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OLD PUEBLO COMMUNITY SERVICES

AUDITED FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2018
(WITH SUMMARIZED COMPARATIVE TOTALS
FOR THE YEAR ENDED DECEMBER 31, 2017)

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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, 2018 and 2017, and the related statements of cash flows for the years then ended, and the related statements of operations and changes in net assets and expenses by function and nature 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, 2018 and 2017, and the changes in its cash flows for the years then ended, and its changes in net assets for the year ended December 31, 2018 in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Organization's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 23, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 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 22, 2019 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 & Kenon, PC

Tucson, Arizona
May 22, 2019

AUDITED FINANCIAL STATEMENTS

STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31,

	2018	2017
Assets		
Current assets		
Cash	$ 667,590	$ 506,831
Accounts receivable, net	2,309	-
Grants and contracts receivable	800,171	495,122
Contributions receivable	-	7,553
Prepaid expenses and other current assets	9,389	8,893
Total current assets	1,479,459	1,018,399
Contributions receivable, net	1,934	5,719
Property and equipment, net	1,738,019	1,834,306
Total assets	$ 3,219,412	$ 2,858,424
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term debt	$ 39,969	$ 37,579
Accounts payable	99,248	39,447
Accrued expenses	221,069	191,633
Other current liabilities	40,121	100,121
Total current liabilities	400,407	368,780
Deferred revenue	75,215	23,986
Long-term debt	756,693	797,517
Total liabilities	1,232,315	1,190,283
Net assets		
Without donor restrictions	1,910,933	1,547,020
With donor restrictions	76,164	121,121
Total net assets	1,987,097	1,668,141
Total liabilities and net assets	$ 3,219,412	$ 2,858,424

STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2018
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2017)

	Without Donor Restrictions	With Donor Restrictions	Total 2018	Summarized Total 2017
Revenues				
Grant and program revenue				
Government grants and contracts	$ 5,556,224	$ -	$ 5,556,224	$ 5,421,267
Program revenue	192,612	-	192,612	138,066
Housing development revenue	-	-	-	451,958
	5,748,836	-	5,748,836	6,011,291
Public support and other revenue				
Contributions	1,961	153,153	155,114	172,820
Event revenue, net	85,084	-	85,084	39,378
Donated materials and services	30,690	-	30,690	155,423
Other revenue	72,527	-	72,527	6,798
	190,262	153,153	343,415	374,419
Releases from restrictions	198,110	(198,110)	-	-
Total revenues	6,137,208	(44,957)	6,092,251	6,385,710
Expenses				
Salaries	2,619,353	-	2,619,353	2,575,137
Payroll taxes and employee benefits	492,707	-	492,707	460,306
Outside professional services	289,326	-	289,326	343,676
Program expenses and supplies	281,919	-	281,919	320,373
Restoration costs	-	-	-	396,036
Rent	603,008	-	603,008	490,871
Rent - supportive housing	693,809	-	693,809	710,013
Utilities	276,661	-	276,661	302,926
Auto, travel and training	98,769	-	98,769	82,414
Office supplies and equipment	59,707	-	59,707	67,899
Accounting, insurance, advertising and fees	125,691	-	125,691	151,555
Interest	47,455	-	47,455	50,436
Depreciation	98,387	-	98,387	124,796
Bad debt expense	86,503	-	86,503	76,822
Total expenses	5,773,295	-	5,773,295	6,153,260
Change in net assets	363,913	(44,957)	318,956	232,450
Net assets, beginning of year	1,547,020	121,121	1,668,141	1,435,691
Net assets, end of year	$ 1,910,933	$ 76,164	$ 1,987,097	$ 1,668,141

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

	2018	2017
Cash Flows from Operating Activities		
Change in net assets	$ 318,956	$ 232,450
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Donated property and equipment	-	(28,820)
Gain on sale of property and equipment	(900)	-
Release from government loan subsidy obligations	-	(90,901)
Depreciation	98,387	124,796
Changes in operating assets and liabilities		
Accounts receivable, net	(2,309)	-
Grants and contracts receivable	(305,049)	2,879
Contributions receivable, net	11,338	6,943
Prepaid expenses and other current assets	(496)	(1,302)
Real estate development - property held for sale	-	377,565
Accounts payable	59,801	(20,222)
Accrued expenses	29,436	(43,250)
Other current liabilities	(60,000)	(125,064)
Deferred revenue	51,229	1,576
Net cash provided by operating activities	200,393	436,650
Cash Flows from Investing Activities		
Purchases of property and equipment	(2,100)	(130,210)
Proceeds from sale of property and equipment	900	-
Net cash used in investing activities	(1,200)	(130,210)
Cash Flows from Financing Activities		
Repayment of long-term debt	(38,434)	(63,527)
Repayment of government loan subsidies	-	(290,694)
Net cash used in financing activities	(38,434)	(354,221)
Net change in cash	160,759	(47,781)
Cash, beginning of year	506,831	554,612
Cash, end of year	$ 667,590	$ 506,831
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	$ 47,510	$ 50,505
Supplemental Disclosure of Non-Cash Investing & Financing Activities		
Donated property and equipment	$ -	$ 28,820

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 fees from client services 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, 2018 and 2017, 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, 2018 and 2017.

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 $2,514 and $2,379 was necessary as of December 31, 2018 and 2017, 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:

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

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Property and Equipment (continued)
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, 2018, the Organization had not experienced impairment losses on its long-lived assets.

Revenue Recognition
Grants and Contracts – The Organization accounts for its government funded grants and contracts as exchange transactions. Revenue is recognized as an increase in the statement of operations and changes in net assets as expenditures are incurred in accordance with applicable grant agreements under expenditure reimbursement contracts. Amounts received under unit rate contracts and client fees are earned when services are provided. A receivable is recorded to the extent contract revenue exceeds payment received; conversely, advances in excess of costs incurred under grants are deferred and recognized as revenue when the related expense is incurred, or service is rendered.

Program Revenue – The Organization recognizes client service revenue under fee for service and per diem contracts when behavioral health and client housing services are rendered.

Contributions – Unconditional promises to give are recognized as revenue when the gifts' underlying promises are received by the Organization. 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. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

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. 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.

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).

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

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, 2018 and 2017, the Organization did not recognize any interest and penalties.

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, 2017.

Reclassifications

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year presentation, with no effect on net assets.

3. New Accounting Pronouncements

Adopted as of December 31, 2018

In August 2016, the FASB issued ASU No. 2016-14*, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in ASU 2016-14 change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: Net Asset Classes; Investment Return; Expenses; Liquidity and Availability of Resources; and Presentation of Operating Cash Flows. ASU 2016-14 is effective for not-for-profit organizations for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. 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 2016-14 during fiscal year 2018. The adoption of this ASU primarily affected the presentation of the Organization's net assets without donor restrictions, disclosure of liquidity and availability of resources, and disclosure of an analysis of expenses by function and nature as well as the Organization's related policy in allocating expenses among program and supporting services. The Organization has elected the option to omit the analysis of expenses by function and nature for the period presented before the period of adoption (fiscal year 2017).

NOTES TO FINANCIAL STATEMENTS

Recent Accounting Pronouncements (continued)

Not Yet Required to be Adopted as of December 31, 2018

In May 2014, the FASB issued Accounting Standards Update ("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 revenue 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 2016-20); narrow scope improvements and practical expedients (ASU 2016-12); identifying performance obligations and licensing arrangements (ASU 2016-10); and gross versus net revenue reporting (ASU 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 has not yet selected a transition method and is currently evaluating the effect this standard will have on the financial statements and disclosures.

In February 2016, the FASB issued ASU 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, 2019, 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, 2019). 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

NOTES TO FINANCIAL STATEMENTS

Recent Accounting Pronouncements (continued)

Not Yet Required to be Adopted as of December 31, 2018 (continued)
Organization is currently evaluating the effect these standards will have on the financial statements and disclosures.

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 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 is currently evaluating the effect that implementation of the new standard will have on the financial statements and disclosures.

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:

	2018	2017
Cash	$ 667,590	$ 506,831
Accounts, grants and contracts receivable	802,480	495,122
Total financial assets	1,470,070	1,001,953
Less amounts unavailable for general expenditure within one year, due to:		
Net assets with donor restrictions	76,164	121,121
Financial assets available to meet cash needs for general expenditures within one year	$ 1,393,906	$ 880,832

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.

NOTES TO FINANCIAL STATEMENTS

5. Grants and Contracts Receivable

Grants and contracts receivable consist of the following as of December 31:

	2018	2017
City of Tucson	$ 152,615	$ 108,479
U.S. Department of Justice	-	37,279
U.S. Department of Health and Human Services	6,639	-
Pima County	36,659	15,648
The Primavera Foundation	20,383	23,032
U.S. Department of Housing and Urban Development	21,004	31,093
U.S. Department of Veterans Affairs	182,550	184,596
U.S. Probation Office	1,199	3,995
Arizona Complete Health (unbilled)	379,122	91,000
	$ 800,171	$ 495,122

6. Contributions Receivable

Contributions receivable consist of the following as of December 31:

	2018	2017
Unconditional promises expected to be collected in:		
Less than one year	$ -	$ 7,553
One to five years	4,448	8,098
Total unconditional promises	4,448	15,651
Less allowance for uncollectible accounts	(2,514)	(2,379)
Contributions receivable, net	$ 1,934	$ 13,272

7. Property and Equipment

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

	2018	2017
Land	$ 235,563	$ 235,563
Buildings	1,589,229	1,589,229
Building improvements	421,356	419,256
Furniture and equipment	141,843	141,843
Vehicles	141,903	159,246
Software	153,101	153,101
	2,682,995	2,698,238
Less accumulated depreciation	(944,976)	(863,932)
	$ 1,738,019	$ 1,834,306

NOTES TO FINANCIAL STATEMENTS

8. 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
2019	$ 610,431
2020	342,342
2021	38,930
2022	17,580
2023	17,580

Rent expense totaled $605,057 and $490,871 for the years ended December 31, 2018 and 2017, respectively.

9. 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, 2018 or 2017. Interest accrues at the prime rate (5.5% as of December 31, 2018), 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

10. Long-Term Debt

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

	2018	2017
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.	$ 125,514	$ 141,911
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.	333,401	341,960
National Bank of Arizona – $393,750 promissory note with an interest rate of 5.50% per annum. The promissory note requires monthly principal and interest payments of $2,727, maturing in May 2024 with a $251,895 balloon payment. The promissory note is collateralized by a deed of trust.	337,747	351,225
	796,662	835,096
Less current portion	(39,969)	(37,579)
	$ 756,693	$ 797,517

The following is a summary of future principal maturities as of December 31, 2018:

Year Ending	Amount
2019	$ 39,969
2020	42,401
2021	45,218
2022	48,104
2023	40,733
Thereafter	580,237
	$ 796,662

NOTES TO FINANCIAL STATEMENTS

11. Net Assets With Donor Restrictions

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

	2018	2017
Subject to expenditure for specified purpose		
Transitional housing	$ 3,643	$ 6,567
Down payment assistance	359	359
Financial education	3,157	6,506
Occupancy fees	-	25,221
Reentry	7,033	10,405
Homeless work program	57,524	56,412
Subject to collection	71,716	105,470
Contributions receivable	4,448	15,651
	$ 76,164	$ 121,121

12. 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.

13. 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, 2018 and 2017, matching contributions totaled $65,127 and $64,773, 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, 2018 and 2017.

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 $40,121 and $100,121, as of December 31, 2018, and 2017, 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.

U.S. Attorney's Office – Veteran's Administration
During 2016, the Organization received a letter from the U.S. Attorney's Office informing the Organization of a potential civil claim by the VA against the Organization and two other parties alleging a violation of the federal Anti-Kickback Act or the False Claims Act, or both. One of the other parties named in the letter is alleged to have submitted or to have caused the submission of what are alleged to be false claims and statements to the Veterans Administration, which allegedly resulted in the Organization's receipt of federal grant funds in excess of the amount to which the Organization would have been entitled in order to purchase real property in 2008. During 2017, the Organization negotiated and paid a claim settlement with the U.S. Attorney's Office totaling $20,000.

NOTES TO FINANCIAL STATEMENTS

Commitments, Contingencies and Concentrations (continued)

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, 2018, and 2017, the Organization had approximately $428,000 and $258,000 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, 2018, 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 the minimum period noted would require repayment of the original grant. The lien amount associated with the facilities totaled $100,000 as December 31, 2018. 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 22, 2019, which represents the date the financial statements were available to be issued and concluded that no additional disclosures were necessary.