

AVIVO AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

**AVIVO AND SUBSIDIARY
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018**

INDEPENDENT AUDITORS' REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS	
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION	3
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS	4
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSE	5
CONSOLIDATED STATEMENTS OF CASH FLOWS	7
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	8



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, 2019 and 2018, 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 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 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, 2019 and 2018, 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.

Emphasis of Matter

As described in Note 1, the Organization adopted a recently issued accounting standard relating to the recognition of leases. The new standard requires lessees to recognize a right-of-use asset and corresponding liability for all operating and finance leases with lease terms greater than one year. Our opinion is not modified with respect to this matter.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
March 11, 2020

AVIVO AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,313,525	\$ 864,572
Accounts Receivable (Less Allowance for Doubtful Accounts of \$151,589 in 2019 and \$187,705 in 2018)	2,985,868	3,307,556
Pledges Receivable	503,000	353,992
Prepaid Expenses	483,793	547,147
Investments	-	940
Total Current Assets	5,286,186	5,074,207
OTHER ASSETS		
Charitable Remainder Unitrust	310,437	256,998
Unemployment Trust	251,983	274,326
Pledges Receivable Noncurrent	4,000	6,000
Right of Use Asset - Operating	1,700,481	-
Right of Use Asset - Finance	188,339	-
Property and Equipment, Net	5,613,756	5,944,105
Total Other Assets	8,068,996	6,481,429
Total Assets	\$ 13,355,182	\$ 11,555,636
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 361,468	\$ 272,338
Accrued Expense	1,579,441	1,727,944
Notes Payable - Current	255,697	247,856
Lease Liability - Current Operating	557,318	-
Lease Liability - Current Finance	70,778	-
Refundable Advances	65,461	25,155
Deferred Revenue	51,152	12,870
Total Current Liabilities	2,941,315	2,286,163
LONG-TERM LIABILITIES		
Notes Payable - Long-Term	4,788,325	5,034,809
Lease Liability - Long-Term Operating	1,169,677	-
Lease Liability - Long-Term Finance	144,394	-
Asset Retirement Obligation	121,971	126,609
Total Long-Term Liabilities	6,224,367	5,161,418
Total Liabilities	9,165,682	7,447,581
NET ASSETS		
Without Donor Restrictions	3,280,740	3,341,158
With Donor Restrictions	908,760	766,897
Total Net Assets	4,189,500	4,108,055
Total Liabilities and Net Assets	\$ 13,355,182	\$ 11,555,636

See accompanying Notes to Consolidated Financial Statements.

AVIVO AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE						
Government Contracts	\$ 17,335,068	\$ -	\$ 17,335,068	\$ 16,752,588	\$ -	\$ 16,752,588
Program Service Fees	9,613,417	-	9,613,417	9,551,692	-	9,551,692
Contributions (Including In-Kinds of \$13,000 and \$217,906 in 2019 and 2018, Respectively)	469,110	938,000	1,407,110	628,635	389,838	1,018,473
United Way	234,900	171,250	406,150	-	1,043,114	1,043,114
Change in Value of Trust	-	53,439	53,439	-	(47,411)	(47,411)
Interest Income	-	-	-	2	-	2
(Loss) Gain on Disposal of Property and Equipment	(80,107)	-	(80,107)	22,700	-	22,700
Miscellaneous	58,270	-	58,270	60,020	-	60,020
Net Assets Released from Restriction	1,020,826	(1,020,826)	-	1,083,138	(1,083,138)	-
Total Support and Revenue	<u>28,651,484</u>	<u>141,863</u>	<u>28,793,347</u>	<u>28,098,775</u>	<u>302,403</u>	<u>28,401,178</u>
EXPENSE						
Program Services:						
Career Education	2,861,915	-	2,861,915	2,729,242	-	2,729,242
Employment Services	5,665,950	-	5,665,950	6,517,764	-	6,517,764
Chemical and Mental Health	17,203,096	-	17,203,096	16,010,362	-	16,010,362
Total Program Services	<u>25,730,961</u>	<u>-</u>	<u>25,730,961</u>	<u>25,257,368</u>	<u>-</u>	<u>25,257,368</u>
Support Services:						
Management and General	2,538,882	-	2,538,882	2,538,684	-	2,538,684
Fundraising	442,059	-	442,059	473,433	-	473,433
Total Support Services	<u>2,980,941</u>	<u>-</u>	<u>2,980,941</u>	<u>3,012,117</u>	<u>-</u>	<u>3,012,117</u>
Total Expense	<u>28,711,902</u>	<u>-</u>	<u>28,711,902</u>	<u>28,269,485</u>	<u>-</u>	<u>28,269,485</u>
CHANGE IN NET ASSETS	(60,418)	141,863	81,445	(170,710)	302,403	131,693
Net Assets - Beginning of Year	<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>
NET ASSETS - END OF YEAR	<u>\$ 3,280,740</u>	<u>\$ 908,760</u>	<u>\$ 4,189,500</u>	<u>\$ 3,341,158</u>	<u>\$ 766,897</u>	<u>\$ 4,108,055</u>

See accompanying Notes to Consolidated Financial Statements.

AVIVO AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSE
YEAR ENDED DECEMBER 31, 2019

	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	\$ 1,631,379	\$ 3,395,295	\$ 8,381,603	\$ 13,408,277	\$ 1,597,790	\$ 261,670	\$ 1,859,460	\$ 15,267,737
Payroll Taxes	126,958	264,201	657,936	1,049,095	117,143	20,195	137,338	1,186,433
Employee Benefits	193,819	488,386	1,081,422	1,763,627	183,062	23,958	207,020	1,970,647
Total Personnel Costs	<u>1,952,156</u>	<u>4,147,882</u>	<u>10,120,961</u>	<u>16,220,999</u>	<u>1,897,995</u>	<u>305,823</u>	<u>2,203,818</u>	<u>18,424,817</u>
Assistance Provided to								
Individuals	248,737	453,668	3,354,177	4,056,582	-	-	-	4,056,582
Professional Fees	196,431	41,221	463,496	701,148	233,187	62,473	295,660	996,808
Occupancy	197,903	609,884	1,536,493	2,344,280	88,784	9,293	98,077	2,442,357
Supplies	52,645	54,687	313,210	420,542	87,140	13,280	100,420	520,962
Interest Expense	21,708	29,112	118,940	169,760	14,450	1,040	15,490	185,250
Technology and Communication	35,141	49,141	123,198	207,480	21,270	2,296	23,566	231,046
Postage and Shipping	1,195	14,679	4,165	20,039	7,624	1,109	8,733	28,772
Printing and Publications	759	686	5,135	6,580	7,380	3,434	10,814	17,394
Local Transportation	30,062	22,443	201,214	253,719	2,411	210	2,621	256,340
Conferences and Meetings	14,389	12,334	35,151	61,874	47,384	35,338	82,722	144,596
Equipment	35,654	124,090	149,559	309,303	19,008	1,111	20,119	329,422
Insurance	12,960	19,099	48,233	80,292	45,015	682	45,697	125,989
Membership Dues	1,585	243	11,022	12,850	26,565	1,893	28,458	41,308
Uncollectible Accounts	-	-	439,211	439,211	-	-	-	439,211
Depreciation	59,030	85,115	245,817	389,962	16,864	2,688	19,552	409,514
Other Expense	1,560	1,666	33,114	36,340	23,805	1,389	25,194	61,534
Total Expense	<u>\$ 2,861,915</u>	<u>\$ 5,665,950</u>	<u>\$ 17,203,096</u>	<u>\$ 25,730,961</u>	<u>\$ 2,538,882</u>	<u>\$ 442,059</u>	<u>\$ 2,980,941</u>	<u>\$ 28,711,902</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 CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 81,445	\$ 131,693
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Realized and Unrealized Loss on Investments	940	644
Donated Property and Equipment	-	(196,756)
Principal Payments on Operating Leases	(575,181)	-
Operating Lease Amortization	581,049	-
Noncash Lease Expenses	24,877	-
Change in Value of Charitable Remainder Unitrust	(53,439)	47,411
Change in Value of Unemployment Trust	22,343	34,613
Loss (Gain) on Disposal of Fixed Assets	80,107	(22,700)
Depreciation	409,514	465,689
Environmental Remediation Liabilities	(4,638)	-
Uncollectible Accounts	439,211	567,674
(Increase) Decrease in Current Assets:		
Accounts and Grant Receivable	(117,523)	(222,646)
Pledges Receivable	(147,008)	(347,352)
Prepaid Expense	63,354	(9,930)
Increase (Decrease) in Current Liabilities:		
Accounts Payable	89,130	(104,365)
Accrued Expenses	(121,989)	70,435
Refundable Advances	40,306	(32,577)
Deferred Revenue	38,282	(158,281)
Net Cash Provided by Operating Activities	850,780	223,552
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(141,694)	(436,052)
Proceeds from Sale of Investments	-	22,700
Net Cash Used by Investing Activities	(141,694)	(413,352)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Debt	(238,643)	(186,759)
Principal Payments on Finance Leases	(21,490)	-
Net Cash Used by Financing Activities	(260,133)	(186,759)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	448,953	(376,559)
Cash and Cash Equivalents - Beginning of Year	864,572	1,241,131
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,313,525	\$ 864,572
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Operating Expenses Financed through Lease	\$ 24,877	\$ -
Cash Paid for Interest	\$ 185,242	\$ 138,410
Noncash Debt Proceeds	\$ -	\$ 1,678,682
Noncash Right of Use Asset (See Note 5)	\$ 2,481,749	\$ -

See accompanying Notes to Consolidated Financial Statements.

**AVIVO AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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.

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.

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 collectibility. 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, 2019 AND 2018

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, 2019 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.

Leases

The Organization determines if an arrangement is a lease at inception. Operating leases are included in right-of-use (ROU) assets—operating and lease liability, and finance leases are included in ROU assets—financing and lease liability in the statements of financial position.

ROU assets represent the Organization's right to use an underlying asset for the lease term and lease liabilities represent the Organization's obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise that option. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term. The Organization has elected to recognize payments for short-term leases with a lease term of 12 months or less as expense as incurred and these leases are not included as lease liabilities or right of use assets on the statements of financial position.

The individual lease contracts do not provide information about the discount rate implicit in the lease. Therefore, the Organization has elected to use their incremental borrowing rate.

The Organization has elected not to separate nonlease components from lease components and instead account for each separate lease component and the nonlease component as a single lease component.

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.

AVIVO AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 3% 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 \$121,971 and \$126,609 at December 31, 2019 and 2018, respectively.

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.

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. 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.

AVIVO AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 received. The contributions presented on the accompanying consolidated statements of activities and changes in net assets include contributed materials and services valued at \$13,000 and \$217,906 for the years ended December 31, 2019 and 2018, respectively. In 2018, Housing First Minnesota (formerly known as the Builder's Association of the Twin Cities or BATC), renovated and remodeled one of Avivo's family transitional recovery housing buildings which resulted in an in-kind contribution of \$193,000.

Functional Allocation of Expense

Salaries and related expenses are allocated based on time spent and program assignments. Occupancy and depreciation expenses are allocated based on direct program or support service usage. Other expenses, such as professional fees are directly identified to specific programs or administrative functions.

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.

AVIVO AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

The Organization has one Level 3 investment in their interest in the Charitable Remainder Unitrust that was valued at \$310,437 and \$256,998 at December 31, 2019 and 2018, 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:

	2019	2018
Balance - Beginning of Year	\$ 256,998	\$ 304,409
Change in Fair Value of Trust	53,439	(47,411)
Balance - End of Year	\$ 310,437	\$ 256,998

Adoption of Accounting Principle

In February 2016, the Financial Accounting Standards Board (FASB) issued ASC 842 – *Leases*. This new standard increases transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the statement of financial position. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The Organization adopted this standard at the beginning of the period of adoption, January 1, 2019.

The Organization has not elected to adopt the package of practical expedients available in the year of adoption.

Reclassifications

Certain reclassifications have been made in the 2018 financial statements to conform classifications use in 2019. 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, 2020, the date the consolidated financial statements were available to be issued.

**AVIVO AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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.

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

At various times during 2019 and 2018, 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:

	2019	2018
Land	\$ 894,700	\$ 894,700
Buildings and Leasehold Improvements	9,434,387	9,508,711
Equipment and Furniture	1,957,687	1,843,778
Construction in Progress	-	14,151
Total	<u>12,286,774</u>	<u>12,261,340</u>
Less: Accumulated Depreciation/Amortization	<u>(6,673,018)</u>	<u>(6,317,235)</u>
Property and Equipment, Net	<u>\$ 5,613,756</u>	<u>\$ 5,944,105</u>

Depreciation expense was \$409,514 and \$465,689 for the years ended December 31, 2019 and 2018, respectively.

AVIVO AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 4 NOTES PAYABLE

Notes payable consists of the following at December 31:

<u>Description</u>	<u>2019</u>	<u>2018</u>
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.	\$ 3,509,717	\$ 3,699,197
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>1,682,159</u>	<u>1,740,535</u>
Total	5,191,876	5,439,732
Less: Portion Due Within One Year	(255,697)	(247,856)
Less: Unamortized Issuance Costs, Net	<u>(147,854)</u>	<u>(157,067)</u>
Long-Term Portion	<u>\$ 4,788,325</u>	<u>\$ 5,034,809</u>

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

Future principal payment amounts include payment due for debt outstanding at December 31, 2019, and amounts due under the expected refinancing. Principal payments required are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2020	\$ 255,697
2021	264,791
2022	273,703
2023	282,922
2024	292,065
Thereafter	<u>3,822,698</u>
Total	<u>\$ 5,191,876</u>

Effective August 8, 2017, the Organization entered into a promissory note with an original expiration date of July 31, 2019. Effective July 31, 2019, the Organization renewed the promissory note agreement. Available borrowings under the line of credit are \$1,000,000. Interest is payable monthly at the bank's index rate (4.75% at December 31, 2019). This promissory note is secured by all business assets. The note expires on July 31, 2020. At December 31, 2019 and 2018, there was \$-0- of borrowings on the note.

AVIVO AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 5 LEASES

The Organization leases equipment as well as certain operating and office facilities for various terms under long-term, non-cancelable lease agreements. The leases expire at various dates through 2023 and provide for renewal options up to three years. In the normal course of business, it is expected that these leases will be renewed or replaced by similar leases. Certain facility leases provide for increases in future minimum annual rental payments based on defined increases in the Consumer Price Index, subject to certain minimum increases. Also, the agreements generally require the Organization to pay real estate taxes, insurance, and repairs. The Organization does not have any covenants with these agreements or required to maintain certain financial ratios.

The following table provides quantitative information concerning the Organization's leases.

Lease Cost	
Finance Lease Cost	\$ 200,219
Amortization of Right-to-Use Asset	(11,880)
Operating Lease Cost	2,281,530
Amortization of Right-to-Use Asset	(581,049)
Total Lease Cost	<u><u>\$ 1,888,820</u></u>

Weighted Average Remaining Lease Term - Finance Leases	2.5 Years
Weighted Average Remaining Lease Term - Operating Leases	3.7 Years
Weighted Average Discount Rate - Finance Leases	13.4 %
Weighted Average Discount Rate - Operating Leases	3.0 %

A maturity analysis of annual undiscounted cash flows for lease liabilities as of December 31, 2019 is as follows:

<u>Year Ending December 31,</u>	<u>Finance Leases</u>	<u>Operating Leases</u>
2020	\$ 97,894	\$ 630,713
2021	97,894	557,782
2022	74,226	395,869
2023	-	233,274
Total	<u><u>\$ 270,014</u></u>	<u><u>\$ 1,817,638</u></u>

As of December 31, 2019, the Organization has an additional operating lease, primarily facility rental, that has not yet commenced of \$2,533,744. The operating lease will commence in fiscal year 2020 with lease term of 7 years.

AVIVO AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 6 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of amounts for the following programs at December 31:

	<u>2019</u>	<u>2018</u>
Employment Services	\$ 17,156	\$ 253,175
Career Education	331,460	222,298
Chemical and Mental Health	135,293	4,805
General Fundraising	114,414	29,621
Charitable Remainder Unitrust	310,437	256,998
Total	<u>\$ 908,760</u>	<u>\$ 766,897</u>

Net assets with donor restrictions released from restriction related to the following programs for the years ended December 31:

	<u>2019</u>	<u>2018</u>
Employment Services	\$ 250,746	\$ 413,371
Career Education	570,832	551,864
Chemical and Mental Health	178,440	80,033
General Fundraising	20,808	37,870
Total	<u>\$ 1,020,826</u>	<u>\$ 1,083,138</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, 2019 and 2018 was \$9,613,417 and \$9,551,692, 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>2019</u>	<u>2018</u>
Accounts Receivables (Exchange Transaction - Third-Party Payor)	\$ 1,623,218	\$ 1,517,942
Accounts Receivables (Nonexchange Transactions)	1,362,650	1,789,614
Total Accounts Receivables	<u>\$ 2,985,868</u>	<u>\$ 3,307,556</u>

AVIVO AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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, 2019 and 2018. Additionally, the Organization makes an annual 3% nondiscretionary safe harbor payment. The total expense for the years ended December 31, 2019 and 2018 was \$404,578 and \$372,248, respectively.

NOTE 10 CONTINGENCIES

In the normal course of business, the Organization has claims made against them. As of December 31, 2019, the amount and likelihood of loss is not determined. The Organization believes these claims are without merit and intends to vigorously defend the matters.

NOTE 11 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 as of December 31:

	2019	2018
Cash and Cash Equivalents	\$ 1,313,525	\$ 864,572
Less Restricted for Purpose	<u>(118,744)</u>	<u>(176,426)</u>
Cash and Cash Equivalents Available within Year	\$ 1,194,781	\$ 688,146
Accounts Receivable	2,985,868	3,307,556
Investments	-	940
Pledges Receivable	503,000	353,992
Less Restricted for Purpose	<u>(308,329)</u>	<u>(347,792)</u>
Pledges Receivable Available within Year	194,671	6,200
Total	<u><u>\$ 4,375,320</u></u>	<u><u>\$ 4,002,842</u></u>

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. The Organization regularly monitors liquidity to meet its operating needs and other contractual commitments. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing mission-related activities as well as the conduct of services undertaken to support those activities to be general expenditures.