

ASCENCIA
(a Not-for-Profit Corporation)

FINANCIAL STATEMENTS

JUNE 30, 2019

WITH INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors,

Ascencia
Glendale, California

We have audited the accompanying financial statements of Ascencia (a Not-for-Profit Corporation), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 Ascencia as of June 30, 2019, and the changes in its net assets and its cash flows for the year 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 an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the 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 February 29, 2020 on our consideration of Ascencia's 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 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 Ascencia's internal control over financial reporting and compliance.

*Lee, Sperling, Hisamune / Accountancy
Corporation*

Glendale, California

February 29, 2020

ASCENCIA
(a Not-for-Profit Corporation)

STATEMENT OF FINANCIAL POSITION

AS OF JUNE 30, 2019

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 341,541
Grants receivable	542,379
Contributions receivable	132,996
Prepaid expenses	16,550
Security deposits	<u>33,048</u>
Total current assets	1,066,514

PROPERTY AND EQUIPMENT, NET

4,350,454

 Total assets

\$ 5,416,968

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable and accrued expenses	\$ 205,581
Line of credit	101,630
Client savings deposit	4,740
Security deposits	<u>12,500</u>
Total current liabilities	324,451

Notes and accrued interest payable

2,710,390

 Total liabilities

3,034,841

NET ASSETS:

Without donor restrictions	2,305,611
With donor restrictions	<u>76,516</u>
Total net assets	<u>2,382,127</u>

 Total liabilities and net assets

\$ 5,416,968

See accompanying notes to financial statements.

ASCENCIA
(a Not-for-Profit Corporation)

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2019

	<u>without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE AND SUPPORT:			
Donations	\$ 536,925	\$ 40,000	\$ 576,925
Grants	2,442,785	-	2,442,785
Special events revenue	122,302	-	122,302
Less: Costs of direct benefits to donors	(37,156)	-	(37,156)
Rental and other income	130,507	-	130,507
Gifts in-kind	146,704	-	146,704
Interest income	2,057	-	2,057
Net assets released from restrictions	30,652	(30,652)	-
Total revenue and support	<u>3,374,776</u>	<u>9,348</u>	<u>3,384,124</u>
EXPENSES:			
Program services	2,890,347	-	2,890,347
General and administrative	202,615	-	202,615
Fundraising	315,503	-	315,503
Total expenses	<u>3,408,465</u>	<u>-</u>	<u>3,408,465</u>
Increase (decrease) in net assets	(33,689)	9,348	(24,341)
Net assets, beginning of year	<u>2,339,300</u>	<u>67,168</u>	<u>2,406,468</u>
Net assets, end of year	<u>\$ 2,305,611</u>	<u>\$ 76,516</u>	<u>\$ 2,382,127</u>

See accompanying notes to financial statements.

ASCENCIA
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STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2019

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Payroll and benefits	\$ 1,493,003	\$ 116,075	\$ 176,543	\$ 1,785,621
Rent	508,027	3,829	718	512,574
Professional services	240,935	38,599	49,840	329,374
Professional services - Gifts in-Kind	146,704	-	-	146,704
Utilities	24,356	960	1,754	27,070
Building and maintenance	84,134	7,846	14,775	106,755
Insurance	55,167	2,868	5,838	63,873
Telephone	13,433	808	849	15,090
Office expense	53,854	7,874	33,852	95,580
Client expenses	21,129	497	234	21,860
Bank and payroll fees	5,694	1,629	6,933	14,256
Provision for bad debts	21,506	-	-	21,506
Recruitment and staffing	4,143	3,559	670	8,372
Auto and travel	29,588	1,924	1,218	32,730
Depreciation	124,724	5,734	12,902	143,360
Interest expense	3,850	177	398	4,425
Interest expense (see Note 9)	57,594	2,648	5,958	66,200
Miscellaneous	2,506	7,588	3,021	13,115
	<u>\$ 2,890,347</u>	<u>\$ 202,615</u>	<u>\$ 315,503</u>	<u>\$ 3,408,465</u>
Total expenses				

See accompanying notes to financial statements.

ASCENCIA
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STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ (24,341)
Adjustments to reconcile change in net assets to net cash used in operating activities -	
Depreciation	143,360
Provision for bad debts	21,506
Changes in operating assets and liabilities --	
Grants and contributions receivable	(311,914)
Prepaid expenses and security deposits	6,232
Accounts payable and accrued expenses	77,819
Accrued interest	66,200
Deferred revenue	(8,114)
Client savings deposit	(17,493)
Net cash used in operating activities	<u>(46,745)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of property and equipment	<u>(29,117)</u>
Net cash used in investing activities	<u>(29,117)</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Payments on line of credit	<u>(3,979)</u>
Net cash used in financing activities	<u>(3,979)</u>
Net decrease in cash and cash equivalents	(79,841)

Cash and cash equivalents, beginning of year

421,382

Cash and cash equivalents, end of year

\$ 341,541

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the year for interest	<u><u>\$ 4,425</u></u>
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See accompanying notes to financial statements.

ASCENCIA
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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Note 1 -- Organization

Ascencia (“the Organization”) is a not-for-profit organization incorporated as PATH Achieve Glendale in California on June 15, 2006 with the mission to end homelessness in the Greater Glendale area, one person, one family, at a time. In 2016, the organization updated its mission to “lifting people out of homelessness, one person, one family, at a time.” The Organization serves approximately 1,200 homeless men, women and children each year through a range of housing and services that support their regaining a home of their own.

Until February 24, 2011, the Organization was affiliated with PATH Partners, a California non-profit benefit corporation. PATH Partners was the ultimate controlling party of the Organization and all actions of the Organization’s Board of Directors were subject to the approval of PATH Partners. On February 24, 2011, the Organization and PATH Partners entered into an agreement which called for amendment of the Organization’s bylaws and articles of incorporation, removing PATH Partners as the sole voting member. The Organization’s bylaws were amended effective May 13, 2011, and amended articles of incorporation reflecting the Organization’s name change to Ascencia were filed with the State of California on September 12, 2011.

On December 20, 2012 Ascencia merged with The S.H. Ho Hope and Compassion Center, a nonprofit public benefit corporation with no members. The S.H. Ho Hope and Compassion Center owned two properties under development. Ascencia, as the surviving corporation, assumes ownership of those assets.

The Organization operates the following programs:

- The Access Center serves as the Coordinated Entry System (CES) for all clients in the Glendale Continuum of Care by providing standardized assessment of all clients that prioritizes the most vulnerable for housing placement. Services include street outreach, comprehensive screening and assessment of client needs, and case management with specializations in mental health, substance use disorders, housing location, employment, financial literacy, and veterans’ services. Services based at the Access Center are client-centered and use a trauma-informed approach to support client use of services. The Organization’s Outreach Team canvasses streets to offer services to homeless people, respond to calls from the community to help homeless people and provides essential transportation to connect clients to needed services. The Access Center case management staff conducts a thorough review of each person’s social, economic and health needs and tailors a plan for continuing services at the Organization or a responsible referral to an appropriate provider. Case Managers assist clients by helping them clarify priorities, identify resources, and facilitate short and long-term planning. The on-site tele-psychiatric services and trauma therapists give clients access to essential mental health services, and volunteers provide additional services including arts and crafts and haircuts. Ascencia leads the Glendale CES, and supports the CES in the east San Fernando Valley and Northeast Los Angeles.

ASCENCIA
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019

Note 1 – Organization (Continued)

- Emergency Housing for up to 60 days for single adults and 120 days for families with minor children to help people address an immediate crisis. Entering adult clients must pass background and Megan’s Law checks, participate in case management services, which are provided through the Access Center, and are encouraged to save money. The 45-bed program can accommodate families of any size and configuration; children of any age are permitted. Volunteers provide substantial enrichment to the program; for example, school age children receive tutoring twice a week from School on Wheels, and volunteers and Guest Chefs purchase, prepare and serve dinner for the residents each night by utilizing over 400 volunteers a year from religious organizations, businesses, and service clubs.
- Scattered Site Permanent Supportive Housing for chronically homeless families and single adults provides a permanent home with social services support to ensure housing stability. The program focuses on helping families and individuals with disabilities and histories of extended or repeated homelessness overcome the physical and emotional setbacks of homelessness. This program, which converted from a family transitional housing program, in 2014, encountered difficulties finding families that met the HUD criteria for chronic homelessness. As a result, some of the units converted to single person households. The program is currently serving twelve households including 15 adults and 8 children.
- Next Step Permanent Supportive Housing provides a critical housing opportunity for single chronically homeless adults in recovery from alcohol or drug addiction. Clients in this program have completed residential rehabilitation, but need more time to establish their sobriety and repair the substantial damage done to their credit, employability and personal relationships following long-term alcohol and/or drug abuse and homelessness. As a permanent housing program, clients have the opportunity to work at their own pace to rebuild their lives, and the Organization staff provide the support and guidance to help them. Services include financial literacy training, recovery support groups, small grants for education, guidance on credit repair, and referrals for legal services.
- Housing Now Permanent Supportive Housing for chronically homeless single adults program, a 14-unit, scattered site program provides a permanent home with social services support to ensure housing stability. The program focuses on helping individuals with disabilities and histories of extended or repeated homelessness overcome the physical and emotional setbacks of homelessness.
- Foundation grants such as Dignity Health have enabled the Organization to continue to provide supportive housing for vulnerable, high-cost users of hospital services since the Social Innovation Fund 5-year grant ended in 2017. Originally known as the 10th Decile Project, Ascencia staff work with local hospitals to identify eligible patients. Services include assisting clients in connecting to housing and a medical home, and navigating needed health, nutrition education, assistance with daily living, financial literacy, and other services to stabilize them in permanent supportive housing and to reduce their impact on emergency services.

ASCENCIA
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019

Note 1 -- Organization (Continued)

- Ascencia's Homeless Services Liaison position serves as Ascencia's liaison to local government, business and other stakeholders on matters related to homelessness in Burbank and the east San Fernando Valley. This includes representing Ascencia in planning initiatives in the Cities of Los Angeles, Glendale and Burbank, the County of Los Angeles, and the multi-agency planning underway related to the Los Angeles River. When not in the field, Ascencia's Homeless Services Liaison is co-located at the City of Burbank Community Development Department. The position is responsible for being the point of contact on all homeless-related matters for the City of Burbank and coordinates closely with Ascencia's street outreach team.
- The City of West Hollywood contracts with Ascencia to provide a street outreach team, case management, and reserves ten of emergency housing beds for West Hollywood referrals. Both of these contracts will be renewed with enhancements beyond FY 2018-19.
- Since FY 2017-18 Ascencia has been expanding services by contracting with the Department of Health Services to provide intensive supportive services to 20 clients (20 per caseload) placed in permanent supportive housing through Housing for Health. The program expanded to five caseloads, serving 100 clients in 2018-19.

In addition to serving as the lead provider of homeless services in the Glendale Continuum of Care and participation in the Continuum's Homeless Management Information System, the Organization is a service hub within the Los Angeles Continuum of Care's Service Planning Area 2 (San Fernando Valley) Coordinated Entry System, and its Service Planning Area 4 (Metro/Northeast Los Angeles) Coordinated Entry System.

Note 2 -- Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation

The Organization prepares its annual financial statements in accordance with Accounting Standards Codification (FASB ASC) 958-210-50-3 (formerly FASB No. 117, *Financial Statements of Not-for-Profit Organizations*, and the American Institute of Certified Public Accountants' Audit and Accounting Guide, *Not-for Profit Organizations*).

ASCENCIA
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019

Note 2 -- Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities (“ASU 2016-14”). The ASU amends the current reporting model for not-for-profit organizations and requires certain additional disclosures. The significant changes include:

- (i) Requiring the presentation of two net asset classes classified as “Net Assets Without Donor Restrictions” and “Net Assets With Donor Restrictions”;
- (ii) Modifying the presentation of underwater endowment funds and related disclosures;
- (iii) Requiring the use of the placed in service approach to recognize the satisfaction of restrictions on gifts used to acquire or construct long-lived assets, absent explicit donor stipulations otherwise;
- (iv) Requiring that all not-for-profits present an analysis of expenses by function and nature in a separate statement or in the notes to the financial statements;
- (v) Requiring disclosure of quantitative and qualitative information on liquidity;
- (vi) Presenting investment return net of external and direct internal investment expenses;
- (vii) Modifying other financial statement reporting requirements and disclosures intended to increase the usefulness to the reader.

ASU 2016-14 is effective for the Organization’s fiscal year beginning July 1, 2018, and the Organization has applied the amendments retrospectively as required by the standard. A presentation of net assets as previously reported as of June 30, 2018, as required under ASU 2016-14 follows:

	<u>As Previously Presented</u>	<u>Presentation Under ASU 2016-14</u>		
		<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Net Assets:				
Unrestricted	\$ 2,339,300	\$ 2,339,300	\$ -	\$ 2,339,300
Temporarily restricted	67,168	-	67,168	67,168
Permanently restricted	-	-	-	-
 Total net assets	 <u>\$ 2,406,468</u>	 <u>\$ 2,339,300</u>	 <u>\$ 67,168</u>	 <u>\$ 2,406,468</u>

ASCENCIA
(a Not-for-Profit Corporation)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019

Note 2 -- Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

The Organization considers cash and cash equivalents to be all highly liquid investments with a maturity of three months or less when acquired.

Contributions and Funding

Contributions are recognized at fair value when the donor makes an unconditional promise to give to the Organization. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are 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. An allowance is provided for those promises to give estimated to be uncollectible, as necessary.

Contributed Goods and Services

The Organization receives contributed services from professionals such as therapy, case management, housing retention, crisis intervention and medical support to homeless individuals and families. The receipt of donated services by the Organization is recorded at fair value and reflected as gifts in-kind and included in revenue and support in the accompanying statement of activities and as gifts in-kind services expense in the accompanying statement of functional expenses.

Net Assets Classifications

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

- (i) **Net Assets Without Donor Restrictions**
Represent net assets which are not restricted by donors. Net Assets Without Donor Restrictions are funds that are fully available, at the discretion of the Board of Trustees and management, for the Organization to utilize in any of its programs or supporting services. Net Assets Without Donor Restrictions may be designated for specific purposes by the Board of Trustees or may be limited by legal requirements or contractual agreements with outside parties.
- (ii) **Net Assets With Donor Restrictions**
Represent net assets which are subject to donor-imposed restrictions whose use is restricted by time and/or purpose. A portion of the Organization's Net Assets With Donor Restrictions is subject to donor-imposed restrictions that require the Organization to use or expend the gifts as specified, based on purpose or passage of time. When donor restrictions expire, that is, when a purpose restriction is fulfilled or a time restriction ends, such net assets are reclassified to Net Assets Without Donor Restrictions and reported on the statement of activities as net assets released from restrictions.

ASCENCIA
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019

Note 2 -- Summary of Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment are recorded at cost, except for donated equipment, which is stated at fair value at date of receipt. The Organization follows the practice of capitalizing all expenditures for equipment in excess of \$5,000. The straight-line method of depreciation is calculated based on the estimated useful lives of the assets by category as noted below:

Vehicles	5 years
Software	3-5 years
Furniture and fixtures	7 years
Equipment	5 years
Building	27-39 years

Management of the Organization assesses the recoverability of property and equipment whenever a triggering event occurs. In the event that there is a decline in value, the Organization performs an analysis to determine if the decline in value may not be recoverable. Management has determined that no unrecoverable declines in the market values of property and equipment exist at June 30, 2019.

Income Taxes

The Organization is a public charity that has obtained an exemption from federal income taxes under Section 501(c) (3) of the Internal Revenue Code and California state income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision has been made for federal or state income taxes. The Organization is subject, however, to Federal and California income taxes on unrelated business income as stipulated in Internal Revenue Code Section 511 and Regulation Section 1.511. For the fiscal year ended June 30, 2019, the Organization had no unrelated business taxable income.

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax exempt status of the Organization and various positions related to the potential sources of unrelated business tax able income. There were no unrecognized tax benefits identified or recorded as liabilities for fiscal years ended June 30, 2019.

Ascencia's Forms 990, Return of Organization Exempt from Income Tax, for years ended June 30, 2017, 2018 and 2019 may be subject to examination by the Internal Revenue Service, generally for three years after they were filed.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019

Note 2 -- Summary of Significant Accounting Policies (Continued)

Functional Allocation of Expenses

The costs of providing for the various programs and other activities have been summarized on a functional basis on the accompanying Statement of Activities and in more detail on the Statement of Functional Expenses. These expenses can be directly identified with the program or supporting service to which they relate and are charged accordingly, salaries and benefits are allocated based on of time spent. Indirect expenses that benefit multiple functional areas are allocated based upon program attributes, space utilization, salary allocation by position and on full time equivalent estimates on time spent.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates embodied in these financial statements include the collectability of receivables and expense allocation. Actual results could differ from those estimates.

Grants Receivable

The Organization's grants receivable are due in less than one year and include receivables from private foundations and exchange transactions due from contracted government grant reimbursements request. Management has determined that no allowance is necessary, and management believes that all grants receivable are collectible.

Fair Value Measurement

The Organization adopted the standards for reporting, Fair Value Measurements, for all financial assets and liabilities and nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. The standard defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements.

The Organization accounts for certain assets and liabilities at fair value. The hierarchy below lists three levels of fair value based on the extent to which inputs used in measuring fair value are observable in the market. The Organization categorizes each of its fair value measurements in one of these three levels based on the lowest level input that is significant to the fair value measurement in its entirety.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019

Note 2 -- Summary of Significant Accounting Policies (Continued)

Fair Value Measurement (Continued)

These levels are:

Level 1 – inputs are based upon unadjusted quoted prices for identical instruments traded in active markets.

Level 2 – inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active.

Level 3 – inputs are generally unobservable and typically reflect management’s estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques, including discounted cash flows.

Recent Accounting Pronouncements – Leases

In February 2016, the FASB issued ASU 2016-02 “Leases” to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities in the financial statements and disclosing key information about leasing arrangements. Under ASU 2016-02, a lessee will recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right to use asset representing its right to use the underlying asset for the lease term. The statement is effective for the fiscal year ending June 30, 2021. The Organization is currently evaluating the effects the adoption of this statement will have on the financial statements.

In January 2018, the FASB issued ASU 2018-08, Contributions Received and Made, to clarify and improve the scope and accounting guidance for contribution received and made. The update provided guidance on what is an exchange transaction and what is a contribution. If a transaction is determined to be a contribution, it has to determine if it is conditional or unconditional. A conditional transaction is an agreement, which includes both a ‘barrier’ that must be overcome and either a ‘right of asset return’ or ‘release of promise to give.’ Ambiguous donor stipulation are presumed to be conditional if not clearly unconditional. Barrier indicators are measurable performance requirements before entitlement of assets or stipulations related to the purpose of the agreement or limiting recipient’s discretion in conducting an activity. This statement is effective for the year ending June 30, 2020 for contributions made and the year ended June 30, 2021 for contributions received. The Organization is currently evaluating the effects of this statement will have on the financial statements.

Note 3 -- Property and Equipment

Property and equipment are summarized as follows at June 30, 2019:

Vehicles	\$ 53,588
Software	14,921
Furniture and fixtures	62,475
Equipment	71,971
Building and land	<u>4,867,462</u>
	5,070,417
Less accumulated depreciation	<u>(719,963)</u>
Total	<u>\$ 4,350,454</u>

Depreciation expense amounted to \$143,360 for the year ended June 30, 2019.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019

Note 4 -- Client Savings Deposit

As part of its program services, the Organization collects money orders from its clients and social security benefits for the benefit of its clients. The full amount is returnable to the clients. As of June 30, 2019 client saving deposits totaled \$4,740.

Note 5 -- Line of Credit

The Organization maintains a one year, \$400,000 revolving bank line of credit that renews each year. The current line of credit expires on December 1, 2020 and bears interest at the greater of prime or 5.0%. The loan agreement requires that all assets are pledged as collateral and include certain covenants, which were substantially complied with by the Organization. The line of credit balance at June 30, 2019 was \$101,630.

Note 6 -- Net Assets With Donor Restriction

Net assets subject to donor restrictions at June 30, 2019 are available for the following purposes or periods:

Water fountains	\$ 413
Homeless health education	54
Baby diapers	448
Client contacted through 100K Homes Campaign	2,860
Gardena	5,026
Personnel costs	1,204
Furnishings and equipment	1,180
Advancing Ascencia	2,662
Volunteer Coordinator	18,000
Financial Literacy	<u>44,669</u>
Total	<u>\$ 76,516</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose specified by the donors. Restriction released during fiscal year ended June 30, 2019 are as follows:

Financial Literacy	\$ 18,467
Personnel costs	<u>12,185</u>
Total	<u>\$ 30,652</u>

ASCENCIA
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019

Note 7 -- Commitments and Contingencies

Leases

The Next Step, Scattered Site Transitional Housing, and Rapid Re-housing programs have month-to-month lease payments for apartment housing that range from \$1,075 to \$3,250 per month. The longest non-cancellable apartment leases, with rent at \$5,971 per month, will expire at the end of May 2020. The Organization also has operating leases on equipment with payments of \$737 per month with expiring dates through September 2024.

The future minimum payments required under these leases are as follows:

<u>Years Ending</u> <u>June 30,</u>	<u>Operating Lease</u> <u>Commitments</u>
2020	\$ 74,137
2021	8,884
2022	8,884
2023	8,215
2024 and thereafter	<u>1,728</u>
Total minimum commitments	<u>\$ 101,848</u>

Housing facilities under the Next Step and Scattered Site Transitional Housing programs are subleased to the clients. Rental income from these program subleases was \$130,029 for fiscal year ended June 30, 2019.

Indemnities and Guarantees

The Organization has made certain indemnities and guarantees under which it may be required to make payments in relation to certain transactions. The Organization indemnifies its directors, officers, employees, and agents to the maximum extent permitted under the laws of the state of California. In connection with its facility lease, the Organization has indemnified its lessor for certain claims arising from the lease of facilities. The duration of the guarantees and indemnities varies, and in many cases is indefinite. These guarantees and indemnities do not provide for any limitation of the maximum potential future payments the Organization could be obligated to make. As of the report date, the Organization has not been obligated to make any payments for these obligations and no liabilities have been recorded for these indemnities and guarantees in the accompanying statement of financial position.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019

Note 8 -- Retirement Plan

The Organization maintains a deferred annuity plan under Internal Revenue Code Section 403(b) which covers all full-time employees who have been employed by the Organization for at least 90 days. Employee contributions are voluntary. After two years of employment, the Organization contributes five percent of qualified wages. The Organization's contributions vest at the earlier of retirement age, death, disability or termination. There were no contributions for the year ended June 30, 2019.

In April 2016, the Organization adopted a profit sharing plan under Section 401(k) of the Internal Revenue Code that covers all employees who meet the plan's eligibility requirements. The Plan provides for profit sharing contributions by the Organization to each qualifying participant's individual account under a pro rata formula. Under this formula, each qualifying participant's individual account will receive a pro rata allocation. This allocation is based on the qualifying participant's compensation in relation to the total compensation of all qualifying participants. The Organization's contributions were \$21,382 for the year ended June 30, 2019.

Note 9 -- Notes and Interest Payable

Notes and interest payable include the following:

City of Glendale - Note Payable

In April 2014, the Organization entered into a loan agreement with City of Glendale whereas the City provided a loan for the renovation of the nine-unit apartment at 1911 Gardena Ave in Glendale. The loan agreement requires that apartment building be used and operated for not less than twenty years as affordable rental housing, with all nine units restricted to occupancy by very low income households. The loan is made available for drawing from City funds. A promissory note was executed between City of Glendale and Ascencia in the amount of \$325,000. The note is secured by a Deed of Trust with interest rate of four percent (4%) simple interest per annum. There are no periodic payments and maturity date of the loan is 20 years following the completion of renovation of the nine-unit apartment at 1911 Gardena Ave in Glendale. At the end of the 20-year term, provided that no event giving the City the right to accelerate repayment of the loan has occurred, the unpaid principal amount and unpaid accrued interest shall be fully forgiven.

\$ 325,000

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019

Note 9 -- Notes and Interest Payable (Continued)

City of Glendale- Conditional Grant Agreement and Repayment Note

The conditional grant agreement in the amount of \$2,067,392 entered between the City of Glendale and S.H. Ho (assumed by Ascencia as of December 27, 2012) stipulates that the funds are to be used to acquire and rehabilitate a commercial building at 1851 Tyburn Street in Glendale and to use the property for the Access Center and Emergency Shelter programs. In conjunction with the conditional grant agreement, a City Repayment Note was executed. The note is secured by a Deed of Trust, Security Agreement and Fixture Filing, with assignment of rents for the benefit of the City of Glendale. The interest on the outstanding balance of the note is accrued at 2.57% per annum.

For the period beginning August 16, 2010 and until the period that is 10 years after July 29, 2010 (“ Full Repayment Period”), if Organization does not default under the grant agreement during the Full Repayment Period, the Organization’s obligation to pay the City of Glendale 50% of the note amount and all interest that has accrued during the Full Repayment Period shall be extinguished as of the end of the Full Repayment Period.

For the period commencing after the date that is 10 years and 1 day after the Full Repayment Period and the date that is 20 years after July 29, 2010 (“Pro Rata Repayment Period”), the Organization shall pay 5% of the principal owing on the note amount for each year the Organization has discontinued the use of the Access Center Homeless Services and Permanent Supporting Housing Units during the Pro Rata Repayment Period. If the Organization has continued the use of the Access Center for Homeless Services and Permanent Supporting Housing Units during the full duration of the Pro Rata Repayment Period, then the note amount and all interest accrued during the Pro Rate Repayment Period shall be extinguished.

	2,067,392
Accrued interest payable	<u>318,000</u>
	<u>\$ 2,710,390</u>

Note 10 -- Concentration Risk

Financial instruments that subject the Organization to a concentration of credit risk consist of cash and short-term investments held at financial institutions, which from time to time, may exceed federally insured amounts. The organization has not experienced any losses in such accounts and has its funds in a financial institution that carries insurance in excess of federal insured limits. There were no uninsured cash balances at June 30, 2019.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019

Note 10 -- Concentration Risk (Continued)

Services provided by the Organization are governed by grant agreements with governmental agencies. Most of these grant agreements involving the Organization are for fixed terms and expire on an annual basis. There can be no assurances that the Organization will be able to obtain future grant agreements as deemed necessary by management. The loss of some of the current grants or the inability to obtain future grants could have an adverse effect on the Organization's financial position and results of operations.

Management believes that they will be able to continue obtaining appropriate grants to fund future operations based on their historical ability to obtain new grant agreements and based on their relationships with the funders. The Organization's services are funded primarily by the U.S. Department of Housing and Urban Development, which represents approximately 63% of grant income and 44% of total revenue and support for the year ended June 30, 2019. The Organization is required to comply with Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and other federal audit requirements. Failure of the Organization to comply with applicable regulatory requirements can result in, among other things, loss of funding, warning letters, fines, injunctions, civil penalties, and could have an adverse effect on the Organization's financial position and operations.

Note 11 -- Related Party Transactions

Total contributions received from individual members of the board of directors and staff for the year ended June 30, 2019 were \$75,398.

Contributions receivable as of June 30, 2019 include \$2,750 from members of the board of directors.

Note 12 -- Liquidity and Availability of Resources

As part of the Organization's liquidity management, it invests cash in excess of daily requirements in liquid investments. Because donor restrictions require resources to be used in a particular matter, the Organization maintains sufficient resources to meet those responsibilities to its donors. The Organization primarily invests in mutual funds and exchange traded funds that can be settled within two days to meet the Organization's expenditures. Cash is raised as soon as obligations arise. The Organization includes investments in various types of domestic and international equity and blended equity and debt funds that are liquid.

The Organization's financial assets due within one year of the statement of financial position date for general expenditures are as follows:

Financial Assets as of June 30, 2019:	
Cash and cash equivalents	\$ 341,541
Accounts and contribution receivable	<u>666,829</u>
Total financial assets available within one year	<u>1,008,370</u>
Less: Donor-imposed restrictions making financial assets unavailable for general expenditure	<u>(76,516)</u>
Total financial assets available within one year	<u>\$ 931,854</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019

Note 13 -- Subsequent Events

Management has evaluated subsequent events through February 29, 2020 which is the date the financial statements were made available to be issued.

SUPPLEMENTARY INFORMATION

ASCENCIA
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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2019

<u>Federal Grantor / Pass-Through Grantor: Program Name</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Pass - Through Entity Identifying Number</u>	<u>Federal Awards Expenditures</u>
<i>U.S. Department of Housing and Urban Development:</i>			
<i>Passed-through the City of Glendale</i>			
Emergency Shelter Grant	14.231	C106850	\$ 49,754
Emergency Shelter Grant	14.231	C106802	<u>24,842</u>
			<u>74,596</u>
Community Development Block Grant / Community Outreach Program	14.218	C106842	20,000
Housing Navigation and Street Outreach	14.218	C106888	<u>46,155</u>
			<u>66,155</u>
Supportive Housing Program / Access Center / CES Reallocation	14.235	C106609, C106887	541,127 *
Supportive Housing Program / Scattered Site Family Transitional Housing	14.235	C106638, C106902	190,678 *
Supportive Housing Program / Next Step Permanent Housing	14.235	C106834, C8000450	142,586 *
Supportive Housing Program / Housing Now	14.235	C106795, C800451	<u>323,009</u> *
			<u>1,197,400</u>
<i>Passed-through the City of West Hollywood</i>			
Community Development Block Grant / Community Outreach Program	14.218	C8172	<u>35,435</u>
<i>Total U.S. Department of Housing and Urban Development</i>			<u>1,373,586</u>
<i>Federal Emergency Management Agency:</i>			
Emergency Food and Shelter Program	97.024		<u>5,304</u>
<i>Total expenditures of federal awards</i>			<u>\$ 1,378,890</u>

* Major programs

See accompanying note to schedule of expenditures of federal awards.

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NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2019

Note 1 -- Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Organization under programs of the federal government for the year ended June 30, 2019 and is presented on the 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. Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cashflows of the Organization.

Note 2 -- Outstanding Loans

The City of Glendale loaned the Organization \$2,067,392 in a prior year. The source of funds was from the United States Department of Housing and Urban Development under its Section 108 Loan Guarantee program. The outstanding loan balance at June 30, 2019 was \$2,067,392.

Note 3 -- Cost Principles

The Organization applied cost principles under Title 2 US Code of Federal Regulation Part 200, Subpart E for year ended June 30, 2019. The Organization did not elect to use the 10% de minimus indirect cost rate.