

MESA COMMUNITY ACTION NETWORK, INC.

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018



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**MESA COMMUNITY ACTION NETWORK, INC.
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YEAR ENDED JUNE 30, 2018**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Mesa Community Action Network, Inc.
Mesa, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of Mesa Community Action Network, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, 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.

Auditors' 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 auditors' 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.

Board of Directors
Mesa Community Action Network, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mesa Community Action Network, Inc. as of June 30, 2018, and the change in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2019, on our consideration of the Mesa Community Action Network, Inc.'s internal control over financial reporting and on 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 result of that testing, and not to provide an opinion on the effectiveness of the Mesa Community Action Network, Inc.'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 Mesa Community Action Network, Inc.'s internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Phoenix, Arizona
February 25, 2019

MESA COMMUNITY ACTION NETWORK, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018

ASSETS

Cash and Cash Equivalents	\$ 146,555
Cash - Individual Development Accounts (IDA) Restricted	1,211,684
Accounts Receivable, Net	507,476
Other Assets	8,135
Total Assets	<u>\$ 1,873,850</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts Payable and Accrued Expenses	\$ 155,266
Due to Related Parties	256,586
Deferred Revenue	301,207
Total Liabilities	<u>713,059</u>

NET ASSETS

Unrestricted	168,781
Temporarily Restricted	992,010
Total Net Assets	<u>1,160,791</u>
 Total Liabilities and Net Assets	 <u>\$ 1,873,850</u>

See accompanying Notes to Financial Statements.

MESA COMMUNITY ACTION NETWORK, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

	Unrestricted	Temporarily Restricted	Total
REVENUES AND SUPPORT			
Contract Revenue	\$ 2,357,373	\$ -	\$ 2,357,373
Contributions	11,948	23,568	35,516
Bingo Revenue	1,126,016	-	1,126,016
Less Cost of Goods Sold	<u>(744,277)</u>	<u>-</u>	<u>(744,277)</u>
Net Bingo Activities	381,739	-	381,739
Interest Income	319	-	319
Other Income	33,569	-	33,569
Net Assets Released from Restrictions	79,447	(79,447)	-
Total Revenues and Support	<u>2,864,395</u>	<u>(55,879)</u>	<u>2,808,516</u>
EXPENSES			
Program Services:			
Community Action Programs	1,733,592	-	1,733,592
Weatherization	376,975	-	376,975
Individual Development Accounts	252,835	-	252,835
Other Programs	<u>101,759</u>	<u>-</u>	<u>101,759</u>
Total Program Services	2,465,161	-	2,465,161
Supporting Services:			
Bingo Games	283,841	-	283,841
Management and General	121,565	-	121,565
Fundraising and Development	<u>9,376</u>	<u>-</u>	<u>9,376</u>
Total Supporting Services	<u>414,782</u>	<u>-</u>	<u>414,782</u>
Total Expenses	<u>2,879,943</u>	<u>-</u>	<u>2,879,943</u>
CHANGE IN NET ASSETS	(15,548)	(55,879)	(71,427)
Net Assets - Beginning of Year	<u>184,329</u>	<u>1,047,889</u>	<u>1,232,218</u>
NET ASSETS - END OF YEAR	<u>\$ 168,781</u>	<u>\$ 992,010</u>	<u>\$ 1,160,791</u>

See accompanying Notes to Financial Statements.

MESA COMMUNITY ACTION NETWORK, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018

	Program Services				Total Program Services	Support Services			Total
	Community Action	Weatherization	Individual Development Accounts	Other Programs		Bingo Games	Management and General	Fundraising and Development	
	Salaries	\$ 404,595	\$ 13,884	\$ 78,366		\$ -	\$ 496,845	\$ 85,603	
Payroll Taxes	34,427	957	6,885	-	42,269	11,262	4,972	519	59,022
Benefits and Other	44,567	3,456	5,411	-	53,434	2,688	13,871	1,022	71,015
Professional Services	43,295	2,423	26,354	-	72,072	1,147	13,359	6	86,584
Advertising, Marketing, and Printing	1,436	19	314	-	1,769	19,850	327	5	21,951
Supplies and Postage	6,109	221	573	-	6,903	1,259	1,412	73	9,647
Telephone	15,819	529	1,815	-	18,163	2,499	2,318	106	23,086
Occupancy	81,345	10,056	14,072	-	105,473	95,275	12,459	532	213,739
Travel and Vehicles	8,588	1,109	1,977	-	11,674	-	1,400	57	13,131
Interest Expense	-	-	-	-	-	7,745	1,122	-	8,867
Conferences	2,504	2,720	(35)	-	5,189	-	953	(13)	6,129
Insurance	8,387	6,292	2,677	-	17,356	-	1,426	113	18,895
Equipment Lease - Repair and Maintenance	11,381	-	-	-	11,381	33,111	911	95	45,498
Client Expenses	1,063,329	332,877	114,263	-	1,510,469	-	5	-	1,510,474
Program Expenses	4,178	-	87	-	4,265	-	160	-	4,425
Bingo Cost of Goods Sold	-	-	-	-	-	767,063	-	-	767,063
Miscellaneous Expense	3,632	2,432	76	-	6,140	616	2,613	76	9,445
Contribution Expense	-	-	-	101,759	101,759	-	-	-	101,759
Totals	1,733,592	376,975	252,835	101,759	2,465,161	1,028,118	121,565	9,376	3,624,220
Less Expenses Included with Revenue on the Statement of Activities									
Bingo Cost of Goods Sold	-	-	-	-	-	744,277	-	-	744,277
Total Expenses Included in the Expense Section on the Statement of Activities	<u>\$ 1,733,592</u>	<u>\$ 376,975</u>	<u>\$ 252,835</u>	<u>\$ 101,759</u>	<u>\$ 2,465,161</u>	<u>\$ 283,841</u>	<u>\$ 121,565</u>	<u>\$ 9,376</u>	<u>\$ 2,879,943</u>

See accompanying Notes to Financial Statements.

**MESA COMMUNITY ACTION NETWORK, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2018**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ (71,427)
Adjustments to Reconcile Change in Net Assets to Net Cash	
Provided by Operating Activities:	
Change in Discount on Promises to Give	(10,611)
(Increase) Decrease in Assets:	
Cash - IDA Restricted	(74,308)
Accounts Receivable	(35,017)
Promises to Give	200,000
Other Assets	(2,190)
Increase (Decrease) in Liabilities:	
Accounts Payable and Accrued Expenses	(84,969)
Due to Related Parties	151,816
Deferred Revenue	(62,775)
Net Cash Provided by Operating Activities	10,519
 NET CHANGE IN CASH AND CASH EQUIVALENTS	 10,519
 Cash and Cash Equivalents - Beginning of Year	 136,036
 CASH AND CASH EQUIVALENTS - END OF YEAR	 \$ 146,555

See accompanying Notes to Financial Statements.

MESA COMMUNITY ACTION NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Mesa Community Action Network, Inc. (MesaCAN or the Organization) is a nonprofit organization established September 3, 1986 as the community action program for the City of Mesa, Arizona. It serves as the vehicle whereby both governmental and private funding are brought together to assist in meeting the human service needs in the City of Mesa and surrounding areas. MesaCAN's major programs are as follows:

Community Action Program – This program offers financial and case management services to individuals and families who are facing an immediate crisis which impacts their housing, utilities, health, and safety. City of Mesa residents apply and are qualified based on poverty guidelines, household size, and state regulations.

Individual Development Accounts – IDAs are savings accounts held by individuals at designated local banks and credit unions to help working individuals and families save for homeownership and educational expenses. Mesa CAN does not have access to the individual accounts as they are owned exclusively by the participants. Upon meeting the criteria of the IDA program, matching funds are disbursed to appropriate parties for asset purchases or payment of tuition and similar fees.

Weatherization – This program offers financial assistance to individuals and families who are in need of weatherization assistance for their homes. This includes replacement of air conditioning, heaters, heat pumps, weather stripping, lighting, inefficient appliances, and windows.

MesaCAN also conducts a charitable bingo operation with a portion of net proceeds going to A New Leaf, Inc. (Leaf), a 501(c)(3) nonprofit agency whose programs serve the homeless, victims of domestic violence, youth programs, and behavioral health needs of children, adolescents, and their families. Leaf is the sole member of MesaCAN.

Cash and Cash Equivalents

MesaCAN considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted for IDAs are excluded from cash. IDA-restricted cash can only be used for certain homeownership and educational expenses, including tuition, books, and other fees.

Receivables and Credit Policies

Accounts receivable consist primarily of noninterest-bearing amounts due under contracts. Management determines the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable. There was no allowance for doubtful accounts at June 30, 2018.

MESA COMMUNITY ACTION NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Promises to Give

Management records unconditional promises to give expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statement of activities. Management determines the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. As of June 30, 2018, Mesa CAN had no promises to give.

Net Assets

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

Unrestricted Net Assets – Net assets available for use in general operations.

Temporarily Restricted Net Assets – Net assets subject to donor restrictions that may or will be met by expenditures or actions of MesaCAN and/or the passage of time, and certain income earned on permanently restricted net assets that has not yet been appropriated for expenditure by MesaCAN's board of directors.

MesaCAN reports contributions as temporarily restricted support if it is received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues in unrestricted net assets.

Permanently Restricted Net Assets – Net assets with its use limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by action of MesaCAN. The restrictions stipulate that resources be maintained permanently but permit MesaCAN to expend the income generated in accordance with the provisions of the agreements. As of June 30, 2018, Mesa CAN had no permanently restricted net assets.

Revenue and Revenue Recognition

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, or an unconditional promise to give is received.

MESA COMMUNITY ACTION NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to MesaCAN's program services, administration, and fundraising and development activities; however, the financial do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. MesaCAN records donated professional services at the respective fair values of the services received. No significant contributions of such goods or services were received during the year ended June 30, 2018.

Advertising Costs

Advertising costs are expensed as incurred was \$21,342 during the year ended June 30, 2018.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Tax Status

MesaCAN is organized as an Arizona nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (IRC) as an organization described in Section 501(c)(3) and has been determined not to be a private foundation under Section 509(a)(1). Accordingly, contributions to it qualify for the charitable contribution deduction under Section 170(b)(1)(A). The Organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. The Organization files an Exempt Organization Business Income Tax Returns (IRS Form 990-T) and its Arizona equivalent, Form 99-T. However, because the amount of the tax is immaterial, tax expense is recorded as paid rather than as incurred.

Management believes that it has appropriate support for any income tax positions taken, and, as such, does not have any uncertain tax positions that are material to the financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

MESA COMMUNITY ACTION NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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 and those differences could be material.

Subsequent Events

MesaCAN has evaluated subsequent events through February 25, 2019, the date the financial statements were available to be issued.

NOTE 2 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2018 consists of:

Restricted by Donors for:

IDA Program Matching Funds	\$ 845,289
IDA Administrative Nonmatch Funds	146,721
Total	\$ 992,010

Releases of temporarily restricted net assets for the year ended June 30, 2018 consist of:

IDA Program Matching Funds	\$ 61,412
IDA Administrative Nonmatch Funds	18,035
Total	\$ 79,447

NOTE 3 RELATED PARTY TRANSACTIONS

Leaf is the sole member of MesaCAN. Leaf provides management and support services for MesaCAN for which MesaCAN reimburses Leaf. MesaCAN also leases the majority of its employees from Leaf. Total charged for management and support services and payroll paid to Leaf during the year ended June 30, 2018 totaled \$793,486 and are included in the accompanying statement of functional expenses. In 2018, MesaCAN rented a facility from Leaf totaling \$62,100 in rent expense. In addition, MesaCAN donates a portion of the proceeds from its bingo operations to Leaf. Total donation expense related to the bingo operations was \$101,759 for the year ended June 30, 2018. Amounts owed to Leaf as of June 30, 2018 totaled \$256,586.

MESA COMMUNITY ACTION NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 3 RELATED PARTY TRANSACTIONS (CONTINUED)

Additionally, MesaCAN rents a facility from The PRE-HAB Foundation, dba A New Leaf Foundation (Foundation), an entity related through common management. Total rent paid to Foundation totaled \$70,848 for the year ended June 30, 2018. Amounts owed to Foundation as of June 30, 2018 totaled \$-0-.

Future minimum lease payments on operating leases with Leaf and Foundation expiring during 2022 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 132,948
2020	132,948
2021	62,100
2022	62,100
Total	<u>\$ 390,096</u>

NOTE 4 COMMITMENTS AND CONTINGENCIES

MesaCAN participates in a number of federal and state-assisted grant and contract programs which are subject to financial and compliance audits. Accordingly, MesaCAN's compliance with applicable grant or contract requirements may be determined at some future date. The amount, if any, of expenditures or fees for units of service which may be disallowed by the granting or contracting agencies cannot be determined at this time, although the Organization's management expects such amounts, if any, to be immaterial.

NOTE 5 REVENUE AND RECEIVABLE CONCENTRATION

MesaCAN received approximately 70% of its contract revenue from the Arizona Department of Economic Security during the year ended June 30, 2018. Approximately 88% of the accounts receivable balance was due from two government funders as of June 30, 2018.

