortized debt issuance costs | <u>- 0 -</u>           | <u>(21,952)</u>          |
|                                      | <u><u>\$ - 0 -</u></u> | <u><u>\$ 314,328</u></u> |

### 8. Grant Advance

In August 2017, the Organization entered into a loan agreement with the Maryland Department of Housing and Community Development (DHCD) in connection with a development project in Baltimore City, Maryland. Under this agreement, the Organization is able to borrow up to \$280,000 as part of a joint project with a real estate developer to acquire and renovate a number of housing units within the city. Payments of principal and interest are deferred for 15 years until 2032 unless the properties are sold, transferred, refinanced, or otherwise disposed of prior to that date. However, the entire sum provided under the agreement may be forgiven if the DHCD determines that the project has been completed in accordance with the terms, conditions, and requirements set forth in the agreement. The Organization received \$180,000 during the year ended December 31, 2018 under this agreement. This amount has been reflected as grant advance liability within the statements of financial position. The project remains in the construction phase at December 31, 2018.

### 9. Net Assets with Donor Restrictions

Net assets with donor restrictions as of December 31, 2018 and 2017 are restricted for the following purposes:

|  | <u>2018</u>            | <u>2017</u>             |
|--|------------------------|-------------------------|
| Purpose restrictions:                                    |                        |                         |
| Cleaning programs  | \$ - 0 -               | \$ 10,000               |
| Program planning and management of community supervisors | - 0 -                  | 4,000                   |
| School partnership planning support                      | - 0 -                  | 20,000                  |
| Workforce development programs                           | <u>- 0 -</u>           | <u>5,000</u>            |
|  | <u><u>\$ - 0 -</u></u> | <u><u>\$ 39,000</u></u> |

Net assets with donor restrictions were released from restriction during the years ended December 31, 2018 and 2017 by satisfying various restrictions as follows:

# SOUTHWEST PARTNERSHIP, INC. AND SUBSIDIARY

## Notes to Consolidated Financial Statements December 31, 2018

### 9. Net Assets with Donor Restrictions (continued)

|   | 2018            | 2017            |
|---|-----------------|-----------------|
| Cleaning programs   | \$ - 0 -        | \$ - 0 -        |
| Program planning and management<br>of community supervisors | - 0 -           | - 0 -           |
| School partnership planning support                         | - 0 -           | - 0 -           |
| Workforce development programs                              | - 0 -           | - 0 -           |
|   | <u>\$ - 0 -</u> | <u>\$ - 0 -</u> |

### 10. Liquidity and Availability of Financial Assets

The following reflects the Organization's financial assets as of December 31, 2018 and 2017, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the consolidated statement of financial position date:

|  | 2018              | 2017              |
|--|-------------------|-------------------|
| Financial assets at year end   | \$ 794,527        | \$ 557,439        |
| Less those unavailable for general expenditures<br>within one year, due to:                  |                   |                   |
| Portion of loan receivable not expected<br>to be collected within one year                   | (235,029)         | (239,958)         |
| Security deposits  | (3,500)           | (6,000)           |
| Grant receivable required under agreement<br>to pay down existing debt once<br>collected     | - 0 -             | (100,000)         |
| Custodial funds held on behalf of others   | (15,000)          | - 0 -             |
| Grant advance collected but not yet<br>disbursed in accordance with<br>the project agreement | (180,000)         | - 0 -             |
| Restricted by donors with purpose or<br>time restrictions                                    | <u>(99,000)</u>   | <u>(39,000)</u>   |
| Financial assets available to meet cash needs<br>for general expenditures within one year    | <u>\$ 261,998</u> | <u>\$ 172,481</u> |

The Organization maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

## **SOUTHWEST PARTNERSHIP, INC. AND SUBSIDIARY**

### Notes to Consolidated Financial Statements December 31, 2018

#### **11. Lease Commitment**

The Organization leased office equipment under a three-year operating lease that began January 1, 2016. This agreement provided for monthly base rental payments of \$104 and was set to expire on December 31, 2018. Rent expense under this lease, including usage charges, was \$4,046 and \$5,073 for the years ended December 31, 2018 and 2017, respectively, and is included within printing and copying expense within the consolidated statement of functional expenses. In October 2018, the lease was terminated early and the associated equipment was replaced with office equipment acquired under a capital lease arrangement (see Note 6). No future minimum rental commitments remained on this lease at December 31, 2018.

#### **12. Purchase Agreement and Sale of Subsidiary**

Southwest Partnership, Inc., by contract dated August 28, 2017, agreed to sell its 100% interest in 1518WBaltimore, LLC to Social Impact Development, LLC (SID). Under this agreement, the purchase price would be determined prior to closing and was not to exceed any out of pocket expenses incurred by the Organization related to acquisition of the property held by the LLC. Closing was expected to occur within 120 days; however, the sale of the membership interest did not ultimately occur until April 2018. Pursuant to this agreement, the Organization was required to apply a \$100,000 grant received from the Maryland Department of Housing and Community Development toward the acquisition cost of the property and ongoing development efforts. This amount is reflected in grants receivable within the consolidated statement of financial position at December 31, 2017. In January 2018, the Organization collected this receivable and paid this \$100,000 toward the loan associated with this project (see Note 7).

In April 2018, Southwest Partnership, Inc. completed the sale of its interest in 1518WBaltimore, LLC to Social Impact Development, LLC. Effective April 27, 2018, the loan payable connected with the property held for sale at December 31, 2017 was modified to permit the transfer of the membership interest and to release the Organization from its obligations under the loan agreement. Once executed at a sale price of \$9,364, this transaction resulted in the removal of assets and liabilities from the Organization's consolidated statement of financial position, which included the building held for sale (see Note 4) and a loan payable, less unamortized debt issuance costs (see Note 7). The sale resulted in a loss on disposal of \$110,957, which is recognized within the statement of activities and changes in net assets for the year ended December 31, 2018.

#### **13. Concentrations of Revenue**

During the years ended December 31, 2018 and 2017, the Organization received a significant portion of its support and revenue from the State of Maryland through the Department of Housing and Community Development. In 2018 and 2017, income recognized under these grant arrangements represented 81% and 37% of the Organization's total support and revenue. The Organization's operations and program services may be impacted should there be a significant reduction in funding from this source.

## **SOUTHWEST PARTNERSHIP, INC. AND SUBSIDIARY**

### **Notes to Consolidated Financial Statements December 31, 2018**

#### **14. Concentrations of Credit Risk**

The Organization, at times throughout the year, has funds on deposit with a financial institution in excess of federally insured amounts. The Organization has not experienced any losses on cash accounts and believes it is not exposed to significant credit risk on cash and cash equivalents. The Organization continually reviews credit concentrations as part of its risk assessment process.

#### **15. Related Party Transactions**

The Organization's member entities consists of seven neighborhood associations and six anchor institutions: the Barre Circle Community Association, the Hollins Roundhouse Neighborhood Association, the Franklin Square Neighborhood Association, the Mount Clare Community Council, Citizens of Pigtown, Poppleton NOW!, and the Union Square Association (neighborhood associations); as well as the B&O Railroad Museum, Bon Secours Baltimore Health System, the University of Maryland Baltimore, the University of Maryland BioPark, the University of Maryland Medical Center, and Wexford Science and Technology (anchor institutions). Financial support from the anchor institutions totaled \$55,000 and \$100,000 during the years ended December 31, 2018 and 2017, respectively, and is included within grants on the consolidated statements of activities and changes in net assets.

The Organization partnered with Social Impact Development, LLC (SID) in connection with the Organization's acquisition of development property during the year ended December 31, 2017 (see Note 4). In 2018 and 2017, in connection with the loan on this property (see Note 7), SID made interest payments on the Organization's behalf totaling \$3,304 and \$8,933, respectively. In April 2018, SID acquired a 100% interest in 1518WBaltimore, LLC, Southwest Partnership, Inc.'s subsidiary, through which it owned the property (see Note 12).

#### **16. Subsequent Events**

The Organization has evaluated subsequent events through DATE TBD, the date the financial statements were available to be issued.

In February 2019, the Organization acquired a property in Baltimore City for a contract sales price of \$400,002. In April 2019, the Organization acquired an additional property in Baltimore City for a contract sales price of \$1,000,000 and obtained a \$500,000 mortgage in connection with this purchase. The Organization intends to develop the properties or to sell them to an interested developer.

## **SOUTHWEST PARTNERSHIP, INC. AND SUBSIDIARY**

Notes to Consolidated Financial Statements  
December 31, 2018

### **16. Subsequent Events (continued)**

In March 2020, significant mitigation efforts began taking effect in the United States in an attempt to curtail the spread of the coronavirus (COVID-19) pandemic. Such efforts have included travel restrictions, business closures, and event cancellations. Capital markets have seen significant volatility in the wake of the pandemic and significant economic disruptions are likely to occur. In response, the Organization has altered its operations by reducing personnel on-site and by working remotely where possible. Management cannot reasonably estimate the related financial impact and duration of the situation at this time. However, the Organization believes it has sufficient cash reserves to sustain operations in the event of continued disruption. Management intends to monitor the situation on an ongoing basis and to continue efforts to reduce its impact on the Organization's operations and financial resources.