Keegan Linscott & Associates, PC

Certified Public Accountants
Certified Fraud Examiners
Certified Insolvency & Restructuring Advisors

OLD PUEBLO COMMUNITY SERVICES

AUDITED FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS
FOR THE YEAR ENDED DECEMBER 31, 2018)

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Keegan Linscott & Associates, PC

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Old Pueblo Community Services

Report on the Financial Statements
We have audited the accompanying financial statements of Old Pueblo Community Services (the "Organization") which comprise the statements of financial position as of December 31, 2019 and 2018, the related statements of cash flows and expenses by function and nature for the years then ended, and the related statement of operations and changes in net assets for the year ended December 31, 2018, 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Organization'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 Organization'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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2019 and 2018, and the changes in its cash flows for the years then ended, and its changes in net assets for the year ended December 31, 2019, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, in 2019, the Organization adopted ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as amended, and ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to these matters.

Report on Summarized Comparative Information

We have previously audited the Organization's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 22, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2020 on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Keegan Linscott & Associates, PC

Tucson, Arizona
May 27, 2020

AUDITED FINANCIAL STATEMENTS

STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2019

	2019	2018
Assets		
Current assets		
Cash	$ 697,964	$ 667,590
Accounts receivable, net	12,542	2,309
Grants and contracts receivable	757,446	421,049
Unbilled grants and contracts receivable	132,865	379,122
Prepaid expenses and other current assets	6,896	9,389
Total current assets	1,607,713	1,479,459
Contributions receivable, net	207	1,934
Property and equipment, net	1,643,491	1,738,019
Total assets	$ 3,251,411	$ 3,219,412
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term debt	$ 42,401	$ 39,969
Accounts payable	92,487	99,248
Accrued expenses	270,206	221,069
Other current liabilities	-	40,121
Total current liabilities	405,094	400,407
Deferred revenue	25,553	75,215
Long-term debt	714,282	756,693
Total liabilities	1,144,929	1,232,315
Net assets		
Without donor restrictions	2,052,359	1,910,933
With donor restrictions	54,123	76,164
Total net assets	2,106,482	1,987,097
Total liabilities and net assets	$ 3,251,411	$ 3,219,412

STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2018)

	Without Donor Restrictions	With Donor Restrictions	Total 2019	Summarized Total 2018
Revenues				
Grant and program revenue				
Government grants	$ 5,169,804	$ -	$ 5,169,804	$ 4,246,547
Client service revenue	1,032,054	-	1,032,054	1,309,677
Program revenue	133,624	-	133,624	192,612
	6,335,482	-	6,335,482	5,748,836
Public support and other revenue				
Contributions	52,582	178,678	231,260	155,114
Event revenue, net	51,856	-	51,856	85,084
Donated materials, property and services	16,940	-	16,940	30,690
Other revenue	42,571	-	42,571	72,527
	163,949	178,678	342,627	343,415
Releases from restrictions	200,719	(200,719)	-	-
Total revenues	6,700,150	(22,041)	6,678,109	6,092,251
Expenses				
Salaries	2,916,189	-	2,916,189	2,619,353
Payroll taxes and employee benefits	531,676	-	531,676	492,707
Outside professional services	645,516	-	645,516	289,326
Program expenses and supplies	305,633	-	305,633	281,919
Rent	591,881	-	591,881	603,008
Rent - supportive housing	828,214	-	828,214	693,809
Utilities	268,817	-	268,817	276,661
Auto, travel and training	122,537	-	122,537	98,769
Office supplies and equipment	71,691	-	71,691	59,707
Accounting, insurance, advertising and fees	111,107	-	111,107	125,691
Interest	44,601	-	44,601	47,455
Depreciation	94,528	-	94,528	98,387
Bad debt expense	26,334	-	26,334	86,503
Total expenses	6,558,724	-	6,558,724	5,773,295
Change in net assets	141,426	(22,041)	119,385	318,956
Net assets, beginning of year	1,910,933	76,164	1,987,097	1,668,141
Net assets, end of year	$ 2,052,359	$ 54,123	$ 2,106,482	$ 1,987,097

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

	2019	2018
Cash Flows from Operating Activities		
Change in net assets	$ 119,385	$ 318,956
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Gain on sale of property and equipment	-	(900)
Depreciation	94,528	98,387
Changes in operating assets and liabilities		
Accounts receivable, net	(10,233)	(2,309)
Grants and contracts receivable	(336,397)	(16,927)
Unbilled grants and contracts receivable	246,257	(288,122)
Contributions receivable, net	1,727	11,338
Prepaid expenses and other current assets	2,493	(496)
Accounts payable	(6,761)	59,801
Accrued expenses	49,137	29,436
Other current liabilities	(40,121)	(60,000)
Deferred revenue	(49,662)	51,229
Net cash provided by operating activities	70,353	200,393
Cash Flows from Investing Activities		
Purchases of property and equipment	-	(2,100)
Proceeds from sale of property and equipment	-	900
Net cash used in investing activities	-	(1,200)
Cash Flows from Financing Activities		
Repayment of long-term debt	(39,979)	(38,434)
Net cash used in financing activities	(39,979)	(38,434)
Net change in cash	30,374	160,759
Cash, beginning of year	667,590	506,831
Cash, end of year	$ 697,964	$ 667,590
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	$ 44,685	$ 47,510

STATEMENT OF EXPENSES BY FUNCTION AND NATURE
FOR THE YEAR ENDED DECEMBER 31, 2019

	Veteran Communities	Reentry Communities	Supportive Housing and Other	Total Program Services	Management and General	Fundraising and Marketing	Total Supporting Services	Total
Expenses								
Salaries	$ 600,377	$ 833,393	$ 516,209	$ 1,949,979	$ 853,191	$ 113,019	$ 966,210	$ 2,916,189
Payroll taxes and employee benefits	108,675	167,232	90,901	366,808	146,752	18,116	164,868	531,676
Outside professional services	44,624	215,284	201,072	460,980	152,848	31,688	184,536	645,516
Program expenses and supplies	60,448	158,924	84,780	304,152	1,301	180	1,481	305,633
Rent	158,289	385,441	37,131	580,861	9,273	1,747	11,020	591,881
Rent - supportive housing	-	51,214	777,000	828,214	-	-	-	828,214
Utilities	134,349	96,241	16,042	246,632	18,304	3,881	22,185	268,817
Auto, travel and training	16,367	23,233	56,412	96,012	24,171	2,354	26,525	122,537
Office supplies and equipment	13,844	20,249	18,460	52,553	15,804	3,334	19,138	71,691
Accounting, insurance, advertising and fees	2,869	19,216	2,472	24,557	69,310	17,240	86,550	111,107
Interest	26,275	-	-	26,275	18,326	-	18,326	44,601
Depreciation	6,423	-	3,405	9,828	84,700	-	84,700	94,528
Bad debt expense	-	26,213	121	26,334	-	-	-	26,334
Total expenses	$ 1,172,540	$ 1,996,640	$ 1,804,005	$ 4,973,185	$ 1,393,980	$ 191,559	$ 1,585,539	$ 6,558,724

STATEMENT OF EXPENSES BY FUNCTION AND NATURE
FOR THE YEAR ENDED DECEMBER 31, 2018

	Veteran Communities	Reentry Communities	Supportive Housing and Other	Total Program Services	Management and General	Fundraising and Marketing	Total Supporting Services	Total
Expenses								
Salaries	$ 635,987	$ 671,623	$ 365,965	$ 1,673,575	$ 837,118	$ 108,660	$ 945,778	$ 2,619,353
Payroll taxes and employee benefits	101,837	131,210	68,291	301,338	169,778	21,591	191,369	492,707
Outside professional services	38,498	56,698	46,286	141,482	126,168	21,676	147,844	289,326
Program expenses and supplies	62,677	156,882	61,248	280,807	1,037	75	1,112	281,919
Rent	164,650	411,489	14,936	591,075	10,219	1,714	11,933	603,008
Rent - supportive housing	-	68,828	624,981	693,809	-	-	-	693,809
Utilities	134,852	104,683	13,399	252,934	19,929	3,798	23,727	276,661
Auto, travel and training	16,510	21,498	31,396	69,404	26,786	2,579	29,365	98,769
Office supplies and equipment	14,090	23,927	6,493	44,510	14,040	1,157	15,197	59,707
Accounting, insurance, advertising and fees	2,360	14,084	2,907	19,351	74,034	32,306	106,340	125,691
Interest	28,635	-	-	28,635	18,820	-	18,820	47,455
Depreciation	7,560	-	3,405	10,965	87,422	-	87,422	98,387
Bad debt expense	-	86,298	205	86,503	-	-	-	86,503
Total expenses	$ 1,207,656	$ 1,747,220	$ 1,239,512	$ 4,194,388	$ 1,385,351	$ 193,556	$ 1,578,907	$ 5,773,295

NOTES TO FINANCIAL STATEMENTS

1. Organization

Old Pueblo Community Services (the "Organization") is a non-profit corporation supported by governmental grants and contracts, public contributions from various groups, corporate entities, and individuals. These funds support the operation of transitional housing for both veterans and persons leaving incarceration, bridge housing for persons in the process of obtaining permanent housing, low-barrier shelter for persons unable to utilize traditional mass shelters, and permanent housing for persons struggling with chronic homelessness, addictions, chronic medical conditions, and mental illness. Additionally, the Organization provides residents with intensive outpatient addiction treatment services, case management, employment coaching, and operates a low barrier day work program that offers a path to services and housing. The organization currently serves adult men and women struggling with homelessness, providing them the opportunity to become engaged residents of Pima County.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Organization follows accounting standards set by the Financial Accounting Standards Board ("FASB"). The FASB sets accounting principles generally accepted in the United States of America ("U.S. GAAP") that the Organization follows to ensure the consistent reporting of its financial condition, changes in net assets and cash flows. References to U.S. GAAP issued by the FASB are to the FASB Accounting Standards Codification ("ASC").

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with the provisions of ASC 958, *Not-for-Profit Entities.* ASC 958 establishes standards for external financial reporting by not-for-profit organizations. Resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets that have similar characteristics have been grouped into similar categories as follows:

- **Without Donor Restrictions** – Net assets that represent the portion of expendable funds, which are available for support of the Organization's operations and are not subject to donor-imposed restrictions. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors.

- **With Donor Restrictions** – Net assets whose use by the Organization is subject to donor-imposed stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire through the passage of time or must be maintained by the Organization permanently.

Expenses are generally reported as decreases in net assets without donor restrictions. Expirations of donor-imposed stipulations that simultaneously increase one class of net assets and decrease another are reported as releases between the applicable classes of net assets. Contributions received with donor-imposed restrictions that are expended in the same period as the revenue is recognized are classified as net assets without donor restrictions. Contributions of long-lived assets not having donor-imposed purpose or time restrictions are reported as contributions without donor restrictions in amounts equal to the fair value of the contributed assets.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Cash

Cash consists of deposits in financial institutions that can be redeemed on demand. The Organization places its cash with high credit quality institutions. At times, such deposits may be in excess of the Federal Deposit Insurance Corporation ("FDIC") limit (see Note 14). However, management does not believe it is exposed to any significant credit risk on cash. All such cash accounts are monitored by management to mitigate risk.

Accounts Receivable

Accounts receivable consist principally of program revenues due from clients and are stated at the amount the Organization expects to collect. The Organization evaluates collectability on a specific identification basis. Management considers the following factors when determining the collectability of specific accounts: credit-worthiness, past transactions history, current economic trends, and changes in payment terms. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. Management determined that an allowance of $488 was necessary as of December 31, 2019 and 2018, respectively.

Grants and Contracts Receivable

Grants and contracts receivable consist principally of amounts due from the Organization's government funding sources. The carrying amount of the receivables is reduced by an allowance for doubtful accounts that reflects management's best estimate of amounts that will not be collected. The allowance for doubtful accounts is based on management's assessment of the collectability of specific accounts and the aging of the receivables. Management considers the following factors when determining the collectability of specific receivables: past transaction history, current economic trends, and changes in payment terms. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. Management determined that no allowance was necessary as of December 31, 2019 and 2018.

Unbilled Grants and Contracts Receivable

Unbilled grants and contracts receivable represent revenue earned during the reporting period but not yet billed to the funding agency, as specified per the related grant agreements or contracts.

Contributions Receivable

The Organization accounts for contributions to be received in future years as unconditional promises to give in the year the promise is made. Contributions to be received after one year are presented at their discounted present value at a risk-adjusted rate. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contributions. The fair value amount of contributions receivable is reduced by an allowance for uncollectible accounts that reflects management's best estimate of amounts that will not be collected determined on a specific identification basis. Contributions receivable are written off when deemed uncollectible. Management determined that an allowance of $2,379 and $2,514 was necessary as of December 31, 2019 and 2018, respectively.

Property and Equipment

Property and equipment are stated at cost or, if donated, at fair value measured on the date the asset is donated. Acquisitions of property and equipment, repairs or betterments that significantly prolong the useful lives of assets in excess of $1,500, with a useful life of more than one year are capitalized. Repairs and maintenance for normal upkeep are charged to expense as incurred. Depreciation is calculated using the straight-line method over the following estimated useful lives:

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Property and Equipment (continued)

Buildings and building improvements	10 - 40 years
Furniture and equipment	3 - 10 years
Vehicles	5 - 7 years
Software	3 years

When items are retired or disposed of, the cost and accumulated depreciation are removed from the accounts and any gain or loss is reported in the statement of operations and changes in net assets.

In accordance with ASC 360-10, *Property, Plant and Equipment*, the Organization periodically reviews the carrying value of long-lived assets held and used, and assets to be disposed of, for possible impairment when events and circumstances warrant such a review. Through December 31, 2019, the Organization had not experienced impairment losses on its long-lived assets.

Revenue Recognition

Contributions

Government Grants – The Organization accounts for its government grants by first determining whether the transaction is an exchange transaction or a contribution. If the transaction is one in which each party to the transaction directly receives commensurate value, then the transaction is considered an exchange transaction and the Organization recognizes revenue in accordance with ASC 606. Government grants revenues from exchange transactions are recognized as performance obligations are satisfied, which in most cases are as related costs are incurred or services are provided. If the transaction is considered a contribution, then the Organization recognizes revenue in accordance with ASC 958-605. None of the Organization's government grants revenues were considered exchange transactions for the year ended December 31, 2019.

Contributions - Contributions are classified based on the existence or absence of donor-imposed restrictions as either conditional or unconditional as follows:

- **Conditional** – Includes all contributions with donor-imposed conditions or stipulations representing a barrier that must be overcome before the recipient is entitled to the assets being transferred or promised. A failure to overcome the barrier gives the contributor a right of return of the assets it has transferred or the ability to rescind an obligation to transfer.

- **Unconditional** – Includes all contributions that do not contain a barrier to use and therefore are recorded as revenue once cash or a pledge is received. Donor imposed restrictions for time and/or purpose are not considered a significant barrier and thus these contributions are recorded as unconditional.

Contribution revenue is recorded when the unconditional promise to give is received. Under this method, the recognition of support for financial statement purposes bears no relation to the period in which the expenses are incurred. Revenue related to conditional contributions is recognized once the relevant barriers of each contribution are met. If the funds are received from the donor before the relevant barriers are met, deferred revenue is recorded on the balance sheet for the amount of funds provided by the donor. Consequently, government funded grants revenue is recognized when the related barriers to provide services are delivered and/or expenditures are incurred.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Donated Materials, Property and Services – Contributions of donated non-cash assets including materials and property are recognized in the financial statements at fair value at the date of donation. The Organization reports contributions of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets to a specific time period or a specific purpose. Absent explicit donor stipulations, contributions of long-lived assets or cash or other assets to be used to acquire or construct long-lived assets are reported as net assets without donor restrictions when placed in service. Donated services are recognized when the services received create or enhance non-financial assets, or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Although the Organization utilizes the services of outside volunteers to perform a variety of tasks that assist the Organization, the fair value of all these volunteer services is not reflected in the accompanying financial statements because the above criteria are not met.

Exchange Transactions

The Organization recognizes client service revenue and program revenue in accordance with ASC 606, *Revenue from Contracts with Customers*, which provides a five-step model for recognizing revenue from contracts with customers as follows:

- Identify the contract with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when or as performance obligations are satisfied

Client Service Revenue- Client service revenue is reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing behavioral health services to clients. These amounts are due from third-party payers (primarily AHCCCS health plans), and they include variable consideration for retroactive revenue adjustments due to settlement of audits, review and adjudication of claims, and investigations. Revenues are recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided. Management believes that services that are delivered to the client per each encounter are considered one performance obligation even though the underlying tasks performed for each client may vary. The Organization recognizes revenue over time since the client simultaneously receives and consumes the benefits of the services provided per each encounter. Management believes this method provides a faithful depiction of the transfer of services over the term of performance obligations based on the inputs needed to satisfy the obligations.

Revenues are based primarily on payment terms involving predetermined rates per service (fee-for-service), and/or other similar contractual arrangements. These revenues are also subject to review and possible audit by the payers, which can take several years before they are completely resolved. The payers are billed for client services on an individual encounter basis. A bill is subject to adjustment on an encounter-by-encounter basis in the ordinary course of business by the payers following their review and adjudication of each particular bill.

Management does not believe that there were any adjustments to estimates of submitted bills that were material to the Organization's revenues for the year ended December 31, 2019.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Through May 27, 2020, the Organization is not aware of any claims, disputes or unsettled matters with any payer that would materially affect revenues in the accompanying financial statements.

Program Revenue – The Organization recognizes program revenue, which primarily consists of occupancy fees for individuals in transition for bed days that are used for temporary housing under fee-for-service and per-diem contracts when behavioral health and client housing services are rendered.

Performance obligations are determined based on the nature of the services provided. Management believes that an individual bed day provided to the client is considered one performance obligation, with the transaction price recognized as revenue when the performance obligations are transferred to the client. The Organization recognizes revenue over time since the client simultaneously receives and consumes the benefits of the services provided per each bed day. Management believes this method provides a faithful depiction of the transfer of services over the term of performance obligations based on the inputs needed to satisfy the obligations.

Other Revenue – The Organization's other revenue is primarily made up of rental income. The Organization recognizes rental income in accordance with ASC 840, *Leases*. Rental income is recognized evenly over the terms of the tenant leases on the accrual basis. Rental receipts received in advance are deferred until earned.

Tax Exempt Status

The Organization is a Section 501(c)(3) organization exempt from taxation under Internal Revenue Code Section 501(a). Accordingly, no provision is made in the accompanying financial statements for federal and state income taxes. Income from certain activities not directly related to the Organization's tax-exempt purpose, however, may be subject to taxation as unrelated business income. Management is not aware of any matters which would cause the Organization to lose its tax-exempt status.

Management has considered its tax positions and believes that all positions taken in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. The Organization's returns are subject to examination by federal and state taxing authorities, generally for three years and four years, respectively, after they are filed.

The Organization recognizes interest and penalties related to unrecognized tax benefits in management and general expenses and accrued expenses in the accompanying financial statements. During the year ended December 31, 2019 and 2018, the Organization did not recognize any interest and penalties.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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. Actual results could differ from those estimates. Significant estimates made by management include the potential recoupment liability related to not meeting certain minimum contracted service delivery thresholds (see Note 14).

Reclassifications

Certain amounts presented in the prior year have been reclassified to conform to the current year financial statement presentation. These reclassifications have no effect on previously reported net assets.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Prior Year Information
The statement of operations and changes in net assets include prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2018.

3. New Accounting Pronouncements

Adopted as of December 31, 2019
In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The amendments in this ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the recognition requirements in ASC Topic 605, *Revenue Recognition*, and most industry-specific guidance, and creates Topic 606 *Revenue from Contracts with Customers*. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either the full retrospective or retrospective with cumulative effect transition method. Subsequent amendments have been issued for technical corrections (ASU No. 2016-20); narrow scope improvements and practical expedients (ASU No. 2016-12); identifying performance obligations and licensing arrangements (ASU No. 2016-10); and gross versus net revenue reporting (ASU No. 2016-08). ASU No. 2014-09 (and subsequent amendments) is effective for annual reporting periods beginning after December 15, 2018. Early adoption is permitted with certain restrictions.

The Organization adopted ASU 2014-09 on January 1, 2019 utilizing the modified retrospective method. As part of the adoption of the ASU, the Organization elected the following transition practical expedients: ((i) to reflect the aggregate of all contract modifications that occurred prior to the date of initial application when identifying satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price; (ii) to apply the standard only to contracts that are not completed at the initial date of application; (iii) to apply the new revenue standard to a portfolio of contracts (or performance obligations) with similar characteristics if it is reasonably expected that the effects on the financial statements of applying this guidance to the portfolio would not differ materially from applying this guidance to the individual contracts (or performance obligations) within that portfolio; and (iv) to recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that the entity otherwise would have recognized is one year or less. The Organization's modified retrospective adoption of the new revenue standard resulted in no impact to net assets, or to cash from or used in operating, financing or investing on the statement of cash flows. The impact of applying this ASU for the year ended December 31, 2019 resulted in no impact to the financial statements and primarily affected the Organization's disclosure of policies and related activity for client service revenue and program revenue.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments clarify and improve the scope and accounting guidance around contributions of cash and other assets received and made by not-for-profit organizations and business enterprises. The ASU clarifies and improves current guidance in the revenue recognition and other applicable standards. It also provides a more robust framework

NOTES TO FINANCIAL STATEMENTS

Recent Accounting Pronouncements (continued)

Adopted as of December 31, 2019 (continued)
for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. ASU 2018-08 is effective for annual reporting periods beginning after December 15, 2018, and interim periods with fiscal years beginning after December 15, 2019. Application to interim financial statements is permitted but not required in the initial year of application. Early application of the amendments is permitted.

The Organization adopted ASU 2018-08 during fiscal year 2019 on a modified prospective basis. The adoption of this ASU primarily affected the Organization's disclosure of policies and related activity for the Organization's government grants which are considered conditional contributions. The adoption of this ASU did not have a material effect on the Organization's financial statements for the year ended December 31, 2019.

Not Yet Required to be Adopted as of December 31, 2019
In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. A modified retrospective transition approach is required (see ASU No. 2018-11 below for optional transition method) for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available.

In July 2018, the FASB issued ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*. This ASU is intended to reduce costs and ease implementation of the leases standard for financial statement preparers. ASU 2018-11 provides a new transition method and a practical expedient for separating components of a contract. The amendments ASU 2018-11 provide entities with an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Consequently, an entity's reporting for the comparative periods presented in the financial statements in which it adopts the new leases standard will continue to be in accordance with current U.S. GAAP in Topic 840, *Leases*. The amendments in ASU 2018-11 also provide lessors with a practical expedient, by class of underlying asset, to not separate nonlease components from the associated lease component and, instead, to account for those components as a single component if the nonlease components otherwise would be accounted for under the new revenue guidance (Topic 606). The effective date and transition requirements for the amendments in this update related to separating components of a contract are the same as the effective date and transition requirements in ASU 2016-02 (i.e., fiscal years beginning after December 15, 2020). All entities, including early adopters, that elect the practical expedient related to separating components of a contract in this ASU must apply the expedient, by class of underlying asset, to all existing lease transactions that qualify for the expedient at the date elected. The Organization is currently evaluating the effect these standards will have on the financial statements and disclosures.

NOTES TO FINANCIAL STATEMENTS

4. Liquidity and Availability of Resources

The following table shows a determination of the Organization's financial assets that are available to meet cash needs for general expenditures within one year as of December 31:

	2019	2018
Cash	$ 697,964	$ 667,590
Accounts, grants and contracts receivables	902,853	802,480
Total financial assets	1,600,817	1,470,070
Less amounts unavailable for general expenditure within one year, due to:		
Net assets with donor restrictions	54,123	76,164
Financial assets available to meet cash needs for general expenditures within one year	$ 1,546,694	$ 1,393,906

The Organization is substantially supported by government grants and contracts, which are relatively predictable. As part of the Organization'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. The Organization manages liquidity by maintaining adequate working capital and monitoring liquid assets on a monthly basis. In the event of financial distress, the Organization would be able to draw on the line of credit for short-term cash needs.

5. Grants and Contracts Receivable

Grants and contracts receivable, including unbilled grants and contracts receivable, consist of the following as of December 31:

	2019	2018
City of Tucson	$ 176,582	$ 152,615
Arizona Department of Corrections	19,307	-
U.S. Department of Health and Human Services	22,000	6,639
Pima County	308,680	36,659
The Primavera Foundation	13,956	20,383
U.S. Department of Housing and Urban Development	27,798	21,004
U.S. Department of Veterans Affairs	154,935	182,550
U.S. Probation Office	-	1,199
El Rio Santa Cruz Neighborhood Health Center	34,188	-
Arizona Complete Health (unbilled)	114,546	379,122
U.S. Department of Veterans Affairs (unbilled)	18,319	-
	$ 890,311	$ 800,171

NOTES TO FINANCIAL STATEMENTS

6. Contributions Receivable

Contributions receivable consist of the following as of December 31:

	2019	2018
Unconditional promises expected to be collected in:		
Less than one year	$ -	$ -
One to five years	2,586	4,448
Total unconditional promises	2,586	4,448
Less allowance for uncollectible accounts	(2,379)	(2,514)
Contributions receivable, net	$ 207	$ 1,934

7. Property and Equipment

Property and equipment and related accumulated depreciation consist of the following as of December 31:

	2019	2018
Land	$ 235,563	$ 235,563
Buildings	1,589,229	1,589,229
Building improvements	421,356	421,356
Furniture and equipment	85,642	141,843
Vehicles	119,403	141,903
Software	139,931	153,101
	2,591,124	2,682,995
Less accumulated depreciation	(947,633)	(944,976)
	$ 1,643,491	$ 1,738,019

8. Line of Credit

The Organization has an available $250,000 revolving line of credit with National Bank of Arizona, which had no outstanding balance as of December 31, 2019 or 2018. Interest accrues at the prime rate (4.75% as of December 31, 2019), plus 2.00% per annum, with a floor of 4.50%. Interest only payments are due monthly, with all outstanding principal and accrued interest due on July 18, 2021, the expiration date of the line of credit.

NOTES TO FINANCIAL STATEMENTS

9. Long-Term Debt

A summary of long-term debt is as follows as of December 31:

	2019	2018
Wells Fargo Bank – Two notes payable with interest rates of 6% and 7.40% per annum, with monthly principal and interest payments of $764 and $1,280, maturing in December 2028 and April 2023, respectively. The notes are collateralized by certain real property.	$ 108,833	$ 125,514
National Bank of Arizona – $375,310 promissory note with an interest rate of 5.50% per annum. The promissory note requires monthly principal and interest payments of $2,284, maturing in May 2024 with a $279,097 balloon payment. The promissory note is collateralized by a deed of trust on certain real property.	324,352	333,401
National Bank of Arizona – $393,750 promissory note with an interest rate of 5.50% per annum. The promissory note required monthly principal and interest payments of $2,727, and matured in May 2024 with a $251,895 balloon payment. The promissory note was collateralized by a deed of trust. On April 1, 2020, the Organization re-financed this promissory note and borrowed additional funds for a total principal balance of $548,000. The new promissory note requires 120 monthly principal and interest payments of $2,967 followed by 59 monthly principal and interest payments of $3,067, maturing in April 2035 with an estimated $295,691 balloon payment. For the first 120 months, interest accrues at an initial discounted rate of 4.240% per annum. For the remainder of the loan, interest accrues at the ten-year United States Treasury Rate plus 3.150% per annum, with a floor of 4.50%. The promissory note is collateralized by a deed of trust and fixture filing.	323,498	337,747
	756,683	796,662
Less current portion	(42,401)	(39,969)
	$ 714,282	$ 756,693

NOTES TO FINANCIAL STATEMENTS

Long-Term Debt (continued)

The following is a summary of future principal maturities as of December 31, 2019:

Year Ending	Amount
2020	$ 42,401
2021	45,218
2022	48,104
2023	40,738
2024	547,729
Thereafter	32,493
	$ 756,683

On May 13, 2020, the Organization purchased real property and executed a promissory note with National Bank of Arizona for $440,000. The promissory note requires monthly principal and interest payments of $2,334, maturing in May 2035 with an estimated $232,344 balloon payment. Interest accrues at the ten-year United States Treasury Rate (0.620% as of May 13, 2020), plus 3.250% per annum, subject to adjustment once every ten years, with a floor of 4.00%. The initial rate is 3.99% per annum. The promissory note is collateralized by a deed of trust and fixture filing.

10. Net Assets With Donor Restrictions

Net assets with donor restrictions were restricted for the following purposes as of December 31:

	2019	2018
Subject to expenditure for specified purpose		
Transitional housing	$ 3,643	$ 3,643
Down payment assistance	359	359
Financial education	2,468	3,157
Occupancy fees	55	-
Reentry	2,324	7,033
Homeless work program	42,688	57,524
Subject to collection	51,537	71,716
Contributions receivable	2,586	4,448
	$ 54,123	$ 76,164

11. Methods Used for Allocation of Expenses Among Program and Supporting Services

The financial statements report certain categories of expenses that are attributable to one or more program or supporting services of the Organization. Salaries, wages and fringe costs are allocated based on direct and indirect activity of the employee, allocable by hours worked. Travel expenses are charged to programs as applicable and allowable. Occupancy and utilities are allocated on a square footage basis.

NOTES TO FINANCIAL STATEMENTS

12. Retirement Plans

Effective January 1, 2017, the Organization adopted a 401(k)-defined contribution plan (the "Plan") to provide retirement benefits for all eligible employees as defined by the Plan document. Contributions to the Plan are made by the participants to their individual accounts through payroll withholdings, subject to annual deferral limits. The Organization makes discretionary matching contributions to the Plan that meet safe-harbor requirements as described by the Plan document. The Organization matches 3% of the employee's compensation, plus 50% of each eligible employee's contributions between 3% and 5% of the employee's compensation for the Plan year. All safe-harbor matching contributions, rollover contributions, and salary deferrals are 100% vested upon entering the plan. Employer contributions not meeting the previous criteria are 100% vested after six years of service. For the years ended December 31, 2019 and 2018, matching contributions totaled $71,384 and $65,127, respectively. Additionally, the Plan provides for a discretionary profit-sharing component to the Plan to be determined by the Board of Directors at the end of each calendar year. There were no such contributions as of December 31, 2019 and 2018.

13. Operating Leases

The Organization leases equipment under a non-cancelable operating lease. The Organization also leases multiple properties for its transitional housing programs. Each lease contains a clause which allows the Organization to cancel it if there is a decrease in funding, with 90 days written notice. Most of these lease agreements have the option to renew for one to five-year periods. In the normal course of operations, it is expected that these leases will be renewed or replaced. The Organization is exempt from property taxes, but carries liability insurance, and is responsible for normal maintenance and repair costs.

The following is a schedule by year of the future minimum required lease payments, which include the renewal period on those leases for which management intends to exercise its renewal option under the lease agreements:

Year Ending	Amount
2020	$ 303,122
2021	76,763
2022	36,614
2023	17,580
2024	-

Rent expense totaled $612,022 and $605,057 for the years ended December 31, 2019 and 2018, respectively.

14. Commitments, Contingencies and Concentrations

Economic Dependency

The Organization receives a substantial amount of its support from government grants and contracts. A significant reduction in the level of support from government grants and contracts could have a material effect on the Organization's continuing operations. The Organization participates in several federal, state and local grant programs, and a significant reduction in the level of this support, if it were to occur, would have a material effect on the programs and activities offered by the Organization. The governmental funding is subject to compliance audits by the respective governmental agencies. Assessments from such audits, if any, are recorded when the amounts of such assessments are reasonably determinable.

NOTES TO FINANCIAL STATEMENTS

Commitments, Contingencies and Concentrations (continued)

Participating Provider Agreement
The Organization entered into a participating provider agreement, as amended, with the Pima County Regional Behavioral Health Authority ("RBHA"), whereby the Organization received certain funding upfront on a monthly basis on block purchase/payment model and was required to provide covered services to eligible participants with certain minimum service delivery encounter requirements. The agreement includes a provision for the potential recoupment of funding if the established minimum service delivery thresholds are not met and/or contractual profit limitations are exceeded during the specified contract period. The agreement also requires viability ratios be maintained monthly.

In May 2018, the Organization received a final close out letter from the RHBA indicating the final recoupment amount totaled $100,121 for all contract years through December 31, 2017. The behavioral healthcare services payable totaled $0 and $40,121, as of December 31, 2019, and 2018, respectively, and is included in other current liabilities in the accompanying statements of financial position.

Under the terms of the participating provider agreement, the Organization must continue to remain in compliance with the documentation requirements as specified in its provider agreement and as required under the Medicaid/State of Arizona rules and regulations. The provider agreement stipulates that noncompliance with these requirements may result in sanctions and/or request for return of funds, at the discretion of the RBHA, and if these circumstances should occur, they might be significant to the Organization. The Organization has not received any such request by the RBHA, and in management's opinion, such an occurrence is unlikely. In addition, the State of Arizona, may, at their discretion review or audit claims filed and funds received from the State. The State of Arizona also has the discretion to request a refund for claims they determine are without the required documentation.

U.S. Department of Veterans Affairs – Buildings
During 2008, the Organization purchased three buildings with matching grants from the U.S. Department of Veterans Affairs ("VA"). The buildings are required to be used in the VA Homeless Providers Grant and Per Diem Program. If the Organization withdraws from the program while a need exists to service veterans within the Organization's geographic region, as defined by the grant agreements, the Organization may be required to refund the grant monies in accordance with 2 CFR 200.311 *Real Property*. The Organization intends to provide the services while a need exists. Matching grants received in 2008 totaled $472,130.

Concentrations of Credit Risk
Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash deposits. Accounts at each institution are insured by the FDIC up to $250,000. As of December 31, 2019, and 2018, the Organization had approximately $467,000 and $428,000 in excess of FDIC insured limits, respectively.

Property Liens
In 2016, the Organization entered into a Community Development Block Grant with the City of Tucson for the construction and renovation of real property. As of December 31, 2019, the City of Tucson had reimbursed the Organization $100,000 for expenditures incurred for the renovation and construction of the real property. The property was capitalized and is included in property and equipment in the accompanying financial statements. In accordance with the agreement, the City of Tucson retained a lien on the facilities and requires the Organization to use the facilities for the intended program purpose for a minimum of ten years. Disposition of the property, including non-program use, or failure to meet affordability requirements prior to

NOTES TO FINANCIAL STATEMENTS

Commitments, Contingencies and Concentrations (continued)

Property Liens (continued)
the minimum period noted would require repayment of the original grant. The lien amount associated with the facilities totaled $100,000 as December 31, 2019. The Organization intends to comply with the ten-year holding period requirements; accordingly, no liability for the lien has been recorded in the accompanying financial statements.

15. Subsequent Events

The Organization evaluated subsequent events through May 27, 2020, which represents the date the financial statements were available to be issued and, with the exception of the matter discussed below, concluded that no additional disclosures are required.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate the spread of it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Organization operates. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted to amongst other provisions, provide emergency assistance for individuals, families and businesses affected by the coronavirus pandemic. It is unknown how long the adverse conditions associated with the coronavirus will last and what the complete financial effect will be to the Organization.

On April 17, 2020, the Organization received loan proceeds in the amount of approximately $660,000 under the Paycheck Protection Program (“PPP”). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll and employee benefit expenses of the qualifying business. The loans and accrued interest may be fully or partially forgivable as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its employment levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the covered payroll period.

The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months. The Organization intends to use the proceeds for purposes consistent with the PPP. While the Organization currently believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan, the Organization cannot assure that it will not take actions that could cause the Organization to be ineligible for forgiveness of the loan, in whole or in part.