



Financial Statements
June 30, 2017 and 2016

Mesa Community Action Network, Incorporated

Mesa Community Action Network, Incorporated

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June 30, 2017 and 2016

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Independent Auditor's Report

The Board of Directors
Mesa Community Action Network, Incorporated
Mesa, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of Mesa Community Action Network, Incorporated (the Organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years 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 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.

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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated January 22, 2018 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is 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.

A handwritten signature in cursive script that reads "Eide Sallee LLP".

Phoenix, Arizona
January 22, 2018

Mesa Community Action Network, Incorporated
 Statements of Financial Position
 June 30, 2017 and 2016

| | 2017 | 2016 |
|---|--------------|--------------|
| Assets | | |
| Cash and cash equivalents | \$ 136,036 | \$ 335,148 |
| Cash - individual development accounts (IDA) restricted | 1,137,376 | 674,258 |
| Accounts receivable | 472,459 | 259,841 |
| Promises to give, net | 189,389 | 417,183 |
| Other assets | 5,945 | 4,451 |
| Total assets | \$ 1,941,205 | \$ 1,690,881 |
| Liabilities and Net Assets | | |
| Accounts payable and accrued expenses | \$ 240,235 | \$ 181,847 |
| Due to related parties | 104,770 | 228,100 |
| Deferred revenue | 363,982 | 196,797 |
| Total liabilities | 708,987 | 606,744 |
| Net Assets | | |
| Unrestricted | 184,329 | 154,149 |
| Temporarily restricted | 1,047,889 | 929,988 |
| Total net assets | 1,232,218 | 1,084,137 |
| Total liabilities and net assets | \$ 1,941,205 | \$ 1,690,881 |

| | 2017 | | |
|---------------------------------------|-------------------|------------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Total |
| Revenue and Support | | | |
| Contract revenue | \$ 2,198,268 | \$ - | \$ 2,198,268 |
| Contributions | 16,750 | 261,452 | 278,202 |
| Bingo revenue | 1,158,076 | - | 1,158,076 |
| Less cost of goods sold | (779,781) | - | (779,781) |
| Net bingo activities | <u>378,295</u> | <u>-</u> | <u>378,295</u> |
| Interest income | 342 | - | 342 |
| Other income | 1,278 | - | 1,278 |
| Net assets released from restrictions | 143,551 | (143,551) | - |
| Total revenue and support | <u>2,738,484</u> | <u>117,901</u> | <u>2,856,385</u> |
| Expenses | | | |
| Program services expense | | | |
| Community action programs | 1,436,469 | - | 1,436,469 |
| Weatherization | 444,654 | - | 444,654 |
| Individual development accounts | 310,941 | - | 310,941 |
| Other programs | 102,500 | - | 102,500 |
| Total program expenses | <u>2,294,564</u> | <u>-</u> | <u>2,294,564</u> |
| Supporting services expense | | | |
| Management and general | 404,323 | - | 404,323 |
| Fundraising and development | 9,417 | - | 9,417 |
| Total supporting services expenses | <u>413,740</u> | <u>-</u> | <u>413,740</u> |
| Total expenses | <u>2,708,304</u> | <u>-</u> | <u>2,708,304</u> |
| Change in Net Assets | <u>30,180</u> | <u>117,901</u> | <u>148,081</u> |
| Net Assets, Beginning of Year | <u>154,149</u> | <u>929,988</u> | <u>1,084,137</u> |
| Net Assets, End of Year | <u>\$ 184,329</u> | <u>\$ 1,047,889</u> | <u>\$ 1,232,218</u> |

Mesa Community Action Network, Incorporated
 Statements of Activities
 Years Ended June 30, 2017 and 2016

| 2016 | | |
|--------------|---------------------------|--------------|
| Unrestricted | Temporarily Restricted | Total |
| \$ 2,082,790 | \$ - | \$ 2,082,790 |
| 9,115 | 274,500 | 283,615 |
| 1,089,836 | - | 1,089,836 |
| (765,768) | - | (765,768) |
| 324,068 | - | 324,068 |
| 366 | - | 366 |
| 4,203 | - | 4,203 |
| 129,220 | (129,220) | - |
| 2,549,762 | 145,280 | 2,695,042 |
| 1,458,073 | - | 1,458,073 |
| 411,356 | - | 411,356 |
| 305,913 | - | 305,913 |
| 108,000 | - | 108,000 |
| 2,283,342 | - | 2,283,342 |
| 407,599 | - | 407,599 |
| 8,811 | - | 8,811 |
| 416,410 | - | 416,410 |
| 2,699,752 | - | 2,699,752 |
| (149,990) | 145,280 | (4,710) |
| 304,139 | 784,708 | 1,088,847 |
| \$ 154,149 | \$ 929,988 | \$ 1,084,137 |

Mesa Community Action Network, Incorporated
 Statements of Functional Expenses
 Years Ended June 30, 2017 and 2016

| | 2017 | | | | | | | |
|---|---------------------|-------------------|---------------------------------------|-------------------|---------------------|---------------------------|-----------------------------------|---------------------|
| | Program Services | | | | | Management and General | Fundraising and Development | Total |
| | Community Action | Weatherization | Individual Development Accounts | Other Programs | Total | | | |
| Salaries | \$ 318,542 | \$ 11,329 | \$ 99,915 | \$ - | \$ 429,786 | \$ 148,140 | \$ 5,976 | \$ 583,902 |
| Payroll Taxes | 27,199 | 1,194 | 7,795 | - | 36,188 | 19,952 | 480 | 56,620 |
| Benefits and Other | 38,836 | 1,657 | 4,827 | - | 45,320 | 19,987 | 1,023 | 66,330 |
| Professional Services | 30,797 | 4,504 | 26,628 | - | 61,929 | 24,150 | 36 | 86,115 |
| Advertising, Marketing, and Printing | 342 | 40 | 209 | - | 591 | 20,179 | 14 | 20,784 |
| Supplies and Postage | 3,472 | 235 | 1,000 | - | 4,707 | 3,735 | 87 | 8,529 |
| Telephone | 12,103 | 508 | 1,599 | - | 14,210 | 5,274 | 607 | 20,091 |
| Occupancy | 88,554 | 9,031 | 18,025 | - | 115,610 | 114,986 | 675 | 231,271 |
| Travel and Vehicles | 2,830 | 82 | 1,468 | - | 4,380 | 1,319 | 80 | 5,779 |
| Interest Expense | - | - | 40 | - | 40 | 8,564 | - | 8,604 |
| Conferences | 738 | 120 | 240 | - | 1,098 | 996 | 104 | 2,198 |
| Insurance | 6,432 | 6,505 | 1,483 | - | 14,420 | 1,805 | 181 | 16,406 |
| Equipment Lease/Repair/Maintenance | 19,615 | 847 | 3,066 | - | 23,528 | 32,868 | 132 | 56,528 |
| Client Expenses | 881,276 | 407,501 | 144,135 | - | 1,432,912 | 1 | - | 1,432,913 |
| Program Expenses | 3,930 | 8 | 156 | - | 4,094 | 155 | - | 4,249 |
| Bingo Cost of Goods Sold | - | - | - | - | - | 779,781 | - | 779,781 |
| Miscellaneous Expense | 1,803 | 1,093 | 355 | - | 3,251 | 2,212 | 22 | 5,485 |
| Contribution Expense | - | - | - | 102,500 | 102,500 | - | - | 102,500 |
| Total Expenses by Function | 1,436,469 | 444,654 | 310,941 | 102,500 | 2,294,564 | 1,184,104 | 9,417 | 3,488,085 |
| Less Expenses Included with Revenue on the Statement of Activities Bingo Cost of Goods Sold | - | - | - | - | - | (779,781) | - | (779,781) |
| Total Expenses Included in the Expense Section on the Statement of Activities | \$ 1,436,469 | \$ 444,654 | \$ 310,941 | \$ 102,500 | \$ 2,294,564 | \$ 404,323 | \$ 9,417 | \$ 2,708,304 |

Mesa Community Action Network, Incorporated
 Statements of Functional Expenses
 Years Ended June 30, 2016

| | 2016 | | | | | | | |
|---|---------------------|-------------------|---------------------------------------|-------------------|---------------------|---------------------------|-----------------------------------|---------------------|
| | Program Services | | | | | | Fundraising and Development | |
| | Community Action | Weatherization | Individual Development Accounts | Other Programs | Total | Management and General | | Total |
| Salaries | \$ 266,201 | \$ 51,956 | \$ 62,617 | \$ - | \$ 380,774 | \$ 130,294 | \$ 6,999 | \$ 518,067 |
| Payroll Taxes | 22,495 | 4,097 | 5,838 | - | 32,430 | 15,050 | 598 | 48,078 |
| Benefits and Other | 43,048 | 7,418 | 2,767 | - | 53,233 | 16,891 | 322 | 70,446 |
| Professional Services | 53,908 | 550 | 31,359 | - | 85,817 | 52,700 | 8 | 138,525 |
| Advertising, Marketing, and Printing | 432 | - | 80 | - | 512 | 17,772 | 124 | 18,408 |
| Supplies and Postage | 2,835 | 178 | 973 | - | 3,986 | 3,508 | - | 7,494 |
| Telephone | 9,342 | 1,629 | 2,353 | - | 13,324 | 4,029 | 92 | 17,445 |
| Occupancy | 76,026 | 3,896 | 9,172 | - | 89,094 | 113,297 | 135 | 202,526 |
| Travel and Vehicles | 4,368 | 1,266 | 1,528 | - | 7,162 | 1,804 | 22 | 8,988 |
| Interest Expense | - | - | - | - | - | 10,628 | 1 | 10,629 |
| Conferences | 2,392 | 750 | - | - | 3,142 | 801 | 35 | 3,978 |
| Insurance | 3,923 | 1,869 | 690 | - | 6,482 | 1,560 | 269 | 8,311 |
| Equipment Lease/Repair/Maintenance | 14,583 | 606 | 1,324 | - | 16,513 | 26,655 | 155 | 43,323 |
| Client Expenses | 951,436 | 334,961 | 186,935 | - | 1,473,332 | - | - | 1,473,332 |
| Program Expenses | 5,929 | 145 | 228 | - | 6,302 | 164 | - | 6,466 |
| Bingo Cost of Goods Sold | - | - | - | - | - | 765,768 | - | 765,768 |
| Miscellaneous Expense | 1,155 | 2,035 | 49 | - | 3,239 | 12,446 | 51 | 15,736 |
| Contribution Expense | - | - | - | 108,000 | 108,000 | - | - | 108,000 |
| Total Expenses by Function | 1,458,073 | 411,356 | 305,913 | 108,000 | 2,283,342 | 1,173,367 | 8,811 | 3,465,520 |
| Less Expenses Included with Revenue on the Statement of Activities Bingo Cost of Goods Sold | - | - | - | - | - | (765,768) | - | (765,768) |
| Total Expenses Included in the Expense Section on the Statement of Activities | \$ 1,458,073 | \$ 411,356 | \$ 305,913 | \$ 108,000 | \$ 2,283,342 | \$ 407,599 | \$ 8,811 | \$ 2,699,752 |

Mesa Community Action Network, Incorporated
 Statements of Cash Flows
 Years Ended June 30, 2017 and 2016

| | 2017 | 2016 |
|---|------------|------------|
| Operating Activities | | |
| Change in net assets | \$ 148,081 | \$ (4,710) |
| Adjustments to reconcile change in net assets to net cash from operating activities | | |
| Change in discount on promises to give | (7,206) | - |
| Changes in operating assets and liabilities | | |
| Cash - IDA restricted | (463,118) | (177,169) |
| Accounts receivable | (212,618) | 145,699 |
| Promises to give | 235,000 | - |
| Other assets | (1,494) | 3,448 |
| Accounts payable and accrued expenses | 58,388 | 32,144 |
| Due to related parties | (123,330) | (666,119) |
| Deferred revenue | 167,185 | 72,708 |
| | (199,112) | (593,999) |
| Net Cash used for Operating Activities | | |
| | (199,112) | (593,999) |
| Net Change in Cash and Cash Equivalents | | |
| | 335,148 | 929,147 |
| Cash and Cash Equivalents, Beginning of Year | | |
| | \$ 136,036 | \$ 335,148 |
| Cash and Cash Equivalents, End of Year | | |

Note 1 - Principal Activity and Significant Accounting Policies

Organization

Mesa Community Action Network, Incorporated (MesaCAN) (the Organization) is a non-profit 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. MesaCAN 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) non-profit 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, 2017 and 2016.

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. Management has determined all promises to be fully collectible, and, as such, there is no allowance as of June 30, 2017 and 2016.

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.

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, 2017 and 2016, MesaCAN 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.

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 statements 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 years ended June 30, 2017 and 2016.

Advertising Costs

Advertising costs are expensed as incurred, and approximated \$19,000 and \$17,000 during the years ended June 30, 2017 and 2016, respectively.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements 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 non-profit 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 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 generally subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. Management has determined the Organization has no material taxable unrelated business income and it has not filed the Exempt Organization Business Income Tax Return (IRS Form 990-T), or its Arizona equivalent, Form 99-T for any years prior to fiscal year ended June 30, 2015. For the fiscal year ended June 30, 2016, the Form 990-T and 99-T remain subject to tax examination until May 2020 and 2021, respectively.

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.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 January 22, 2018, the date the financial statements were available to be issued.

Note 2 - Promises to Give

Unconditional promises to give are estimated to be collected as of June 30, 2017 and 2016:

| | 2017 | 2016 |
|--|------------|------------|
| Within one year | \$ 100,000 | \$ 235,000 |
| In one to five years | 100,000 | 200,000 |
| | 200,000 | 435,000 |
| Less discount to net present value [3.81%] | (10,611) | (17,817) |
| | \$ 189,389 | \$ 417,183 |

At June 30, 2017 and 2016, one donor accounted for 100% and 96% of total promises to give, respectively.

Note 3 - Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2017 and 2016 consist of:

| | 2017 | 2016 |
|---|--------------|------------|
| Restricted by donors for | | |
| IDA program matching funds | \$ 693,743 | \$ 409,360 |
| Promises to give, the proceeds from which | | |
| have been restricted by donors for | | |
| future periods and IDA program | 189,389 | 417,183 |
| IDA administrative non-match funds | 164,757 | 103,445 |
| | \$ 1,047,889 | \$ 929,988 |

Releases of temporarily restricted net assets for the years ended June 30, 2017 and 2016 consist of:

| | 2017 | 2016 |
|------------------------------------|------------|------------|
| IDA program matching funds | \$ 91,511 | \$ 99,365 |
| IDA administrative non-match funds | 52,040 | 29,855 |
| | \$ 143,551 | \$ 129,220 |

Note 4 - Related Party Transactions

Leaf is the sole member of MesaCAN. Leaf provides management and support services for MesaCAN for which MesaCAN reimburses Leaf. In 2017 and 2016, MesaCAN rented a facility from Leaf totaling \$62,100 and \$44,500 in rent expense, respectively. MesaCAN also leases the majority of its employees from Leaf. In addition, MesaCAN donates a portion of the proceeds from its bingo operations to Leaf. Total donation expense related to the bingo operations was \$102,500 and \$108,000 for the years ended June 30, 2017 and 2016, respectively. Amounts owed to Leaf as of June 30, 2017 and 2016 totaled \$104,770 and \$228,100, respectively. Amounts owed to MesaCAN from Leaf, which are included in accounts receivable and promises to give balances, as of June 30, 2017 and 2016 totaled \$23,600 and \$62,333, respectively.

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 years ended June 30, 2017 and 2016. Amounts owed to Foundation as of June 30, 2017 and 2016 totaled \$0.

Future minimum lease payments on operating leases with Leaf and Foundation expiring during 2021 are as follows:

| | |
|----------------------------------|------------------------------|
| 2018 | \$ 132,948 |
| 2019 | 132,948 |
| 2020 | 132,948 |
| 2021 | <u>132,948</u> |
| Total minimum lease payments | <u><u>\$ 531,792</u></u> |