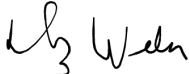


APPROVED: Elizabeth Weber 8/4/2023 

SOUTHWEST PARTNERSHIP, INC. AND SUBSIDIARIES

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

SOUTHWEST PARTNERSHIP, INC. AND SUBSIDIARIES

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Independent Auditors' Report

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

Opinion

We have audited the accompanying consolidated financial statements of Southwest Partnership, Inc. (a nonprofit organization) and Subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Southwest Partnership, Inc. and Subsidiaries as of December 31, 2022 and 2021, 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.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Independent Auditors' Report (continued)

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Southwest Partnership, Inc. and Subsidiaries' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Southwest Partnership, Inc. and Subsidiaries' ability to continue as a going concern for a reasonable period of time.

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

Emphasis of Matter

Adjustment to Prior Period Financial Statements

As part of our audit of the 2022 financial statements, we audited the adjustment to the 2021 financial statements to retrospectively correct an error as described in Note 17. In our opinion, such adjustments are appropriate and have been properly applied. Our opinion is not modified with respect to that matter.

Wojcik, Cronin & Serra, LLC

Hunt Valley, Maryland
August 4, 2023

SOUTHWEST PARTNERSHIP, INC. AND SUBSIDIARIES

Consolidated Statement of Financial Position December 31, 2022 and 2021

<u>ASSETS</u>		2022	Restated 2021
		<u>2022</u>	<u>2021</u>
CURRENT ASSETS:			
Cash	\$	1,449,385	\$ 1,091,621
Grants and contributions receivable		592,491	209,318
Contracts receivable		72,303	124,595
Loans receivable, current portion		38,402	4,216
Prepaid expenses		15,908	7,874
Total Current Assets		<u>2,168,489</u>	<u>1,437,624</u>
PROPERTY AND EQUIPMENT, NET		<u>2,044,945</u>	<u>2,243,152</u>
OTHER ASSETS:			
Cash, restricted		10,905	16,827
Loans receivable		1,021,264	818,020
		<u>1,032,169</u>	<u>834,847</u>
TOTAL ASSETS		<u>\$ 5,245,603</u>	<u>\$ 4,515,623</u>
<u>LIABILITIES AND NET ASSETS</u>			
CURRENT LIABILITIES:			
Accounts payable and accrued expenses	\$	60,506	\$ 122,661
Grant advances, current portion		26,513	- 0 -
Loans payable, current portion		11,871	11,406
Deferred revenue		18,667	26,667
Custodial funds		10,905	16,827
Total Current Liabilities		<u>128,462</u>	<u>177,561</u>
LONG-TERM LIABILITIES:			
Grant advances		780,000	780,000
Loans payable, less unamortized debt issuance costs		907,469	912,921
Total Long-Term Liabilities		<u>1,687,469</u>	<u>1,692,921</u>
TOTAL LIABILITIES:		<u>1,815,931</u>	<u>1,870,482</u>
NET ASSETS:			
Without donor restrictions		2,112,984	2,313,154
With donor restrictions		1,316,688	331,987
Total Net Assets		<u>3,429,672</u>	<u>2,645,141</u>
TOTAL LIABILITIES AND NET ASSETS		<u>\$ 5,245,603</u>	<u>\$ 4,515,623</u>

See accompanying notes to consolidated financial statements

SOUTHWEST PARTNERSHIP, INC. AND SUBSIDIARIES

Consolidated Statement of Activities and Changes in Net Assets For the Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE:			
Grants and contributions	\$ 1,395,478	\$ 1,252,229	\$ 2,647,707
Contract revenue	200,519	- 0 -	200,519
Receivership and homeownership zone income	415,636	- 0 -	415,636
Tax sale program	907	- 0 -	907
Other income	17,386	- 0 -	17,386
Contributions of nonfinancial assets	7,000	- 0 -	7,000
Net assets released from restriction	267,528	(267,528)	- 0 -
Total Support and Revenue	2,304,454	984,701	3,289,155
EXPENSES:			
Program services	2,254,745	- 0 -	2,254,745
Supporting services:			
Management and general	231,730	- 0 -	231,730
Fundraising	18,149	- 0 -	18,149
Total Expenses	2,504,624	- 0 -	2,504,624
CHANGE IN NET ASSETS	(200,170)	984,701	784,531
NET ASSETS AT BEGINNING OF YEAR, AS RESTATED	2,313,154	331,987	2,645,141
NET ASSETS AT END OF YEAR	\$ 2,112,984	\$ 1,316,688	\$ 3,429,672

See accompanying notes to consolidated financial statements

SOUTHWEST PARTNERSHIP, INC. AND SUBSIDIARIES

Consolidated Statement of Activities and Changes in Net Assets For the Year Ended December 31, 2021

	Restated		Total
	Without Donor Restrictions	With Donor Restrictions	
SUPPORT AND REVENUE:			
Grants and contributions	\$ 1,808,075	\$ 300,059	\$ 2,108,134
Contract revenue	266,792	- 0 -	266,792
Receivership and homeownership zone income	127,122	- 0 -	127,122
Tax sale program	165,010	- 0 -	165,010
Other income	12,803	- 0 -	12,803
Contributions of nonfinancial assets	2,197	- 0 -	2,197
Net assets released from restriction	168,567	(168,567)	- 0 -
	<u>2,550,566</u>	<u>131,492</u>	<u>2,682,058</u>
EXPENSES:			
Program services	1,766,471	- 0 -	1,766,471
Supporting services:			
Management and general	230,577	- 0 -	230,577
Fundraising	28,594	- 0 -	28,594
	<u>2,025,642</u>	<u>- 0 -</u>	<u>2,025,642</u>
CHANGE IN NET ASSETS	<u>524,924</u>	<u>131,492</u>	<u>656,416</u>
NET ASSETS AT BEGINNING OF YEAR	<u>1,788,230</u>	<u>200,495</u>	<u>1,988,725</u>
NET ASSETS AT END OF YEAR, AS RESTATED	<u>\$ 2,313,154</u>	<u>\$ 331,987</u>	<u>\$ 2,645,141</u>

See accompanying notes to consolidated financial statements

SOUTHWEST PARTNERSHIP, INC. AND SUBSIDIARIES

Consolidated Statement of Functional Expenses For the Year Ended December 31, 2022

	Supporting Services			Total
	Program Services	Management and General	Fundraising	
Salaries	\$ 463,784	\$ 83,816	\$ 11,176	\$ 558,776
Payroll taxes	36,000	6,506	867	43,373
Benefits	29,612	5,352	714	35,678
	529,396	95,674	12,757	637,827
Accounting and audit	- 0 -	49,340	- 0 -	49,340
Community repairs and improvements	1,048,354	- 0 -	- 0 -	1,048,354
Computer equipment and software	7,181	4,218	- 0 -	11,399
Consultants	119,285	- 0 -	- 0 -	119,285
Contract services	35,965	8,584	- 0 -	44,549
Insurance	14,048	2,539	339	16,926
Interest	- 0 -	26,753	- 0 -	26,753
Maintenance and repairs	6,079	1,099	146	7,324
Marketing and events	- 0 -	23,295	- 0 -	23,295
Meetings	- 0 -	3,995	- 0 -	3,995
Miscellaneous	5,024	7,148	- 0 -	12,172
Postage	123	41	41	205
Printing and copying	1,504	502	502	2,508
Special events	6,803	- 0 -	- 0 -	6,803
Stabilization and rehabilitation	442,234	- 0 -	- 0 -	442,234
Supplies	10,199	3,399	3,399	16,997
Tax sale program	907	- 0 -	- 0 -	907
Travel	965	322	322	1,609
Utilities	10,315	1,864	249	12,428
	2,238,382	228,773	17,755	2,484,910
Depreciation	16,363	2,957	394	19,714
Total Expenses	\$2,254,745	\$ 231,730	\$ 18,149	\$2,504,624

See accompanying notes to consolidated financial statements

SOUTHWEST PARTNERSHIP, INC. AND SUBSIDIARIES

Consolidated Statement of Functional Expenses For the Year Ended December 31, 2021

	Restated			
	Supporting Services			
	Program Services	Management and General	Fundraising	Total
Salaries	\$ 534,661	\$ 96,626	\$ 12,883	\$ 644,170
Payroll taxes	42,896	7,752	1,034	51,682
Benefits	26,089	4,715	629	31,433
	603,646	109,093	14,546	727,285
Accounting and audit	- 0 -	52,771	- 0 -	52,771
Community repairs and improvements	469,086	- 0 -	- 0 -	469,086
Computer equipment and software	5,305	3,116	- 0 -	8,421
Consultants	325,614	- 0 -	- 0 -	325,614
Contract services	12,459	570	9,611	22,640
Insurance	6,505	1,176	157	7,838
Interest	- 0 -	20,819	- 0 -	20,819
Maintenance and repairs	550	100	13	663
Marketing and events	- 0 -	10,228	- 0 -	10,228
Meetings	- 0 -	18,850	- 0 -	18,850
Miscellaneous	3,896	5,544	- 0 -	9,440
Postage	89	29	29	147
Printing and copying	1,163	387	387	1,937
Special events	3,500	- 0 -	- 0 -	3,500
Stabilization and rehabilitation	127,091	- 0 -	- 0 -	127,091
Supplies	9,465	3,155	3,155	15,775
Tax sale program	172,067	- 0 -	- 0 -	172,067
Travel	221	74	74	369
Utilities	12,587	2,275	303	15,165
	1,753,244	228,187	28,275	2,009,706
Depreciation	13,227	2,390	319	15,936
Total Expenses	\$1,766,471	\$ 230,577	\$ 28,594	\$2,025,642

See accompanying notes to consolidated financial statements

SOUTHWEST PARTNERSHIP, INC. AND SUBSIDIARIES

Consolidated Statement of Cash Flows
For the Year Ended December 31, 2022 and 2021

	2022	Restated 2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 784,531	\$ 656,416
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	19,714	15,936
Amortization included in interest expense	6,410	5,980
Contributed leasehold improvements	(7,000)	
Disposal of construction in progress associated with joint venture and LLCs	442,234	127,091
(Increase) decrease in operating assets:		
Grants and contributions receivable	(383,173)	523
Contracts receivable	52,292	(124,595)
Prepaid expenses	(8,034)	(2,840)
Other receivables (custodial funds)	- 0 -	6,024
Deposits	- 0 -	1,000
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(62,155)	(3,061)
Deferred revenue	(8,000)	(8,000)
Custodial funds	(5,922)	16,827
Net cash provided by operating activities	830,897	691,301
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to construction in progress	(477,306)	(432,171)
Advances on loans receivable	(100,000)	(10,000)
Repayments on loan receivable	5,070	15,084
Proceeds from sale of building	3,251	- 0 -
Proceeds from sale of construction in progress	85,377	- 0 -
Redemption of capitalized tax sale certificates	5,506	- 0 -
Purchase of property and equipment	(16,069)	(56,454)
Net cash used in investing activities	(494,171)	(483,541)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of finance lease obligation	- 0 -	(769)
Acquisition of loan payable	- 0 -	466,000
Repayment of loan payable	(11,397)	(409,430)
Proceeds of grant advance	26,513	- 0 -
Payment of debt issuance costs	- 0 -	(25,764)
Net cash provided by financing activities	15,116	30,037
NET CHANGE IN CASH AND RESTRICTED CASH	351,842	237,797
CASH AND RESTRICTED CASH AT BEGINNING OF YEAR	1,108,448	870,651
CASH AND RESTRICTED CASH AT END OF YEAR	\$ 1,460,290	\$ 1,108,448

See accompanying notes to consolidated financial statements

SOUTHWEST PARTNERSHIP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements December 31, 2022 and 2021

1. Organization and Summary of Significant Accounting Policies

Nature of Organization - Southwest Partnership, Inc. and Subsidiaries (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.

300 Block North Gilmor, LLC, is a limited liability company formed in 2020 for the purpose of acquiring a development property. Southwest Partnership holds a 100% membership interest in the LLC as of December 31, 2021. This LLC held an interest in said development properties, which was included in construction in progress. At the time of the transfer of ownership, the LLC held \$416,363 in assets and no liabilities (see Note 5).

300 Block South Gilmor, LLC, is a limited liability company formed in 2020 for the purpose of acquiring a development property. Southwest Partnership holds a 100% membership interest in the LLC as of December 31, 2021. This LLC held an interest in said development properties, which was included in construction in progress. At the time of the transfer of ownership, the LLC held \$160,923 in assets and no liabilities (see Note 5).

317 N Gilmor, LLC, is a limited liability company formed in 2020 for the purpose of acquiring a development property. Southwest Partnership holds a 100% membership interest in the LLC as of December 31, 2021. This LLC held an interest in said development properties, which was included in construction in progress. At the time of the transfer of ownership, the LLC held \$64,986 in assets and no liabilities (see Note 5).

SoWeBo Lord Baltimore, Inc., is a non-stock corporation formed in 2019 for the purpose of acquiring a property in the future to rehabilitate. Southwest Partnership holds a 100% membership interest in the corporation as of December 31, 2022. This corporation had no assets or liabilities as of December 31, 2022.

SoWeBo Lord Baltimore, LLC, is a limited liability company formed in 2021 for the purpose of acquiring a property to rehabilitate. In August 2022, the Organization Lord Baltimore Theatre building (see Note 5) to this LLC. Southwest Partnership holds a 100% membership interest in the LLC as of December 31, 2022. This LLC had no other assets or liabilities as of December 31, 2022.

SOUTHWEST PARTNERSHIP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

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

1506 W Baltimore LLC, is a limited liability company formed in 2021 for the purpose of acquiring a property to rehabilitate. Southwest Partnership holds a 100% membership interest in the LLC as of December 31, 2022. This LLC holds an interest in said property, which is included in construction in progress in the Malachi Mills properties (see Note 5). This LLC had no other assets or liabilities as of December 31, 2022.

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 subsidiaries, collectively referred to as the Organization. All interorganizational transactions have been eliminated in consolidation.

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.

Restricted Cash - Restricted cash represents the custodial funds the Organization holds on behalf of other organizations.

SOUTHWEST PARTNERSHIP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements December 31, 2022 and 2021

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

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.

Contracts Receivable - Contracts receivable represent amounts due under service and consulting agreements with certain institutions. Such receivables are uncollateralized obligations that do not accrue interest and are stated at the invoice amount. The Organization provides an allowance for doubtful accounts based on an estimate of probable uncollectible accounts. As of December 31, 2022 and 2021, all contracts receivable were deemed fully collectible by management and, as such, no allowance has been deemed necessary.

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>
Buildings	39
Building improvements	5 - 20
Furniture and equipment	3 - 5

SOUTHWEST PARTNERSHIP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

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

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 consolidated statements of financial position.

Deferred Revenue - The Organization leases office space to a tenant that provided leasehold improvements in lieu of rent. The value of the leasehold improvements exceeded earned rent. The excess value of the leasehold improvements will be applied against future rental payment (see Note 8).

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 is capitalized to buildings held for sale and expensed to interest expense.

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 consolidated statements of financial position.

Contract revenue represents fees earned in connection with service agreements that typically span an extended period of time. Services rendered by the Organization include consulting, research, and the development of resources for institutions engaged in the furtherance of goals similar to the Organization's mission. Performance obligations under these contracts are generally considered to be satisfied over time as services are provided to customers. Revenues received in advance of services performed are recorded as deferred revenue.

SOUTHWEST PARTNERSHIP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements December 31, 2022 and 2021

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

The receivership and homeownership zone program enables cities to undertake large-scale, single family developments in inner city neighborhoods. Homeownership zones reserve the majority of the new units for low- and moderate-income families, but also attract middle-income families to inner cities to help form more stable communities. In addition to increasing the supply of safe and decent housing in urban areas, the program will support new jobs in the home building industry and stimulate new investment in revitalized communities. The Organization receives grant revenue in connection with acquiring properties and rehabilitating properties as part of the homeownership zone program.

The Organization assists prospective property owners with acquiring tax lien certificates and foreclosing to acquire title on those respective properties. The Organization generates revenue in connection with these services, which is reported on the consolidated statements of activities and changes in net assets as tax sale program 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.

Contributions of Nonfinancial Assets - Occasionally, the Organization receives donations of nonfinancial assets. The Organization's policy is to use the assets in carrying out the Organization's programs. For the years ended December 31, 2022 and 2021, contributions of nonfinancial assets received by the organization consisted of the following:

	<u>2022</u>	<u>2021</u>
Leasehold improvements	\$ 7,000	\$ - 0 -
Supplies	- 0 -	2,197
	<u>\$ 7,000</u>	<u>\$ 2,197</u>

SOUTHWEST PARTNERSHIP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

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

The Organization benefits from several different revenue streams. The disaggregation of revenue for the years ended December 31, 2022 and 2021 is included in the chart below:

Revenue Type	Timing of Revenue Recognition	2022	2021
Grants and contributions	Upon receipt, period earned	\$ 2,647,707	\$ 2,108,134
Contract revenue	Period earned	200,519	\$ 266,792
Receivership and homeownership zone income	Period earned	415,636	127,122
Tax sale program	Period earned	907	165,010
Other income	Point in time	17,386	12,803
Contributions of nonfinancial assets	Upon receipt	7,000	2,197
		<u>\$ 3,289,155</u>	<u>\$ 2,682,058</u>

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.

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.

300 Block North Gilmore, 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 transfer of the LLC in June 2022) and, consequently, were exempt from taxation.

300 Block South Gilmore, 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 transfer of the LLC in September 2022) and, consequently, were exempt from taxation.

317 N Gilmore, 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 and (up through the date of transfer of the LLC in June 2022), consequently, were exempt from taxation.

SOUTHWEST PARTNERSHIP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

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

SoWeBo Lord Baltimore, Inc., is a tax-exempt nonstock corporation. All transactions were consolidated with the activity of the parent organization and, consequently, were exempt from income taxation.

SoWeBo Lord Baltimore, 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 and, consequently, were exempt from taxation.

1506 W Baltimore 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 and, consequently, were exempt from taxation.

The Organization is generally no longer subject to examination by the Internal Revenue Service for fiscal years before 2019.

Changes in Accounting Principles - In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes existing guidance from accounting for leases under *Topic 840, Leases*. The most significant change in the new leasing guidance is the requirement to recognize right-of-use (ROU) assets and lease liabilities for operating leases on the statements of financial position.

The Organization elected to adopt this ASU effective January 1, 2022, and utilized all the available practical expedients. The adoption did not have a material impact on the Organization's statement of financial position or on the statement of activities. The most significant impact was the recognition of right of use (ROU) assets and lease liabilities for operating leases presented on the statement of financial position as operating lease assets and operating lease obligations. The Organization has analyzed the provisions of the new guidance and has concluded that no changes are necessary to conform with the new standards since the Organization has no leases that require recognition of operating lease liabilities. The accounting for finance leases remained substantially unchanged and no reclassifications or adjustments in connection with the new guidance has been made. There was no cumulative-effect adjustment to opening net assets with or without donor restrictions as of January 1, 2022.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The new guidance requires nonprofit entities to present contributed nonfinancial assets as a separate line item in the statement of activities, and changes in net assets, apart from contributions of cash or other financial assets. The standard also increases the disclosure requirements around contributed nonfinancial assets, including disaggregating by category the types of contributed nonfinancial assets a nonprofit entity has received. Adoption of this standard did not have a significant impact on the financial statements, with the exception of increased disclosure.

SOUTHWEST PARTNERSHIP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements December 31, 2022 and 2021

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

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

2. Cash and Restricted Cash

The following table provides a reconciliation of cash and restricted cash reported within the statements of financial position to the total of the same such amounts in the consolidated statements of cash flows.

	<u>2022</u>	<u>2021</u>
Cash	\$ 1,449,385	\$ 1,091,621
Restricted cash	<u>10,905</u>	<u>16,827</u>
	<u>\$ 1,460,290</u>	<u>\$ 1,108,448</u>

3. 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, 2022 and 2021 totaled \$592,491 and \$209,318, respectively, and are expected to be collected within one year.

4. Property and Equipment

Property and equipment consisted of the following at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Buildings and improvements	\$ 477,388	\$ 492,454
Furniture and equipment	22,275	18,240
Construction in Progress	<u>1,602,952</u>	<u>1,773,423</u>
	2,102,615	2,284,117
Less: accumulated depreciation	<u>(57,670)</u>	<u>(40,965)</u>
	<u>\$ 2,044,945</u>	<u>\$ 2,243,152</u>

Depreciation expense for the years ended December 31, 2022 and 2021 was \$19,714 and \$15,936, respectively.

SOUTHWEST PARTNERSHIP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

5. Construction in Progress

Construction in progress consisted of the following at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Lord Baltimore Theatre (SoWeBo Lord Baltimore, LLC)	\$ 1,318,049	\$ 1,305,925
Malachi Mills properties (1506 W Baltimore LLC)	192,344	188,556
Land bank properties (Southwest Partnership, Inc.)	92,559	98,065
North Gilmore properties (300 Block North Gilmore, LLC and 317 N Gilmore, LLC)	- 0 -	83,831
South Gilmore properties (300 Block South Gilmore, LLC)	- 0 -	97,046
	<u>\$ 1,602,952</u>	<u>\$ 1,773,423</u>

As a result of the Organization's development efforts, the Organization holds title to various vacant buildings within their neighborhood focus area, whether directly or through various LLCs. These buildings represent various stabilization and rehabilitation projects in progress, with the ultimate goal to transfer ownership to community developers and homeowners once the projects are completed. Acquisition and development costs are capitalized until the respective buildings are transferred to their ultimate owners, upon which the Organization will reflect the gain or loss on the transaction on the consolidated statements of activities and changes in net assets.

During the year ended December 31, 2022, the Organization transferred 317 N Gilmore, LLC and its assets to a real estate developer for a sale price of \$10,429, transferred 300 Block North Gilmore, LLC and its assets to a real estate developer for a sale price of \$56,141, and transferred 300 Block South Gilmore, LLC and its assets to a real estate developer for a sale price of \$18,807. As part of the transfer of 300 Block North Gilmore, LLC and 300 Block South Gilmore, LLC, \$58,688 and \$83,812, respectively, of construction in progress transferred were converted to loans receivable from the real estate developers (see Note 6). The loss incurred on these transactions is reflected in stabilization and rehabilitation expense in the statement of functional expenses for the year ended December 31, 2022.

SOUTHWEST PARTNERSHIP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements December 31, 2022 and 2021

5. Construction in Progress (continued)

The changes in construction in progress for the years ended December 31, 2022 and 2021 are as follows:

	2022	2021
Construction in progress at beginning of year	\$ 1,773,423	\$ 1,468,343
Additions to construction in progress	477,306	432,171
Proceeds from sale of construction in progress	(85,377)	- 0 -
Redemption of capitalized tax sale certificates	(5,506)	- 0 -
Transfer of construction in progress to real estate developers converted to loans receivable	(142,500)	- 0 -
Loss on disposal of construction in progress included in stabilization and rehabilitation expense	(414,394)	(127,091)
Construction in progress at end of year	\$ 1,602,952	\$ 1,773,423

6. Loans 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. As of December 31, 2022 and 2021 the balance of the loan receivable was \$219,666 and \$224,736, respectively.

The Organization has a loan receivable, dated September 16, 2019, in the amount of up to \$240,000, due from a real estate developer in connection with the acquisition and stabilization of properties in Baltimore City. The funds received are awarded by the Maryland Department of Housing and Community Development (DHCD). Under this agreement, payments of principal and interest are deferred for 15 years until 2034 unless the properties are sold, transferred, refinanced, or otherwise disposed of prior to that date (see Note 9). However, the entire sum provided under the agreement may be forgiven if the Organization determines that the project has been completed in accordance with the terms, conditions, and requirements set forth in the agreement. As of December 31, 2022 and 2021 the balance of the loan receivable was \$240,000.

The Organization has a loan receivable, dated April 13, 2020, in the amount of up to \$160,000, due from a real estate developer in connection with the acquisition and stabilization of properties in Baltimore City. The funds received are awarded by the Maryland Department of Housing and Community Development (DHCD). Under this agreement, payments of principal and interest are deferred for 15 years until 2035 unless the properties are sold, transferred, refinanced, or otherwise disposed of prior to that date (see Note 9). However, the entire sum provided under the agreement may be forgiven if the Organization determines that the project has been completed in accordance with the terms, conditions, and requirements set forth in the agreement. As of December 31, 2022 and 2021 the balance of the loan receivable was \$160,000.

SOUTHWEST PARTNERSHIP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

6. Loans Receivable (continued)

The Organization has a loan receivable, dated August 26, 2020, in the amount of up to \$340,000, due from a real estate developer in connection with the acquisition and stabilization of properties in Baltimore City. The funds received are awarded by the Maryland Department of Housing and Community Development (DHCD). Under this agreement, payments of principal and interest are deferred for 15 years until 2035 unless the properties are sold, transferred, refinanced, or otherwise disposed of prior to that date (see Note 9). However, the entire sum provided under the agreement may be forgiven if the Organization determines that the project has been completed in accordance with the terms, conditions, and requirements set forth in the agreement. The Organization had previously advanced the real estate developer an additional cumulative amount of \$83,812 as of December 31, 2021 under the terms of this agreement for acquisition and stabilization of a property that is owned by the Organization. This amount was included in construction in progress and reflected in property and equipment, net in the consolidated statements of financial position as of December 31, 2021. During 2022, the Organization transferred the property, 300 Block South Gilmor, LLC, to the real estate developer (see Note 5) and the \$83,812 in construction in progress converted to a loan receivable. As of December 31, 2022 and 2021 the balance of the loan receivable was \$281,312 and \$197,500.

The Organization has a loan receivable, dated October 6, 2021, in the amount of up to \$58,688, due from a real estate developer in connection with the acquisition and stabilization of properties in Baltimore City. The funds received are awarded by the Maryland Department of Housing and Community Development (DHCD). Under this agreement, payments of principal and interest are deferred for 15 years until 2035 unless the properties are sold, transferred, refinanced, or otherwise disposed of prior to that date (see Note 8). However, the entire sum provided under the agreement may be forgiven if the Organization determines that the project has been completed in accordance with the terms, conditions, and requirements set forth in the agreement. The Organization had previously advanced the real estate developer an additional cumulative amount of \$58,688 as of December 31, 2021 under the terms of this agreement for acquisition and stabilization of a property that is owned by the Organization. This amount is included in construction in progress and reflected in property and equipment, net in the consolidated statements of financial position as of December 31, 2021. During 2022, the Organization transferred the property, 300 Block North Gilmor, LLC, to the real estate developer (see Note 5) and the \$58,688 in construction in progress converted to a loan receivable. As of December 31, 2022 and 2021 the balance of the loan receivable was \$58,688 and \$-0-.

The Organization has a loan receivable, dated April 27, 2022, in the amount of \$70,000, due from a real estate developer in connection with the rehabilitation and stabilization of properties in Baltimore City. The funds received are awarded by the Maryland Department of Housing and Community Development (DHCD) in connection with Commercial Tenant Improvement Program. The loan term is 36 months with an interest rate of 4%. However, 50% of the interest paid under the agreement may be forgiven if the Organization determines that the terms, conditions, and requirements set forth in the agreement have been met. As of December 31, 2022 and 2021 the balance of the loan receivable was \$70,000 and \$-0-.

SOUTHWEST PARTNERSHIP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

6. Loans Receivable (continued)

The Organization has a loan receivable, dated June 7, 2022, in the amount of \$30,000, due from a real estate developer in connection with the rehabilitation and stabilization of properties in Baltimore City. The funds received are awarded by the Maryland Department of Housing and Community Development (DHCD) in connection with Commercial Tenant Improvement Program. The loan term is 36 months with an interest rate of 4%. However, 50% of the interest paid under the agreement may be forgiven if the Organization determines that the terms, conditions, and requirements set forth in the agreement have been met. As of December 31, 2022 and 2021 the balance of the loan receivable was \$30,000 and \$-0-.

Principal payments are due as are follows:

Years Ending December 31:

2023	\$	38,402
2024		37,639
2025		37,554
2026		4,136
2027		4,054
Thereafter		<u>937,881</u>
		<u>\$ 1,059,666</u>

7. Deferred Revenue

In November 2020, the Organization began to lease office space in its building to a tenant for \$8,000 per year. The tenant had provided \$36,000 of contracting services and materials in lieu of rent payments as of the year ended December 31, 2020. This amount has been recognized as building improvements within property and equipment, net of accumulated depreciation, on the consolidated statements of financial position. As of December 31, 2022 and 2021, deferred revenue was \$18,667 and \$26,667, respectively, is reflected as deferred revenue on the consolidated statements of financial position and will be recognized as income as earned over the remaining lease term. The associated rental income of \$8,000 for both of the years ended December 31, 2022 and 2021, is reflected in other income on the consolidated statements of activities and changes in net assets.

SOUTHWEST PARTNERSHIP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

8. Loans Payable

In February 2019, the Organization acquired a property in Baltimore City for a contract sales price of \$400,000. In September 2019, the Organization obtained a \$400,000 loan in connection with this purchase. The loan bears variable interest equal to prime rate based on the prevailing rate published in the Wall Street Journal ("Prime") plus two percent but no less than six percent. Principal was due in full at maturity in 2021 and the loan was paid off during the year ended December 31, 2021. The Organization incurred debt issuance costs of \$11,712 in connection with this loan. These costs were amortized over the life of the loan. The debt issuance costs associated with this loan were fully amortized, including the remaining balance of \$1,952, during the year ended December 31, 2020.

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. Principal is due in full at maturity in 2024. The loan bears an interest rate of 3% per annum. The outstanding principal balance of the loan at December 31, 2022 and 2021 was \$500,000. The Organization incurred debt issuance costs of \$19,167 in connection with this loan. These costs are being amortized over the life of the loan. Amortization of debt issuance costs was \$3,833 for the years ended December 31, 2022 and 2021.

In March 2021, the Organization acquired an additional loan in the amount of \$465,000 collateralized by real property at 1313-19 West Baltimore Street. The loan bears an interest rate of 4% per annum. Equal monthly payments of principal and interest in the amount of \$2,454 are to be made beginning April 1, 2021 through March 1, 2031. The remaining unpaid principal and accrued interest are to be paid on March 9, 2031. The outstanding principal balance of the loan at December 31, 2022 and 2021 was \$445,173, and \$456,570, respectively. The Organization incurred debt issuance costs of \$25,764 in connection with this loan. These costs are being amortized over the life of the loan. Amortization of debt issuance costs was \$2,576 and \$2,147 for the years ended December 31, 2022 and 2021, respectively.

The loan is subject to certain restrictions and covenants. Under the covenants, the Organization must maintain certain financial ratios. As of December 31, 2022 and 2021, the Organization was in compliance with these covenants.

SOUTHWEST PARTNERSHIP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

8. Loans Payable (continued)

Maturities of loans payable for the years ended December 31 are as follows:

2023	\$	11,871
2024		512,355
2025		12,858
2026		13,382
Thereafter		<u>394,707</u>
		<u>945,173</u>
Less unamortized debt issuance costs		<u>25,833</u>
Loans payable less unamortized debt issuance costs	\$	<u><u>919,340</u></u>

9. Grant Advances

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 (see Note 6). 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. As December 31, 2022 and 2021, the Organization has received \$280,000, the full amount of the advance under this agreement. These amounts have been reflected in grant advance liabilities within the statements of financial position. The project completed the construction phase as of December 31, 2020.

In October 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 \$500,000 as part of a joint project with a real estate developer to acquire and renovate a number of housing units within the city (see Note 6). Payments of principal and interest are deferred for 15 years until 2035 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. As December 31, 2022 and 2021, the Organization has received \$500,000, the full amount of the advance under this agreement. These amounts have been reflected in grant advance liabilities within the statements of financial position. The project completed the construction phase as of December 31, 2022.

As December 31, 2022 and 2021, the Organization has received an additional \$26,513 and \$-0-, respectively in grant advances.

SOUTHWEST PARTNERSHIP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

10. Net Assets with Donor Restrictions

Net assets with donor restrictions as of December 31, 2022 and 2021 are restricted for the following purposes:

	2022	2021
Purpose restrictions:		
Poppleton recreation center	\$ 612,500	\$ - 0 -
Parks and recreation projects	246,774	229,055
Workforce development programs	207,295	3,755
Business district and public safety	62,051	- 0 -
Housing organizer	25,000	- 0 -
Community school	16,092	1,203
Cleaning programs	16,058	11,713
Other	6,997	- 0 -
Lincoln Institute	6,409	25,409
Tech library lending	6,400	10,000
Youth internship program	6,112	42,077
Lord Baltimore consulting	- 0 -	8,775
	1,211,688	331,987
Time restrictions:		
Grants and contributions restricted for future periods	105,000	- 0 -
	\$ 1,316,688	\$ 331,987

Net assets with donor restrictions were released from restriction during the years ended December 31, 2022 and 2021 by satisfying various restrictions as follows:

	2022	2021
Purpose restrictions:		
Parks and recreation projects	\$ 184,531	\$ 57,244
Youth internship program	35,965	- 0 -
Lincoln Institute	19,000	- 0 -
Cleaning programs	10,902	1,000
Lord Baltimore consulting	8,775	- 0 -
Workforce development programs	3,755	80,323
Tech library lending	3,600	- 0 -
Community school	1,000	- 0 -
Executive Director transition	- 0 -	30,000
	\$ 267,528	\$ 168,567

SOUTHWEST PARTNERSHIP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

11. Liquidity and Availability of Financial Assets

The following reflects the Organization's financial assets as of December 31, 2022 and 2021, 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:

	<u>2022</u>	<u>2021</u>
Financial assets at year end	\$ 3,184,750	\$ 2,264,597
Less those unavailable for general expenditures within one year, due to:		
Portion of loan receivable not expected to be collected within one year	(1,021,264)	(818,020)
Custodial funds held on behalf of others	(10,905)	(16,827)
Grant advance collected but not yet disbursed in accordance with the project agreement	(26,513)	- 0 -
Restricted by donors with purpose or time restrictions	<u>(1,211,688)</u>	<u>(331,987)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 914,380</u>	<u>\$ 1,097,763</u>

The Organization maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Net assets with time restrictions of \$105,000 that will be available for general use within one year of the consolidated statement of financial position date have been excluded from the amount restricted by donors with purpose or time restrictions in the table presented above.

12. Joint Venture

In December 2020, the Organization entered into a joint venture with a local for-profit organization (for-profit) in order to purchase and develop a property within the Organization's focus area in southwest Baltimore City. As part of the joint venture, 1401-1403 W Baltimore St LLC was formed in which the Organization is a minority, silent member with a 49% interest in the LLC. The other for-profit holds the remaining 51% majority interest and is the managing member of the LLC. Upon the completion of the project, the Organization will transfer its 49% interest in the LLC to the local for-profit. Through the year ended December 31, 2021, the Organization had contributed a total of \$127,091 in construction and rehabilitation costs related to the property held by the joint venture.

SOUTHWEST PARTNERSHIP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements December 31, 2022 and 2021

12. Joint Venture (continued)

During the year ended December 31, 2021, the Organization relinquished the property rights to the other for-profit and exited the joint venture. The Organization recognized expense of \$127,091 in conjunction with exiting the joint venture, which is reflected as stabilization and rehabilitation expense on the consolidated statement of functional expenses for the year ended 2021.

13. Tax Sale Program

The Organization assists prospective property owners with acquiring tax lien certificates and foreclosing to acquire title on those respective properties. The Organization generates revenue in connection with these services, which is reported on the consolidated statements of activities and changes in net assets as tax sale program revenue. Tax sale program revenue was \$907 and \$165,010 for the years ended December 31, 2022 and 2021, respectively. Expenses incurred with these services are reported as tax sale program expense in the consolidated statements of functional expenses. Legal services expense incurred in connection with this program was \$-0- and \$8,862 for the years ended December 31, 2022 and 2021, respectively. Expenses incurred relating to lien releases and tax sale certificates were \$907 and \$163,205 for the years ended December 31, 2022 and 2021, respectively.

14. Concentrations of Revenue

During the years ended December 31, 2022 and 2021, 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 2022 and 2021, income recognized under these grant arrangements represented 29% and 34%, respectively, of the Organization's total support and revenue. The Organization also received a significant portion of its support and revenue from the City of Baltimore through the American Rescue Plan Act. In 2022 and 2021, income recognized under these grant arrangements represented 15% and 0%, respectively, 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.

15. 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.

SOUTHWEST PARTNERSHIP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

16. 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 \$210,000 and \$175,000 during the years ended December 31, 2022 and 2021, respectively, and is reflected in grants and contributions in the consolidated statements of activities and changes in net assets. There were no receivables from the anchor institutions at December 31, 2022 and 2021.

17. Prior Period Adjustment

In prior periods, costs associated with various land bank properties were previously expensed in 2021, but should have been capitalized as the Organization had purchased the tax sale certificate and was in the process of foreclosing on the properties. Accordingly, the prior period financial statements have been restated to include \$98,065 in construction in progress as of December 31, 2021 and reflect the corresponding decrease of \$98,065 in in tax sale program expense for the year ended December 31, 2021. This resulted in a total understatement of net assets without donor restrictions of \$98,065 at December 31, 2021.

18. Supplemental Cash Flow Information

Interest paid for the years ended December 31, 2022 and 2021 totaled \$20,343 and \$14,839, respectively. Interest capitalized for the years ended December 31, 2022 and 2021 totaled \$4,348 and \$4,200, respectively. The Organization had noncash financing activity related to the amortization of debt issuance costs in the amount of \$6,410 and \$5,980 for the years ended June 30, 2021 and 2020, respectively. These amounts are considered interest expense and are included in the statement of functional expense as interest expense.

During the year ended December 31, 2022, the Organization had a noncash investing transaction related to the transfer of \$83,812 in construction in progress included in the assets of 300 Block South Gilmor, LLC to a real estate developer for the acquisition of a loan receivable in the amount of \$83,812.

During the year ended December 31, 2022, the Organization had a noncash investing transaction related to the transfer of \$58,688 in construction in progress included in the assets of 300 Block North Gilmor, LLC to a real estate developer for the acquisition of a loan receivable in the amount of \$58,688.

SOUTHWEST PARTNERSHIP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

18. Supplemental Cash Flow Information (continued)

During the year ended December 31, 2022, the Organization had a noncash investing transaction related to the acquisition of leasehold improvements in the amount of \$7,000 that were obtained from contributions of a nonfinancial assets.

19. Subsequent Events

The Organization has evaluated subsequent events through August 4, 2023, the date the financial statements were available to be issued.