Sampson &
Associates, Inc.

MALACHI HOUSE, INC.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED
JUNE 30, 2020

MALACHI HOUSE, INC.
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Sampson & Associates, Inc.
Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Malachi House, Inc.
Cleveland, Ohio

We have audited the accompanying financial statements of Malachi House, Inc. (a nonprofit organization), which comprise the statement of assets, liabilities, and net assets—cash basis as of June 30, 2020, and the related statement of revenue, expenses and other changes in net assets—cash basis and statement of functional expenses-cash basis for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting as described in Note A; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Sampson &
Associates, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of Malachi House, Inc. as of June 30, 2020, and its revenue, expenses and changes in net assets for the year then ended in accordance with the cash basis of accounting as described in Note A.

Basis of Accounting

We draw attention to Note A of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Rocky River, Ohio

November 4, 2020

MALACHI HOUSE, INC.

STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS - CASH BASIS

June 30, 2020

ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$	2,676,110
Restricted cash		11,772
Investments		12,880,516
TOTAL CURRENT ASSETS		15,568,398
LIABILITIES AND NET ASSETS		
LIABILITIES		
Loan payable - SBA Paycheck Protection Program		212,900
NET ASSETS		
Without donor restrictions		6,599,748
With donor restrictions		8,755,750
TOTAL NET ASSETS		15,355,498
TOTAL LIABILITIES AND NET ASSETS	$	15,568,398

See notes to financial statements.

MALACHI HOUSE, INC.
STATEMENT OF REVENUE, EXPENSES, AND OTHER CHANGES IN NET ASSETS - CASH BASIS
Year Ended June 30, 2020

		Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS, LOSSES, AND RECLASSIFICATIONS				
Contributions	$	882,331	5,969	888,300
Bequests and endowments		-	1,528,964	1,528,964
Benefit events		157,177	4,888	162,065
Grants		680,564	-	680,564
Investment income, net		282,076	-	282,076
Investment income (loss) - partnership		(18,363)	-	(18,363)
Other - workers compensation refund		39,817	-	39,817
Net realized and unrealized gains (losses) on endowments		-	245,548	245,548
		2,023,602	1,785,369	3,808,971
Net assets released from restrictions and reclassifications		259,293	(259,293)	-
TOTAL REVENUES, GAINS, LOSSES, AND RECLASSIFICATIONS		2,282,895	1,526,076	3,808,971
EXPENSES				
Program services		1,123,036	-	1,123,036
Support services		467,803	-	467,803
TOTAL EXPENSES		1,590,839	-	1,590,839
CHANGE IN NET ASSETS		692,056	1,526,076	2,218,132
NET ASSETS, beginning of year		5,907,692	7,229,674	13,137,366
NET ASSETS, end of year	$	6,599,748	8,755,750	15,355,498

See notes to financial statements.

MALACHI HOUSE, INC.
STATEMENT OF FUNCTIONAL EXPENSES - CASH BASIS
Year Ended June 30, 2020

	Program Services Direct Care	Supporting Services: Management and General	Supporting Services: Fundraising	Supporting Services: Total Support Services	Total
Household expenses	$ 132,758	-	-	-	132,758
Household improvements	40,937	-	-	-	40,937
Repairs and maintenance	14,095	-	-	-	14,095
Insurance	6,386	85	56	141	6,527
Wages	625,718	69,121	111,494	180,615	806,333
Payroll taxes	62,418	5,592	9,407	14,999	77,417
Medical insurance	70,471	30,979	21,419	52,398	122,869
Employee benefits	53,279	12,243	14,562	26,805	80,084
Utilities	33,263	442	294	736	33,999
Office expenses	17,115	227	151	378	17,493
Security	47,868	638	425	1,063	48,931
Staff expenses	18,728	-	-	-	18,728
Accounting	-	4,800	-	4,800	4,800
Consulting	-	-	12,961	12,961	12,961
Promotional materials and costs	-	-	66,308	66,308	66,308
Recognition event	-	-	13,459	13,459	13,459
Benefit events expenses	-	-	93,140	93,140	93,140
Total Expenses	$ 1,123,036	124,127	343,676	467,803	1,590,839

See notes to financial statements.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

NATURE OF ACTIVITIES

The Organization is not-for-profit and provides care for terminally ill people in the final stages of life. The Organization is privately funded through the generosity of individuals, foundations, and corporations, as well as an annual benefit and other fundraising events.

BASIS OF ACCOUNTING

The accompanying financial statements have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Modifications to the accrual basis of accounting include not capitalizing the cost of donated or purchased property, recording revenue when received and not when earned, and recording expenses when paid and not when incurred. Accordingly, the accompanying financial statements are not intended to present the financial position and statement of activities in conformity with US GAAP.

The Organization classifies net assets and revenues, expenses, gains and losses based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net Assets without Donor Restrictions - Consist of net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Organization's Board of Directors may designate the use of these net assets without restrictions for specific operational purposes at their discretion.

Net Assets with Donor Restrictions - Consist of net assets that are subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be satisfied by actions of the Organization or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained perpetually.

CONTRIBUTIONS AND GRANTS

Contributions, donated securities and grants received are recorded at fair value as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Funds received with no restrictions placed on them are reported as net assets without donor restrictions. Contributions and grants that have donor restrictions are reported as net assets with donor restrictions. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of revenues, expenses, and other changes in net assets – cash basis.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

NEW ACCOUNTING PRONOUNCEMENT

On July 1, 2019, the Organization adopted Accounting Standards Update (ASU) No. 2018-08 – Not-for-Profit Entities: Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made (Topic 605). The purpose of the ASU is to assist organizations in evaluating whether transactions should be accounted for as contributions or as exchange transactions. In addition, it clarifies whether a contribution is conditional. The standard is applied prospectively. The adoption of this standard did not have any impact on the Organization's financial statements as the recognition of grants and contributions revenue did not change as a result of the new standard.

FUNCTIONAL ALLOCATION OF EXPENSES

The organization allocates expenses on a functional basis among its program and support services.
Expenditures for the direct care of residents and the operating costs of the house are reported accordingly. Expenses identified as support services for fund raising and general management are reported accordingly. Those expenses attributable to more than one functional expense category are allocated using cost allocation methods. This includes computations based on square footage or time and effort.

CASH AND CASH EQUIVALENTS

The Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. The carrying value for cash and cash equivalents approximates fair value.

INCOME TAX

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2). Management represents there are no uncertain tax positions or other provisions for income taxes that are material to the financial statements.

ADVERTISING

Advertising costs are expensed when the advertising is paid. Advertising, promotional and marketing expense amounted to $66,308 for the year ended June 30, 2020 and is included in promotional materials and costs.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

DONATED MATERIALS AND SERVICES

No amounts have been reflected in the financial statements for donated materials or services because they did not meet the criteria for recognition under FASB ASC 958-605, Accounting for Contributions Received and Contributions Made. The Organization generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks not requiring specific expertise that assist the Organization with specific assistance programs, campaign solicitations, and various committee assignments.

FAIR VALUE MEASUREMENTS

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset or liability and a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value is a market based measurement, not an entity-specific measurement. The accounting methodology prioritizes inputs to valuation techniques used to measure fair value into three broad Levels: Level 1, Level 2, and Level 3.

The hierarchy of the three levels is based on observable inputs as follows:

- Level I inputs are quoted prices (unadjusted) in active markets for identical assets and liabilities that the reporting entity has the ability to access at the measurement date.

- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Adjustments to Level 2 inputs will vary depending on factors specific to the asset or liability.

- Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs should be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date period.

MALACHI HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE B - INVESTMENTS

The Board of Trustees has established investment policies to guide investment decisions. The policies provide for the finance committee to review the asset allocation strategy set forth by the Board and monitor the performance of investment managers selected by the Board. The finance committee reports to the Board of Trustees on a quarterly basis. The investment policies describe the type of investments that may be employed to achieve the return objectives. The Board of Trustees implements an investment strategy that is diversified among equities, fixed income and an alternative investment. The investment portfolio is diversified not only in terms of asset class, but also employs a number of investment managers that provide a diversity of style and skills.

By using this approach, the Organization is attempting to limit risk while taking advantage of opportunities presented within market cycles. Investment performance is monitored against the return objectives and benchmarks established by the Board. Actual rates of return may vary from the return objectives.

The Board of Trustees has an annual spending policy to provide for the ongoing operations of the Malachi House. The investments also may be used to provide capital for projects and innovative programs that are not part of the normal operating budget.

The asset allocation provides for investments in marketable securities with readily determinable fair value and all investments in debt securities are valued at their fair value in the statement of assets, liabilities, and net assets–cash basis. Unrealized gains and losses are included in the statement of revenues, expenses, and other changes in net assets – cash basis. Although the Organization has a diversified portfolio, a substantial portion of its realization is dependent upon the various markets in which the investments are traded and the investment manager's ability to properly manage the portfolio.

The level 1 assets are invested with a third party brokerage firm and consist of common stock, mutual funds, municipal securities and corporate bonds and notes. The fair value estimates are based on active quoted market information for identical assets and liabilities at the measurement date.

The level 2 assets are invested with a third party brokerage firm and consist of fixed income securities and a closed end mutual fund. The fair value estimates are based on observable market information rather than market quotes. Accordingly, the estimated fair value for these investments as provided by the investment firm are included in the security amounts disclosed in level 2 of the hierarchy.

The Level 3 investments consist of a partnership interest in Cleveland Capital, L.P. and hedge funds. The Board of Trustees uses a third party entity, Cleveland Capital Management, LLC to invest the partnership funds. The control over this partnership investment, asset management and valuation is exercised by Cleveland Capital Management LLC. The carrying value is reported using the partnership capital balance. The hedge funds are held through a brokerage account and the investment carrying value is determined by an independent valuation firm. The partnership investment and the hedge funds are classified within the financial statements as an alternative investment and hedge fund investments.

NOTE B – INVESTMENTS (continued)

The following table summarizes the investment activity for the level 3 investment for the period ended June 30, 2020:

Balance at the beginning of year	$ 1,784,124
Unrealized investment losses	21,200
Balance at the end of year	$ 1,762,924

Fair value measurement of investments at June 30, 2020 is as follows:

		Fair Value Measurements at Reporting Date Using		
	June 30, 2020	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Common stock	$ 5,148,457	$ 5,148,457	$ -	$ -
Mutual funds	2,091,079	2,091,079	-	-
Government securities	265,630	-	265,630	-
Asset backed securities	273,871	-	273,871	-
Municipal securities	1,022,388	1,022,388	-	-
Corporate bonds and notes	1,027,032	1,027,032	-	-
Closed end funds and exchange traded products	1,289,135	1,289,135	-	-
Hedge funds	747,418	-	-	747,418
Alternative investment	1,015,506	-	-	1,015,506
	$ 12,880,516	$ 10,578,091	$ 539,501	$ 1,762,924

Cost and unrealized gains/losses of investments at June 30, 2020, are summarized as follows:

	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Common stock	$ 3,863,788	$ 1,453,196	$ 168,527	$ 5,148,457
Mutual funds	2,081,851	114,667	105,439	2,091,079
Government securities	238,378	27,252	-	265,630
Asset backed securities	269,189	5,670	988	273,871
Municipal securities	976,167	51,559	5,338	1,022,388
Corporate bonds and notes	969,665	57,860	493	1,027,032
Closed end funds and exchange traded products	1,215,972	105,853	32,690	1,289,135
Hedge funds	842,500	-	95,081	747,418
Alternate investments	720,477	295,029	-	1,015,506
	$ 11,177,987	$ 2,111,086	$ 408,556	$ 12,880,516

NOTE C – INVESTMENT EXPENSES

Investment return is presented net of investment fees in the statement of revenues, expenses, and other changes in net assets – cash basis.

NOTE D – ENDOWMENTS

The Board of Directors of the Foundation has interpreted the Ohio enacted version of the Unified Prudent Management of Institutional Funds Act (UPMIFA) as allowing the Foundation to appropriate for expenditure or accumulate so much of an endowment fund as the Foundation determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Board of Directors. The remaining portion of the donor-restricted endowment fund that is not classified as held in perpetuity is appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA.

The endowment investments are included with the Foundation's investments and accordingly follow the Foundation's investment return objectives and risk parameters, the strategies used for achieving these objectives and the investment spending policies. The fair value of assets associated with individual donor-restricted endowment funds may at times fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2020.

NOTE E – SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

The Organization maintains deposits and investments in a financial institution and a brokerage house that at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation (FDIC) and the Securities Investor Protection Corporation (SIPC). The Organization believes that there is no significant risk with respect to these deposits or investments.

NOTE F – PAYCHECK PROTECTION PROGRAM

The Organization applied for and was awarded a forgivable loan through the Small Business Administration's Paycheck Protection Program established by the Coronovirus Aid, Relief and Economic Security Act (CARES Act). On May 12, 2020, the loan was funded in the amount of $212,900. In order to qualify for forgiveness, the funds need to be used to pay certain payroll and benefit costs as well as rent and utilities as defined by the CARES Act. As of the date of the financial statements, no determination has been made as to the amount qualifying for forgiveness under the program so management has elected to show the funds as a liability. Subsequent to fiscal year ended June 30, 2020, the Organization will begin the process of submitting the application for forgiveness of the loan. Based on preliminary calculations in accordance with the current guidance, the loan is expected to be forgiven in full during fiscal year ended June 30, 2021.

MALACHI HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE G – PENSION PLAN

The Organization has a defined benefit pension plan through the Catholic Diocese of Cleveland which covers substantially all of the employees of the Organization. Contributions recorded by the Organization for the year ended June 30, 2020 were $80,084. The pension is funded through monthly contributions made by the employer. The Organization's policy is to fund contributions monthly, which meets or exceeds ERISA minimum funding requirements.

NOTE H – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of funds established for a variety of purposes. Permanently restricted net assets are to remain in perpetuity and the Organization does not have the right to invade the original principal. The Organization has endowment funds permanently restricted in the amount of $8,743,978. Additionally, the Organization has restricted net assets that donors contributed for a specific purpose that consist of the following:

Strategic planning	$ 8,100
Kaki's gardens	3,672
	$ 11,772

NOTE I – LIQUIDITY AND CAPITAL RESOURCES

The Board of Trustees regularly monitors liquidity required to meet its operating needs and other financial commitments. The Organization's financial assets for general expenditure, within one year of the Statement of Assets, Liabilities and Net Assets – Cash Basis, for general expenditures consists of the following:

Cash and cash equivalents	$ 2,676,110
Investments - without restrictions	6,599,748
	$ 9,275,858

NOTE J – EVALUATION OF SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through November 4, 2020, the date which the financial statements were available to be issued.