

MESA COMMUNITY ACTION NETWORK, INC.

Mesa, Arizona

FINANCIAL STATEMENTS

Year Ended June 30, 2020

MESA COMMUNITY ACTION NETWORK, INC.
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INDEPENDENT AUDITORS' REPORT

The 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, 2020, 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.

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, 2020, and the changes in its net assets and 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 March 4, 2021, on our consideration of 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 results of that testing, and not to provide an opinion on the effectiveness of 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.

A handwritten signature in cursive script that reads "Henry & Horne, LLP".

Tempe, Arizona
March 4, 2021

MESA COMMUNITY ACTION NETWORK, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2020

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 334,136
Restricted cash - Individual Development Accounts (IDA)	1,009,603
Accounts receivable, net	433,366
Prepaid expenses	<u>6,440</u>

TOTAL CURRENT ASSETS	<u><u>\$ 1,783,545</u></u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 164,050
Accrued expenses	39,227
Due to related affiliate	202,172
Deferred revenue	<u>320,529</u>

TOTAL CURRENT LIABILITIES	<u>725,978</u>
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NET ASSETS

Without donor restrictions	135,957
With donor restrictions	<u>921,610</u>

TOTAL NET ASSETS	<u>1,057,567</u>
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TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,783,545</u></u>
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MESA COMMUNITY ACTION NETWORK, INC.
STATEMENT OF ACTIVITIES
Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Contract revenue	\$ 2,667,652	\$ -	\$ 2,667,652
Contributions	19,786	8,142	27,928
Interest income	158	-	158
Other income	5,543	-	5,543
Release from purpose restrictions	49,016	(49,016)	-
	<u>2,742,155</u>	<u>(40,874)</u>	<u>2,701,281</u>
Bingo revenue	986,308	-	986,308
Cost of goods sold	(589,513)	-	(589,513)
	<u>396,795</u>	<u>-</u>	<u>396,795</u>
TOTAL REVENUE AND SUPPORT	<u>3,138,950</u>	<u>(40,874)</u>	<u>3,098,076</u>
EXPENSES			
Program services	2,643,376	-	2,643,376
Bingo games	429,361	-	429,361
Management and general	97,136	-	97,136
Fundraising	4,294	-	4,294
TOTAL EXPENSES	<u>3,174,167</u>	<u>-</u>	<u>3,174,167</u>
CHANGE IN NET ASSETS	<u>(35,217)</u>	<u>(40,874)</u>	<u>(76,091)</u>
NET ASSETS AT BEGINNING OF YEAR	<u>171,174</u>	<u>962,484</u>	<u>1,133,658</u>
NET ASSETS AT END OF YEAR	<u>\$ 135,957</u>	<u>\$ 921,610</u>	<u>\$ 1,057,567</u>

See accompanying notes.

MESA COMMUNITY ACTION NETWORK, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2020

	Program Services				Support Services				Total
	Community Action Program	Weatherization	Individual Development Accounts	COVID	Total Program Services	Bingo Games	Management and General	Fundraising	
Salaries and wages	\$ 377,456	\$ 37,135	\$ 87,647	\$ 893	\$ 503,131	\$ 70,028	\$ 55,227	\$ 3,042	\$ 631,428
Payroll taxes	31,676	2,864	6,430	356	41,326	5,768	4,113	236	51,443
Employee benefits	38,159	10,378	6,609	22	55,168	2,314	8,962	504	66,948
	447,291	50,377	100,686	1,271	599,625	78,110	68,302	3,782	749,819
Professional services	35,758	1,345	24,936	388	62,427	410	14,053	57	76,947
Advertising, marketing, and printing	158	-	-	-	158	6,755	120	-	7,033
Supplies and postage	5,927	195	381	1,050	7,553	1,923	1,029	24	10,529
Telephone	21,244	1,046	1,740	330	24,360	2,676	3,584	53	30,673
Occupancy	84,385	7,315	14,971	1,281	107,952	93,922	4,794	191	206,859
Travel and vehicles	4,844	1,829	2,627	-	9,300	-	1,068	65	10,433
Interest expense	2,021	174	20	-	2,215	7,874	313	4	10,406
Conferences	2,264	1,311	42	-	3,617	-	128	33	3,778
Insurance	10,234	7,418	2,082	818	20,552	-	1,313	55	21,920
Equipment lease, repair, and maintenance	16,136	841	2,715	2	19,694	17,850	893	12	38,449
Client expenses	1,220,947	404,360	60,270	97,366	1,782,943	-	-	-	1,782,943
Bingo cost of goods sold	-	-	-	-	-	589,513	-	-	589,513
Bingo taxes	-	-	-	-	-	19,266	-	-	19,266
Miscellaneous expense	2,368	500	112	-	2,980	75	1,539	18	4,612
Contribution expense	-	-	-	-	-	200,500	-	-	200,500
TOTAL EXPENSES	1,853,577	476,711	210,582	102,506	2,643,376	1,018,874	97,136	4,294	3,763,680
Amounts not included in expenses on statement of activities:									
Bingo cost of goods sold	-	-	-	-	-	(589,513)	-	-	(589,513)
	<u>\$ 1,853,577</u>	<u>\$ 476,711</u>	<u>\$ 210,582</u>	<u>\$ 102,506</u>	<u>\$ 2,643,376</u>	<u>\$ 429,361</u>	<u>\$ 97,136</u>	<u>\$ 4,294</u>	<u>\$ 3,174,167</u>

See accompanying notes.

MESA COMMUNITY ACTION NETWORK, INC.
STATEMENT OF CASH FLOWS
Year Ended June 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (76,091)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
(Increase) decrease in:	
Accounts receivable	(62,812)
Prepaid expenses	2,153
Increase (decrease) in:	
Accounts payable	44,289
Accrued expenses	5,931
Due to related affiliate	120,035
Deferred revenue	<u>59,059</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>92,564</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	92,564
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,251,175</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 1,343,739</u></u>
RECONCILIATION TO STATEMENT OF FINANCIAL POSITION	
Cash and cash equivalents	\$ 334,136
Restricted cash - Individual Development Accounts (IDA)	<u>1,009,603</u>
	<u><u>\$ 1,343,739</u></u>
SUPPLEMENTAL CASH FLOW DISCLOSURES:	
Interest paid	<u><u>\$ 10,406</u></u>

See accompanying notes.

MESA COMMUNITY ACTION NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2020

NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

Nature of Activities

Mesa Community Action Network, Inc. (MesaCAN) 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.

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.

Individual Development Accounts – Individual Development Accounts (IDA) 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.

MesaCAN also conducts a charitable bingo operation with a portion of the net proceeds going to A New Leaf, Inc. (Leaf), a 501(c)(3) nonprofit organization 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.

Basis of Presentation

The financial statements of MesaCAN have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

MESA COMMUNITY ACTION NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2020

NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Cash and Cash Equivalents

For the purpose of the statement of cash flows, MesaCAN considers all highly liquid financial instruments purchased with an original maturity of three months or less at date of acquisition to be cash equivalents. Cash and highly liquid financial instruments restricted for IDAs are excluded from operating cash. Restricted cash – IDA can only be used for certain homeownership and educational expenses, including tuition, books, and other fees.

Accounts Receivable

Accounts receivable consists primarily of amounts due under contracts. Accounts receivable are carried at the outstanding balances less an allowance for doubtful accounts, if applicable. MesaCAN evaluates the collectability of its accounts receivable based on a combination of factors. In circumstances where it is aware of a specific amount where there may be an inability to meet the financial obligation, it records a specific reserve to reduce the amounts recorded to what it believes will be collected. Accounts are charged off against the allowance when they are deemed to be uncollectible. Accounts receivable as of June 30, 2020 are considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts has not been provided.

Due From and Due To Affiliates

Due from and due to affiliates represent balances for transactions that arise primarily in the normal course of business and include advances to and from affiliates for operational purposes. These balances are carried at the outstanding balances, are unsecured with no interest due, and have no specific repayment terms.

Net Assets

MesaCAN reports information regarding its financial position and activities according to two classes of net assets as follows:

- Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor or grantor restrictions.
- Net Assets With Donor Restrictions – Net assets whose use is limited by donor-imposed time and/or purpose restrictions. Gifts of long-lived assets and gifts of cash restricted for 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.

MESA COMMUNITY ACTION NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2020

NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Revenue Recognition

Certain contract revenues are derived from services provided by MesaCAN and are received through federal, state, and city contracts. MesaCAN recognizes revenue from contracts when services are rendered. A receivable is recorded to the extent the revenue earned exceeds payments received and deferred revenue is recorded to the extent the payments received exceed the revenue earned.

Contributions

In June 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2018-08, *Not-for-Profit Entities-Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The ASU clarifies and improves guidance for contributions received and contributions made by clarifying whether to account for transactions as contributions or as exchange transactions. This change is preferable in that it clarifies whether to account for transaction as contributions or as exchange transactions. In addition, it clarifies whether a contribution is conditional or unconditional. As a result, it enhances comparability of financial information among not-for-profit entities. The change in accounting principle was adopted on a modified prospective basis in the year ended June 30, 2020. As a result, there was no cumulative-effect adjustment to beginning net assets without donor restrictions or beginning net assets with donor restrictions as of July 1, 2019.

Contributions and grants received are recorded as either support with donor restrictions or as support without donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), 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. Conditional contributions are recorded as income when the conditions are substantially met. Certain contract revenue is based on a cost reimbursement arrangement and is classified as a conditional contribution where the income is recognized as the eligible expenses are incurred.

Non-Cash Donations

Contributions of donated non-cash tangible assets (in-kind donations) are recorded at their fair values in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donated services, are recorded at their fair market values in the period received. MesaCAN utilized the services of numerous volunteers who support the programs and activities of MesaCAN’s program services, administration, and fundraising and development activities. This support has not been recorded in the accompanying financial statements as it does not meet the recognition criteria.

MESA COMMUNITY ACTION NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2020

NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Advertising

MesaCAN uses advertising to promote its programs to the community. Advertising costs are charged to operations as incurred. Advertising expense charged to operations was approximately \$7,000 for the year ended June 30, 2020.

Functional Expenses

The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among program services and supporting services. Certain employee positions are allocated based on time and effort. Other expenses are allocated based on a full-time employee equivalent basis. Occupancy, insurance, and repairs and maintenance are allocated based on square footage utilized by function.

Income Tax Status

MesaCAN qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. In addition, MesaCAN has been classified as an organization that is not a private foundation under Section 509(a)(1). In addition, MesaCAN qualifies for the charitable contribution deduction under Section 170 of the code. Income determined to be unrelated business taxable income (UBTI) would be subject to income tax. MesaCAN has UBTI related to the sale of bingo merchandise. The amount of the tax is immaterial, therefore tax expense is recorded as paid rather than incurred.

MesaCAN recognizes uncertain tax positions in the financial statements when it is more-likely-than-not that the positions will not be sustained upon examination by the tax authorities. As of June 30, 2020, MesaCAN had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

MesaCAN recognizes interest and penalties associated with income tax in operating expenses. During the year ended June 30, 2020, MesaCAN did not have any income tax related interest and penalty expense.

Use of 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 certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from these estimates.

MESA COMMUNITY ACTION NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2020

NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Date of Management's Review

In preparing these financial statements, MesaCAN has evaluated events and transactions for potential recognition or disclosure through March 4, 2021, the date the financial statements were available to be issued.

NOTE 2 LIQUIDITY AND AVAILABILITY

MesaCAN regularly monitors liquidity required to meet its operating needs. MesaCAN operates on a balanced budget. MesaCAN's goal is to maintain liquid financial assets sufficient to cover a minimum of 30 days of general expenditures, which include expenditures related to its ongoing activities.

As of June 30, 2020, financial assets that could readily be made available to meet general expenditures within the next year is calculated as follows:

Cash and cash equivalents	\$ 334,136
Accounts receivable	<u>433,366</u>
Available for financial obligations	<u>\$ 767,502</u>

NOTE 3 CONCENTRATIONS OF CREDIT RISK

Financial instruments that subject MesaCAN to potential concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. MesaCAN maintains its cash in bank accounts with financial institutions, which at times may exceed federally insured limits. MesaCAN has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash balances.

The accounts receivable balance at June 30, 2020 includes amounts from two payer sources whose balances make up approximately 83% of net accounts receivable. Concentrations of credit risk with respect to accounts receivable are limited due to the nature of the receivables and the collection history of these types of accounts and with these payer sources.

MESA COMMUNITY ACTION NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2020

NOTE 4 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows as of June 30:

Purpose Restricted	
IDA program matching funds	\$ 763,107
IDA administrative non-match funds	<u>158,503</u>
Total net assets with donor restrictions	<u>\$ 921,610</u>

NOTE 5 REVENUE DEPENDENCY

During the year ended June 30, 2020, approximately 66% of total contract revenue was derived from revenue received through contracts with one funding source. The loss of this contract would cause a significant impact on MesaCAN's ability to continue operations at its current level. However, this contract is renewed annually, and MesaCAN expects the continuation of this contract into the foreseeable future.

NOTE 6 TRANSACTIONS WITH AFFILIATES

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. The total amount of payroll and management and support services provided by Leaf to MesaCAN during the year ended June 30, 2020 was \$906,320. During the year ended June 30, 2020, MesaCAN leased a facility from Leaf for approximately \$63,000. In addition, MesaCAN donates a portion of the proceeds from its bingo operations to Leaf. Total contribution expense related to the bingo operations was \$200,500 for the year ended June 30, 2020. Amounts due to Leaf at June 30, 2020 was \$202,172.

Additionally, MesaCAN leases a facility from The PRE-HAB Foundation, dba A New Leaf Foundation (the Foundation), an organization related through common management. Total rent paid to the Foundation was approximately \$72,000 for the year ended June 30, 2020.

NOTE 7 CONTINGENCY

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

MESA COMMUNITY ACTION NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2020

NOTE 7 CONTINGENCY (Continued)

The full impact of the COVID-19 outbreak continues to evolve as the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on MesaCAN's financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Due to COVID-19, MesaCAN had to temporarily close bingo operations beginning in March 2020 and began to gradually reopen bingo operations beginning in September 2020. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, MesaCAN is not able to estimate the effect of the COVID-19 outbreak on its results of operations, financial conditions or liquidity for fiscal year 2021.

NOTE 8 SUBSEQUENT EVENTS

Subsequent to June 30, 2020, MesaCAN received a contract through the City of Mesa under the Coronavirus Aid, Relief, and Economic Security (CARES) Act for \$8,000,000. The contract is for the period July 1, 2020 through December 31, 2020, and the funds are to be used to help provide utility assistance for residents of Mesa, Arizona that have been negatively affected by COVID-19.

NOTE 9 NEW ACCOUNTING PRONOUNCEMENTS

The FASB has issued ASU No. 2014-09, *Revenue from Contracts with Customers*. For nonpublic companies, this standard must be adopted for annual reporting periods beginning after December 15, 2019. The standard's core principle is that an organization will recognize revenue when it transfers promises 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. This standard also includes expanded disclosure requirements that result in an organization providing users of financial statements with comprehensive information about the nature, timing, and uncertainty of revenue and cash flows arising from the organization's contracts with customers. Management is currently in the process of evaluating the impact of this ASU on the financial statements.

The FASB has issued ASU No. 2016-02, *Leases*. For nonpublic companies, the standard must be adopted for annual reporting periods beginning after December 15, 2021. The standard's core principle is the recognition of lease assets and lease liabilities by lessees for substantially all leases, including those currently classified as operating leases. Under the ASU, a lessee will be required to recognize assets and liabilities for operating and finance leases with terms of more than 12 months. Management is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.