

AVIVO AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021



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**AVIVO AND SUBSIDIARIES
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Avivo and Subsidiaries
Minneapolis, Minnesota

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Avivo and Subsidiaries (the organization) (a nonprofit organization), which comprise the consolidated statements of financial position as of December 31, 2022 **and 2021**, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Avivo and Subsidiaries as of December 31, 2022 **and 2021**, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Avivo and Subsidiaries and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Avivo and Subsidiaries' ability to continue as a going concern for one year after the date the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

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In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Avivo and Subsidiaries' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Avivo and Subsidiaries' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2023, on our consideration of Avivo and Subsidiaries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Avivo and Subsidiaries' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Avivo and Subsidiaries' internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
September 28, 2023

AVIVO AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2022 AND 2021

ASSETS	2022	2021
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 2,845,736	\$ 5,389,050
Accounts Receivable (Less Allowance for Doubtful Accounts of \$261,825 in 2022 and \$148,003 in 2021)	4,539,485	3,386,847
Pledges Receivable	395,652	366,000
Prepaid Expenses	976,132	967,880
Total Current Assets	8,757,005	10,109,777
OTHER ASSETS		
Charitable Remainder Unitrust	261,319	337,583
Unemployment Trust	241,951	454,247
Right of Use Asset - Operating	2,804,901	3,297,821
Property and Equipment, Net	12,668,009	13,874,173
Total Other Assets	15,976,180	17,963,824
Total Assets	\$ 24,733,185	\$ 28,073,601
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 663,297	\$ 288,041
Accrued Expense	1,556,539	2,077,085
Notes Payable - Current	366,360	379,735
Lease Liability - Current Operating	899,407	922,745
Refundable Advances	22,289	14,280
Total Current Liabilities	3,507,892	3,681,886
LONG-TERM LIABILITIES		
Notes Payable - Long Term	8,967,250	9,297,844
Lease Liability - Long-Term Operating	1,965,301	2,375,076
Total Long-Term Liabilities	10,932,551	11,672,920
Total Liabilities	14,440,443	15,354,806
NET ASSETS		
Without Donor Restrictions	8,496,498	10,558,490
With Donor Restrictions	1,796,244	2,160,305
Total Net Assets	10,292,742	12,718,795
Total Liabilities and Net Assets	\$ 24,733,185	\$ 28,073,601

See accompanying Notes to Consolidated Financial Statements.

AVIVO AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE						
Government Contracts	\$ 20,732,128	\$ -	\$ 20,732,128	\$ 20,754,328	\$ -	\$ 20,754,328
Program Service Fees	11,939,768	-	11,939,768	13,174,497	-	13,174,497
Contributions	1,635,892	497,902	2,133,794	806,586	1,131,500	1,938,086
United Way	148,450	148,450	296,900	156,000	156,000	312,000
Paycheck Protection Program Loan Forgiveness	-	-	-	3,198,857	-	3,198,857
Change in Value of Trust	-	(76,264)	(76,264)	-	20,269	20,269
Interest Income	329	-	329	5,121	-	5,121
Gain on Disposal of Property and Equipment	971,829	-	971,829	13,990	-	13,990
Miscellaneous	49,233	-	49,233	203,817	-	203,817
Net Assets Released from Restriction	934,149	(934,149)	-	1,449,177	(1,449,177)	-
Total Support and Revenue	<u>36,411,778</u>	<u>(364,061)</u>	<u>36,047,717</u>	<u>39,762,373</u>	<u>(141,408)</u>	<u>39,620,965</u>
EXPENSE						
Program Services:						
Career Education/Employment Services	8,152,236	-	8,152,236	7,474,576	-	7,474,576
Ending Homelessness	16,334,629	-	16,334,629	15,715,391	-	15,715,391
Chemical and Mental Health	8,913,834	-	8,913,834	8,525,669	-	8,525,669
Total Program Services	<u>33,400,699</u>	<u>-</u>	<u>33,400,699</u>	<u>31,715,636</u>	<u>-</u>	<u>31,715,636</u>
Support Services:						
Management and General	3,706,167	-	3,706,167	3,151,192	-	3,151,192
Fundraising	1,366,904	-	1,366,904	697,372	-	697,372
Total Support Services	<u>5,073,071</u>	<u>-</u>	<u>5,073,071</u>	<u>3,848,564</u>	<u>-</u>	<u>3,848,564</u>
Total Expense	<u>38,473,770</u>	<u>-</u>	<u>38,473,770</u>	<u>35,564,200</u>	<u>-</u>	<u>35,564,200</u>
CHANGE IN NET ASSETS	(2,061,992)	(364,061)	(2,426,053)	4,198,173	(141,408)	4,056,765
Net Assets - Beginning of Year	10,558,490	2,160,305	12,718,795	6,360,317	2,301,713	8,662,030
NET ASSETS - END OF YEAR	<u>\$ 8,496,498</u>	<u>\$ 1,796,244</u>	<u>\$ 10,292,742</u>	<u>\$ 10,558,490</u>	<u>\$ 2,160,305</u>	<u>\$ 12,718,795</u>

See accompanying Notes to Consolidated Financial Statements.

AVIVO AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSE
YEAR ENDED DECEMBER 31, 2022

	Program Services				Support Services			Total All Services
	Career Education/ Employment Services	Ending Homelessness	Chemical and Mental Health	Total Program Services	Management and General	Fundraising	Total Support Services	
Salaries	\$ 4,860,967	\$ 5,913,854	\$ 5,608,057	\$ 16,382,878	\$ 1,987,750	\$ 434,048	\$ 2,421,798	\$ 18,804,676
Payroll Taxes	307,453	366,788	372,098	1,046,339	135,943	18,597	154,540	1,200,879
Employee Benefits	699,251	744,388	747,604	2,191,243	260,269	50,199	310,468	2,501,711
Total Personnel Costs	5,867,671	7,025,030	6,727,759	19,620,460	2,383,962	502,844	2,886,806	22,507,266
Assistance Provided to								
Individuals	932,127	4,249,417	119,105	5,300,649	-	-	-	5,300,649
Professional Fees	142,930	207,078	304,033	654,041	491,658	695,289	1,186,947	1,840,988
Occupancy	611,927	2,460,505	482,795	3,555,227	212,970	31,088	244,058	3,799,285
Supplies	190,831	755,631	249,211	1,195,673	91,327	34,093	125,420	1,321,093
Technology and Communication	108,228	107,859	100,581	316,668	53,688	7,088	60,776	377,444
Postage and Shipping	9,690	2,837	3,489	16,016	4,942	536	5,478	21,494
Printing and Publications	495	2,483	2,614	5,592	14,153	1,175	15,328	20,920
Local Transportation	32,120	42,132	40,481	114,733	1,295	151	1,446	116,179
Conferences and Meetings	14,490	27,669	46,764	88,923	23,290	70,090	93,380	182,303
Equipment	97,842	113,376	116,603	327,821	54,969	9,065	64,034	391,855
Depreciation	79,011	831,178	31,745	941,934	159,937	2,886	162,823	1,104,757
Insurance	30,650	33,218	35,489	99,357	117,858	2,886	120,744	220,101
Membership Dues	5,970	300	32,340	38,610	21,343	-	21,343	59,953
Uncollectible Accounts	-	131,968	582,061	714,029	-	-	-	714,029
Other Expense	3,110	45,584	10,152	58,846	58,470	7,112	65,582	124,428
Interest	25,144	298,364	28,612	352,120	16,305	2,601	18,906	371,026
Total Expense	\$ 8,152,236	\$ 16,334,629	\$ 8,913,834	\$ 33,400,699	\$ 3,706,167	\$ 1,366,904	\$ 5,073,071	\$ 38,473,770

See accompanying Notes to Consolidated Financial Statements.

AVIVO AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSE
YEAR ENDED DECEMBER 31, 2021

	Program Services				Support Services			Total All Services
	Career Education/ Employment Services	Ending Homelessness	Chemical and Mental Health	Total Program Services	Management and General	Fundraising	Total Support Services	
Salaries	\$ 4,705,277	\$ 5,612,792	\$ 5,696,562	\$ 16,014,631	\$ 1,928,381	\$ 271,662	\$ 2,200,043	\$ 18,214,674
Payroll Taxes	305,724	368,074	370,394	1,044,192	119,523	18,239	137,762	1,181,954
Employee Benefits	587,813	550,525	637,809	1,776,147	225,697	21,305	247,002	2,023,149
Total Personnel Costs	5,598,814	6,531,391	6,704,765	18,834,970	2,273,601	311,206	2,584,807	21,419,777
Assistance Provided to								
Individuals	811,376	4,085,467	186,625	5,083,468	61	301	362	5,083,830
Professional Fees	85,416	199,567	319,590	604,573	185,585	316,459	502,044	1,106,617
Occupancy	483,660	2,494,602	461,525	3,439,787	147,296	21,126	168,422	3,608,209
Supplies	90,592	606,439	250,262	947,293	74,291	11,716	86,007	1,033,300
Interest Expense	24,290	320,703	27,458	372,451	2,961	2,112	5,073	377,524
Technology and Communication	87,260	87,641	73,697	248,598	34,686	3,115	37,801	286,399
Postage and Shipping	18,425	2,617	2,139	23,181	7,640	235	7,875	31,056
Printing and Publications	83	4,187	5,905	10,175	18,209	331	18,540	28,715
Local Transportation	17,862	51,277	33,813	102,952	1,093	6	1,099	104,051
Conferences and Meetings	16,877	26,541	35,882	79,300	51,674	15,929	67,603	146,903
Equipment	102,121	182,038	127,189	411,348	36,708	4,716	41,424	452,772
Insurance	29,124	57,131	34,814	121,069	69,137	2,232	71,369	192,438
Membership Dues	509	-	2,890	3,399	43,569	370	43,939	47,338
Uncollectible Accounts	-	175,609	202,097	377,706	-	-	-	377,706
Depreciation	96,988	850,696	45,269	992,953	178,756	2,232	180,988	1,173,941
Other Expense	11,179	39,485	11,749	62,413	25,925	5,286	31,211	93,624
Total Expense	\$ 7,474,576	\$ 15,715,391	\$ 8,525,669	\$ 31,715,636	\$ 3,151,192	\$ 697,372	\$ 3,848,564	\$ 35,564,200

See accompanying Notes to Consolidated Financial Statements.

AVIVO AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (2,426,053)	\$ 4,056,765
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Paycheck Protection Program Loan Forgiveness	-	(3,198,857)
Operating Cash Flows from Operating Leases	(1,087,283)	(1,023,115)
Operating Lease Amortization	1,147,090	1,018,380
Amortization of Debt Issuance Costs	14,491	-
Change in Value of Charitable Remainder Unitrust	76,264	(20,269)
Change in Value of Unemployment Trust	212,296	(381,056)
Gain on Disposal of Fixed Assets	(971,829)	(13,990)
Depreciation	1,104,756	1,173,941
Environmental Remediation Liabilities	-	(124,475)
Uncollectible Accounts	714,029	377,706
(Increase) Decrease in Current Assets:		
Accounts and Grant Receivable	(1,866,667)	435,002
Pledges Receivable	(29,652)	(199,256)
Prepaid Expense	(8,252)	(39,684)
Increase (Decrease) in Current Liabilities:		
Accounts Payable	375,256	(145,252)
Accrued Expenses	(520,546)	(1,036,946)
Refundable Advances	8,009	(50,436)
Deferred Revenue	-	(254,979)
Net Cash Provided (Used) by Operating Activities	(3,258,091)	573,479
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(87,833)	(2,260,457)
Proceeds from Disposal of Property Plant and Equipment	1,161,070	660,916
Net Cash Provided (Used) by Investing Activities	1,073,237	(1,599,541)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Debt	(358,460)	(341,447)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,543,314)	(1,367,509)
Cash and Cash Equivalents - Beginning of Year	5,389,050	6,756,559
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,845,736	\$ 5,389,050
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash Paid for Interest	\$ 386,729	\$ 393,229
Noncash Right of Use Asset (See Note 5)	\$ 599,999	\$ 31,460
Constructions Costs Incurred Included in Accrued Expenses	\$ -	\$ -

See accompanying Notes to Consolidated Financial Statements.

AVIVO AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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 and career advancement while working to end homelessness. Annually, the Organization serves nearly 13,000 individuals and families through:

Ending Homelessness – Uniquely pairs housing and shelter services with medical care, treatment, employment services and training depending on the individual’s needs to support people experiencing homelessness find housing, shelter and support in order to take their next best steps to stability and healthier well-being.

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

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.

During 2020, Avivo Housing, LLC was formed and has the charitable purpose of providing transitional housing for individuals experiencing homelessness or at-risk homelessness who are participants in Avivo’s recovery, career advancement or ending homelessness programs as they transition to permanent housing.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Avivo, Avivo LLC, 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 consolidated 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.

AVIVO AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 payor 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.

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, 2022 are expected to be received through 2023.

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 consolidated 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.

AVIVO AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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. The Organization received federal and state grants of \$5,441,405 that have not been recognized at December 31, 2022 because qualifying expenditures have not yet been incurred.

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 and changes in net assets 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.

AVIVO AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program Service Fees (Continued)

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.

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.

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.

AVIVO AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

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.

The Organization has one Level 3 investment in its interest in the Charitable Remainder Unitrust that was valued at \$261,319 and \$337,583 at December 31, 2022 and 2021, 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:

	2022	2021
Balance - Beginning of Year	\$ 337,583	\$ 317,314
Change in Fair Value of Trust	(76,264)	20,269
Balance - End of Year	\$ 261,319	\$ 337,583

Adoption of Accounting Principle

The Financial Accounting Standards Board (FASB) has issued Accounting Standards Update (ASU) 2020-07, Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets. The FASB issued this ASU to improve the transparency of contributed nonfinancial assets through enhancements to presentation and disclosure. Nonfinancial assets are defined within the ASU as including fixed assets (such as land, buildings, and equipment), use of fixed assets or utilities, materials and supplies, intangible assets, services, and unconditional promises of those assets. The amendments do not change the recognition and measurement of nonfinancial assets. This adoption of this standard did not have a significant impact on the Organization’s consolidated financial statements.

AVIVO AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through September 28, 2023, 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.

Contributions

Two donors constituted approximately 33% and 26% of total contributions for the years ended December 31, 2022 and 2021, respectively.

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

At various times during 2022 and 2021, 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:

	<u>2022</u>	<u>2021</u>
Land	\$ 976,400	\$ 1,098,400
Buildings and Leasehold Improvements	17,148,788	18,605,937
Equipment and Furniture	2,470,827	2,490,230
Construction in Progress	113,335	22,667
Total	<u>20,709,350</u>	<u>22,217,234</u>
Less: Accumulated Depreciation/Amortization	<u>(8,041,341)</u>	<u>(8,343,061)</u>
Property and Equipment, Net	<u>\$ 12,668,009</u>	<u>\$ 13,874,173</u>

Depreciation expense was \$1,104,757 and \$1,173,941 for the years ended December 31, 2022 and 2021, respectively.

AVIVO AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 4 NOTES PAYABLE

During 2020, the Organization entered into three loan agreements to purchase three properties. Two of the loans entered into were with Greater Minnesota Housing Fund and the other loan was entered with the City of Minneapolis.

Notes payable consist of the following at December 31:

<u>Description</u>	<u>2022</u>	<u>2021</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.	\$ 2,905,552	\$ 3,113,228
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 2038.	1,492,133	1,558,159
Loan issued by the City of Minneapolis including interest of 3.75%. Payment of all principal and interest due 2045.	529,078	509,661
Loan issued by the Greater Minnesota Housing Fund, monthly amounts including interest of 3.75%. Last payment and all remaining principal and interest due 2050.	4,294,951	4,379,359
Loan issued by the Greater Minnesota Housing Fund, monthly amounts including interest of 3.75%. Last and all remaining principal and interest due 2035.	387,048	408,645
Total	9,608,762	9,969,052
Less: Portion Due Within One Year	(366,360)	(379,735)
Less: Unamortized Issuance Costs, Net	<u>(275,152)</u>	<u>(291,473)</u>
Long-Term Portion	<u>\$ 8,967,250</u>	<u>\$ 9,297,844</u>

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

The City of Minneapolis loan is an interest free loan of \$1,250,000 and is due in 2045. The loan was discounted at a rate of 3.75% and this resulted in the principal due of \$529,078 and \$509,661 as of December 31, 2022 and 2021, respectively, and the remaining is considered a donor-restricted contribution of \$720,922 and \$740,339 on the consolidated statements of activities as of December 31, 2022 and 2021, respectively.

AVIVO AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 4 NOTES PAYABLE (CONTINUED)

Future principal payment amounts include payment due for debt outstanding at December 31, 2022, and amounts due under the expected refinancing. Principal payments required are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2023	\$ 366,360
2024	406,545
2025	421,276
2026	436,143
2027	451,544
Thereafter	<u>7,526,894</u>
Total	<u>\$ 9,608,762</u>

Effective August 8, 2017, the Organization entered into a promissory note with an original expiration date of July 31, 2019. Effective July 31, 2020, 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 (3.25% at December 31, 2020). This promissory note is secured by all business assets. The note expired on July 31, 2022 and subsequently renewed with a maturity date of July 31, 2023. At December 31, 2022 and 2021, there was \$-0- of borrowings on the note.

NOTE 5 LEASES

The Organization leases equipment as well as certain operating and office facilities for various terms under long-term, noncancelable lease agreements. The leases expire at various dates through 2027 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 the Organization's right of use assets and lease liability for the year ended December 31.

	<u>2022</u>	<u>2021</u>
Right of Use Assets:		
Operating Leases, Net	2,804,901	3,297,821
Lease Liabilities:		
Current:		
Operating Leases	899,407	922,745
Noncurrent:		
Operating Leases	1,965,301	2,375,076

AVIVO AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 5 LEASES (CONTINUED)

The following table provides quantitative information concerning the Organization's leases for the year ended December 31.

Lease Cost:		
Operating Lease Cost	\$ 1,017,271	\$ 1,064,523
Other Information:		
Operating Cash Flows from Operating Leases	\$ 1,087,283	\$ 1,023,115
Right of Use Assets Obtained in Exchange for New Operating Lease Liability	\$ 599,999	\$ 31,460
Weighted Average Remaining Lease Term - Finance Leases	N/A	N/A
Weighted Average Remaining Lease Term - Operating Leases	3.8 Years	3.4 Years
Weighted Average Discount Rate - Operating Leases	3.0 %	3.0 %

A maturity analysis of annual undiscounted cash flows for lease liabilities as of December 31, 2022 is as follows:

<u>Year Ending December 31,</u>	<u>Operating Leases</u>
2023	\$ 970,840
2024	709,155
2025	660,668
2026	634,070
2027	49,998
Total	<u>3,024,731</u>
Less: Imputed Interest	<u>(160,023)</u>
Lease Liability	<u>\$ 2,864,708</u>

As of December 31, 2022, the Organization has an additional operating leases, primarily facility rental, that has not yet commenced of approximately \$2,000,000. The operating lease will commence in fiscal year 2023 with lease terms through November 30, 2030.

AVIVO AND SUBSIDIARIES
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>2022</u>	<u>2021</u>
Ending Homelessness	\$ 115,794	\$ 657,285
Career Education	427,542	284,879
Chemical and Mental Health	70,000	80,000
General Fundraising	753,139	800,558
Time Restricted	148,450	-
Employment Program	20,000	-
Charitable Remainder Unitrust	261,319	337,583
Total	<u>\$ 1,796,244</u>	<u>\$ 2,160,305</u>

The General Fundraising line includes the donor-restricted contribution of \$721,636 and \$740,339 as of December 31, 2022 and 2021, respectively, relating to the City of Minneapolis interest free loan. See Note 4 for more details.

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

	<u>2022</u>	<u>2021</u>
Ending Homelessness	\$ 513,491	\$ 665,021
Career Education	165,240	385,536
Chemical and Mental Health	80,001	342,355
General Fundraising	19,417	56,265
Time Restricted	156,000	-
Total	<u>\$ 934,149</u>	<u>\$ 1,449,177</u>

NOTE 7 PROGRAM FEE FOR SERVICE CONTRACT REVENUE

The Organization's program fee for services revenue is recognized over 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, 2022, 2021 and 2020 was \$11,939,768, \$13,174,497, and \$11,597,055, respectively.

There is no contract revenue that is recognized at point in time.

AVIVO AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 8 CONTRACT ASSETS

The Organization's contract assets consist of:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Accounts Receivable:			
Program Fee for Service -			
Third Party Payor	\$ 2,108,233	\$ 1,477,111	\$ 1,053,633
Accounts Receivables:			
(Nonexchange Transactions)	<u>2,431,252</u>	<u>1,909,736</u>	<u>3,145,922</u>
Total Accounts Receivables	<u>\$ 4,539,485</u>	<u>\$ 3,386,847</u>	<u>\$ 4,199,555</u>

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, 2022 and 2021. Additionally, the Organization makes an annual 3.5% nondiscretionary safe harbor payment. The total expense for the years ended December 31, 2022 and 2021 was \$410,143 and \$408,039, respectively.

NOTE 10 CONTINGENCIES

In the normal course of business, the Organization has claims made against it. As of December 31, 2021, 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:

	<u>2022</u>	<u>2021</u>
Cash and Cash Equivalents	\$ 2,845,736	\$ 5,389,050
Less: Restricted for		
Debt Service	(564,900)	(549,300)
Less: Restricted for Purpose	<u>(1,534,925)</u>	<u>(1,822,722)</u>
Cash and Cash Equivalents		
Available Within Year	\$ 745,911	\$ 3,017,028
Accounts Receivable	4,539,485	3,386,847
Pledges Receivable	<u>395,652</u>	<u>366,000</u>
Total	<u>\$ 5,681,048</u>	<u>\$ 6,769,875</u>

AVIVO AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 11 LIQUIDITY AND AVAILABILITY (CONTINUED)

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.



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