HOMEWARD BOUND

Financial Statements
Together with Independent Auditor's Report
June 30, 2019

SchmidtWESTERGARD
CERTIFIED PUBLIC ACCOUNTANTS

HOMEWARD BOUND

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Homeward Bound

Report on the Financial Statements

We have audited the accompanying financial statements of Homeward Bound (the "Organization") (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 audit. We conducted our audit 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Schmidt Westergard & Company, PLLC

Mesa, Arizona
November 12, 2019

HOMEWARD BOUND
STATEMENT OF FINANCIAL POSITION
June 30, 2019

ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$	3,194,473
Investments		1,036,463
Receivables, net		126,131
Contributions receivable, net		47,455
Prepaid expenses		74,767
Total current assets		4,479,289
CONTRIBUTIONS RECEIVABLE, net, less current and restricted portions		48,147
PROPERTY AND EQUIPMENT, net		1,343,732
ASSETS RESTRICTED TO INVESTMENT IN LONG-LIVED ASSETS AND IMPROVEMENTS		
Cash and cash equivalents		233,009
Contributions receivable, net		131,250
INVESTMENTS RESTRICTED FOR ENDOWMENT		271,444
	$	6,506,871
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of notes payable	$	260,000
Accounts payable		73,517
Accrued liabilities		134,717
Total current liabilities		468,234
NOTES PAYABLE, less current maturities		1,320,000
Total liabilities		1,788,234
NET ASSETS		
Without donor restrictions		
Undesignated		3,475,668
Board-designated		500,000
Total net assets without donor restrictions		3,975,668
With donor restrictions		742,969
Total net assets		4,718,637
	$	6,506,871

HOMEWARD BOUND
STATEMENT OF ACTIVITIES
For the year ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
PUBLIC SUPPORT, REVENUE AND OTHER INCOME, AND SPECIAL EVENTS			
Public support			
Contributions	$ 841,206	$ 208,673	$ 1,049,879
Donated materials and services	263,609	-	263,609
Grants from governmental agencies	723,013	-	723,013
Total public support	1,827,828	208,673	2,036,501
Revenue and other income			
Program service fees	724,271	-	724,271
Net investment return	72,535	8,740	81,275
Total revenue and other income	796,806	8,740	805,546
Total public support and revenue and other income before special events	2,624,634	217,413	2,842,047
Special events			
Revenue from special events	492,063	-	492,063
Less costs of direct donor benefits	(60,627)	-	(60,627)
Gross profit on special events	431,436	-	431,436
Total public support, revenue and other income, and special events	3,056,070	217,413	3,273,483
NET ASSETS RELEASED FROM RESTRICTIONS	235,948	(235,948)	-
EXPENSES			
Program services-Transitional housing	3,241,402	-	3,241,402
Supporting services			
Management and general	481,589	-	481,589
Fundraising	593,524	-	593,524
Total supporting services	1,075,113	-	1,075,113
Total expenses	4,316,515	-	4,316,515
GAINS AND (LOSSES)			
Gain on sale of property and equipment	2,912,596	-	2,912,596
Loss on contributions receivable	-	(35,083)	(35,083)
Total gains and (losses)	2,912,596	(35,083)	2,877,513
CHANGE IN NET ASSETS	1,888,099	(53,618)	1,834,481
NET ASSETS – Beginning of year	2,087,569	796,587	2,884,156
NET ASSETS – End of year	$ 3,975,668	$ 742,969	$ 4,718,637

The accompanying notes are an integral part of this financial statement.

HOMEWARD BOUND
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2019

	Program Services - Transitional Housing	Supporting Services: Management and General	Supporting Services: Fundraising	Total
Personnel expenses				
Salaries and wages	$ 1,605,737	$ 297,920	$ 335,184	$ 2,238,841
Employee benefits and payroll taxes	278,068	45,169	40,130	363,367
Staff mileage, development, and other associated costs	27,652	21,887	5,143	54,682
Total personnel expenses	1,911,457	364,976	380,457	2,656,890
Depreciation	477,902	12,930	14,255	505,087
Direct client costs	357,601	-	-	357,601
Marketing and donor development costs	-	1,019	191,786	192,805
Utilities	170,591	8,235	8,683	187,509
Repairs and maintenance	148,101	8,929	9,617	166,647
Professional fees	59,555	52,787	-	112,342
Contracted services	41,490	3,146	14,150	58,786
Liability insurance	44,392	1,665	3,600	49,657
IT management and maintenance	12,355	12,465	1,803	26,623
Printing and postage	4,475	1,752	14,490	20,717
Taxes, licenses and dues	9,467	2,985	4,939	17,391
Merchant fees and bank charges	868	6,100	8,277	15,245
Supplies	2,831	3,975	2,094	8,900
Interest expense	317	625	-	942
Total expenses	3,241,402	481,589	654,151	4,377,142
Less - Special event expense netted against speical event revenue in the statement of activities				
Marketing and donor development costs	-	-	(58,627)	(58,627)
Professional fees	-	-	(2,000)	(2,000)
Functional expense totals in the expense section of the statement of activities	$ 3,241,402	$ 481,589	$ 593,524	$ 4,316,515

HOMEWARD BOUND
STATEMENT OF CASH FLOWS
For the year ended June 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$	1,834,481
Adjustments to reconcile change in net assets to net cash used in operating activities		
Realized and unrealized gain on investments, net		(18,100)
Gain on sale of property and equipment		(2,912,596)
Depreciation		505,087
Contributions restricted for investment in long-lived assets and improvements		77,000
Non-cash contributions - Forgiveness of notes payable		(270,511)
Changes in operating assets and liabilities		
(Increase) decrease in		
Receivables		(25,454)
Contributions receivable		51,245
Prepaid expenses		(24,159)
Decrease in		
Accounts payable		(30,044)
Accrued liabilities		(24,845)
Net cash used in operating activities		(837,896)
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in cash restricted for investment in long-lived assets and improvements		(142,978)
Proceeds from sale of investments		85,000
Purchases of investments		(138,019)
Proceeds from sale of property and equipment		2,929,111
Purchases of property and equipment		(90,827)
Net cash provided by investing activities		2,642,287
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on notes payable		(110,212)
Net increase in cash and cash equivalents		1,694,179
CASH AND CASH EQUIVALENTS - Beginning of year		1,500,294
CASH AND CASH EQUIVALENTS - End of year	$	3,194,473
SUPPLEMENTAL DISCLOSURES:		
Cash paid for income taxes	$	-
Cash paid for interest	$	942

1. Operations and Summary of Significant Accounting Policies

Nature of Operations

Founded in 1990, Homeward Bound (the "Organization") is recognized as Arizona's premier provider of transitional housing for families who are homeless, working poor and/or have experienced domestic violence. The Organization's mission is to assist families to achieve economic independence; secure long-term, safe, decent, and affordable housing; and break multi-generational cycles of homelessness and domestic violence. The Organization assists families with a "hand up, not a handout."

Each family participating in the program must contribute thirty percent of their adjusted gross income for housing and support services. As part of the support services, the participants engage in case management, committing and being held accountable to a program that helps them obtain and/or improve employment and life skills that will give them the needed "hand up." Their progress is continuously monitored and assessed as they make their successful transition from homelessness to self-sufficiency.

In 2000, the Organization opened the Thunderbirds Family Village ("TFV"), a five-acre secured campus that contains 68 two-bedroom housing units, 8 four-bedroom units, a learning center, an education and employment center, library, laundry facilities, and administrative offices.

At the TFV campus, Strong Foundations Center for Early Learning and Resiliency, a nationally accredited and state licensed child care center, provides care services for children of program participants, staff and families in the surrounding community who are ages six weeks to five years old. The Youth Services Department, also operating out of the TFV campus, serves the Organization's children ages birth to 17. This department assists program participants in identifying and addressing any needs of their children that may create barriers to the participants' employment or successful transition.

During the year ended June 30, 2019, the Organization provided housing and assistance to 163 families – approximately 554 individuals of whom 420 were children. Working poor families are the majority of the population. When entering the program, many of the families have few skills, limited education, large debt, and lack the basic life skills to achieve self-sufficiency without the Organization's assistance.

Basis of Presentation

The Organization prepares its financial statements on the accrual basis of accounting. As required by accounting principles generally accepted in the United States of America ("U.S. GAAP"), the Organization reports net assets and revenues, gains and losses based upon the existence of or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

> Net assets without donor restrictions – Net assets available for general use and not subject to donor restrictions. As reflected in the accompanying financial statements, the Organization's Board of Directors has designated a portion of these net assets for purposes identified and approved by the Board of Directors including fluctuations in contributions and capital improvements.
>
> Net assets with donor restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature and will be met either by the passage of time or the events specified by the donor. Other donor-imposed restrictions are perpetual in nature because the donor has stipulated that resources be maintained in perpetuity.

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Management's 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 revenue and expenses during the reporting period. Actual results may differ from those estimates.

Cash and Cash Equivalents

Cash consists of cash deposits in banks. The Organization considers all highly liquid financial instruments purchased with original maturities of three months or less to be cash equivalents. Cash received with donor-imposed restrictions limiting its use to long-term purposes is not considered cash and cash equivalents for purposes of the statement of cash flows.

Receivables

Receivables consist primarily of grants and contracts receivable and monthly rent payments due from residents of the Organization's transitional housing. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to receivables. Management considers all receivables to be fully collectible at June 30, 2019, and, accordingly, an allowance for doubtful accounts has not been provided. The Organization generally does not charge interest on past due amounts and does not require collateral on outstanding balances. There were no accounts receivable balances that were 90 days or more past due at June 30, 2019.

Promises to Give

Promises to give are recognized as revenue when the donor makes a promise to give to the Organization that is, in substance, unconditional. Promises to give that are received with conditions are not recognized until those conditions are substantially met, unless the likelihood that the Organization will not fulfill the conditions is remote, in which case the contribution is recognized when the promise is made.

Unconditional promises to give that are to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The present value is calculated using risk-adjusted discount rates which are based on the risk-free interest rates applicable to the year in which the promises are received and the length of the promise to give, adjusted for market risk. Amortization of the discounts is included in contributions in the accompanying statement of activities.

Fair Value Measurements

Certain assets and liabilities of the Organization are required to be measured at fair value on a recurring basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an "exit price") on the measurement date in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants (with no compulsion to buy or sell).

The levels of the fair value hierarchy are:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets and liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates, yield curves, etc.):
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

For assets and liabilities measured at fair value on a recurring basis, the fair value hierarchy requires the use of observable market data when available. In instances where inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Investments and Investment Income

The Organization reports its investments in securities at fair value as described in Note 4. Net investment return consists of interest, dividends, and realized and unrealized gains and losses, and is presented net of external direct investment expenses. Gains and losses, both realized and unrealized, are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or law. The Organization's investments are in professionally managed portfolios. Management reviews and evaluates fair value provided by the external managers, as well as the valuation methods and assumptions used in determining the fair value of such investments.

Investments are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in risks in the near term would materially affect account balances and the amounts reported in the accompanying financial statements.

Property and Equipment

Purchased property and equipment is stated at cost. Property and equipment acquired by gift is stated at estimated fair value at the date of contribution. Depreciation is provided using the straight-line method over the following estimated useful lives:

Transitional housing	20 years
Furniture and equipment	5 to 7 years
Vehicles	5 years

All acquisitions of property and equipment and all costs for repairs and maintenance that materially prolong the useful life of assets in excess of $1,000 are capitalized. In the absence of donor restrictions on how gifts of long-lived assets must be used, the Organization does not imply time restrictions on such contributions.

Impairment of Long-Lived Assets

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying value of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Management believes that no long-lived assets have any impairment of value.

Contributions

Contributions of cash or other assets are recognized as revenue when received at the estimated fair value on the date of contribution. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Donated Materials and Services

The Organization recognizes donations of services received if such services create or enhance nonfinancial assets or require specialized skills which are provided by individuals possessing those skills and would otherwise need to be purchased if not donated. Donated materials and professional services are recognized as contributions in the accompanying financial statements at their estimated fair value at the date of receipt.

Volunteers donate a significant amount of time to the Organization’s program services and its fundraising activities. No amounts have been reflected in the financial statements for these services since they did not meet the requirements for recognition.

Grants from Governmental Agencies

The Organization receives annual grants from various state and federal agencies. The Organization recognizes revenue for these grants as services are provided. Funding sources may, at their discretion, request reimbursement for expenses or return of funds, or both, as a result of noncompliance by the Organization with the terms of the grant or contract.

Program Service Fees

Program service fees consist primarily of amounts charged to program participants for housing and support services. All program participants are charged thirty percent of their adjusted gross income for the program services. Program service fee revenue is billed and recognized as revenue in the month in which the services are provided.

Special Events

The Organization conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event. Unless a verifiable, objective means exists to demonstrate otherwise, the fair value of the meals and entertainment provided at special events is measured at the actual cost to the Organization. The direct costs of the special events, which ultimately benefit the donor rather than the Organization, are recognized as costs of direct donor benefits in the accompanying statement of activities.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying statement of activities and statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting activities benefited.

Certain categories of expenses are attributable to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. Allocated expenses primarily consist of the following:

- Salaries and wages, benefits and other employee-related costs – allocated on the basis of estimates of time and effort
- Utilities, depreciation, repairs and maintenance – allocated on the basis of estimated square footage utilized
- Insurance – allocated on the basis of headcount and estimated square footage utilized

Fundraising Costs

All fundraising costs are expensed in the period incurred.

Income Tax Status

The Organization qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the "Code") and, therefore, there is no provision for income taxes. In addition, the Organization qualifies for the charitable contribution deduction under Section 170 of the Code and has been classified as an organization that is not a private foundation. Income determined to be unrelated business taxable income ("UBTI") would be taxable.

The Organization follows the guidance issued by the Financial Accounting Standards Board ("FASB") related to accounting for income tax uncertainties. Under this guidance, the Organization accounts for the effect of any uncertain tax positions based on whether it is "more-likely-than-not" that the position will be sustained by the taxing authority upon examination. The Organization routinely evaluates potential uncertain tax positions. The Organization has identified its status as an exempt organization as a tax position; however, the Organization has determined that such tax position does not result in an uncertainty that requires recognition.

The Organization files informational and income tax returns in the U.S. federal jurisdiction and in certain state and local jurisdictions. As of June 30, 2019, U.S. federal informational tax returns for years ended prior to June 30, 2016 and state returns for years ended prior to June 30, 2015 are closed to assessment. Interest and penalties, if any, are accrued as a component of management and general expenses when assessed.

Newly Adopted Accounting Pronouncement

In August 2016, FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* which significantly amended the standards for the presentation and accompanying disclosures of the financial statements of nonprofit organizations. The ASU amended the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include:

- requiring the presentation of only two classes of net assets, now entitled "net assets without donor restrictions" and "net assets with donor restrictions",
- modifying the presentation of underwater endowment funds and related disclosures,
- requiring the use of the placed-in-service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise,
- requiring all nonprofit entities to present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes,
- requiring all nonprofit entities to disclose a summary of the allocation methods used to allocate costs
- requiring disclosure of quantitative and qualitative information regarding liquidity and availability of resources
- requiring investment return to be presented net of external and direct expenses

ASU 2016-14 also modifies other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements.

The Organization adopted the provisions of ASU 2016-14 effective July 1, 2018 and applied the provisions retrospectively. The adoption of ASU 2016-14 did not have a material impact on the accompanying financial statements and resulted primarily in a reclassification between the net asset categories utilized prior to the adoption of ASU 2016-14 and the net asset categories required after adoption of ASU 2016-14 as summarized below:

	Net Asset Classifications under ASU 2016-14		
	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Net assets at June 30, 2018, as previously reported:			
Unrestricted	$ 2,100,273	$ -	$ 2,100,273
Temporarily restricted	-	533,883	533,883
Permanently restricted	-	250,000	250,000
Reclassification of net investment return to endowment to implement ASU 2016-14	(12,704)	12,704	-
Net assets at June 30, 2018, as reclassified	$ 2,087,569	$ 796,587	$ 2,884,156

Recent Accounting Pronouncements

In May 2014, FASB issued ASU 2014-09, *Revenues from Contracts with Customers (Topic 606)* and has modified the standard thereafter. This standard replaces existing revenue recognition rules with a comprehensive revenue measurement and recognition standard and expanded disclosure requirements. ASU 2014-09 is effective for nonpublic entities for fiscal years beginning after December 15, 2018. The Organization is currently evaluating the magnitude and other potential impacts on its financial statements.

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 replaces existing leasing rules with a comprehensive lease measurement and recognition standard and expanded disclosure requirements. ASU 2016-02 will require lessees to recognize most leases in their statement of financial position as liabilities, with corresponding "right of use" assets. The standard is effective for nonpublic entities for fiscal years beginning after December 15, 2019. The Organization is currently evaluating the magnitude and other potential impacts on its financial statements.

In June 2018, FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions*. This standard includes clarifications to assist entities in evaluating if transactions should be accounted for as contributions under the scope of Topic 958 or as exchange transactions subject to other guidance. The standard also assists entities in determining if contributions are conditional. ASU 2018-08 is effective for nonpublic entities for contributions received in fiscal years beginning after December 15, 2018. The Organization is currently evaluating the magnitude and other potential impacts on its financial statements.

2. Liquidity

As of June 30, 2019, financial assets which could readily be made available to meet general expenditures within one year of the date of the statement of financial position were as follows:

Financial assets at year end:	
Cash and cash equivalents	$ 3,427,482
Receivables, net	126,131
Contributions receivable, net	226,852
Investments	1,307,907
Total financial assets	5,088,372
Less amounts not available for general expenditures within one year, due to:	
Contractual or donor-imposed restrictions:	
Amounts subject to donor purpose or time restrictions	(471,525)
Amounts subject to appropriation	(271,444)
Board designations	(500,000)
Financial assets available to meet cash needs for general expenditures within one year	$ 3,845,403

The Organization is supported, in part, by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Organization must maintain sufficient resources to meet those responsibilities to its donors. As a result, certain financial assets may not be available for general expenditure within one year. As part of liquidity management, the Organization regularly monitors liquidity to meet its operating needs and other contractual commitments. The Organization has various sources of liquidity at its disposal, including cash and cash equivalents, receivables, and certain grants and contributions receivable. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures relating to ongoing activities of the various programs offered, as well as the conduct of services undertaken to support those activities, to be general expenditures.

In addition to the financial assets available to meet general expenditures over the next 12 months, the Organization operates with a balanced budget. The large cash balance is a result of selling the Organization's scattered site homes throughout the Valley to obtain efficiencies by concentrating the Organization's efforts on TFV. The cash proceeds will be used for future capital improvements, to continue to build the Board Designated Reserve, and for potential future growth of the organization to serve the homeless population.

3. Contributions receivable

Contributions receivable consisted of the following at June 30, 2019:

Promises to give - Without donor restrictions	$	115,455
Promises to give - With donor restrictions:		
Building maintenance and remodel		143,000
Total contributions receivable		258,455
Less: Unamortized discount		(21,603)
Less: Valuation Allowance		(10,000)
Contributions receivable, net	$	226,852

The estimated cash flows for contributions receivable were discounted over the collection period using management determined, risk-adjusted discount rates ranging from 2.5% to 4.5%. Contributions receivable (before the unamortized discount and any valuation allowance are due as follows at June 30, 2019:

Contributions receivable due in less than one year	$	80,455
Contributions receivable due in one to five years		178,000
Total contributions receivable	$	258,455

Contributions receivable from employees and members of the Board of Directors (before the unamortized discount) were as follows at June 30, 2019:

Contributions receivable due in less than one year	$	4,455
Contributions receivable due in one to five years		5,000
Total contributions receivable	$	9,455

4. Investments

Investments consisted of the following and the table sets forth, by level within the fair value hierarchy, the Organization's assets that are measured at fair value as of June 30, 2019:

	Level 1	Level 2	Level 3	Total
Mutual funds				
Equity funds - U.S.	$ 433,031	$ -	$ -	$ 433,031
Equity funds - International	319,611	-	-	319,611
Bond funds	539,265	-	-	539,265
Private company stocks	-	16,000	-	16,000
Total investments	1,291,907	16,000	-	1,307,907
Less: Investments restricted for endowments	(271,444)	-	-	(271,444)
Total investments	$ 1,020,463	$ 16,000	$ -	$ 1,036,463

Net investment return consisted of the following for the year ended June 30, 2019:

Interest and dividends	$ 75,655
Net realized and unrealized gains	18,100
Direct external investment expenses	(12,480)
Total net investment return	$ 81,275

5. Property and equipment

Property and equipment consisted of the following at June 30, 2019:

Cost or donated value:	
Transitional housing	$ 8,558,806
Furniture and equipment	1,119,656
Land	295,629
Vehicles	63,270
Construction in progress	59,103
Total cost or donated value	10,096,464
Less - Accumulated depreciation	(8,752,732)
Property and equipment, net	$ 1,343,732

6. Notes Payable

Notes payable consisted of the following at June 30, 2019:

Two interest free notes payable to the City of Phoenix for the acquisition and construction of the TFV property; collateralized by the TFV property; principal of the notes to be forgiven at 10% per year beginning in December 2012, provided the property is used exclusively for transitional supportive housing for low-income families with children; maturing in December 2021.	$ 780,000
Interest free note payable to the Arizona Department of Commerce. The funds received are required to be repaid only if the Organization sells the TFV property within the period of affordability remaining on the TFV property or fails to comply with the covenants, conditions, and restrictions defined in the agreement. The period of affordability is satisfied in June 2029.	800,000
Total notes payable	1,580,000
Less current maturities	(260,000)
Total notes payable, less current maturities	$ 1,320,000

Annual maturities of notes payable are scheduled as follows:

Year Ending June 30	Future Forgiveness
2020	$ 260,000
2021	260,000
2022	260,000
2023	-
2024	-
Thereafter	800,000
Total notes payable	$ 1,580,000

The Organization recognized revenue from government grants totaling approximately $271,000 for the year ended June 30, 2019, related to forgiveness of notes payable according to the agreements described above.

7. Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods:

Subject to expenditure for specified purposes:		
Building maintenance and remodel	$	364,259
Destination Diploma		11,664
Subject to the passage of time:		
For periods after June 30, 2019		95,602
Subject to Organization spending policy and appropriation:		
Endowment - Original gift amount		250,000
Endowment - Accumulated net investment return		21,444
Total net assets with donor restrictions	$	742,969

During the year ended June 30, 2019, net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes, or by the occurrence of the passage of time or other events specified by donors, as follows:

Expended for specified purposes:		
Youth Services	$	5,000
Diaper bank		33,755
Building maintenance and remodel		90,031
Trauma informed care		50,000
Expended due to passage of time:		92,245
Total restrictions released	$	271,031

8. Endowment

The Organization's endowments consist of funds established under donor restriction for certain purposes. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Organization is subject to the Arizona Management of Charitable Funds Act ("MCFA"), which is the State of Arizona's version of the Uniform Prudent Management of Institutional Funds Act. The Organization has interpreted the MCFA as requiring the preservation of the fair value of the original gift, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as net assets with donor restrictions (to be held in perpetuity) the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The remaining portion of the donor-restricted endowment fund that is not classified as held in perpetuity is classified as part of donor-restricted net assets until those amounts are appropriated for expenditure by the governing board in a manner consistent with the standard of prudence described by the MCFA.

MCFA allows the Organization's governing board to appropriate for expenditure or accumulate so much of an endowment fund as is determined to be prudent, considering the following factors:

- The duration and preservation of the fund
- The purposes of the Organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization

Investment Return Objectives, Risk Parameters and Strategies

Endowment funds held in perpetuity are those given to the Organization with a donor-imposed restriction that the funds are not to be expended but are to be invested for the purpose of generating investment income (as defined by each gift instrument) for the support of the Organization. The principal of the funds is to be maintained in perpetuity. The donor may place restrictions on the purpose(s) for which the investment income may be expended. The Organization's governing body has a fiduciary responsibility to comply with the restrictions imposed by the donors on these funds.

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for operations while seeking to maintain the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation (both realized and unrealized), which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, with a greater emphasis on equity-based investments to achieve its long-term objective within prudent risk constraints. The Organization expects its endowment funds over time to provide an average rate of return of 5.0% annually. Actual returns in any given year may vary from this amount.

Spending Policy

Under the Organization's endowment spending policy, the Board of Directors reviews earnings from the endowment annually, and may approve usage for specific operational purposes or to accumulate towards the endowment's continuing growth.

Composition of Endowment

At June 30, 2019, the endowment consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Original donor-restricted gift amounts and amounts required by donors to be maintained in perpetuity	$ -	$ 250,000	$ 250,000
Accumulated net investment return	-	21,444	21,444
Total endowment net assets	$ -	$ 271,444	$ 271,444

Changes in Endowment

Changes in endowment net assets consisted of the following for the year ended June 30, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ -	$ 262,704	$ 262,704
Net investment return	-	8,740	8,740
Endowment net assets, end of year	$ -	$ 271,444	$ 271,444

Underwater Endowment Funds

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or MCFA requires the Organization to retain as a fund of perpetual duration. The Organization has interpreted MCFA to permit spending from underwater endowments in accordance with prudent measures required by MCFA. Deficiencies of this nature did not exist as of June 30, 2019.

9. Retirement Plan

The Organization sponsors a 403(b) retirement plan (the "Plan") covering all full-time employees. Under the terms of the Plan, participating employees may contribute up to 100% of their gross annual income, subject to Internal Revenue Service limitations. The Organization does not make contributions to the Plan.

10. Donated Materials and Services

Donated materials and services consisted of the following for the year ended June 30, 2019:

	Program Services-Transitional Housing	Supporting Services		Total
		Management and General	Fundraising	
Direct client costs	$ 166,605	$ -	$ -	$ 166,605
Professional services	33,555	9,690	-	43,245
IT management and maintenance	-	2,250	-	2,250
Printing and postage	-	-	4,000	4,000
Total in-kind expense	$ 200,160	$ 11,940	$ 4,000	216,100
Donated commissions (gain on sale of property)				47,509
Total in-kind contributions				$ 263,609

11. Contingencies

In the normal course of its activities, from time to time the Organization is subject to certain claims and litigation, including unasserted claims. The Organization and its counsel are of the opinion that, based on information presently available, such legal matters will not have a material adverse effect on the financial position of the Organization.

12. Concentrations

Uninsured Cash

The Organization maintains its cash in bank deposit accounts, which at times may exceed federally insured limits. The Organization has not experienced any losses in such accounts and does not expect to experience any such losses. At June 30, 2019, the Organization had an uninsured cash balance of approximately $3,183,000.

Significant Donors

As of June 30, 2019, the Organization had two promises to give which represented approximately 66% and 24% of the contributions receivable in the accompanying statement of financial position.

13. Supplemental Cash Flow Information

During the year ended June 30, 2019, the Organization purchased property and equipment through accounts payable for approximately $59,000.

14. Subsequent Events

The Organization has evaluated subsequent events through November 12, 2019, the date on which the financial statements were available to be issued.