

**AVIVO AND SUBSIDIARY**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2018 AND 2017**

**AVIVO AND SUBSIDIARY  
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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Avivo and Subsidiary  
Minneapolis, Minnesota

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Avivo and Subsidiary (the Organization) (a nonprofit organization), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of activities and changes in net assets, functional expense, and cash flows for the years then ended, and the related notes to the consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 auditors' 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.

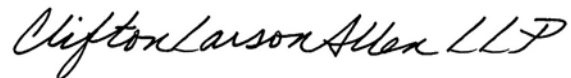
**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Avivo and Subsidiary as of December 31, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Change in Accounting Principle**

As discussed in Note 1 to the consolidated financial statements, the Organization has adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The adoption of this standard did not have a significant impact on the Organization's reported historical revenue. Our opinion is not modified with respect to that matter.

As described in Note 1, the Organization adopted Accounting Standards (ASU) 2018-08, *Accounting Guidance for Contributions Received and Made*. The accounting change has not been retrospectively applied to prior periods presented but applied prospectively. Our opinion is not modified with respect to that matter.



**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
March 11, 2019

**AVIVO AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2018 AND 2017**

<b>ASSETS</b>	2018	2017
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 864,572	\$ 1,241,131
Accounts Receivable (Less Allowance for Doubtful Accounts of \$187,705 in 2018 and \$227,971 in 2017)	3,307,556	3,652,584
Pledges Receivable	353,992	6,640
Prepaid Expenses	547,147	537,217
Investments	940	1,584
Total Current Assets	5,074,207	5,439,156
<b>OTHER ASSETS</b>		
Charitable Remainder Unitrust	256,998	304,409
Unemployment Trust	274,326	308,939
Pledges Receivable Noncurrent	6,000	6,000
Property and Equipment, Net	5,944,105	4,098,304
Total Other Assets	6,481,429	4,717,652
Total Assets	\$ 11,555,636	\$ 10,156,808
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 272,338	\$ 376,703
Accrued Expense	1,727,944	1,657,509
Notes Payable - Current	247,856	184,252
Refundable Advances	25,155	57,732
Deferred Revenue	12,870	171,151
Total Current Liabilities	2,286,163	2,447,347
<b>LONG-TERM LIABILITIES</b>		
Notes Payable - Long-Term	5,034,809	3,606,490
Asset Retirement Obligation	126,609	126,609
Total Long-Term Liabilities	5,161,418	3,733,099
Total Liabilities	7,447,581	6,180,446
<b>NET ASSETS</b>		
Without Donor Restrictions	3,341,158	3,511,868
With Donor Restrictions	766,897	464,494
Total Net Assets	4,108,055	3,976,362
Total Liabilities and Net Assets	\$ 11,555,636	\$ 10,156,808

See accompanying Notes to Consolidated Financial Statements.

**AVIVO AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>SUPPORT AND REVENUE</b>						
Government Contracts	\$ 16,752,588	\$ -	\$ 16,752,588	\$ 16,767,023	\$ -	\$ 16,767,023
Program Service Fees	9,551,692	-	9,551,692	9,607,565	-	9,607,565
Contributions (Including In-Kinds of \$217,906 and \$40,705 in 2018 and 2017, Respectively)	628,635	389,838	1,018,473	310,066	352,681	662,747
United Way	-	1,043,114	1,043,114	708,627	-	708,627
Change in Value of Trust	-	(47,411)	(47,411)	-	62,878	62,878
Interest Income (Loss)	2	-	2	(20)	-	(20)
Gain on Disposal of Property and Equipment	22,700	-	22,700	-	-	-
Miscellaneous	60,020	-	60,020	73,318	-	73,318
Net Assets Released from Restriction	1,083,138	(1,083,138)	-	517,870	(517,870)	-
Total Support and Revenue	<u>28,098,775</u>	<u>302,403</u>	<u>28,401,178</u>	<u>27,984,449</u>	<u>(102,311)</u>	<u>27,882,138</u>
<b>EXPENSE</b>						
Program Services:						
Career Education	2,729,242	-	2,729,242	2,962,907	-	2,962,907
Employment Services	6,517,764	-	6,517,764	6,974,192	-	6,974,192
Chemical and Mental Health	16,010,362	-	16,010,362	15,352,697	-	15,352,697
Total Program Services	<u>25,257,368</u>	<u>-</u>	<u>25,257,368</u>	<u>25,289,796</u>	<u>-</u>	<u>25,289,796</u>
Support Services:						
Management and General	2,538,684	-	2,538,684	2,475,510	-	2,475,510
Fundraising	473,433	-	473,433	470,245	-	470,245
Total Support Services	<u>3,012,117</u>	<u>-</u>	<u>3,012,117</u>	<u>2,945,755</u>	<u>-</u>	<u>2,945,755</u>
Total Expense	<u>28,269,485</u>	<u>-</u>	<u>28,269,485</u>	<u>28,235,551</u>	<u>-</u>	<u>28,235,551</u>
<b>CHANGE IN NET ASSETS</b>	(170,710)	302,403	131,693	(251,102)	(102,311)	(353,413)
Net Assets - Beginning of Year	<u>3,511,868</u>	<u>464,494</u>	<u>3,976,362</u>	<u>3,762,970</u>	<u>566,805</u>	<u>4,329,775</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 3,341,158</u>	<u>\$ 766,897</u>	<u>\$ 4,108,055</u>	<u>\$ 3,511,868</u>	<u>\$ 464,494</u>	<u>\$ 3,976,362</u>

See accompanying Notes to Consolidated Financial Statements.

**AVIVO AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSE**  
**YEAR ENDED DECEMBER 31, 2018**

	Program Services				Support Services		Total Support Services	Total All Services
	Career Education	Employment Services	Chemical and Mental Health	Total Program Services	Management and General	Fundraising		
Salaries	\$ 1,560,056	\$ 4,034,231	\$ 7,924,210	\$ 13,518,497	\$ 1,534,124	\$ 283,827	\$ 1,817,951	\$ 15,336,448
Payroll Taxes	127,389	332,462	653,450	1,113,301	119,649	23,789	143,438	1,256,739
Employee Benefits	247,842	632,512	1,238,074	2,118,428	154,099	33,464	187,563	2,305,991
Total Personnel Costs	<u>1,935,287</u>	<u>4,999,205</u>	<u>9,815,734</u>	<u>16,750,226</u>	<u>1,807,872</u>	<u>341,080</u>	<u>2,148,952</u>	<u>18,899,178</u>
Assistance Provided to								
Individuals	225,241	491,999	2,470,211	3,187,451	188	-	188	3,187,639
Professional Fees	64,351	60,522	396,486	521,359	297,523	78,745	376,268	897,627
Occupancy	209,024	577,077	1,581,316	2,367,417	114,413	10,559	124,972	2,492,389
Supplies	73,361	89,385	258,122	420,868	92,489	9,548	102,037	522,905
Interest Expense	20,216	30,058	85,322	135,596	7,226	194	7,420	143,016
Technology and Communication	21,657	40,743	109,126	171,526	17,761	1,332	19,093	190,619
Postage and Shipping	3,120	14,879	4,238	22,237	6,848	646	7,494	29,731
Printing and Publications	698	946	10,084	11,728	14,327	4,752	19,079	30,807
Local Transportation	36,224	27,818	191,651	255,693	3,541	257	3,798	259,491
Conferences and Meetings	11,624	4,155	38,086	53,865	27,121	16,088	43,209	97,074
Equipment	32,250	57,744	134,548	224,542	21,284	2,101	23,385	247,927
Insurance	13,210	18,160	40,688	72,058	48,529	721	49,250	121,308
Membership Dues	15,382	312	8,989	24,683	26,127	335	26,462	51,145
Uncollectible Accounts	5,976	-	561,698	567,674	-	-	-	567,674
Depreciation	56,828	103,370	266,684	426,882	35,454	3,353	38,807	465,689
Other Expense	4,793	1,391	37,379	43,563	17,981	3,722	21,703	65,266
Total Expense	<u>\$ 2,729,242</u>	<u>\$ 6,517,764</u>	<u>\$ 16,010,362</u>	<u>\$ 25,257,368</u>	<u>\$ 2,538,684</u>	<u>\$ 473,433</u>	<u>\$ 3,012,117</u>	<u>\$ 28,269,485</u>

See accompanying Notes to Consolidated Financial Statements.

**AVIVO AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSE**  
**YEAR ENDED DECEMBER 31, 2017**

	Program Services				Support Services		Total All Services	
	Career Education	Employment Services	Chemical and Mental Health	Total Program Services	Management and General	Fundraising		Total Support Services
Salaries	\$ 1,731,620	\$ 4,197,848	\$ 7,892,238	\$ 13,821,706	\$ 1,319,777	\$ 257,404	\$ 1,577,181	\$ 15,398,887
Payroll Taxes	140,084	341,202	641,681	1,122,967	107,535	21,695	129,230	1,252,197
Employee Benefits	220,817	530,804	1,059,193	1,810,814	157,140	24,236	181,376	1,992,190
Total Personnel Costs	<u>2,092,521</u>	<u>5,069,854</u>	<u>9,593,112</u>	<u>16,755,487</u>	<u>1,584,452</u>	<u>303,335</u>	<u>1,887,787</u>	<u>18,643,274</u>
Assistance Provided to								
Individuals	311,354	765,495	2,105,687	3,182,536	243	-	243	3,182,779
Professional Fees	92,803	176,794	388,999	658,596	299,907	98,996	398,903	1,057,499
Occupancy	170,351	549,645	1,616,793	2,336,789	247,169	9,995	257,164	2,593,953
Supplies	57,469	47,078	242,423	346,970	31,649	17,148	48,797	395,767
Interest Expense	17,475	34,728	82,772	134,975	23,327	1,331	24,658	159,633
Technology and Communication	20,168	32,252	109,237	161,657	10,730	2,056	12,786	174,443
Postage and Shipping	1,296	20,407	4,265	25,968	7,962	2,262	10,224	36,192
Printing and Publications	2,586	409	5,824	8,819	29,768	8,892	38,660	47,479
Local Transportation	34,391	30,381	193,265	258,037	2,217	396	2,613	260,650
Conferences and Meetings	10,556	25,269	22,579	58,404	18,117	15,945	34,062	92,466
Equipment	27,378	60,969	77,744	166,091	22,807	3,130	25,937	192,028
Insurance	8,534	16,817	32,207	57,558	65,325	642	65,967	123,525
Membership Dues	8,509	18,892	24,099	51,500	7,069	934	8,003	59,503
Uncollectible Accounts	25,473	-	541,626	567,099	-	-	-	567,099
Depreciation	52,114	112,528	246,335	410,977	76,178	3,454	79,632	490,609
Other Expense	29,929	12,674	65,730	108,333	48,590	1,729	50,319	158,652
Total Expense	<u>\$ 2,962,907</u>	<u>\$ 6,974,192</u>	<u>\$ 15,352,697</u>	<u>\$ 25,289,796</u>	<u>\$ 2,475,510</u>	<u>\$ 470,245</u>	<u>\$ 2,945,755</u>	<u>\$ 28,235,551</u>

See accompanying Notes to Consolidated Financial Statements.



**AVIVO AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 131,693	\$ (353,413)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Realized and Unrealized (Gain) Loss on Investments	644	(223)
Donated Property and Equipment	(196,756)	-
Costs on Real Estate Assessments	-	22,350
Change in Value of Charitable Remainder Unitrust	47,411	(62,878)
Change in Value of Unemployment Trust	34,613	(41,284)
Gain on Disposal of Fixed Assets	(22,700)	-
Depreciation	465,689	490,609
Environmental Remediation Liabilities	-	5,754
Uncollectible Accounts	567,674	567,099
(Increase) Decrease in Current Assets:		
Accounts and Grant Receivable	(222,646)	(548,278)
Pledges Receivable	(347,352)	39,619
Prepaid Expense	(9,930)	53,304
Increase (Decrease) in Current Liabilities:		
Accounts Payable	(104,365)	(3,526)
Accrued Expenses	70,435	(479,723)
Refundable Advances	(32,577)	(35,747)
Deferred Revenue	(158,281)	(92,372)
Net Cash Provided (Used) by Operating Activities	223,552	(438,709)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Property and Equipment	(436,052)	(98,499)
Proceeds from Sale of Investments	22,700	-
Net Cash Used by Investing Activities	(413,352)	(98,499)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from Issuance of Debt	-	3,820,772
Principal Payments on Debt	(186,759)	(30,030)
Payments on 2010 to 2015 Debt	-	(3,911,838)
Net Cash Used by Financing Activities	(186,759)	(121,096)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(376,559)	(658,304)
Cash and Cash Equivalents - Beginning of Year	1,241,131	1,899,435
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 864,572	\$ 1,241,131
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash Paid for Interest	\$ 138,410	\$ 149,536
Noncash Debt Proceeds	\$ 1,678,682	\$ -

See accompanying Notes to Consolidated Financial Statements.

**AVIVO AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organizational Purpose**

Avivo (the Organization) is a nonprofit organization whose mission is to increase well-being through recovery, employment, and career advancement. Annually, the Organization serves nearly 18,000 individuals and families through:

Career Education – Provides career training programs and job placement services for people with disabilities and other barriers to employment.

Employment Services – Provides employment services, education, and family-support services to low-income adults, youth, and families to ensure economic success, academic achievement, and family stability.

Chemical and Mental Health – Supports low-income men, women, and families in recovery through integrated, trauma-informed care-access, treatment, recovery support, and care coordination to help them achieve wellness and life-long recovery.

**Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of Avivo and HEART, Inc. All significant intercompany balances and transactions have been eliminated.

**Financial Statement Presentation**

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

Net Assets Without Donor Restrictions – Resources over which the board of directors has discretionary control. Designated amounts represent amounts which the board has set aside for a particular purpose. These assets had previously been called Unrestricted Net Assets.

Net Assets With Donor Restrictions – Those resources subject to donor-imposed restrictions which will be satisfied by actions of the Organization or passage of time. These assets had previously been called Temporarily Restricted Net Assets.

**Cash and Cash Equivalents**

For purposes of the statements of cash flows, the Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

**Accounts Receivable**

Accounts receivable are stated at net realizable value. The Organization provides an allowance for bad debts using the allowance method, which is based on management judgment considering historical information and specific payer limitations. Accounts past due are individually analyzed for collectability. An allowance is provided for accounts when a significant pattern of uncollectibility has occurred. When all collection efforts have been exhausted, the accounts are written off against the related allowance.

**AVIVO AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Promises-to-Give (Pledges Receivable)**

Unconditional promises-to-give are recognized in the period the promises are made. Conditional promises-to-give are recognized when the conditions on which they depend are substantially met, that is, when the conditional promise becomes unconditional. Pledges receivable at December 31, 2018 are expected to be received through 2020.

**Investments**

Investments are stated at fair value based on quoted market prices and consist of contributions received of shares of stock.

**Property and Equipment**

All major expenditures for property and equipment that are over \$5,000 are capitalized at cost. Contributed items are recorded at fair market value at date of donation. Depreciation is calculated using the straight-line method over the estimated useful lives.

**Charitable Remainder Unitrust**

HEART, Inc. is party to a Trust Agreement for which they are the remainder beneficiary upon the death of the lead beneficiary. The interest in the charitable remainder unitrust is carried at fair value based on the life expectancy of lead beneficiary and the fair value of the trust assets.

**Unemployment Trust**

The Organization has an unemployment trust agreement for which they make contributions to cover future claims from former employees.

**Asset Retirement Obligations**

The Organization owns buildings that contain asbestos floor tiles. At this time, the Organization has no plans to renovate or demolish these buildings. In accordance with standards relating to *Accounting for Conditional Asset Retirement Obligations*, the Organization accrued a liability for the fair value of future costs to remediate environmental hazards related to certain property. The Organization uses a future value rate assumption of 5% and discounted the estimate to present value using a risk-free rate of return of 3%. The potential environmental remediation liability is reported on the consolidated statements of financial position as an asset retirement obligation in the amount of \$126,609 at December 31, 2018 and 2017.

**Government Contracts**

Conditional government grants and contract funds are recorded as revenue when earned. Revenue is earned when eligible expenditures, as defined in each contract, are made. Funds received but not yet earned are shown as Deferred Revenue. Expenditures under government contracts are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these contracts, the Organization will record such disallowance at the time the final assessment is made.

**AVIVO AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Contributions**

Contributions are recognized as revenue in the period received or unconditionally promised, whichever is earlier. They are recorded 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, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

**Program Service Fees**

Program Service Fees are reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing services to their program participants. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retrospective revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Organization bills the participants and third-party payors several days after the services are performed and/or participant is discharged from the program. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Organization. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Organization believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation.

The Organization measures the performance obligation from admission into the program, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that participant, which is generally at the time of discharge or completion of the program.

**In-Kind Contributions**

Contribution of donated services that create or enhance nonfinancial assets or increase fixed assets that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period receive. The contributions presented on the accompanying consolidated statements of activities and changes in net assets include contributed materials and services valued at \$217,906 and \$40,705 for the years ended December 31, 2018 and 2017, respectively.

**Functional Allocation of Expense**

Salaries and related expenses are allocated based on time spent and program assignments. Expenses, other than salaries and related expenses, which are not directly identifiable by program or supporting services, are allocated based on time and occupancy percentages.

**AVIVO AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Risks and Uncertainties**

Management uses estimates and assumptions in preparing the consolidated financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses.

**Federal Income Taxes**

The Organization is classified as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, accordingly, is not subject to federal income taxes. As such, it is subject to federal and state income taxes on net unrelated business income.

The Organization follows the accounting standards for contingencies in evaluating uncertain tax positions and files as a tax-exempt organization. Should that status be challenged in the future, all years since inception could be subject to review by the Internal Revenue Service.

**Fair Value Measurements**

The Organization has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the consolidated statements of financial position are categorized based on the inputs to the valuation techniques as follows:

*Level 1* – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities. The inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over the-counter markets.

*Level 2* – Financial assets and liabilities are valued using inputs quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data. Level 2 includes private collateralized mortgage obligations, municipal bonds, and corporate debt securities.

*Level 3* – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset. Level 3 includes private equity, venture capital, hedge funds, and real estate.

**AVIVO AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The Organization has one Level 3 investment in their interest in the Charitable Remainder Unitrust that was valued at \$256,998 and \$304,409 at December 31, 2018 and 2017, respectively. There are no contributions to the unitrust and the value has changed based on the fair value calculation.

The following table provides a summary of changes in fair value of the Level 3 financial asset, the Charitable Remainder Unitrust for the years ended December 31:

	2018	2017
Balance - Beginning of Year	\$ 304,409	\$ 241,531
Change in Fair Value of Trust	(47,411)	62,878
Balance - End of Year	\$ 256,998	\$ 304,409

**Change in Accounting Principles**

In May 2014, FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606). Subsequent to May 2014, the FASB has issued six ASUs to clarify certain matters related to Topic 606. Topic 606 supersedes the revenue recognition requirements in FASB ASC 605, *Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The updates address the complexity and understandability of revenue recognition and provide sufficient information to enable financial statements users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

Our consolidated financial statements reflect the application of ASC 606 guidance beginning in 2018. No cumulative-effect adjustment in net assets was recorded as the adoption of ASU 2014-09 did not significantly impact the Organization's reported historical revenue.

Additionally in June 2018, FASB issued Accounting Standards (ASU) 2018-08, *Accounting Guidance for Contributions Received and Made*. This ASU was issued to clarify accounting guidance for contributions received and contributions made. The amendments to this ASU assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as an exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional.

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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Change in Accounting Principles (Continued)**

Our consolidated financial statements reflect the application of ASU 2018-08 beginning January 1, 2018. The new guidance does not require prior period results to be restated. The implementation of this standard resulted in a grant, previously classified as conditional being recognized as unconditional. Below is the impact of this amendment on the consolidated financial statements:

	Consolidated Financial Statements		
	Reported Under Old Guidance	Adjustments	Reported Under New Guidance
Assets			
Pledges Receivable	\$ 6,342	\$ 347,650	\$ 353,992
Revenue, Net Asset with Donor Restriction			
United Way	\$ 695,464	\$ 347,650	\$ 1,043,114

**Adoption of New Standard**

The Organization has adopted the accounting guidance in Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-04, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*, which changes presentation and disclosure requirements for nonprofit entities to provide more relevant information about their resources (and the changes in those resources) to donors, granters, creditors, and other users. These include qualitative and quantitative requirements in the following areas: net asset classes and liquidity. We have adjusted the presentation in these consolidated financial statements accordingly. The ASU has been applied retrospectively to all periods presented, which resulted in no change to the total previously reported net assets.

**Reclassifications**

Certain reclassifications have been made in the 2017 financial statements to conform classifications use in 2018. There was no effect on net assets previously reported.

**Subsequent Events**

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through March 11, 2019, the date the consolidated financial statements were available to be issued.

**NOTE 2 CONCENTRATIONS**

**Significant Concentrations of Credit Risk**

The Organization provides services primarily within the Twin Cities and surrounding communities. The amounts due for services provided are from individuals, substantially all of which are local residents or their third-party payors. In addition, accounts and pledges receivable are primarily from local residents, governments, or institutions.

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**NOTE 2 CONCENTRATIONS (CONTINUED)**

**Concentrations of Credit Risk Arising from Cash Deposits in Excess of Insured Limits**

At various times during 2018 and 2017, the Organization held funds at a local financial institution in excess of federally insured limits.

**NOTE 3 PROPERTY AND EQUIPMENT**

The Organization owns the following as of December 31:

	2018	2017
Land	\$ 687,700	\$ 687,700
Buildings and Leasehold Improvements	9,715,711	7,509,223
Equipment and Furniture	1,843,778	1,804,331
Construction in Progress	14,151	14,151
Total	<u>12,261,340</u>	<u>10,015,405</u>
Less: Accumulated Depreciation/Amortization	<u>(6,317,235)</u>	<u>(5,917,101)</u>
Property and Equipment, Net	<u>\$ 5,944,105</u>	<u>\$ 4,098,304</u>

Depreciation expense was \$465,689 and \$490,609 for the years ended December 31, 2018 and 2017, respectively.

**NOTE 4 NOTES PAYABLE**

Notes payable consists of the following at December 31:

<u>Description</u>	2018	2017
2017 tax exempt revenue bond issued by the City of Landfall, monthly amounts including interest of 3.02%. Last principal and interest payments due 2034.	\$ 3,699,197	\$ 3,882,970
2018 tax exempt revenue bond issued by Minneapolis Community Development Agency, monthly amounts including interest of 4.06%. Last payment and all remaining principal and interest due in 2038.	<u>1,740,535</u>	<u>-</u>
Total	5,439,732	3,882,970
Less: Portion Due Within One Year	(247,856)	(184,252)
Less: Unamortized Issuance Costs, Net	<u>(157,067)</u>	<u>(92,228)</u>
Long-Term Portion	<u>\$ 5,034,809</u>	<u>\$ 3,606,490</u>

Each note is secured by certain land, buildings, and improvements.



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**NOTE 4 NOTES PAYABLE (CONTINUED)**

Future principal payment amounts include payment due for debt outstanding at December 31, 2018, and amounts due under the expected refinancing. Principal payments required are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2019	\$ 247,856
2020	255,697
2021	264,791
2022	273,703
2023	282,922
Thereafter	4,114,763
Total	<u>\$ 5,439,732</u>

Effective April 28, 2017, the Organization entered into a promissory note with an original expiration date of July 31, 2018. Effective August 6, 2018, the Organization renewed the promissory note agreement. Available borrowings under the line of credit are \$1,000,000. Interest is payable monthly at 0.5% above the bank's index rate (5.5% at December 31, 2018). This promissory note is secured by all business assets. The note expires on July 31, 2019. At December 31, 2018 and 2017, there was \$-0- of borrowings on the note.

**NOTE 5 LEASED FACILITIES**

Rental commitments under noncancelable leases for building and equipment in effect at December 31, 2018 total \$2,592,006. The future annual rental commitments are as follows:

<u>Year Ending December 31,</u>	<u>Building</u>	<u>Equipment</u>	<u>Total</u>
2019	\$ 531,048	\$ 104,928	\$ 635,976
2020	474,153	88,946	563,099
2021	398,963	86,880	485,843
2022	343,781	86,880	430,661
2023	305,574	43,440	349,014
Thereafter	127,413	-	127,413
Total	<u>\$ 2,180,932</u>	<u>\$ 411,074</u>	<u>\$ 2,592,006</u>

The rental expense for the years ended December 31, 2018 and 2017 was \$1,608,684 and \$1,674,965, respectively.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 6 NET ASSETS WITH DONOR RESTRICTIONS**

Net Assets With Donor Restrictions consist of amounts for the following programs at December 31:

	<u>2018</u>	<u>2017</u>
Employment Services	\$ 253,175	\$ 82,884
Career Education	222,298	9,710
Chemical and Mental Health	4,805	-
General Fundraising	29,621	67,491
Charitable Remainder Unitrust	256,998	304,409
Total	<u>\$ 766,897</u>	<u>\$ 464,494</u>

Net Assets With Donor Restrictions released from restriction related to the following programs for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Employment Services	\$ 413,371	\$ 64,916
Career Education	551,864	241,979
Chemical and Mental Health	80,033	152,300
General Fundraising	37,870	58,675
Total	<u>\$ 1,083,138</u>	<u>\$ 517,870</u>

**NOTE 7 PROGRAM FEE FOR SERVICE CONTRACT REVENUE**

The Organization's program fee for services revenue is recognized at a point in time according to the timing of transfer of services and is all from third-party payors. The total program fee for services revenue recognized for the years ended December 31, 2018 and 2017 was \$9,551,692 and \$9,607,565, respectively.

There is no contract revenue that is recognized over a period of time.

**NOTE 8 CONTRACT ASSETS**

The Organization's contract assets consist of:

	<u>2018</u>	<u>2017</u>
Accounts Receivables (Exchange Transaction - Third-Party Payor )	\$ 1,517,942	\$ 1,783,924
Accounts Receivables (Nonexchange Transactions)	1,789,614	1,868,660
Total Accounts Receivables	<u>\$ 3,307,556</u>	<u>\$ 3,652,584</u>

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**NOTE 9 EMPLOYEE RETIREMENT PLAN**

The Organization maintains a 401(k) retirement plan for employees. Employees are allowed to make voluntary contributions immediately after six months of employment. The Organization has the ability to make discretionary matches to the 401(k) but did not make discretionary contributions for the years ended December 31, 2018 and 2017. Additionally, the Organization makes an annual 3% nondiscretionary safe harbor payment. The total expense for the years ended December 31, 2018 and 2017 was \$372,248 and \$360,564, respectively.

**NOTE 10 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:

		Total
Cash and Cash Equivalents	\$ 864,572	
Less Restricted for Purpose	(176,426)	
Cash and Cash Equivalents Available within Year		\$ 688,146
Accounts Receivable		3,307,556
Investments		940
Pledges Receivable	353,992	
Less Restricted for Purpose	(347,792)	
Pledges Receivable Available within Year		6,200
Total		\$ 4,002,842

As more fully described in Note 4, the Organization also has committed lines of credit in the amount of \$1,000,000, which it could draw upon in the event of an unanticipated liquidity need.

**NOTE 11 REGULATORY**

As a condition of eligibility to participate in a certain program, the Organization is required to maintain financial responsibility. In accordance with 34 CRF, Part 668, financial responsibility is defined as a composite score standard greater than or equal to 1.5. A composite score of 1.0 to less than 1.5 will be subject to additional monitoring. A composite score less than 1.0 will be required to submit financial guarantees.

As of December 31, 2018 and 2017, the Organization's composite score was 1.5 and 1.6, respectively.

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**NOTE 11 REGULATORY (CONTINUED)**

Below is the calculation of the Organization's composite score as of December 31.

<u>2018</u>			
Primary Reserve Ratio	<u>Expendable Net Assets</u>	<u>3,440,715</u>	0.1
	Total Expenses	28,269,485	
Equity Ratio	<u>Modified Net Assets</u>	<u>4,102,155</u>	0.4
	Modified Assets	11,549,736	
Net Income Ratio	<u>Change in Unrestricted Net Assets</u>	<u>(170,710)</u>	(0.0)
	Total Unrestricted Revenues	28,098,775	
Primary Reserve Strength Factor Score		10 x Primary Reserve Ratio	1.2
Equity Strength Factor Score		6 x Equity Ratio	2.1
Net Income Strength Factor Score		1 + (25 x Net Income Ratio)	0.8
Primary Reserve Weighted Score		40% x Primary Reserve Strength Factor Score	0.5
Equity Weighted Score		40% x Equity Strength Factor Score	0.9
Net Income Weighted Score		20% x Net Income Strength Factor Score	<u>0.2</u>
COMPOSITE SCORE			<u><u>1.5</u></u>
<u>2017</u>			
Primary Reserve Ratio	<u>Expendable Net Assets</u>	<u>3,664,500</u>	0.1
	Total Expenses	28,235,551	
Equity Ratio	<u>Modified Net Assets</u>	<u>3,972,062</u>	0.4
	Modified Assets	10,152,508	
Net Income Ratio	<u>Change in Unrestricted Net Assets</u>	<u>(251,102)</u>	(0.0)
	Total Unrestricted Revenues	27,984,449	
Primary Reserve Strength Factor Score		10 x Primary Reserve Ratio	1.3
Equity Strength Factor Score		6 x Equity Ratio	2.3
Net Income Strength Factor Score		1 + (25 x Net Income Ratio)	0.8
Primary Reserve Weighted Score		40% x Primary Reserve Strength Factor Score	0.5
Equity Weighted Score		40% x Equity Strength Factor Score	0.9
Net Income Weighted Score		20% x Net Income Strength Factor Score	<u>0.2</u>
COMPOSITE SCORE			<u><u>1.6</u></u>