Fellowship Square Foundation, Inc. and Affiliates

Consolidated Financial Statements
and Supplementary Information

June 30, 2023 and 2022

Independent Auditors' Report

To the Board of Trustees of
Fellowship Square Foundation, Inc. and Affiliates

Opinion

We have audited the consolidated financial statements of Fellowship Square Foundation, Inc. and Affiliates (the Corporation), which comprise the consolidated balance sheets as of June 30, 2023 and 2022, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation as of June 30, 2023 and 2022, and the results of their operations and 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 (GAAP).

Basis for Opinion

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

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 GAAP, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements 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 the Corporation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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 GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, 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 the Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The combining information on pages 17 and 18 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and changes in net assets of the individual organizations, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The combining information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Baker Tilly US, LLP

Lancaster, Pennsylvania
October 27, 2023

Fellowship Square Foundation, Inc. and Affiliates

Consolidated Balance Sheets
June 30, 2023 and 2022

	2023	2022
Assets		
Current Assets		
Cash and cash equivalents	$ 1,816,920	$ 4,491,521
Accounts receivable	398,797	440,672
Prepaid expenses and other current assets	30,690	33,178
Total current assets	2,246,407	4,965,371
Deposits		
Tenant deposits held in trust	131,361	169,313
Escrow deposits	1,535,626	5,253,806
Replacement reserves	1,718,165	2,933,487
Residual receipts	931,520	544,949
Total deposits	4,316,672	8,901,555
Investments	11,043,549	9,705,303
Note Receivable	5,467,907	5,307,525
Property and Equipment, Net	35,712,654	34,220,877
Total assets	$ 58,787,189	$ 63,100,631
Liabilities and Net Assets		
Current Liabilities		
Accounts payable, operations	$ 345,454	$ 230,156
Accounts payable, construction	61,633	343,474
Accrued wages payable	78,361	125,698
Accrued interest payable	89,843	89,843
Accrued management fee payable	-	15,226
Prepaid revenues	27,376	27,376
Other current liabilities	-	32,807
Line of credit	488,226	-
Mortgage payable, current	746,095	722,417
Total current liabilities	1,836,988	1,586,997
Tenant Deposits Held in Trust	126,870	163,605
Mortgage Payable, Long-Term	29,286,625	29,974,610
Total liabilities	31,250,483	31,725,212
Net Assets		
Without donor restrictions	27,411,706	31,162,692
With donor restrictions	125,000	212,727
Total net assets	27,536,706	31,375,419
Total liabilities and net assets	$ 58,787,189	$ 63,100,631

See notes to consolidated financial statements

Fellowship Square Foundation, Inc. and Affiliates

Consolidated Statements of Operations and Changes in Net Assets
Years Ended June 30, 2023 and 2022

	2023	2022
Revenues Without Donor Restrictions		
Net rental revenue	$ 8,118,046	$ 12,180,324
Investment income (loss)	1,083,689	(1,574,146)
Contributions	260,784	515,521
Other revenue	364,253	852,721
Development fees	917,773	135,000
Net assets released from restrictions	87,727	-
Total revenues without donor restrictions	10,832,272	12,109,420
Expenses		
Administrative	3,120,181	3,180,946
Utilities	864,447	1,111,069
Operating and maintenance	1,625,713	2,307,176
Taxes and insurance	1,089,963	1,169,469
Financial expenses	1,313,711	383,845
Elderly care expenses	210,780	301,358
Demolition costs	4,753,593	-
Depreciation	1,604,870	2,413,073
Total expenses	14,583,258	10,866,936
Operating (loss) income and change in net assets without donor restrictions	(3,750,986)	1,242,484
Net Assets With Donor Restrictions		
Net assets released from restrictions	(87,727)	-
Change in net assets with donor restrictions	(87,727)	-
Change in net assets	(3,838,713)	1,242,484
Net Assets, Beginning	31,375,419	30,132,935
Net Assets, Ending	$ 27,536,706	$ 31,375,419

See notes to consolidated financial statements

Fellowship Square Foundation, Inc. and Affiliates

Consolidated Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	2022
Cash Flows From Operating Activities		
Change in net assets	$ (3,838,713)	$ 1,242,484
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,604,870	2,413,073
Amortization of debt issuance costs	58,118	15,975
Net realized and unrealized (gains) losses	(542,705)	1,845,921
Changes in assets and liabilities:		
Accounts receivable	41,875	(417,030)
Prepaid expenses and other current assets	2,488	(5,314)
Notes receivable	(160,382)	(290,070)
Accounts payable	115,298	39,553
Accrued expenses, prepaid revenue and other current liabilities	(62,563)	105,613
Other current liabilities	(32,807)	-
Tenant security deposits held in trust liability	(36,735)	(8,800)
Net cash (used in) provided by operating activities	(2,851,256)	4,941,405
Cash Flows From Investing Activities		
Net purchases of property and equipment	(3,378,488)	(12,956,773)
Net purchases of investments	(795,541)	(1,381,324)
Net cash used in investing activities	(4,174,029)	(14,338,097)
Cash Flows From Financing Activities		
Repayment of mortgage payable	(722,425)	(696,249)
Net line of credit borrowings	488,226	-
Refund of debt issuance costs	-	24,540
Net cash used in financing activities	(234,199)	(671,709)
Net change in cash, cash equivalents and restricted cash and cash equivalents	(7,259,484)	(10,068,401)
Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, Beginning	13,393,076	23,461,477
Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, Ending	$ 6,133,592	$ 13,393,076

See notes to consolidated financial statements

Fellowship Square Foundation, Inc. and Affiliates

Consolidated Statements of Cash Flows
Years Ended June 30, 2023 and 2022

		2023		2022
Reconciliation of Cash, Cash Equivalents and Restricted Cash and Cash Equivalents				
Cash and cash equivalents	$	1,816,920	$	4,491,521
Tenant deposits held in trust		131,361		169,313
Escrow deposits		1,535,626		5,253,806
Replacement reserves		1,718,165		2,933,487
Residual receipts		931,520		544,949
Total cash, cash equivalents and restricted cash and cash equivalents	$	6,133,592	$	13,393,076
Supplemental Disclosure of Cash Flow Information				
Interest paid, net of amounts capitalized	$	1,136,523	$	260,825
Supplemental Disclosure of Noncash Investing and Financing Activities				
Accounts payable, construction	$	61,633	$	343,474

1. Nature of Business and Summary of Significant Accounting Policies

Nature of Business

Fellowship Square Foundation, Inc. (the Foundation) was organized as a nonstock, not-for-profit organization within the District of Columbia. The Foundation's purpose is to provide housing for elderly and physically disabled persons by owning, operating and managing government-subsidized housing projects (the Projects). The Projects are regulated by the Department of Housing and Urban Development (HUD) with respect to rental charges, operating expenses and operating methods. The Foundation owns and operates the following Projects:

Lake Anne Fellowship House, Section I (Lake Anne I) consists of 140-units located in Reston, Virginia. The corporation is under a Regulatory Agreement and has a Section 8 Low Income Housing Assistance Payments Contract with HUD.

Lake Anne Fellowship House, Section II (Lake Anne II) consists of 100-units located in Reston, Virginia. The corporation is under a Regulatory Agreement and has a Section 8 Low Income Housing Assistance Payments Contract with HUD.

The Foundation has entered various agreements with development partners who are constructing a new building to replace Lake Anne I and Lake Anne II's existing buildings. A new entity was formed, New Lake Anne House, LP (New Lake Anne House), in which the Foundation is a minority owner. The new building was completed in the spring of 2022. All existing residents were moved into the new building between June 2022 and July 2022. Demolition of the existing buildings began in August 2022. Demolition costs of $4,753,593 during the year ended June 30, 2023 were expensed as incurred. The Housing Assistance Payments Contract were assigned to New Lake Anne House and tenant deposits, and the replacement reserves were also be transferred during 2023. Lake Anne I and Lake Anne II will wind down and cease operations during fiscal year ended June 30, 2024, and any remaining liabilities are anticipated to be paid for by the Foundation.

The Foundation is the sole member and parent of the following Projects:

Lake Ridge Elderly Development, Inc. (Lake Ridge) is a not-for-profit corporation and consists of 100-units located in Woodbridge, Virginia. The corporation is financed through a direct loan under a Section 223(f) Mortgage Use Agreement, is under a Regulatory Agreement and has a Section 8 Low Income Housing Contract with HUD.

Largo Landing Elderly Developments, Inc. (Largo Landing) is a not-for-profit corporation and consists of 106-units located in Upper Marlboro, Maryland. The corporation is financed through a direct loan under a Section 223(f) Mortgage Use Agreement, is under a Regulatory Agreement and has a Section 8 Low Income Housing Contract with HUD.

Hunters Woods Elderly Developments of Virginia, Inc. (Hunters Woods) is a not-for-profit corporation and consists of 224-units in Reston, Virginia. The corporation is financed through a direct loan under a Section 223(f) Mortgage Use Agreement, is under a Regulatory Agreement and has a Section 8 Low Income Housing Contract with HUD.

Principles of Consolidation

The consolidated financial statements include the accounts of the Foundation and its Lake Anne I and Lake Anne II projects, Lake Ridge, Largo Landing and Hunters Woods (together the Corporation). All significant transactions and balances between the organizations have been eliminated in consolidation.

Subsequent Events

The Corporation evaluated subsequent events for recognition or disclosure through October 27, 2023, the date the consolidated financial statements were available to be issued. See subsequent event as disclosed in Note 5.

Use of Estimates

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash, Cash Equivalents and Restricted Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash, cash equivalents and restricted cash and cash equivalents includes investments in highly liquid debt instruments purchased with an original maturity of three months or less.

Accounts Receivable

The Corporation provides an allowance for uncollectible accounts based on the reserve method using management's judgment. Accounts are individually analyzed on a monthly basis for collectability. Once accounts are deemed uncollectible, the accounts are written off. Accounts receivable are considered fully collectible by management, and accordingly, no allowance for doubtful accounts is considered necessary.

Deposits

Deposits consist of cash restricted to use by HUD, escrow deposits limited for tax and insurance payments, other reserves and tenant security deposits. The use of interest earned on these cash balances is also limited.

Note Receivable

On May 8, 2020, the Foundation entered into a promissory note with New Lake Anne House related to the sale of land to New Lake Anne House for the construction of the new building to replace Lake Anne I and Lake Anne II's existing buildings. The promissory note is in the principal sum of $5,017,455. Interest accrues at a rate of 2.85% and compounds annually. New Lake Anne House will repay the Foundation from 25% of cash flows then pursuant to a cash flow distribution order set forth in a partnership agreement. Payments shall be applied first to accrued interest and then to any outstanding principal with all outstanding principal and interest being due in a single payment on September 1, 2057. The promissory note is secured by a deed of trust on the property. The promissory note has accrued interest of $450,452 and $290,070 through June 30, 2023 and 2022, respectively.

Investments and Investment Risk

Investments in equity securities and investments in debt securities are measured at fair value in the consolidated balance sheets. The fair value of substantially all securities is determined by quoted market prices of the same or similar securities. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in operating (loss) income and changes in net assets without donor restrictions unless the income or loss is restricted by donor or law. Interest income is measured as earned on the accrual basis. Dividends are measured based on the ex-dividend date. Purchases and sales of securities and realized gains and losses are recorded on a trade-date basis.

The Corporation's investments are comprised of a variety of financial instruments and are managed by investment advisors. The fair values reported in the consolidated balance sheets are subject to various risks, including changes in the equity markets, the interest rate environment and general economic conditions. Due to the level of risk associated with investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the consolidated balance sheets could change materially in the near term.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. In May 2020, the Foundation (working with a development partners) started construction on a new building to replace the Corporation's existing building and its sister property Lake Anne Fellowship House Section II. The new building was completed in the spring of 2022. All existing residents were moved into the new building between June 2022 and July 2022. Demolition of the existing buildings began in August 2022. Thus, the remaining lives of substantially all fixed assets was revised accordingly in May 2020. Additionally, during 2020, Hunters Woods' began renovation projects of the entire apartment building and surrounding property which started in February 2020, as further described in Note 6, which was completed in phases through spring of 2023.

Debt Issuance Costs

Debt issuance costs are being amortized over the term of the related debt using the straight-line method, which approximates the effective interest method. Total amortization expense included in financial expenses on the consolidated statements of operations and changes in net assets was $58,118 in 2023 and $15,975 in 2022. Additionally, Hunters Woods had amortization expense capitalized of $42,144 during 2022.

Rent Revenues

Rent revenues are recognized using rates established by HUD. Under the Regulatory Agreements, the Projects may not increase rents charged to tenants without prior HUD approval.

Income Taxes

The Corporation and its affiliates are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (IRC) and are exempt from federal income taxes on its income under Section 501(a) of the IRC.

Donor Restrictions

The Corporation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions.

Net assets are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations. The Board of Directors may, at its discretion, designate net assets without donor restrictions for mission related purposes.

Net Assets With Donor Restrictions - Net assets that are subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets with donor restrictions includes $125,000 that is restricted to investment in perpetuity, the income from which is expendable to support the Corporation's programs. The amount held in perpetuity is made up of an endowment of cash and marketable securities that the Foundation received in September 1992. The remaining net assets with donor restrictions of $87,727 as of June 30, 2022, are purpose restricted for operational use. These net assets were released from restriction during 2023.

Revenue Recognition

The Corporation accounts for its leases with its residents as operating leases. For lease agreements that provide for rent concessions and/or scheduled fixed and determinable rent increases, rental income is recognized on a straight-line basis over the noncancellable term of the lease. The Corporation's residential lease term is generally one year. Net rental income is recognized using rates established by HUD. Under the Regulatory Agreement, the Corporation may not increase rents charged to tenants without prior HUD approval. Substantially all the Corporation's revenue is derived from residential rental and related income. In addition to base rent, such income streams include certain tenant reimbursement of costs paid by the Corporation on behalf of the tenant for budget costs related to the operation and maintenance of the property. These income streams are scoped out of Topic 606 and included in current lease framework. Tenant reimbursement of consumption based costs paid by the Corporation on behalf of the tenant, such as utilities and monthly fees for any additional services rendered, which are recognized in revenue over time, throughout the duration of the lease agreement. Ancillary income for items such as fees for damages, application fees and administrative fees, which are recognized in revenue at a point in time, as such fees are incurred.

The Corporation recognizes rental revenue at the beginning of each month when rents are due. Amounts collected before the first of the month are included in current liabilities as prepaid tenant rents.

Development fees represent amounts earned per a master development agreement related to the New Lake Anne House and are recognized as services are completed.

Future Accounting Pronouncements

During June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Measurement of Credit Losses on Financial Instruments*. ASU No. 2016-13 requires financial assets measured at amortized cost to be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. During November 2018, April 2019, May 2019, November 2019 and March 2020, respectively, the FASB also issued ASU No. 2018-19, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*; ASU No. 2019-04, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*; ASU No. 2019-05 *Targeted Transition Relief*; ASU No. 2019-11, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*; and ASU No. 2020-03 *Codification Improvements to Financial Instruments*. ASU No. 2018-19 clarifies the effective date for nonpublic entities and that receivables arising from operating leases are not within the scope of Subtopic 326-20, ASU Nos. 2019-04 and 2019-05 amend the transition guidance provided in ASU No. 2016-13, and ASU Nos. 2019-11 and 2020-03 amend ASU No. 2016-13 to clarify, correct errors in, or improve the guidance. ASU No. 2016-13 (as amended) is effective for annual periods and interim periods within those annual periods beginning after December 15, 2022. The Corporation is currently assessing the effect that ASU No. 2016-13 (as amended) will have on its results of operations, financial position and cash flows.

2. Regulatory Agreements

The Projects are operating under Regulatory Agreements (the Agreements) with HUD. Under the terms of the Agreements, the Projects are required to make monthly deposits into replacement reserves. Certain of the Projects are also required to deposit residual revenue, as defined, into a residual receipts account within 90 days of year-end. Disbursements from the reserve for replacement account may only be made upon HUD approval and generally are not available for operating purposes. In addition, the Agreements stipulate that the Projects will not make distributions of assets or income to any of its officers or directors.

3. Fair Value Measurements and Investments

Fair Value Measurements

For financial instruments required to be measured at fair value on a recurring basis, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is measured using a hierarchy prioritizing the inputs used in determining valuations into three levels. The level within the fair value hierarchy is based on the lowest level input that is significant to the fair value measurement.

The levels of the fair value hierarchy are as follows:

Level 1 - Unadjusted quoted prices in active markets that are accessible to the Corporation for identical instruments.

Level 2 - Significant inputs, other than Level 1 inputs that are observable either directly or indirectly for substantially the full term of the instruments through corroboration with observable market data.

Level 3 - Significant unobservable inputs.

The Corporation did not hold any Level 2 or 3 financial instruments at June 30, 2023 and 2022.

The following table presents financial instruments reported at fair value, by caption on the consolidated balance sheets at June 30:

	Level 1	
	2023	**2022**
Investments:		
Mutual funds:		
Equity	$ 3,575,643	$ 3,077,658
International	3,810,027	3,117,685
Fixed income	3,657,879	3,509,960
Total investments reported at fair value	$ 11,043,549	$ 9,705,303

Valuation Methodologies

Mutual funds are valued at fair value based on quoted market prices in active markets.

Total return on the Corporation's investments consists of the following for the years ended June 30:

	2023	**2022**
Interest and dividend income	$ 540,984	$ 271,775
Realized gains on investments	-	135,317
Net unrealized gains (losses) on investments	542,705	(1,981,238)
Total investment income (loss)	$ 1,083,689	$ (1,574,146)

4. Liquidity and Availability of Resources

Financial assets available for general expenditure within one year of the balance sheet date, consist of the following:

	2023	**2022**
Financial assets:		
Cash and cash equivalents	$ 1,816,920	$ 4,491,521
Accounts receivable	398,797	440,672
Investments	11,043,549	9,705,303
Total financial assets available for general expenditure within one year	13,259,266	14,637,496
Less:		
Surplus cash required to be deposited into residual receipts accounts	(6,093)	(385,043)
Net assets with donor restrictions	(125,000)	(212,727)
Total financial assets available to meet cash needs for general expenditures within one year	$ 13,128,173	$ 14,039,726

As part of the Corporation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

As disclosed in Note 3, the Corporation is required to maintain reserve for replacement accounts and also deposit any residual revenue, as defined, into residual receipts accounts. The use of the funds in these accounts is subject to approval by HUD, and is generally limited to capital expenditures and service coordinator expenses. The Corporation had a balance of $2,649,685 and $3,478,436 at June 30, 2023 and 2022, respectively, in its reserve for replacement and residual receipts accounts available for such limited purposes. At June 30, 2023, Largo Landing had surplus cash required to be deposited in residual receipts of $6,093.

The Corporation had escrow deposits of $1,535,626 and $5,253,806 at June 30, 2023 and 2022, respectively, held in separate cash accounts. These deposits are being held as required by HUD, and at June 30, 2022 included deposits for the demolition of Lake Anne I and II as described in Note 1, and the renovation project at Hunters Woods as described in Note 5.

5. Property and Equipment

Major classifications of property and equipment and their respective depreciable lives are summarized below:

	2023	2022	Depreciable Lives
Land and land improvements	$ 1,114,500	$ 1,362,927	
Buildings and improvements	54,905,202	48,612,219	20 - 40 years
Building equipment	2,694,768	2,724,164	5 - 20 years
Furnishings and equipment	1,090,934	1,075,243	5 - 20 years
Motor vehicles	249,848	249,858	5 - 8 years
Construction in progress	78,710	12,471,364	
	60,133,962	66,495,775	
Less accumulated depreciation	(24,421,308)	(32,274,898)	
	$ 35,712,654	$ 34,220,877	

Construction-in-progress at June 30, 2022 is associated with the design, engineering and construction costs related to renovation projects to the entire Hunters Woods apartment building and surrounding property, which was completed in phases through spring of 2023. The project was funded through a HUD mortgage (Note 6) and is to be used for the following purposes: to reconfigure apartments for residents with mobility issues; roof replacement; upgrades to air conditioning units; modernization of heating and cooling systems; updating building exterior, including surrounding landscaping; new entrance and lobby; new flooring; and lighting. Interest of approximately $877,000 was capitalized during June 30, 2022.

The Foundation had entered into a contract of sale agreement with an unrelated third-party for the sale of land on which the existing Lake Anne I and Lake Anne II buildings are located. Settlement occurred on July 13, 2023 at a sales price of $12,420,000 with the Foundation receiving net cash proceeds from the sale of approximately $4,700,000. Additionally, the Foundation entered into a promissory note receivable with the buyer for $6,241,667 with interest accruing at 3.98% with principal payments through the maturity date of September 1, 2057.

6. Long-Term Debt

Lake Ridge

Lake Ridge is obligated under the terms of a mortgage dated March 1, 2015, with Orix Real Estate Capital (Orix) (formally Lancaster Pollard Mortgage Company), which replaced a HUD insured Section 202 mortgage with a Section 223(f) mortgage. All fixed assets and income are pledged as collateral. On June 1, 2021, the Corporation modified the mortgage note. Through July 1, 2021, the mortgage interest rate was 3.22% per annum and required monthly debt service installments of $24,601. Beginning August 1, 2022, the mortgage bears interest at 2.95% per annum and requires monthly debt service installments of $23,916 through April 1, 2045.

Largo Landing

Largo Landing refinanced its principal mortgage on January 1, 2015, with Orix Real Estate Capital (Orix) (formally Lancaster Pollard Mortgage Company), which replaced a HUD insured Section 202 mortgage with a Section 223(f) mortgage. All fixed assets and income are pledged as collateral. On August 1, 2021, the Corporation modified the mortgage note. Through September 1, 2021 the mortgage interest rate was 3.62% per annum and required monthly debt service installments of $24,636. Beginning October 1, 2021, the mortgage bears interest at 2.93% per annum and requires monthly debt service installments of $23,306 through August 1, 2034 and $12,115 from September 1, 2034 through January 1, 2045.

Hunters Woods

In March 2020, Hunters Woods entered into a HUD Section 223(f) mortgage, with CBRE Loan Services, Inc. All fixed assets and income are pledged as collateral, and the mortgage bears interest at 3.46% per annum, and requires monthly debt service installments of $101,971 through February 2055.

Long-term debt is summarized as follows:

	2023	2022
Lake Ridge	$ 4,615,734	$ 4,764,185
Largo Landing	3,587,546	3,759,363
Hunters Woods	23,523,881	23,926,038
Total	31,727,161	32,449,586
Less:		
Current maturities	(746,095)	(722,417)
Debt issuance costs, net	(1,694,441)	(1,752,559)
	$ 29,286,625	$ 29,974,610

Maturities of long-term debt are as follows for the years ending June 30:

	Lake Ridge	Largo Landing	Hunters Woods	Total
2024	$ 152,891	$ 176,909	$ 416,295	$ 746,095
2025	157,463	182,162	430,930	770,555
2026	162,172	187,572	446,078	795,822
2027	167,021	193,142	461,780	821,943
2028	172,015	198,878	477,993	848,886
Thereafter	3,804,172	2,648,883	21,290,805	27,743,860
Total	$ 4,615,734	$ 3,587,546	$ 23,523,881	$ 31,727,161

Interest expense of $1,194,641 and $276,800 is included in financial expenses on the consolidated statements of operations and changes in net assets for the years ended June 30, 2023 and 2022, respectively.

7. Line of Credit

The Corporation has a $1,100,000 line of credit with a financial institution at the prime rate (7.50% at June 30, 2023), $488,226 was outstanding at June 30, 2023 and none of which was outstanding at June 30, 2022.

8. Expenses by Nature and Function

The Corporation's primary program service relates to providing housing for low income elderly and physically disabled individuals within its geographic location. Expenses by both natural and functional classification consist of the following for the year ended June 30:

	2023		
	Program	**Administrative**	**Total**
Salaries, benefits and payroll taxes	$ 2,013,493	$ 712,328	$ 2,725,821
Supplies	333,764	98,690	432,454
Operating and maintenance	597,966	-	597,966
Demolition costs	4,753,593	-	4,753,593
Utilities	864,447	-	864,447
Taxes and insurance	837,229	-	837,229
Interest	1,194,641	-	1,194,641
Depreciation	1,604,870	-	1,604,870
Other	1,208,051	255,650	1,463,701
Professional fees	-	108,536	108,536
Total	$ 13,408,054	$ 1,175,204	$ 14,583,258

	2022		
	Program	**Administrative**	**Total**
Salaries, benefits and payroll taxes	$ 2,699,806	$ 763,922	$ 3,463,728
Supplies	322,460	98,702	421,162
Operating and maintenance	807,183	-	807,183
Utilities	1,111,069	-	1,111,069
Taxes and insurance	834,747	-	834,747
Interest	276,800	-	276,800
Depreciation	2,413,073	-	2,413,073
Other	992,035	491,420	1,483,455
Professional fees	-	55,719	55,719
Total	$ 9,457,173	$ 1,409,763	$ 10,866,936

Program service expenses consist of those expenses directly related to the operation of the facility that fulfill its purpose and mission. Expenses attributable to administrative services consist of those expenses relating to the oversight and management of the facility.

9. Contingencies

The Projects operate under Agreements with HUD. As part of the Agreements, residual receipts accounts have been established. According to Section 223(f) revised regulations, if HUD determines at any time that the Projects' funds held in the residual receipts account are more than the amount needed for the Projects' operations and reserve requirements, HUD may require that excess funds be placed in an account to be used to reduce housing assistance payments or for other Projects' purposes. Upon termination of the Agreements, any excess funds in the residual receipts account must be remitted to HUD. Due to uncertainties involving the excess funds, no estimate of the amount or range of possible loss, if any, can be made.

10. Current Vulnerability Due to Certain Concentrations

The Corporation's operations are concentrated in the multi-family real estate market. In addition, the Corporation operates in a heavily regulated environment. The operations of the Corporation are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

The Corporation receives a significant portion of its total revenue from HUD through housing assistance payments for the Projects. A significant reduction in the level of this support, if it were to occur, may have an adverse effect on the Corporation's operations.

11. Concentration of Credit Risk

Financial instruments which subject the Corporation to concentrations of credit risk consist primarily of cash and cash equivalents, equity securities, mutual funds and corporate bonds.

The Corporation maintains cash and cash equivalents accounts, which, at times, may exceed federally insured limits. The Corporation has not experienced any losses from maintaining cash and cash equivalents accounts in excess of federally limited limits. Management believes it is not subject to any significant credit risk on its cash and cash equivalents accounts.

Fellowship Square Foundation, Inc. and Affiliates

Combining Schedule, Balance Sheet
June 30, 2023

	Foundation Corporate	Lake Anne I Project	Lake Anne II Project	Lake Ridge	Largo Landing	Hunters Woods	Eliminations	Consolidated
Assets								
Current Assets								
Cash and cash equivalents	$ 255,943	$ 207,032	$ 92,829	$ 276,774	$ 421,342	$ 563,000	$ -	$ 1,816,920
Accounts receivable	338,495	-	-	28,800	32,689	(1,187)	-	398,797
Due from affiliates	1,771,087	-	2,542,921	-	-	-	(4,314,008)	-
Prepaid expenses and other current assets	30,690	-	-	-	-	-	-	30,690
Total current assets	2,396,215	207,032	2,635,750	305,574	454,031	561,813	(4,314,008)	2,246,407
Deposits								
Tenant deposits held in trust	-	-	-	37,728	38,835	54,798	-	131,361
Escrow deposits	-	950,902	-	89,086	319,458	176,180	-	1,535,626
Replacement reserves	-	-	-	548,719	339,887	829,559	-	1,718,165
Residual receipts	-	-	-	498,925	432,595	-	-	931,520
Total deposits	-	950,902	-	1,174,458	1,130,775	1,060,537	-	4,316,672
Investments	11,043,549	-	-	-	-	-	-	11,043,549
Notes Receivable	5,467,907	-	-	-	-	-	-	5,467,907
Property and Equipment, Net	-	-	-	3,558,390	4,208,325	27,945,939	-	35,712,654
Total assets	$ 18,907,671	$ 1,157,934	$ 2,635,750	$ 5,038,422	$ 5,793,131	$ 29,568,289	$ (4,314,008)	$ 58,787,189
Liabilities and Net Assets (Deficit)								
Current Liabilities								
Accounts payable, operations	$ 71,529	$ -	$ 2,600	$ 14,370	$ 147,972	$ 108,983	$ -	$ 345,454
Accounts payable, construction	-	-	-	-	-	61,633	-	61,633
Accrued wages payable	49,991	-	-	9,986	10,347	8,037	-	78,361
Accrued interest payable	-	-	-	11,712	9,145	68,986	-	89,843
Due to affiliates	-	3,673,896	-	367,021	262,146	10,945	(4,314,008)	-
Prepaid revenues	-	-	-	27,376	-	-	-	27,376
Line of credit	488,226	-	-	-	-	-	-	488,226
Mortgage payable, current	-	-	-	152,891	176,909	416,295	-	746,095
Total current liabilities	609,746	3,673,896	2,600	583,356	606,519	674,879	(4,314,008)	1,836,988
Tenant Deposits Held in Trust	-	-	-	36,835	37,568	52,467	-	126,870
Mortgage Payable, Long-Term	-	-	-	4,256,331	3,271,329	21,758,965	-	29,286,625
Total liabilities	609,746	3,673,896	2,600	4,876,522	3,915,416	22,486,311	(4,314,008)	31,250,483
Net Assets (Deficit)								
Without donor restrictions	18,172,925	(2,515,962)	2,633,150	161,900	1,877,715	7,081,978	-	27,411,706
With donor restrictions	125,000	-	-	-	-	-	-	125,000
Total net assets (deficit)	18,297,925	(2,515,962)	2,633,150	161,900	1,877,715	7,081,978	-	27,536,706
Total liabilities and net assets (deficit)	$ 18,907,671	$ 1,157,934	$ 2,635,750	$ 5,038,422	$ 5,793,131	$ 29,568,289	$ (4,314,008)	$ 58,787,189

Fellowship Square Foundation, Inc. and Affiliates

Combining Schedule, Statement of Operations and Changes in Net Assets (Deficit)
Year Ended June 30, 2023

	Foundation Corporate	Lake Anne I Project	Lake Anne II Project	Lake Ridge	Largo Landing	Hunters Woods	Eliminations	Consolidated
Revenues Without Donor Restrictions								
Net rental revenue	$ -	$ 30,653	$ 22,044	$ 1,726,330	$ 2,107,075	$ 4,231,944	$ -	$ 8,118,046
Investment income	1,058,554	9,796	429	3,178	3,012	8,720	-	1,083,689
Contributions	260,784	-	-	-	-	-	-	260,784
Other revenue	65,912	-	32,861	102,262	125,457	37,761	-	364,253
Management fees	1,709,677	-	-	-	-	-	(1,709,677)	-
Development fees	917,773	-	-	-	-	-	-	917,773
Net assets released from restrictions	87,727	-	-	-	-	-	-	87,727
Total revenues without donor restrictions	4,100,427	40,449	55,334	1,831,770	2,235,544	4,278,425	(1,709,677)	10,832,272
Expenses								
Administrative	1,175,204	581,738	741,462	649,986	638,244	1,043,224	(1,709,677)	3,120,181
Utilities	-	53,954	39,350	165,796	253,684	351,663	-	864,447
Operating and maintenance	4,633	26,030	18,613	403,530	435,110	737,797	-	1,625,713
Taxes and insurance	177,191	55,412	22,633	176,766	406,648	251,313	-	1,089,963
Financial expenses	2,999	-	-	179,313	137,950	993,449	-	1,313,711
Elderly care expenses	1,354	-	-	56,269	69,855	83,302	-	210,780
Demolition costs	-	4,753,593	-	-	-	-	-	4,753,593
Depreciation	-	-	-	346,307	278,013	980,550	-	1,604,870
Total expenses	1,361,381	5,470,727	822,058	1,977,967	2,219,504	4,441,298	(1,709,677)	14,583,258
Operating (loss) income	2,739,046	(5,430,278)	(766,724)	(146,197)	16,040	(162,873)	-	(3,750,986)
Net Assets Transfers	221,549	-	-	-	-	(221,549)	-	-
Change in net assets (deficit) without donor restrictions	2,960,595	(5,430,278)	(766,724)	(146,197)	16,040	(384,422)	-	(3,750,986)
Net Assets With Donor Restrictions								
Net assets released from restrictions	(87,727)	-	-	-	-	-	-	(87,727)
Change in net assets (deficit) with donor restrictions	(87,727)	-	-	-	-	-	-	(87,727)
Change in net assets (deficit)	2,872,868	(5,430,278)	(766,724)	(146,197)	16,040	(384,422)	-	(3,838,713)
Net Assets, Beginning	15,425,057	2,914,316	3,399,874	308,097	1,861,675	7,466,400	-	31,375,419
Net Assets (Deficit), Ending	$ 18,297,925	$ (2,515,962)	$ 2,633,150	$ 161,900	$ 1,877,715	$ 7,081,978	$ -	$ 27,536,706