

Central Arizona Shelter Services, Inc.

**Financial Statements and Report on Schedule of Expenditures of Federal Awards
and Reports Required by Government Auditing Standards and the Uniform Guidance**

June 30, 2018 and 2017

Central Arizona Shelter Services, Inc.
Table of Contents
June 30, 2018 and 2017

Independent Auditor's Report	1
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5
Statements of Cash Flows	9
Notes to Financial Statements	10
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	17
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance	19
Schedule of Expenditures of Federal Awards	21
Notes to Schedule of Expenditures of Federal Awards	22
Schedule of Findings and Questioned Costs	23
Corrective Action Plan	
Summary Schedule of Prior Audit Findings	25

Independent Auditor's Report

The Board of Directors
Central Arizona Shelter Services, Inc.
Phoenix, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of Central Arizona Shelter Services, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Central Arizona Shelter Services, Inc. as of June 30, 2018 and 2017 and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2018 on our consideration of Central Arizona Shelter Services, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is 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 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 Central Arizona Shelter Services, Inc.'s internal control over financial reporting and compliance.

Smsola + Butler, CPAs, PLLC

Tempe, Arizona
November 13, 2018

Central Arizona Shelter Services, Inc.
Statements of Financial Position
June 30, 2018 and June 30, 2017

	2018	2017
Assets		
Current assets:		
Cash	\$ 340,944	\$ 283,098
Accounts receivable	2,849	-
Contracts receivable	423,950	550,387
Contribution receivable	775,697	767,000
Prepaid expenses	26,750	19,974
Other assets	9,266	7,169
Total current assets	1,579,456	1,627,628
Noncurrent assets:		
Property and equipment, net	577,899	601,086
Total noncurrent assets	577,899	601,086
Total assets	2,157,355	2,228,714
 Liabilities and Net Assets		
Current liabilities:		
Accounts payable	156,807	271,961
Accrued payroll	144,215	145,896
Related party payable	-	75,000
Current portion of notes payable	13,300	11,593
Current portion of capital leases payable	8,628	7,989
Total current liabilities	322,950	512,439
Noncurrent liabilities:		
Accrued vacation	58,691	154,036
Notes payable	7,526	19,837
Capital leases	38,971	47,594
Total noncurrent liabilities	105,188	221,467
Total liabilities	428,138	733,906
 Net Assets		
Unrestricted		
Board designated for replacement reserves	100,000	100,000
Undesignated	758,573	627,808
Total unrestricted	858,573	727,808
Temporarily restricted	870,644	767,000
Total net assets	1,729,217	1,494,808
Total liabilities and net assets	\$2,157,355	\$2,228,714

See Accompanying Notes to Financial Statements.

Central Arizona Shelter Services, Inc.
Statements of Activities
Years Ended June 30, 2018 and June 30, 2017

	2018			2017				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other support								
Grants and Contracts								
Governmental	\$4,239,349	\$ -	\$ -	\$ 4,239,349	\$4,286,313	\$ -	\$ -	\$4,286,313
Contributions								
In-kind	962,592	-	-	962,592	963,042	-	-	963,042
Private	674,737	900,697	-	1,575,434	673,986	767,000	-	1,440,986
Fundraising Events	6,250	-	-	6,250	178,398	-	-	178,398
Management Fees	112,800	-	-	112,800	345,300	-	-	345,300
Dental Fees	-	-	-	-	2,770	-	-	2,770
Other Revenues	25,914	-	-	25,914	67,125	-	-	67,125
Net assets released from restrictions	797,053	(797,053)	-	-	773,166	(773,166)	-	-
Total revenues and other support	<u>6,818,695</u>	<u>103,644</u>	<u>-</u>	<u>6,922,339</u>	<u>7,290,100</u>	<u>(6,166)</u>	<u>-</u>	<u>7,283,934</u>
Expenses								
Program Services								
Shelter for single adults	2,358,475	-	-	2,358,475	2,466,688	-	-	2,466,688
Shelter and case management for families	694,927	-	-	694,927	693,444	-	-	693,444
Case management for single adults	604,392	-	-	604,392	548,148	-	-	548,148
Child care center	300,538	-	-	300,538	331,596	-	-	331,596
Dental clinic	-	-	-	-	48,589	-	-	48,589
Veteran's services	479,851	-	-	479,851	524,283	-	-	524,283
Rapid rehousing	668,015	-	-	668,015	639,056	-	-	639,056
Total program services	<u>5,106,198</u>	<u>-</u>	<u>-</u>	<u>5,106,198</u>	<u>5,251,804</u>	<u>-</u>	<u>-</u>	<u>5,251,804</u>
Fundraising and Development	237,028	-	-	237,028	461,495	-	-	461,495
Management and General	1,344,704	-	-	1,344,704	1,024,848	-	-	1,024,848
Total expenses	<u>6,687,930</u>	<u>-</u>	<u>-</u>	<u>6,687,930</u>	<u>6,738,147</u>	<u>-</u>	<u>-</u>	<u>6,738,147</u>
Operating Income (Loss)	130,765	103,644	-	234,409	551,953	(6,166)	-	545,787
Contribution of Dental Department Net Assets to Unrelated Non-profit Entity-Note 13	-	-	-	-	(366,639)	-	-	(366,639)
Change in Net Assets	130,765	103,644	-	234,409	185,314	(6,166)	-	179,148
Net Assets, Beginning of Year	727,808	767,000	-	1,494,808	542,494	773,166	-	1,315,660
Net Assets, End of Year	<u>\$ 858,573</u>	<u>\$ 870,644</u>	<u>\$ -</u>	<u>\$ 1,729,217</u>	<u>\$ 727,808</u>	<u>\$ 767,000</u>	<u>\$ -</u>	<u>\$1,494,808</u>

See Accompanying Notes to Financial Statements.

Central Arizona Shelter Services, Inc.
Statements of Functional Expenses
Years Ended June 30, 2018 and June 30, 2017

	2018					
	Program Services					
	Shelter and Case Shelter for Single Adults	Case Management for Families	Case Management for Single Adults	Child Care Center	Dental Clinic	Veteran's Services
Salaries	\$ 415,957	\$ 264,686	\$ 350,648	\$ 186,295	\$ -	\$ 334,173
Employee benefits	53,064	20,484	72,624	39,230	-	37,148
Payroll taxes	33,653	22,276	27,413	14,996	-	27,981
Professional and outside services	455,630	86,841	10,170	7,423	-	6,883
Travel	9,718	6,122	4,757	2,410	-	7,007
Occupancy	304,712	249,664	41,525	26,509	-	1,032
Equipment	3,053	6,643	3,674	-	-	184
Direct client housing support	149,846	41	-	-	-	-
Program materials and supplies	107,802	14,526	4,419	17,178	-	56,365
Other expenses	34,259	17,298	9,734	6,497	-	9,078
Depreciation and amortization	2,297	6,346	-	-	-	-
In-kind services and rent	788,484	-	79,428	-	-	-
Total Expenses	\$ 2,358,475	\$ 694,927	\$ 604,392	\$ 300,538	\$ -	\$ 479,851

See Accompanying Notes to Financial Statements.

Central Arizona Shelter Services, Inc.
Statements of Functional Expenses
Years Ended June 30, 2018 and June 30, 2017

(continued)

	2018				
	Supporting Services				
	Rapid Rehousing	Total Program Services	Fundraising and Development	Management and General	Total
Salaries	\$ 159,690	\$ 1,711,449	\$ 65,282	\$ 797,787	\$ 2,574,518
Employee benefits	31,710	254,260	6,216	103,917	364,393
Payroll taxes	12,118	138,437	6,662	65,157	210,256
Professional and outside services	2,642	569,589	90,268	117,293	777,150
Travel	11,543	41,557	1,311	4,949	47,817
Occupancy	-	623,442	7,207	21,141	651,790
Equipment	-	13,554	-	4,548	18,102
Direct client housing support	443,428	593,315	-	-	593,315
Program materials and supplies	478	200,768	16,852	21,454	239,074
Other expenses	6,406	83,272	20,502	57,376	161,150
Depreciation and amortization	-	8,643	-	79,130	87,773
In-kind services and rent	-	867,912	22,728	71,952	962,592
Total Expenses	\$ 668,015	\$ 5,106,198	\$ 237,028	\$ 1,344,704	\$ 6,687,930

See Accompanying Notes to Financial Statements.

Central Arizona Shelter Services, Inc.
Statements of Functional Expenses
Years Ended June 30, 2018 and June 30, 2017

(continued)

	2017					
	Program Services					
	Shelter and Case Management for Single Adults	Case Management for Families	Case Management for Single Adults	Child Care Center	Dental Clinic	Veteran's Services
Salaries	\$ 563,548	\$ 261,606	\$ 319,950	\$ 213,348	\$ 1,964	\$ 357,524
Employee benefits	31,340	27,044	36,061	39,835	20	38,040
Payroll taxes	45,200	21,851	26,196	16,819	150	29,432
Professional and outside services	484,118	90,557	24,043	4,530	53	7,177
Travel	12,554	4,053	4,291	2,714	213	11,220
Occupancy	313,440	252,069	40,560	27,230	18,129	21,219
Equipment	3,311	1,089	1,796	-	-	-
Direct client housing support	22,803	92	-	-	-	76
Program materials and supplies	160,181	11,541	4,199	19,833	6,988	46,899
Other expenses	38,962	17,196	11,624	7,287	21,072	12,696
Depreciation and amortization	2,297	6,346	-	-	-	-
In-kind services and rent	788,934	-	79,428	-	-	-
Total Expenses	\$ 2,466,688	\$ 693,444	\$ 548,148	\$ 331,596	\$ 48,589	\$ 524,283

See Accompanying Notes to Financial Statements.

**Central Arizona Shelter Services, Inc.
Statements of Functional Expenses
Years Ended June 30, 2018 and June 30, 2017**

(continued)

	2017				
	Supporting Services				
	Rapid Rehousing	Total Program Services	Fundraising and Development	Management and General	Total
Salaries	\$ 170,711	\$ 1,888,651	\$ 254,887	\$ 548,415	\$ 2,691,953
Employee benefits	26,794	199,134	24,487	62,059	285,680
Payroll taxes	13,295	152,943	16,618	41,793	211,354
Professional and outside services	2,596	613,074	66,559	106,560	786,193
Travel	10,996	46,041	1,081	6,553	53,675
Occupancy	-	672,647	7,083	12,874	692,604
Equipment	-	6,196	246	11,047	17,489
Direct client housing support	406,296	429,267	-	45	429,312
Program materials and supplies	1,509	251,150	12,916	25,535	289,601
Other expenses	6,859	115,696	54,890	61,550	232,136
Depreciation and amortization	-	8,643	-	76,465	85,108
In-kind services and rent	-	868,362	22,728	71,952	963,042
Total Expenses	\$ 639,056	\$ 5,251,804	\$ 461,495	\$ 1,024,848	\$ 6,738,147

See Accompanying Notes to Financial Statements.

Central Arizona Shelter Services, Inc.
Statements of Cash Flows
Years Ended June 30, 2018 and June 30, 2017

	2018	2017
Operating Activities		
Change in net assets	\$ 234,409	\$ 179,148
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	87,773	85,108
Contribution of Dental Department Net Assets to Unrelated Non-Profit Entity	-	366,639
Changes in operating assets and liabilities		
(Increase) decrease in		
Accounts receivable	(2,849)	74,338
Contracts receivable	126,437	138,922
Contribution receivable	(8,697)	-
Related party receivable	-	4,682
Prepaid expenses	(6,776)	21,941
Other assets	(2,097)	1,661
Increase (decrease) in		
Accounts payable	(115,154)	(137,099)
Accrued payroll	(1,681)	15,519
Accrued vacation	(95,345)	29,682
Related party payable	-	(139,738)
Net Cash from Operating Activities	216,020	640,803
Cash Flows from Investing Activities		
Purchase of property and equipment	(64,586)	(219,912)
Net Cash used for Investing Activities	(64,586)	(219,912)
Cash Flows from Financing Activities		
Net repayments under line of credit	(890,000)	(2,820,130)
Net borrowings under line of credit	890,000	2,520,130
Net borrowings (repayments) under advances from related party	(75,000)	(149,913)
Issuance of capital lease	-	57,486
Principal payments on notes and capital leases	(18,588)	(51,587)
Net Cash from (used for) Financing Activities	(93,588)	(444,014)
Net Change in Cash and Cash Equivalents	57,846	(23,123)
Cash and Cash Equivalents, Beginning of Year	283,098	306,221
Cash and Cash Equivalents, End of year	\$ 340,944	\$ 283,098
	2018	2017
Supplemental Disclosure of Cash Flow Information		
Cash paid during year for interest	\$ 7,405	\$ 11,236

See Accompanying Notes to Financial Statements.

Central Arizona Shelter Services, Inc.
Notes to Financial Statements
June 30, 2018 and 2017

Note 1 - Principal Business Activity and Significant Accounting Policies

Organization

Central Arizona Shelter Services, Inc. (the "Organization") is incorporated in the state of Arizona as a nonprofit corporation. The Organization empowers homeless men, women, and children in Maricopa Organization, Arizona with diverse needs to end their homelessness by providing shelter and supportive services.

The Organization's Emergency Shelter Program includes a 470-bed facility for single adults and the Vista Colina Emergency Family Shelter, a 30-unit apartment complex for homeless families with children.

Case Management assists clients by connecting them with local services for healthcare, housing, education, counseling, benefits and various supportive services. Vista Colina Family Services includes developmental childcare for preschool children, an after-school program for older children, and substance abuse counseling for parents and children. The Organization operated a Dental Clinic located at the Organization's main shelter facility. The Dental Clinic provided the only comprehensive dental program for the homeless in Maricopa Organization. As of the beginning of fiscal year 2017, the Dental Clinic's net assets and operations were transferred to another nonprofit and will not be reflected in the Organization's financial statements in future years.

The more significant accounting policies of the Organization are described below:

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates and those differences could be material.

Cash and Cash Equivalents

The Organization considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to capital expenditures, permanent endowment, or other long-term purposes of the Organization are excluded from this definition.

Contracts Receivable

Contracts receivable consist primarily of noninterest-bearing amounts due for emergency shelter and supportive services programs. Contracts receivable are stated at the amount management expects to collect under the terms of various agreements. Management provides for probable uncollectable contracts receivable through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to contracts receivable. At June 30, 2018 and 2017, contracts receivable are considered by management to be collectible in full and, accordingly, an allowance for doubtful accounts is not considered necessary.

Central Arizona Shelter Services, Inc.
Notes to Financial Statements
June 30, 2018 and 2017

Contributions Receivable

Contributions receivable expected to be collected within one year are recorded at net realizable value. Contributions receivable expected to be collected in future years, are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statement of activities. Management determines the allowance for uncollectable contributions receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. At June 30, 2018 and 2017, contributions receivable are considered by management to be collectable in full and, accordingly, an allowance for doubtful accounts is not considered necessary.

Property and Equipment

Property and equipment additions over \$5,000 are recorded at cost or, if donated, at fair value on the date of donation. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the assets ranging from 3 to 10 years or, in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

Donations of property and equipment are reported as increases in unrestricted net assets unless the donor has restricted the donated asset for a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as temporarily restricted contributions. Absent donor stipulations regarding how long donated assets must be maintained, the Organization reports expiration of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Impairment of Long-Lived Assets

The Organization reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended June 30, 2018 and 2017.

Net Assets

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

Unrestricted Net Assets – Net assets available for use in general operations. Unrestricted board-designated net assets consist of net assets designated by the Board of Directors for replacement reserve.

Temporarily Restricted Net Assets – Net assets subject to donor restrictions that may or will be met by expenditures or actions of the Organization and/or the passage of time, and certain income earned on permanently restricted net assets that has not yet been appropriated for expenditure by the Organization's Board of Directors.

Central Arizona Shelter Services, Inc.
Notes to Financial Statements
June 30, 2018 and 2017

The Organization reports contributions restricted by donors as increases in unrestricted net assets 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 temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Permanently Restricted Net Assets – Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by action of the Organization. The restrictions stipulate that resources be maintained permanently but permit the Organization to expend the income generated in accordance with the provisions of the agreements.

Revenue Recognition

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Grants and contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Donated Materials and Services

Donated materials and services are reflected as contributions in the accompanying financial statements at their estimated fair values as of the date of donation. Donated services are recognized as contributions if the services create or enhance nonfinancial assets, or require specialized skills performed by people with those skills, and would otherwise be purchased. The Organization utilizes the services of volunteers to perform a variety of tasks that assist the Organization with specific programs and fundraising campaigns. This support has not been recorded as it does not meet the recognition criteria prescribed by U.S. Generally Accepted Accounting Principles.

The Organization received the following donated materials and services for the year ended June 30:

<u>Donation Description</u>	<u>Used For</u>	<u>2018</u>	<u>2017</u>
Food	Program	\$ 49,200	\$ 49,650
Rent	Various	<u>913,392</u>	<u>913,392</u>
Total		<u>\$ 962,592</u>	<u>\$ 963,042</u>

Functional Expenses

Expenses are charged to program services and supporting services categories in the statements of activities and functional expenses based on direct expenditures incurred. Any expenditure not directly chargeable to a functional expense category is allocated based on personnel activity and other appropriate allocation methods.

Professional and Outside Services

Amounts reported in the Statement of Functional Expenses for professional and outside services consist primarily of outside security services, information technology services, and janitorial and pest control services.

Central Arizona Shelter Services, Inc.
Notes to Financial Statements
June 30, 2018 and 2017

Income Tax Status

The Organization is incorporated as an Arizona nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) and has been determined not to be a private foundation under Section 509(a)(1). Accordingly, contributions to it qualify for the charitable contribution deduction under Section 170. The Organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the entity is generally subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. The Organization has determined that it has no taxable unrelated business income and has not filed an Exempt Organization Business Income Tax Return (IRS Form 990-T), or its Arizona equivalent.

Management believes that it has appropriate support for any tax positions taken and, as such, does not have any uncertain tax positions that are material to the financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Subsequent Events

The Organization has evaluated subsequent events through November 13, 2018, the date the financial statements were available to be issued.

Note 2 - Contracts Receivable

Contracts receivable consisted of the following as of June 30:

	<u>2018</u>	<u>2017</u>
Federal, state, and local governments	\$ 400,036	\$ 526,473
Other	23,914	23,914
Total	<u>\$ 423,950</u>	<u>\$ 550,387</u>

Note 3 - Property and Equipment

Property and equipment consisted of the following as of June 30:

	<u>2018</u>	<u>2017</u>
Cost or donated value		
Property and equipment not being depreciated		
Construction in progress	\$ 64,986	\$ 400
Property and equipment being depreciated		
Leasehold improvements	783,894	783,894
Program equipment	383,771	383,771
Computer equipment	100,588	100,588
Vehicles	131,614	131,614
Office equipment	64,902	64,902
Total cost or donated value	<u>1,529,755</u>	<u>1,465,169</u>
Less accumulated depreciation	<u>(951,856)</u>	<u>(864,083)</u>
Property and equipment, net	<u>\$ 577,899</u>	<u>\$ 601,086</u>

Central Arizona Shelter Services, Inc.
Notes to Financial Statements
June 30, 2018 and 2017

Note 4 - Revolving Lines of Credit

The Organization has a \$350,000 line of credit agreement with a financial institution. Interest payments are due from the date of each advance until repayment of each advance at prime plus 1.75% or a minimum of 5.00% (6.75% and 6.00%) at June 30, 2018 and 2017, respectively. The line of credit is secured by all of the Organization's personal property. The line has been renewed and has a maturity date of August 15, 2019. The line of credit was paid in full as of June 30, 2018 and June 30, 2017.

Note 5 - Notes Payable

Notes payable consisted of the following at June 30:

	2018	2017
Financial institution loan, in the original amount of \$56,742, for the purchase of equipment for the Organization. The note is payable in monthly installments of \$1,097 including interest at 5.96% and matures in January 2020.	<u>\$ 20,826</u>	<u>\$ 31,430</u>

Annual principal payments on notes payable are scheduled as follows:

Years Ending June 30,	
2019	\$ 13,300
2020	<u>7,526</u>
Total notes payable	<u>\$ 20,826</u>

Note 6 - Leases

Central Arizona Shelter Services, Inc. leases office equipment under a capital lease agreement that expire in 2023.

Future minimum lease payments are as follows:

Years Ending June 30,	
2019	\$ 12,000
2020	12,000
2021	12,000
2022	12,000
2023	<u>9,000</u>
Total minimum lease payments	57,000
Less amount representing interest	<u>(9,401)</u>
Capital lease obligation	<u>\$ 47,599</u>

Central Arizona Shelter Services, Inc.
Notes to Financial Statements
June 30, 2018 and 2017

Leased property under capital leases are as follows at June 30, 2018:

Equipment	\$ 29,449
Less accumulated amortization	<u>(5,726)</u>
	<u>\$ 23,723</u>

Note 7 - Retirement Plan

The Organization participates in a 403(b) retirement plan (tax deferred annuity) for its employees. The Organization makes its employees aware of the plan, withholds voluntary contributions from paychecks and remits the contributions to an independent trustee. Participants may contribute their eligible compensation on a pretax basis to the plan up to a maximum allowed by the Internal Revenue Code. Participants are 100% vested in the amounts of their employee contributions and are 100% vested in employer contributions upon completion of two years of employment. Employer contributions are discretionary. Matching contributions were made by the Organization up to 4% of participants' total salaries. The Organization's matching contributions were \$42,558 and \$45,921 for the years ended June 30, 2018 and 2017, respectively.

Note 8 - Board Designated Net Assets

The Board of Directors of the Organization has designated \$100,000 of unrestricted net assets for an operating reserve as of June 30, 2018 and 2017.

Note 9 - Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes or periods as of June 30:

	<u>2018</u>	<u>2017</u>
Purpose restrictions:		
Emergency Shelter, Case Management for Homeless		
Single Adults and Families	\$ 620,697	\$ 700,000
Vista Colina Child Development Program	55,000	67,000
Bank of America - Veterans program	75,000	-
Pulliam Grant - Youth program	<u>119,947</u>	<u>-</u>
Total temporarily restricted net assets	<u>\$ 870,644</u>	<u>\$ 767,000</u>

Note 10 - Permanently Restricted Net Assets

The Organization had no permanently restricted assets at June 30, 2018 or June 30, 2017.

Note 11 - Related Party Transactions

Arizona Housing, Inc. (AHI) is a separate nonprofit organization that was established to provide permanent, affordable, supportive housing for low-income, homeless individuals and families. No more than 49% of AHI's board members are appointed by the Organization's board.

Central Arizona Shelter Services, Inc.
Notes to Financial Statements
June 30, 2018 and 2017

During the year, the Organization provided accounting and other management services to AHI. Throughout the course of these services, the Organization pays expenses, including payroll, on behalf of AHI and is subsequently reimbursed. During fiscal year 2016 the Organization received advances totaling \$434,000 from AHI to meet short-term cash flow requirements. As of June 30, 2017, the outstanding amount owed was \$75,000, which is included in the net payable to related party balance in the financial statements. The balance was paid in full as of June 30, 2018. In addition, the Organization rented an apartment complex from AHI under a yearly lease that expired in June 30, 2018 and 2017. The lease agreement has been renewed through June 2019.

Subsequent to fiscal year end, the Organization discontinued providing accounting and management services for AHI.

The following related party transactions existed for the years ending June 30:

<u>Related Party</u>	2018			
	<u>Net Receivable</u>	<u>Net Payable</u>	<u>Revenue</u>	<u>Expenses</u>
Arizona Housing, Inc.	\$ -	\$ -	\$ 789,587	\$ 178,260

<u>Related Party</u>	2017			
	<u>Net Receivable</u>	<u>Net Payable</u>	<u>Revenue</u>	<u>Expenses</u>
Arizona Housing, Inc.	\$ -	\$ 75,000	\$ 972,155	\$ 178,260

Note 12 - Concentration of Credit Risk

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

Cash deposits in excess of the amounts insured by the Federal Deposit Insurance Corporation (FDIC) are exposed to loss in the event of nonperformance by the financial institutions. The Organization does not anticipate nonperformance by the financial institutions.

Central Arizona Shelter Services, Inc. obtains a majority of their revenues through contracts and grants from various governmental agencies. If the governmental agencies affect significant budget reductions in the future, this source of funding could decrease. If this were to occur, it is management's opinion that the Organization would continue to operate its programs and services on a reduced scale until such time as other funding sources were secured. Additionally, program costs are subject to audit by the contracting agency, and in the event that the contract proceeds were not spent in accordance with contract terms, the proceeds may be required to be returned to the appropriate agency. The Organization is of the opinion that an adequate provision has been made in the combined financial statements for the effect of any costs, which might be disallowed under these various contracts.

Single Audit Section

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Central Arizona Shelter Services, Inc.
Phoenix, Arizona

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Central Arizona Shelter Services, Inc. (the Organization) which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 13, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Tempe, Arizona
November 13, 2018

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance

Board of Directors
Central Arizona Shelter Services, Inc.
Phoenix, Arizona

Report on Compliance for Each Major Federal Program

We have audited the Central Arizona Shelter Services, Inc.'s (the Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2018. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Central Arizona Shelter Services, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2018.

Report on Internal Control over Compliance

The Organization's management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Innsler + Butler, CPAs, PLLC

Tempe, Arizona
November 13, 2018

Central Arizona Shelter Services, Inc.
Schedule of Expenditures of Federal Awards
June 30, 2018

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Contract Number</u>	<u>Expenditures</u>
<u>U.S. Department of Agriculture</u>			
Passed through Arizona Department of Education Childcare and Adult Care Food Program	10.558	CACFP-07-22-771	\$ 10,094
<u>U.S. Department of Housing and Urban Development</u>			
Community Development Block Grants/Entitlement Grants, passed through the			
City of Tempe	14.218	C2017-271	26,165
City of Surprise	14.218	none	5,000
CFDA 14.218 Total			<u>31,165</u>
Emergency Shelter Grants Program, passed through the			
City of Mesa	14.231	17000151	22,500
City of Glendale	14.231	C18-0106	35,516
Arizona Department of Economic Security	14.231	ADES13-050413	267,017
CFDA 14.231 Total			<u>325,033</u>
Total U.S. Department of Housing and Urban Development			<u>356,198</u>
<u>Department of Veterans Affairs</u>			
VA Homeless Providers Grant and Per Diem Program, passed through VA Homeless Per Diem Program	64.024	07-59-AZ	515,248
Total Department of Veterans Affairs			<u>515,248</u>
<u>U.S. Department of Health and Human Services</u>			
Temporary Assistance for Needy Families, passed through Arizona Department of Economic Security	93.558	ADES13-050413	126,726
Social Services Block Grant, passed through the			
Arizona Department of Economic Security	93.667	ADES16-098202 ADES13-050413	675,139
Child Care and Development Block Grant, passed through Arizona Department of Economic Security	93.575	P0001286101	10,955
Total U.S. Department of Health and Human Services			<u>812,820</u>
Total Federal Awards			<u>\$ 1,694,360</u>

See Accompanying Notes to Schedule.

Central Arizona Shelter Services, Inc.
Notes to Schedule of Expenditures of Federal Awards
June 30, 2018

Note 1 - Basis of Accounting

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Central Arizona Shelter Services, Inc. and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the financial statements.

Note 2 - Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Organization's summary of significant accounting policies is presented in Note 1 in the Organization's basic financial statements.

Note 3 - Indirect Costs

The Organization elected to use the 10 percent de minimis indirect cost rate.

**Central Arizona Shelter Services, Inc.
Schedule of Findings and Questioned Costs
June 30, 2018**

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting	
Material weaknesses identified	No
Significant deficiencies identified	No-none reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs	
Material weaknesses identified	No
Significant deficiencies identified	No-none reported
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 500.516(a)?	No

Identification of major programs

Name of Federal Program or Cluster	CFDA number
Social Services Block Grant	93.667
VA Homeless Providers Grant and Per Diem Program	64.024
Dollar threshold used to distinguish between type A and type B Programs	\$750,000
Auditee qualified as low-risk auditee?	No

Other Matters

Auditee’s summary schedule of prior audit findings required to be reported in accordance with section 2 CFR 500.511(b)?	Yes
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**Central Arizona Shelter Services, Inc.
Schedule of Findings and Questioned Costs
June 30, 2018**

Section II – Financial Statement Findings

None reported

Section III – Federal Award Findings and Questioned Costs

None reported

Central Arizona Shelter Services, Inc.
Schedule of Findings and Questioned Costs
June 30, 2018

Section IV – Prior Year Federal Award Findings and Questioned Costs

2017-001- Record Retention (Material Weakness)

Status: *Corrected in 2018*