

Human Services Campus, Inc. and Affiliates

Consolidated Financial Statements and Independent Auditor's Report

For the Year Ended June 30, 2019

**With Summarized Comparative Information
For the Year Ended June 30, 2018**

Human Services Campus, Inc. and Affiliates
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June 30, 2019

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Independent Auditor's Report

To the Board of Directors of
Human Services Campus, Inc. and Affiliates
Phoenix, Arizona

We have audited the accompanying financial statements of Human Services Campus, Inc. (a nonprofit organization), and Affiliates which comprise the consolidated statement of financial position as of June 30, 2019 and the related consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Human Services Campus Inc. and Affiliates as of June 30, 2019 and the changes in their net assets, and their 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 this matter.

Report on Summarized Comparative Information

We have previously audited Campus of Human Services, LLC and Affiliates 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 21, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The combining schedules of financial position, activities, expenses and cash flows on pages 20 through 23 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.



Tempe, Arizona
November 21, 2019

Human Services Campus, Inc. and Affiliates
Consolidated Statement of Financial Position
June 30, 2019
(With Summarized Comparative Totals as of June 30, 2018)

	2019	2018
Assets		
Current assets:		
Cash	\$ 650,617	\$ 323,373
Accounts receivable	158,661	425,051
Prepaid expenses	31,738	38,044
Deposits	-	1,075
Promises to give - current	90,000	-
Total current assets	931,016	787,543
Assets restricted to endowment fund		
Cash	450,460	40,697
Investments	1,565,077	2,049,773
Promises to give - long term	65,000	-
Property and equipment, net	28,182,198	28,783,334
Total assets	\$ 31,193,751	\$ 31,661,347
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 86,705	\$ 110,601
Accrued payroll and related	102,502	76,653
Deposits due to tenants	13,048	13,048
Grant repayable	41,435	41,435
Total current liabilities	243,690	241,737
Net Assets:		
Without donor restriction	28,426,439	29,400,432
With donor restriction	2,523,622	2,019,178
Total net assets	30,950,061	31,419,610
Total liabilities and net assets	\$ 31,193,751	\$ 31,661,347

See Accompanying Notes to Financial Statements.

Human Services Campus, Inc. and Affiliates
Consolidated Statement of Activities
For the Year Ended June 30, 2019
(With Summarized Comparative Totals for the Year Ended June 30, 2018)

	<u>2019</u>			<u>2018</u>
	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>	<u>Total</u>
Support, Revenues and Gains				
Contributions	\$ 914,612	\$ 530,000	\$ 1,444,612	\$28,876,112
Contract revenue	1,020,857	-	1,020,857	1,190,379
Program service revenue	654,244	-	654,244	358,558
In-kind contributions	13,626	-	13,626	8,613
Investment income (loss)	(21,109)	-	(21,109)	209,047
Total support, revenues and gains before special events and releases from restrictions	<u>2,582,230</u>	<u>530,000</u>	<u>3,112,230</u>	<u>30,642,709</u>
Special event revenue	1,143,977	-	1,143,977	862,053
Less cost of direct benefits to donors	(46,964)	-	(46,964)	(40,091)
Net revenues from special events	<u>1,097,013</u>	<u>-</u>	<u>1,097,013</u>	<u>821,962</u>
Net assets released from purpose restrictions	<u>25,556</u>	<u>(25,556)</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>3,704,799</u>	<u>504,444</u>	<u>4,209,243</u>	<u>31,464,671</u>
Expenses and Losses				
Program services	3,927,617	-	3,927,617	3,458,016
Management and general	599,914	-	599,914	566,060
Fundraising	151,261	-	151,261	145,170
Total expenses	<u>4,678,792</u>	<u>-</u>	<u>4,678,792</u>	<u>4,169,246</u>
Change in net assets	(973,993)	504,444	(469,549)	27,295,425
Net assets, beginning of year, as restated	<u>29,400,432</u>	<u>2,019,178</u>	<u>31,419,610</u>	<u>4,124,185</u>
Net assets, end of year	<u>\$ 28,426,439</u>	<u>\$ 2,523,622</u>	<u>\$30,950,061</u>	<u>\$31,419,610</u>

See Accompanying Notes to Financial Statements.

Human Services Campus, Inc. and Affiliates
Consolidated Statement of Functional Expenses
Year Ended June 30, 2019
(With Summarized Comparative Totals for the Year Ended June 30, 2018)

	2019						
	Program Services						
	Campus Operations	Welcome Center	Day Center	Store to Explore	Mail Room	Navigation	Volunteer services
Salaries	\$ 100,377	\$ 287,887	\$ 86,480	\$ 69,573	\$ 48,717	\$ 210,703	\$ 78,648
Payroll taxes and employee benefits	21,435	85,226	26,397	21,166	12,664	51,765	20,548
Total payroll costs	<u>121,812</u>	<u>373,113</u>	<u>112,877</u>	<u>90,739</u>	<u>61,381</u>	<u>262,468</u>	<u>99,196</u>
Professional and outside services	82,982	-	6,095	-	-	-	-
Security	496,310	13,900	73,766	12,504	934	2,943	2,084
Occupancy and facilities maintenance	637,660	26,801	20,640	743	5,014	16,276	14,015
Client supplies and direct support	-	84,455	10,163	986	-	1,037	2,000
Office supplies and related	5,227	16,380	6,501	2,484	1,313	5,666	5,092
Vehicles and mileage	4,493	6,080	637	-	-	1,586	12
Insurance	72,363	2,027	10,755	1,823	136	429	304
Staff training and board expenses	480	2,687	371	247	354	966	473
Bank fees	30	-	-	-	-	-	-
Bad debt expense	-	-	-	-	-	-	-
Total expenses before depreciation	<u>1,421,357</u>	<u>525,443</u>	<u>241,805</u>	<u>109,526</u>	<u>69,132</u>	<u>291,371</u>	<u>123,176</u>
Depreciation	743,164	56,392	110,256	18,690	1,395	9,471	4,279
Total expenses	<u>\$ 2,164,521</u>	<u>\$ 581,835</u>	<u>\$ 352,061</u>	<u>\$ 128,216</u>	<u>\$ 70,527</u>	<u>\$ 300,842</u>	<u>\$ 127,455</u>

(Continued)

See Accompanying Notes to Financial Statements.

Human Services Campus, Inc. and Affiliates
Consolidated Statement of Functional Expenses
Year Ended June 30, 2019
(With Summarized Comparative Totals for the Year Ended June 30, 2018)

(Continued)

	2019					2019	2018
	Program Services			Support Services			
	Weather Relief	Housing Match	Total Program Services	Management and General	Fundraising and Development	Total	Total
Salaries	\$ -	\$ 118,812	\$ 1,001,197	\$ 228,438	\$ 21,229	\$ 1,250,864	\$ 1,161,309
Payroll taxes and employee benefits	-	28,107	267,308	49,874	1,624	318,806	277,329
Total payroll costs	-	146,919	1,268,505	278,312	22,853	1,569,670	1,438,638
Professional and outside services	-	-	89,077	224,320	116,405	429,802	445,703
Security	-	3,326	605,767	11,879	625	618,271	537,829
Occupancy and facilities maintenance	-	14,479	735,628	26,602	539	762,769	670,619
Client supplies and direct support	21,914	2,014	122,569	-	-	122,569	75,505
Office supplies and related	-	5,679	48,342	22,318	5,177	75,837	82,079
Vehicles and mileage	-	1,066	13,874	409	-	14,283	23,397
Insurance	-	485	88,322	6,832	91	95,245	125,421
Staff training and board expenses	-	630	6,208	8,847	904	15,959	12,362
Bank fees	-	-	30	2,640	3,733	6,403	5,839
Bad debt expense	-	-	-	-	-	-	26,975
Total expenses before depreciation	21,914	174,598	2,978,322	582,159	150,327	3,710,808	3,444,367
Depreciation	-	5,648	949,295	17,755	934	967,984	724,879
Total expenses	\$ 21,914	\$ 180,246	\$ 3,927,617	\$ 599,914	\$ 151,261	\$ 4,678,792	\$ 4,169,246

See Accompanying Notes to Financial Statements.

Human Services Campus, Inc. and Affiliates
Consolidated Statement of Cash Flows
Year Ended June 30, 2019
(With Summarized Comparative Totals for the Year Ended June 30, 2018)

	2019	2018
Cash Flows from Operating Activities		
Change in net assets	\$ (469,549)	\$ 27,295,425
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	967,984	724,879
Net unrealized (gains) loss on investments	87,691	(172,432)
Donated capital assets	-	(28,300,000)
Donated equity stocks	(48,954)	(50,040)
Changes in operating assets and liabilities		
(Increase) decrease in:		
Accounts receivable	266,390	97,619
Deposits	1,075	(1,075)
Prepaid expenses	6,306	(17,887)
Pledges receivable	(155,000)	-
Increase (decrease) in:		
Accounts payable	(23,896)	(97,905)
Accrued payroll and related	25,849	10,482
Deferred revenue	-	(53,262)
Grants repayable	-	(36,503)
Net cash provided (used) by operating activities	657,896	(600,699)
Cash Flows from Investing Activities		
Purchases of property and equipment	(366,848)	(87,317)
Proceeds from sales and maturities of investments	450,322	1,264,896
Purchases of investments	(4,363)	(752,555)
Net cash provided by investing activities	79,111	425,024
Net change in cash and cash equivalents	737,007	(175,675)
Cash, beginning of year	364,070	539,745
Cash, end of year	\$ 1,101,077	\$ 364,070
Reconciliation to Statement of Financial Position		
Unrestricted cash	\$ 650,617	\$ 323,373
Restricted cash	450,460	40,697
Total cash	\$ 1,101,077	\$ 364,070

See Accompanying Notes to Financial Statements.

Human Services Campus, Inc. and Affiliates
Notes to Consolidated Financial Statements
Year Ended June 30, 2019
(With Summarized Comparative Information for the Year Ended June 30, 2018)

Note 1 - Principal Business Activity and Significant Accounting Policies

Organization

Human Services Campus, Inc. (HSC) is registered in the state of Arizona as a 501(c)(3) non-profit corporation. HSC was established to use the power of collaboration to provide solutions to end homelessness. It serves as a gateway for individuals to access an extensive array of human services needed to begin the transformation from crisis to stability and self-sufficiency. HSC provides physical facilities, security, navigation, and assessment services supporting 15 non-profit agencies who reside on the campus plus other non-profit organizations throughout Maricopa County.

As of April 1, 2016 all ownership interest in Campus of Human Services, LLC (CHS) was transferred to HSC. CHS is a 501(c)(3) non-profit organization. HSC and CHS are consolidated for financial statement presentation.

HSC also maintains controlling financial interest in Lodestar Day Resource Center, Inc. (LDRC). LDRC is a 501(c)(3) non-profit organization. As of January 1, 2019, all programs operated by LDRC were transferred to HSC. All activity related to LDRC is consolidated for financial statement presentation.

The significant accounting policies followed by HSC are summarized below:

Principles of Consolidation

The accompanying consolidated financial statements of Human Services Campus, Inc. and Affiliates include the accounts of the organization and its related party affiliates: Campus of Human Services, LLC and Lodestar Day Resource Center, Inc. All significant intercompany transactions have been eliminated in consolidation.

Basis of Presentation

The financial statements of HSC have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) "Audit and Accounting Guide for Not-for-Profit Organizations" (the "Guide"). (ASC) 958-205 was effective January 1, 2018.

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

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of HSC. The HSC board may designate assets without restrictions for specific operational purposes from time to time.

Human Services Campus, Inc. and Affiliates
Notes to Consolidated Financial Statements
Year Ended June 30, 2019

(With Summarized Comparative Information for the Year Ended June 30, 2018)

Note 1 - Principal Business Activity and Significant Accounting Policies-Continued

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of HSC or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

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.

Grant and Program Service Revenue

HSC recognizes amounts received from grants and program service revenue as earned when costs are incurred or when services are rendered under unit of service contracts. Funding sources may, at their discretion, request reimbursement for expenses or return of funds, or both, as a result of non-compliance by HSC with terms of the grant or contract. Program service revenues are recognized in the period to which the fees relate.

Contributions

Unconditional contributions are recognized when pledged and recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Gifts of cash and other assets are reported with donor restricted support if they are received with donor stipulations that limit the use of the donated assets. When a restriction expires, that is, when a stipulated time restriction ends or a 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. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as net assets without donor restriction support. Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Contributions restricted for the acquisition of land, buildings, and equipment are reported as net assets without donor restriction upon acquisition of the assets and the assets are placed in service.

Human Services Campus, Inc. and Affiliates
Notes to Consolidated Financial Statements
Year Ended June 30, 2019
(With Summarized Comparative Information for the Year Ended June 30, 2018)

**Note 1 - Principal Business Activity and Significant Accounting Policies-
Continued**

Cash and Cash Equivalents

HSC 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 to capital expenditures, permanent endowment, or other long-term purposes of HSC are excluded from this definition.

Accounts Receivable

Accounts receivable consist primarily of noninterest-bearing amounts due for facility services and grant receivables. Accounts receivable are stated at the amount management expects to collect under the terms of various agreements. Management provides for probable uncollectable accounts receivable through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. At June 30, 2019, accounts receivable are considered by management to be collectable in full and, accordingly, an allowance for doubtful accounts is not considered necessary.

Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded 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 statements 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.

Property and Equipment

Property and equipment additions over \$5,000 and with a useful life of more than one year are recorded at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 5 to 30 years or, in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

Human Services Campus, Inc. and Affiliates
Notes to Consolidated Financial Statements
Year Ended June 30, 2019

(With Summarized Comparative Information for the Year Ended June 30, 2018)

**Note 1 - Principal Business Activity and Significant Accounting Policies-
Continued**

HSC reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended June 30, 2019.

Investments

Investment purchases are recorded at cost or, if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statement of financial position. Net investment gain/(loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment management and custodial fees.

Donated Services

Donated services are recognized as contributions in accordance with FASB ASC 958-605 if the services: (a) create or enhance non-financial assets, or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased. HSC utilizes the services of volunteers to perform a variety of tasks that assist HSC with specific programs. This support has not been recorded as it does not meet the recognition criteria of FASB ASC 958-605.

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 based on the best estimates of management. The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries and related	FTE, and time and effort
Security	Square Footage
Occupancy and facilities maintenance	Square Footage
Office supplies and related	FTE
Insurance	Square Footage
Depreciation Expense	Square Footage

Human Services Campus, Inc. and Affiliates
Notes to Consolidated Financial Statements
Year Ended June 30, 2019
(With Summarized Comparative Information for the Year Ended June 30, 2018)

**Note 1 - Principal Business Activity and Significant Accounting Policies-
Continued**

Summarized Comparative Information

The statement of activities includes certain prior year summarized comparative information in total but not by net assets, and program and supporting activities. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the HSC financial statements for the year ended June 30, 2018, from which the summarized information was derived.

Income Tax Status

HSC 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). LDRC and CHS have also been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as organizations described in Section 501(c)(3) and have been determined not to be private foundations under Section 509(a)(1). Accordingly, contributions to HSC and Affiliates 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 entity 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 taxable unrelated business income and has not filed an Exempt Organization Business Income Tax Return (IRS Form 990-T), or its Arizona equivalent.

Management believes that it has appropriate support for any tax positions taken and, as such, does not have any uncertain tax positions that are material to the financial statements. HSC 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.

Fair Value of Financial Instruments

Unless otherwise indicated, the fair values of all reported assets and liabilities which represent financial instruments (none of which are held for trading purposes) approximate the carrying values of such amounts.

New Accounting Pronouncement

On August 18, 2016, FASB issued 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. HSC has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

Human Services Campus, Inc. and Affiliates
Notes to Consolidated Financial Statements
Year Ended June 30, 2019

(With Summarized Comparative Information for the Year Ended June 30, 2018)

Note 1 - Principal Business Activity and Significant Accounting Policies-Continued

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

Subsequent Events

HSC has evaluated subsequent events through November 21, 2019, the date the financial statements were available to be issued.

Note 2 - Availability and Liquidity

The following represents HSC's financial assets at June 30, 2019 and 2018 that are available for operational needs:

Financial assets at year end:	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 650,617	\$ 323,373
Accounts receivable	158,661	425,051
Promises to give - current	90,000	-
Less contractual or donor-imposed restrictions		
Restricted by donors with purpose restrictions	<u>(65,000)</u>	<u>(3,642)</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 834,278</u>	<u>\$ 744,782</u>

HSC's current financial assets have been reduced by the applicable portion associated with donor restrictions that are not expected to be available for use within one year of the financial statement date.

HSC has a goal to maintain financial assets on hand, which consists of cash and cash equivalents maintained at highly accredited financial institutions, as well as short-term receivables, to meet approximately 90 days of budgeted operating expenses. As a part of HSC's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, or other obligations come due. HSC expects to receive additional assets in the form of contributions, government grants and contracts, and program service revenues throughout the year to meet operational needs.

Human Services Campus, Inc. and Affiliates
Notes to Consolidated Financial Statements
Year Ended June 30, 2019
(With Summarized Comparative Information for the Year Ended June 30, 2018)

Note 3 - Restricted Investments

Restricted investments consisted of the following at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Mutual funds	\$ 1,053,747	\$ 1,477,112
U.S. Treasury securities	136,955	132,420
Negotiable certificates of deposits	374,375	440,241
Total	<u>\$ 1,565,077</u>	<u>\$ 2,049,773</u>

Expenses relating to investment income, including custodial fees and investment advisory fees, were \$2,236 and \$3,423 for the year ended June 30, 2019 and 2018, respectively.

Note 4 - Fair Value Measurements

HSC determines the fair value of financial instruments consistent with FASB ASC 820, Fair Value Measurements and Disclosures. This standard clarifies the definitions of fair value for financial reporting, establishes a hierarchical disclosure framework for measuring fair value, and requires additional disclosures about the use of fair value measurements.

The standard provides a consistent definition of fair value which focuses on an exit price, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard also prioritizes, within the measurement of fair value, the use of market-based information over entity-specific information and establishes a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability as of the measurement date.

The three-level hierarchy for fair value measurements is defined as follows:

Level 1 - Valuation is based on observable inputs using quoted prices in active markets for identical assets that are accessible at the measurement date.

Level 2 - Valuation is based on inputs from sources other than quoted prices in active markets that are either directly or indirectly observable as of the reporting date. This may include quoted prices for similar assets in an active market, quoted prices for similar assets in a market that is not as active, or valuation methods using models, interest rates and yield curves as observable inputs.

Level 3 - Valuation is based on unobservable inputs for the asset, reflecting assumptions that a market participant would use in pricing the asset, to the extent that observable inputs (Level 1 and 2) are not available. Level 3 assets include situations where there is little or no market activity for the investment and significant management judgment or estimates are required.

Human Services Campus, Inc. and Affiliates
Notes to Consolidated Financial Statements
Year Ended June 30, 2019
(With Summarized Comparative Information for the Year Ended June 30, 2018)

Note 4 - Fair Value Measurements- Continued

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used at June 30, 2019.

Mutual funds – Debt and equity mutual funds are open-end with readily determinable fair values based on daily redemption values.

U.S. Treasury securities - Valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates and market-rate assumptions.

Negotiable certificate of deposit – Valued at fair value based on sales of similar investments adjusted for interest rate and time to maturity.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although HSC believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measure. These classifications (Level 1, 2, and 3) are intended to reflect the observability of inputs used in the valuation of the future contracts and are not necessarily an indication of risk or liquidity.

The fair values of HSC's financial assets that are measured on a recurring basis as of June 30, 2019 and 2018, are as follows:

2019	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 1,053,747	\$ -	\$ -	\$ 1,053,747
Negotiable certificate of deposit	-	374,375	-	374,375
U.S. Treasury securities	-	136,955	-	136,955
Total investments	<u>\$ 1,053,747</u>	<u>\$ 511,330</u>	<u>\$ -</u>	<u>\$ 1,565,077</u>
2018	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 1,477,112	\$ -	\$ -	\$ 1,477,112
Negotiable certificate of deposit	-	440,241	-	440,241
U.S. Treasury securities	-	132,420	-	132,420
Total investments	<u>\$ 1,477,112</u>	<u>\$ 572,661</u>	<u>\$ -</u>	<u>\$ 2,049,773</u>

Human Services Campus, Inc. and Affiliates
Notes to Consolidated Financial Statements
Year Ended June 30, 2019
(With Summarized Comparative Information for the Year Ended June 30, 2018)

Note 5 - Accounts Receivable

Accounts receivable include amounts that are considered collectible within the next fiscal year. Grants receivables consist of services provided and invoiced to government and foundations.

The following is a summary of accounts receivable as of June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Grant receivable	\$ 157,891	\$ 378,227
Provider fees	770	45,024
Other receivables	-	1,800
Total	<u>\$ 158,661</u>	<u>\$ 425,051</u>

Note 6 - Property and Equipment

Property and equipment consisted of the following as of June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Campus buildings	\$26,230,000	\$26,230,000
Campus land	1,720,000	1,720,000
Leasehold improvements	1,149,376	1,149,376
Furniture and equipment	509,789	247,849
Warehouse building	290,000	290,000
Warehouse land	60,000	60,000
Vehicles	17,756	41,289
Less accumulated depreciation	<u>(1,794,723)</u>	<u>(955,180)</u>
Property and equipment, net	<u>\$28,182,198</u>	<u>\$28,783,334</u>

Depreciation expense charged to operations totaled \$967,984 and \$724,879 for the years ended June 30, 2019 and 2018, respectively.

Human Services Campus, Inc. and Affiliates
Notes to Consolidated Financial Statements
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Note 7 - Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes or periods as of June 30, 2019 and 2018:

Donor	2019	2018	Restriction type
Nina Mason Pulliam Charitable Trust	\$ 125,000	\$ -	Time and purpose - Navigation program- FY 2020 and 2021
Virginia Piper	30,000	3,642	Time and purpose - Holiday Activities- FY 2020 and 2021
BHHS Legacy	75,000	-	Time and purpose - Navigation, Diversion, and Client Assistance- FY 2020
Thunderbirds	278,086	-	Purpose - Critical Client Services
Endowment	<u>2,015,536</u>	<u>2,015,536</u>	Endowment - Perpetual in Nature
Total net assets with donor restrictions	<u>\$ 2,523,622</u>	<u>\$ 2,019,178</u>	

Note 8 - Endowment

FASB ASC 958-205 provides guidance on the net asset classification of donor restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA).

The State of Arizona enacted a version of the UPMIFA in September 2008 which HSC has interpreted as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, HSC classifies as net assets with donor restrictions: (a) the original value of gifts donated to the endowment; (b) the original value of subsequent gifts to the endowment; and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the endowment fund that is not classified in donor restricted net assets is classified as net assets without donor restrictions until those amounts are utilized by HSC in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, HSC considers the following factors in making a determination to utilize or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of HSC and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of HSC
7. The investment policies of HSC

Human Services Campus, Inc. and Affiliates
Notes to Consolidated Financial Statements
Year Ended June 30, 2019
(With Summarized Comparative Information for the Year Ended June 30, 2018)

Note 8 - Endowment- Continued

The endowment as of June 30, 2019 consists of funds with donor-restrictions. The endowment as of June 30, 2018 consists of funds with donor-restrictions and funds without donor restrictions.

The composition of endowment net assets by fund type is as follows:

	Without Donor Restriction	With Donor Restriction	Total
Balance, June 30, 2017	\$ 356,165	\$ 2,015,536	\$ 2,371,701
Interest and dividends, net of investment expenses	36,615	-	36,615
Net realized and unrealized gains and losses	172,432	-	172,432
Amounts appropriated for expenditures	(490,278)	-	(490,278)
Balance, June 30, 2018	<u>\$ 74,934</u>	<u>\$ 2,015,536</u>	<u>\$ 2,090,470</u>
Interest and dividends, net of investment expenses	66,582	-	66,582
Net realized and unrealized gains and losses	(87,691)	-	(87,691)
Amounts appropriated for expenditures	(53,825)	-	(53,825)
Balance, June 30, 2019	<u><u>\$ -</u></u>	<u><u>\$ 2,015,536</u></u>	<u><u>\$ 2,015,536</u></u>

HSC has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, the endowment assets are invested in a manner that is intended to produce results while assuming a moderate level of investment risk. HSC's spending and investment policies work together to achieve this objective.

HSC's annual utilizations are at the discretion of the Board unless specific instructions were provided by the endowment donors. The current spending policy of the unrestricted earnings is the greater of all earnings or 5% of the annual average market value of the endowment. In the event the current market value of the endowment is less than the historical gift value or there are no earnings that equal 5% of the average market balance earnings, spending will continue at 5% of the market value, unless donor agreements do not permit spending in this circumstance. In 2019 the board approved the use of endowment funds without donor restrictions to purchase HVAC equipment for HSC. The purchase was determined to be an emergency and the board intends to replace the endowment funds when able.

Human Services Campus, Inc. and Affiliates
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Year Ended June 30, 2019
(With Summarized Comparative Information for the Year Ended June 30, 2018)

Note 9 - Concentrations of Credit Risk

Financial instruments, which potentially subject HSC to concentrations of credit risk, consist of cash deposits in banks and financial institutions, investments, and contributions receivable.

Cash deposits in excess of the amounts insured by the Federal Deposit Insurance Corporation (FDIC) and cash and securities in excess of the amounts insured by the Securities Investors Protection Corporation (SIPC) are exposed to loss in the event of non-performance by the financial institutions. HSC does not anticipate non-performance by the financial institutions. At June 30, 2019 and at times during the year then ended, HSC may have had cash deposits and securities in excess of the FDIC and SIPC insurance coverage.

Note 10 - Lease Commitments

HSC entered into long-term leases for copiers during the prior year. The copier lease expense was \$32,635 for the year ended June 30, 2019 and 2018.

The future minimum payments under all lease commitments are as follows:

Year ending June 30,		
2020	\$	32,184
2021		32,184
2022		32,184
2023		21,456
Total	\$	<u>118,008</u>

Note 11 - Restatement

As discussed in note 1, HSC implemented ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. As a result of the implementation net assets consisting of land with a value of \$1,780,000 that was previously presented as permanently restricted net assets and buildings with a net value of \$25,857,000 that was previously presented as temporarily restricted net assets were reclassified as net assets without donor restriction.

Supplementary Information

Human Services Campus, Inc. and Affiliates
Combining Schedule of Financial Position
For the Year Ended June 30, 2019

	<u>CHS, LLC</u>	<u>HSC, Inc.</u>	<u>LDRC</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
Assets					
Current assets:					
Cash	\$ 261,254	\$ 357,889	\$ 31,474	\$ -	\$ 650,617
Accounts receivable	100,770	57,891	-	-	158,661
Prepaid expenses	18,886	8,627	4,225	-	31,738
Due from related parties	-	13,775	-	(13,775)	-
Promises to give - current	82,500	-	7,500	-	90,000
Total current assets	<u>463,410</u>	<u>438,182</u>	<u>43,199</u>	<u>(13,775)</u>	<u>931,016</u>
Assets restricted to endowment fund					
Cash	450,460	-	-	-	450,460
Investments	1,565,077	-	-	-	1,565,077
Promises to give - long term	57,500	-	7,500	-	65,000
Property and equipment, net	1,400,417	26,781,781	-	-	28,182,198
Total assets	<u>\$ 3,936,864</u>	<u>\$ 27,219,963</u>	<u>\$ 50,699</u>	<u>\$ (13,775)</u>	<u>\$ 31,193,751</u>
Liabilities and Net Assets					
Current liabilities:					
Accounts payable	\$ 49,581	\$ 37,124	\$ -	\$ -	\$ 86,705
Due to related parties	-	-	13,775	(13,775)	-
Accrued payroll and related	-	102,502	-	-	102,502
Deposits due to tenants	13,048	-	-	-	13,048
Grant repayable	-	-	41,435	-	41,435
Total current liabilities	<u>62,629</u>	<u>139,626</u>	<u>55,210</u>	<u>(13,775)</u>	<u>243,690</u>
Net Assets:					
Without donor restrictions	1,718,699	26,727,251	(19,511)	-	28,426,439
With donor restrictions	2,155,536	353,086	15,000	-	2,523,622
Total net assets	<u>3,874,235</u>	<u>27,080,337</u>	<u>(4,511)</u>	<u>-</u>	<u>30,950,061</u>
Total liabilities and net assets	<u>\$ 3,936,864</u>	<u>\$ 27,219,963</u>	<u>\$ 50,699</u>	<u>\$ (13,775)</u>	<u>\$ 31,193,751</u>

Human Services Campus, Inc. and Affiliates
Combining Schedule of Activities
For the Year Ended June 30, 2019

	<u>CHS, LLC</u>	<u>HSC, Inc.</u>	<u>LDRC</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
Support, Revenues and Gains					
Contributions	\$ 820,388	\$ 499,974	\$ 914,397	\$ (790,147)	\$ 1,444,612
Contract revenue	606,307	377,092	37,458	-	1,020,857
Program service revenue	644,644	-	9,600	-	654,244
In-kind contributions	13,626	-	-	-	13,626
Investment loss	(21,109)	-	-	-	(21,109)
Total support, revenues and gains before special events	<u>2,063,856</u>	<u>877,066</u>	<u>961,455</u>	<u>(790,147)</u>	<u>3,112,230</u>
Special event revenue	620,977	500,000	23,000	-	1,143,977
Less cost of direct benefits to donors	(43,632)	(2,534)	(798)	-	(46,964)
Net revenues from special events	<u>577,345</u>	<u>497,466</u>	<u>22,202</u>	<u>-</u>	<u>1,097,013</u>
Total revenue and support	<u>2,641,201</u>	<u>1,374,532</u>	<u>983,657</u>	<u>(790,147)</u>	<u>4,209,243</u>
Expenses and Losses					
Program services	2,101,734	1,696,684	919,346	(790,147)	3,927,617
Management and general	213,637	206,545	179,732	-	599,914
Fundraising	108,450	27,966	14,845	-	151,261
Total expenses	<u>2,423,821</u>	<u>1,931,195</u>	<u>1,113,923</u>	<u>(790,147)</u>	<u>4,678,792</u>
Change in net assets	217,380	(556,663)	(130,266)	-	(469,549)
Net assets, beginning of year	3,656,855	27,637,000	125,755	-	31,419,610
Net assets, end of year	<u>\$ 3,874,235</u>	<u>\$ 27,080,337</u>	<u>\$ (4,511)</u>	<u>\$ -</u>	<u>\$ 30,950,061</u>

Human Services Campus, Inc. and Affiliates
Combining Schedule of Expenses
For the Year Ended June 30, 2019

	<u>CHS, LLC</u>	<u>HSC, Inc.</u>	<u>LDRC</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
Salaries	\$ -	\$ 655,188	\$ 595,676	\$ -	\$ 1,250,864
Payroll taxes and employee benefits	-	80,024	238,782	-	318,806
Total payroll costs	-	735,212	834,458	-	1,569,670
Professional and outside services	353,271	53,153	23,378	-	429,802
Security	585,150	18,008	15,113	-	618,271
Occupancy and facilities maintenance	498,149	139,934	124,686	-	762,769
Client supplies, direct support	10,000	66,466	46,103	-	122,569
Pass-through funds	790,147	-	-	(790,147)	-
Office supplies and related	36,845	21,296	17,696	-	75,837
Vehicles and mileage	-	4,437	9,846	-	14,283
Insurance	71,878	-	23,367	-	95,245
Staff training and board expenses	-	7,993	7,966	-	15,959
Bank fees	3,351	-	3,052	-	6,403
Total expenses before depreciation	2,348,791	1,046,499	1,105,665	(790,147)	3,710,808
Depreciation	75,030	884,696	8,258	-	967,984
Total expenses	<u>\$ 2,423,821</u>	<u>\$ 1,931,195</u>	<u>\$ 1,113,923</u>	<u>\$ (790,147)</u>	<u>\$ 4,678,792</u>

Human Services Campus, Inc. and Affiliates
Combining Schedule of Cash Flows
For the Year Ended June 30, 2019

	<u>CHS, LLC</u>	<u>HSC, Inc.</u>	<u>LDRC</u>	<u>Consolidated Total</u>
Cash Flows from Operating Activities				
Change in net assets	\$ 217,380	\$ (556,663)	\$ (130,266)	\$ (469,549)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:				
Depreciation	75,030	884,696	8,258	967,984
Net unrealized loss on investments	87,691	-	-	87,691
Capital assets transferred to/from related parties	-	(17,756)	17,756	-
Donated equity stocks	(48,954)	-	-	(48,954)
Changes in operating assets and liabilities (Increase) decrease in:				
Accounts receivable	257,707	(57,891)	66,574	266,390
Deposit	1,075	-	-	1,075
Prepaid expenses	10,867	(8,627)	4,066	6,306
Pledges receivable	(140,000)	-	(15,000)	(155,000)
Due to/from related	(34,179)	(13,775)	47,954	-
Increase (decrease) in:				
Accounts payable	(46,857)	37,124	(14,163)	(23,896)
Accrued payroll and related	-	102,502	(76,653)	25,849
Net cash provided (used) by operating activities	<u>379,760</u>	<u>369,610</u>	<u>(91,474)</u>	<u>657,896</u>
Cash Flows from Investing Activities				
Purchases of property and equipment	(355,127)	(11,721)	-	(366,848)
Proceeds from sales and maturities of investments	450,322	-	-	450,322
Purchase of investments	(4,363)	-	-	(4,363)
Net cash provided (used) by investing activities	<u>90,832</u>	<u>(11,721)</u>	<u>-</u>	<u>79,111</u>
Net change in cash and cash equivalents	470,592	357,889	(91,474)	737,007
Cash, beginning of year	241,122	-	122,948	364,070
Cash, end of year	<u>\$ 711,714</u>	<u>\$ 357,889</u>	<u>\$ 31,474</u>	<u>1,101,077</u>
Reconciliation to Statements of Financial Position				
Unrestricted cash	\$ 261,254	\$ 357,889	\$ 31,474	\$ 650,617
Restricted cash	450,460	-	-	450,460
Total cash	<u>\$ 711,714</u>	<u>\$ 357,889</u>	<u>\$ 31,474</u>	<u>\$ 1,101,077</u>