

MESA COMMUNITY ACTION NETWORK, INC.

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019



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**MESA COMMUNITY ACTION NETWORK, INC.
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YEAR ENDED JUNE 30, 2019**

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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, 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.

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, 2019, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, management adopted Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2020, 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
March 19, 2020

MESA COMMUNITY ACTION NETWORK, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019

ASSETS

Cash and Cash Equivalents	\$ 132,236
Cash - Individual Development Accounts (IDA) Restricted	1,118,939
Accounts Receivable, Net	370,554
Other Assets	8,593
Total Assets	\$ 1,630,322

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts Payable and Accrued Expenses	\$ 153,057
Due to Related Parties	82,137
Deferred Revenue	261,470
Total Liabilities	496,664

NET ASSETS

Without Donor Restrictions	171,174
With Donor Restrictions	962,484
Total Net Assets	1,133,658

Total Liabilities and Net Assets	\$ 1,630,322
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See accompanying Notes to Financial Statements.

MESA COMMUNITY ACTION NETWORK, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND SUPPORT			
Contract Revenue	\$ 2,398,645	\$ -	\$ 2,398,645
Contributions	16,105	35,213	51,318
Bingo Revenue	1,181,813	-	1,181,813
Less: Cost of Goods Sold	<u>(742,687)</u>	-	<u>(742,687)</u>
Net Bingo Activities	439,126	-	439,126
Interest Income	233	-	233
Other Income	212	-	212
Net Assets Released from Restrictions	64,739	<u>(64,739)</u>	-
Total Revenues and Support	<u>2,919,060</u>	<u>(29,526)</u>	<u>2,889,534</u>
EXPENSES			
Program Services:			
Community Action Programs	1,790,229	-	1,790,229
Weatherization	343,502	-	343,502
Individual Development Accounts	202,184	-	202,184
Other Programs	<u>171,300</u>	-	<u>171,300</u>
Total Program Services	2,507,215	-	2,507,215
Supporting Services:			
Bingo Games	282,592	-	282,592
Management and General	120,404	-	120,404
Fundraising and Development	<u>6,456</u>	-	<u>6,456</u>
Total Supporting Services	<u>409,452</u>	-	<u>409,452</u>
Total Expenses	<u>2,916,667</u>	-	<u>2,916,667</u>
CHANGES IN NET ASSETS	2,393	(29,526)	(27,133)
Net Assets - Beginning of Year	<u>168,781</u>	<u>992,010</u>	<u>1,160,791</u>
NET ASSETS - END OF YEAR	<u><u>\$ 171,174</u></u>	<u><u>\$ 962,484</u></u>	<u><u>\$ 1,133,658</u></u>

See accompanying Notes to Financial Statements.

MESA COMMUNITY ACTION NETWORK, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019

	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	\$ 356,977	\$ 29,851	\$ 92,859	\$ -	\$ 479,687	\$ 88,479	\$ 57,857	\$ 4,123	\$ 630,146
Payroll Taxes	29,929	2,483	7,639	-	40,051	9,386	4,401	315	54,153
Benefits and Other	42,671	10,736	9,297	-	62,704	3,063	11,928	786	78,481
Professional Services	47,460	83	23,879	-	71,422	1,722	25,618	407	99,169
Advertising, Marketing, and Printing	348	-	-	-	348	14,295	251	3	14,897
Supplies and Postage	5,608	203	452	-	6,263	1,285	1,180	34	8,762
Telephone	14,821	730	2,926	-	18,477	3,306	2,295	96	24,174
Occupancy	84,496	9,028	21,185	-	114,709	91,863	9,726	382	216,680
Travel and Vehicles	6,291	2,153	2,415	-	10,859	17	1,247	123	12,246
Interest Expense	47	-	-	-	47	8,715	2,377	1	11,140
Conferences	718	-	-	-	718	-	635	41	1,394
Insurance	9,717	7,080	2,312	-	19,109	-	1,273	81	20,463
Equipment Lease - Repair and Maintenance	8,055	99	245	-	8,399	33,428	865	14	42,706
Client Expenses	1,179,977	277,871	39,780	-	1,497,628	-	146	-	1,497,774
Bingo Cost of Goods Sold	-	-	-	-	-	768,617	-	-	768,617
Miscellaneous Expense	3,114	3,185	(805)	-	5,494	1,103	605	50	7,252
Contribution Expense	-	-	-	171,300	171,300	-	-	-	171,300
Totals	1,790,229	343,502	202,184	171,300	2,507,215	1,025,279	120,404	6,456	3,659,354
Less: Expenses Included with Revenue on the Statement of Activities:									
Bingo Cost of Goods Sold	-	-	-	-	-	742,687	-	-	742,687
Total Expenses Included in the Expense Section on the Statement of Activities	<u>\$ 1,790,229</u>	<u>\$ 343,502</u>	<u>\$ 202,184</u>	<u>\$ 171,300</u>	<u>\$ 2,507,215</u>	<u>\$ 282,592</u>	<u>\$ 120,404</u>	<u>\$ 6,456</u>	<u>\$ 2,916,667</u>

See accompanying Notes to Financial Statements.

**MESA COMMUNITY ACTION NETWORK, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2019**

CASH FLOWS FROM OPERATING ACTIVITIES

Changes in Net Assets	\$ (27,133)
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:	
(Increase) Decrease in Assets:	
Accounts Receivable	136,922
Other Assets	(458)
Increase (Decrease) in Liabilities:	
Accounts Payable and Accrued Expenses	(2,209)
Due to Related Parties	(174,449)
Deferred Revenue	(39,737)
Net Cash Used by Operating Activities	(107,064)

NET CHANGE IN CASH AND CASH EQUIVALENTS

(107,064)

Cash and Cash Equivalents - Beginning of Year

1,358,239

CASH AND CASH EQUIVALENTS - END OF YEAR

\$ 1,251,175

CASH AND CASH EQUIVALENTS:

Cash and Cash Equivalents	\$ 132,236
Cash - Individual Development Accounts (IDA) Restricted	1,118,939
Total Cash and Cash Equivalents:	\$ 1,251,175

See accompanying Notes to Financial Statements.

MESA COMMUNITY ACTION NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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. 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) 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, 2019.

MESA COMMUNITY ACTION NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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, 2019, MesaCAN had no promises to give.

Basis of Presentation

MesaCAN's financial statements have been prepared in accordance with the American Institute of Certified Public Accountants (AICPA) Not-For-Profit Industry Guidance within the Financial Accounting Standards Board (FASB) Codification (Guidance). Under the Guidance, MesaCAN is required to provide financial statements which are prepared to focus on the organization as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions.

Net Assets

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

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is 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 and reported in the statement of activities as net assets released from restrictions.

MESA COMMUNITY ACTION NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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, 2019.

Advertising Costs

Advertising costs are expensed as incurred was \$14,897 during the year ended June 30, 2019.

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 presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Those costs which are necessary to overall operation of MesaCAN and that benefit several services or programs are allocated according to the Leaf cost allocation plan. Allocable costs can be distributed to benefited programs based on acceptable allocation methods which include actual number of employees' worked hours, square footage/usage, rooms/beds or number of participants. Allocation method selected is determined by cost type. Allocations based on number of employees are after the end of every month. Allocations by any other method are reviewed and updated as necessary at least quarterly.

- Information Technology related expenditures benefiting programs directly such as software, telephone and network connectivity are allocated using the actual number of employees' worked hours. Other expenditures using this method include unemployment and general liability insurance.
- Expenditures allocated by square footage include occupancy, property insurance and depreciation.
- All costs related to the Quality Management are allocated to all Leaf Programs and Leaf Subsidiaries as they benefit all and the allocation is based on number of employees' worked.

MESA COMMUNITY ACTION NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Change in Accounting Principle

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has implemented ASU 2016-14 and have adjusted the presentation in these financial statements accordingly.

MESA COMMUNITY ACTION NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2 LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Cash and Cash Equivalents	\$ 1,251,175
Accounts Receivable	370,554
Less: Program Restrictions	<u>(962,484)</u>
Total	<u><u>\$ 659,245</u></u>

As part of the Organization's liquidity management plan, the Organization invests cash in excess of daily requirements in short-term investments, CDs, and money market funds.

NOTE 3 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions as of June 30, 2019 consists of:

Restricted by Donors for:	
IDA Program Matching Funds	\$ 795,550
IDA Administrative Nonmatch Funds	<u>166,934</u>
Total	<u><u>\$ 962,484</u></u>

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. 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, 2019 totaled \$800,716 and are included in the accompanying statement of functional expenses. In 2019, 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 \$171,300 for the year ended June 30, 2019. Amounts owed to Leaf as of June 30, 2019 totaled \$82,137.

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, 2019. Amounts owed to Foundation as of June 30, 2019 totaled \$-0-.

MESA COMMUNITY ACTION NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 4 RELATED PARTY TRANSACTIONS (CONTINUED)

Future minimum lease payments on operating leases with Leaf and Foundation expiring during 2020 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	<u>\$ 135,410</u>

NOTE 5 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 6 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, 2019. Approximately 88% of the accounts receivable balance was due from two government funders as of June 30, 2019.

NOTE 7 NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued amended guidance to clarify the principles for recognizing revenue from contracts with customers. The guidance requires the Organization to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the Organization expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required regarding customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The guidance will initially be applied retrospectively using one of two methods. The standard will be effective for MesaCAN for the year ending June 30, 2020; however, early application is permitted.

The FASB issued Accounting Standards Update (ASU) No. 2018-08 on June 21, 2018. This update clarifies and improves the scope and the accounting guidance for contributions received and contributions made. This ASU distinguishes between contributions and exchange transactions and assists in determining which guidance to apply. For contributions, the guidance in Subtopic 958-605, *Not-for-Profit Entities—Revenue Recognition*, should be followed. For exchange transactions, Topic 606, *Revenue from Contracts with Customers*, should be followed. To determine which guidance should be followed, grant documents have to be carefully analyzed. The standard will be effective for the MesaCAN for the year ending June 30, 2020; however, early application is permitted.

MESA COMMUNITY ACTION NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 7 NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

In February 2016, the FASB issued amended guidance for the treatment of leases. The guidance requires lessees to recognize a right-of-use asset and a corresponding lease liability for all operating and finance leases with lease terms greater than one year. The guidance also requires both qualitative and quantitative disclosures regarding the nature of the entity's leasing activities. The guidance will initially be applied using a modified retrospective approach. The standard will be effective for the MesaCAN for the year ending June 30, 2022; however, early application is permitted.

NOTE 8 SUBSEQUENT EVENTS

MesaCAN has evaluated subsequent events through March 19, 2020, the date the financial statements were available to be issued.

Subsequent to year-end, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to the Organization, COVID-19 may impact various parts of its 2020 operations and financial results, including, but not limited to, additional costs for emergency preparedness, disease control and containment, potential shortages of personnel, or loss of revenue due to reductions in certain revenue streams. Management believes the Organization is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events occurred subsequent to year-end and are still developing.

During the period from January 1, 2020 through March 19, 2020, both domestic and international equity markets have experienced large declines. These losses are not included in the financial statements as of and for the year ended June 30, 2019.

