

WARREN VILLAGE, INC.

Financial Statements
For The Year Ended March 31, 2018
(With Summarized Financial Information
For The Year Ended March 31, 2017)

Together With Independent Auditors' Report



INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of the
Warren Village, Inc:

Report on the Financial Statements

We have audited the accompanying financial statements of Warren Village, Inc., which comprise the statement of financial position as of March 31, 2018, and the related statement of activities, functional expense, 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.

Auditors' 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. 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 auditors' 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.

Independent Auditors' Report (Continued)

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 Warren Village, Inc. as of March 31, 2018, 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.

Emphasis of Matter

As discussed in Note 16, the financial statements as of March 31, 2017, have been restated to properly reflect promises to give and accrued liabilities.

Reporting on Summarized Comparative Information

The Organization's March 31, 2017, financial statements were audited by other auditors, which an unmodified audit opinion on those audited financial statements were issued in their report dated August 2, 2017, prior to the restatement, and have been included in this report for summarized comparative purposes only.

JDS Professional Group

August 23, 2018

WARREN VILLAGE, INC.

Statement Of Financial Position

As Of March 31, 2018

(With Summarized Financial Information For The Year Ended March 31, 2017)

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ASSETS	2018	2017
Current Assets:		
Unrestricted cash and cash equivalents	\$ 1,501,937	\$ 1,276,274
Restricted cash	409,456	425,802
Accounts receivable, net	179,827	178,534
Promises to give	56,700	127,700
Prepaid expenses and other assets	21,497	56,042
Total Current Assets	2,169,417	2,064,352
Non-Current Assets:		
Restricted cash - tenant security deposits	25,235	27,330
Beneficial interest in assets held at foundations	378,514	331,321
Investments	2,096,840	1,946,889
Property and equipment, net	3,995,335	4,138,249
Escrow deposits	364,507	362,533
Total Non-Current Assets	6,860,431	6,806,322
TOTAL ASSETS	\$ 9,029,848	\$ 8,870,674
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable and other accrued liabilities	\$ 72,292	\$ 126,190
Deferred revenue	7,907	
Other current liabilities	5,632	12,644
Accrued payroll costs	179,413	176,909
Total Current Liabilities	265,244	315,743
Non-Current Liabilities		
Notes payable, net of current portion	300,000	300,000
Total Non-Current Liabilities	300,000	300,000
Total Liabilities	565,244	615,743
Net Assets:		
Unrestricted:		
Board designated operating reserve	453,000	453,000
Investment in property and equipment, net of related debt	3,695,335	3,838,249
Undesignated	3,796,792	3,504,661
Total Unrestricted Net Assets	7,945,127	7,795,910
Temporarily restricted	140,963	127,700
Permanently restricted	378,514	331,321
Total Net Assets	8,464,604	8,254,931
TOTAL LIABILITIES AND NET ASSETS	\$ 9,029,848	\$ 8,870,674

The accompanying notes are an integral part of the financial statements.

WARREN VILLAGE, INC.

Statement Of Activities

For The Year Ended March 31, 2018

(With Summarized Financial Information For The Year Ended March 31, 2017)

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	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total	2017 Total
Support And Revenue:					
Contributions	\$ 1,920,185	\$ 122,000	\$	\$ 2,042,185	\$ 1,853,542
Grants	163,306			163,306	182,076
Program service revenue -					
Housing	1,098,855			1,098,855	1,102,729
Learning center	1,259,303			1,259,303	1,183,242
In-kind contribution	233,741			233,741	161,745
Special events net of direct benefits of \$81,560 and \$113,772	178,210			178,210	142,643
Changes in value of beneficial interest			47,193	47,193	27,286
Investment income	140,003			140,003	172,056
Net assets released from restrictions-					
Release from purpose restriction	108,737	(108,737)			
Total Support and Revenue	<u>5,102,340</u>	<u>13,263</u>	<u>47,193</u>	<u>5,162,796</u>	<u>4,825,319</u>
Expenses:					
Program Services -					
Housing	1,015,542			1,015,542	1,045,877
Learning center	1,884,216			1,884,216	1,666,074
Family services	801,217			801,217	738,137
First step	185,178			185,178	193,379
Volunteers	83,646			83,646	117,971
Total Program Services	<u>3,969,799</u>			<u>3,969,799</u>	<u>3,761,438</u>
Supporting Services -					
Management and general	469,937			469,937	388,425
Development and communications	513,387			513,387	492,279
Total Supporting Services	<u>983,324</u>			<u>983,324</u>	<u>880,704</u>
Total Expenses	<u>4,953,123</u>			<u>4,953,123</u>	<u>4,642,142</u>
CHANGES IN NET ASSETS	<u>149,217</u>	<u>13,263</u>	<u>47,193</u>	<u>209,673</u>	<u>183,177</u>
Net Assets, Beginning of Year, As Originally Reported	7,992,892		160,506	8,153,398	
Restatement and Reclassification	(196,982)	127,700	170,815	101,533	8,071,754
Net Assets, Beginning of Year, As Restated and Reclassified	<u>7,795,910</u>	<u>127,700</u>	<u>331,321</u>	<u>8,254,931</u>	
NET ASSETS, END OF YEAR	<u>\$ 7,945,127</u>	<u>\$ 140,963</u>	<u>\$ 378,514</u>	<u>\$ 8,464,604</u>	<u>\$ 8,254,931</u>

The accompanying notes are an integral part of the financial statements.

WARREN VILLAGE INC.

Statement Of Functional Expenses For The Year Ended March 31, 2018 (With Summarized Financial Information For The Year Ended March 31, 2017)

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	Program Services					Supporting Services		
	Housing	Learning Center	Family Services	First Step	Volunteers	Total	Management & General	Development & Communications
Salaries, payroll taxes, and employee benefits	\$ 238,521	\$ 1,526,096	\$ 497,073	\$ 97,865	\$ 69,842	\$ 2,429,397	\$ 242,042	\$ 345,530
Contract Labor								
Maintenance	107,226	107,914	8,703	8,605	3,201	235,649	53,439	19,805
Management	37,839					37,839	43,889	81,728
Professional fees	5,700	2,000	175	490		8,365	15,406	23,946
Security	116,173			1,539		117,712		117,712
In-kind/Volunteer services		5,400	133,734	3,034		142,168	2,844	64,859
General	7,614	31,371	1,864	917		41,766	8,879	50,645
Program Expenses								
Supplies	60,751	95,081	38,560	21,146	1,324	216,862	1,302	2,723
Scholarships			42,626		2,458	45,084		100
General	15,426	22,362	38,317	3,956	5,329	85,390	37,285	167,403
Occupancy and Other Expenses								
Interest						-		-
Utilities	138,337	4,683	6,633	18,041	150	167,844	10,446	179,329
General	100,100	71,192	27,477	29,585	1,342	229,696	25,853	289,977
Subtotal	827,687	1,866,099	795,162	185,178	83,646	3,757,772	441,385	513,387
Depreciation	187,855	18,117	6,055			212,027	28,552	240,579
TOTAL EXPENSES	\$ 1,015,542	\$ 1,884,216	\$ 801,217	\$ 185,178	\$ 83,646	\$ 3,969,799	\$ 469,937	\$ 513,387
							\$ 4,953,123	\$ 4,642,142

The accompanying notes are an integral part of the financial statements.

WARREN VILLAGE, INC.

Statement Of Cash Flows

For The Year Ended March 31, 2018

(With Summarized Financial Information For The Year Ended March 31, 2017)

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	2018	2017
Cash flows from operating activities:		
Changes in net assets	\$ 209,673	\$ 183,177
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	240,579	239,432
Donated property and equipment	(23,872)	
Unrealized and realized (gains) loss on investments	(101,073)	(234,341)
Change in beneficial interest	(47,193)	
Change in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(1,293)	(38,682)
(Increase) decrease in grants receivable	71,000	(82,505)
Increase (decrease) in prepaid expenses and other assets	(34,545)	36,343
Increase (decrease) in accounts payable and accruals	(58,406)	(57,188)
Increase (decrease) in deferred revenue	7,907	
Net cash provided by operating activities	<u>262,777</u>	<u>46,236</u>
Cash flows from investing activities:		
Purchases of investments	(1,003,923)	
Sales of investments	1,024,136	
Change in escrow deposits	(1,974)	(1,919)
Purchase of property and equipment	(73,794)	(49,542)
Net cash provided by investing activities	<u>(55,555)</u>	<u>(51,461)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	207,222	(5,225)
Cash And Cash Equivalents, Beginning Of Year	<u>1,729,406</u>	<u>1,734,631</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,936,628</u>	<u>\$ 1,729,406</u>

The accompanying notes are an integral part of the financial statements.

(1) **Nature Of The Organization**

Warren Village, Inc. (the “Organization”) is a Colorado non-profit corporation formed in 1969 and tax exempt under Section 501(c)(3) of the United States Internal Revenue Code (the “Code”). The Organization operates an apartment building under Section 236 and 8 of the National Housing Act (the “Project”). The Project is regulated by the United States Department of Housing and Urban Development (“HUD”). The Organization also operates an on-site children’s learning center and provides comprehensive family services for single-parent family tenants.

(2) **Summary Of Significant Accounting Policies**

Method Of Accounting

The financial statements of the Organization have been prepared on the accrual basis.

Basis Of Presentation

Financial statement presentation follows the recommendations of *Financial Statements of Not-for-Profit Organizations*. The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Use Of 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 revenues and expenses during the reported period. Actual results could differ from those estimates.

Fair Value Measurements

The Organization follows *Fair Value Measurements*, which among other things requires enhanced disclosures about investments that are measured and reported at fair value and establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- | | |
|---------|---|
| Level 1 | Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access. |
|---------|---|

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

Fixed income securities, equities and stocks: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds: Valued at the published net asset value (NAV) of the shares held at the reporting date.

Beneficial interest in assets held at foundations: Valued as reported by the foundation holding the endowment funds.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

In general, investments are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect the investment balances and the amounts reported in the Statement of Financial Position.

The carrying amount reported in the Statement of Financial Position for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair value because of the immediate or short-term maturities of these financial instruments.

Cash And Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and money market accounts. The Organization considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Cash and cash equivalents consists of the following as of March 31, 2018:

Unrestricted cash and cash equivalents	\$ 1,501,937
Restricted cash	409,456
Restricted cash - tenant security deposits	25,235
Total cash and cash equivalents	<u>\$ 1,936,628</u>

Restricted Cash

Restricted Cash - Committed Reserves as of year ended March 31, 2018 consist of reserves required by the Colorado Housing and Finance Authority ("CHFA") Tax Credit Exchange Program ("TCEP") (See Note 11) in the amount of \$409,456.

As of year ended March 31, 2018, the Organization also had accrued management fees due to CHFA in the amount of \$5,632.

HUD requires security deposits collected from tenants to be held in separate accounts and considered restricted cash. Restricted cash arising from tenant security deposits held as of year ended March 31, 2018 totaled \$25,235.

Accounts Receivable

Accounts receivable arise in the ordinary course of renting housing units and providing learning and family services. Contributions receivable may arise from unconditional promises to give, which are recognized when the promise is received, or from conditional contributions whose conditions are to be satisfied.

The Organization uses the allowance method of accounting for doubtful accounts, estimating the amounts of uncollectible receivable and recording allowances based upon historical bad debt experience and management's assessment of collectibility. No allowances were deemed necessary for the year ended March 31, 2018.

Investments

Investments in marketable securities and debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the

restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

Property, Equipment and Leasehold Improvements

Property, equipment and leasehold improvements with a value greater than \$5,000 are recorded at cost, or, if donated, at the fair value at the date of receipt. Depreciation and amortization are computed using the straight-line method based on estimated useful lives. Estimated useful lives used in depreciation calculations are as follows:

Computers, website, and software	3 years
Furniture and equipment	5 to 10 years
Vehicles	10 years
Building and improvements	10 to 40 years

Property and equipment and intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying values of an asset or asset group may not be recoverable. The amount of potential impairment loss is calculated by the excess of fair value over the assets carrying value. Fair value is generally determined using a discounted cash flow analysis. No impairments were recognized for the year ended March 31, 2018.

Revenue Recognition

Unrestricted contributions are recognized when delivered or unconditionally promised to the Organization. Restricted contributions are recognized when the conditions upon which they depend are satisfied.

Program service revenues are recognized monthly when earned. Prepaid rental service payments received are initially recorded as deferred revenue and recognized when earned.

In-kind donations of property, materials, and personal services are recorded at estimated fair value on date of receipt.

Functional Allocation Of Expenses

The costs of providing the programs and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated between the programs and supporting services benefitted.

Reclassifications

Certain amounts have been reclassified in the prior year for comparative purposes.

Prior Year Summarized Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended March 31, 2017, from which the summarized information was derived.

Evaluation of Subsequent Events

The Organization has evaluated subsequent events through August 23, 2018, the date which the financial statements were available to be issued.

(3) Tax Exempt Status

The Organization has previously received notice from the Internal Revenue Service of exemption from income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization other than a private foundation under Section 509(a)(1). Accordingly, the accompanying financial statements contain no provision for income taxes.

The Organization follows *Accounting for Uncertainty in Income Taxes* accounting standard which clarifies the accounting and reporting for uncertainties in income tax law and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in an impact of the tax position if that position will more likely than not be sustained on audit, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon settlement, presuming the tax position is examined by the appropriate taxing authority that has knowledge of all relevant information. During the year ended March 31, 2018, the Organization performed an evaluation of uncertain tax positions and did not note any matters that would require recognition or which may have an effect on its tax-exempt status.

The Organization is no longer subject to U.S. federal income tax audits on its Form 990 by taxing authorities for fiscal years prior to 2015, respectively. The years subsequent to these years contain matters that could be subject to differing interpretations of applicable tax laws and regulations as it relates to the amount and/or timing of income, deductions, and tax credits. Although the outcome of tax audits is uncertain, the Organization believes no issues would arise.

(4) Beneficial Interest In Assets Held at Foundations

The Organization entered into agreements with The Denver Foundation and Rose Community Foundation (the “Foundations”) to establish permanent endowment funds to be held by the Foundations.

The Organization granted variance power to the Foundations which allows the Foundations to modify any condition or restriction on its distributions for any specified charitable purpose or to any specified organization if, in the sole judgement of the Foundations' Board of Directors such restriction or condition become unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the Organization. In accordance with the requirements of the *Transfers of Assets to a Nonprofit Organization or Charitable Trust That Raises or Holds Contributions for Others* accounting standard, the transfers were not considered to be a contribution from the Organization to the Foundations, but rather was accounted for as reciprocal transfer between the Organization and the Foundations. Therefore, the transfers are reflected collectively in the Statement of Financial Position as Beneficial interest in assets held by Foundations. The endowments are held and invested by the Foundations for the benefit of the Organization. The Organization can receive annual distributions of the six percent of the market value of the endowments based on the four-quarter trailing average value, net of annual administrative fees. However, the Organization will never receive the principal assets held by the Foundations except only to meet an emergency and with the approval by three-fourth of all the Organization and the Foundation Board of Directors. As of March 31, 2018, the fair value of the assets held by the Foundations amounted to \$378,514. Distributions are available to fund the Organization's Learning Center and the Organization's programs that further children's education and enrichment activities. There was no distribution received by the Organization during the year ended March 31, 2018.

(5) Investments

The following table presents the Organization's fair value hierarchy and major categories for those assets measured at fair value on a recurring basis as of March 31, 2018:

	Level 1	Level 2	Level 3	Total
Equities and mutual funds -				
Real estate	\$ 58,667	\$	\$	\$ 58,667
Small value	62,277			62,277
Foreign small/mid value	88,192			88,192
Diversified emerging markets	92,706			92,706
Mid cap growth	225,608			225,608
Foreign large blend	212,928			212,928
Large value	517,031			517,031
Fixed income mutual funds	338,461			338,461
U.S. treasury obligations	196,164			196,164
U.S. government agencies	41,500			41,500
World large stock	24,686			24,686

WARREN VILLAGE, INC.

Notes To Financial Statements (Continued)

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Corporate and foreign bonds	180,792		180,792
Beneficial interest in assets held at foundations		378,514	378,514
Investments at fair value	<u>\$ 2,039,012</u>	<u>\$</u>	<u>\$ 378,514</u>
Money market funds			57,828
Total investments			<u>\$ 2,475,354</u>

The following schedule summarizes a reconciliation of Level 3 investments:

Balance, April 1, 2017	\$ 331,321
Contributions	10,000
Interest and dividend income	3,306
Total realized and unrealized losses	33,887
Balance, March 31, 2018	<u>\$ 378,514</u>

The following schedule summarizes investment income for the year ended March 31, 2018:

Interest and dividend income	\$ 45,934
Investment advisor fees	(7,004)
Net realized and unrealized gain	101,073
Investment income, net	<u>\$ 140,003</u>

(6) Concentrations Of Credit Risk

The Organization's cash accounts are held at a financial institution at which deposits are insured up to \$250,000 by the FDIC. As of May 31, 2017, the Organization's cash deposits exceeded the FDIC limit by approximately \$435,600. Management monitors the credit risks relative to cash deposits over the FDIC limit.

(7) Property And Equipment

Property and equipment consisted of the following as of March 31, 2018:

Building and improvements	\$ 6,173,756
Furnishings and equipment	1,158,302
Vehicles	148,435
	<u>7,480,493</u>
Less accumulated depreciation and amortization	(3,719,315)
	<u>3,761,178</u>
Land	234,157
	<u>\$ 3,995,335</u>

(8) Escrow Deposits

In accordance with HUD requirements, monthly deposits are placed in escrow accounts. The funds are restricted and may only be used for their specified purposes. Escrow balances consist of the following as of March 31, 2018:

Replacement reserve	\$ 318,915
Mortgage and property insurance	45,592
	<u>\$ 364,507</u>

(9) Line Of Credit

The Organization maintains a \$200,000 line of credit agreement with a financial institution. The line of credit accrues interest at a variable rate and expires in November 2018. No amounts were due under the line of credit agreement as of March 31, 2018.

(10) Notes Payable

The Organization has a note payable to the City and County of Denver at 0% per annum (the "Note"). The Note is to be forgiven if the property at 1323 Gilpin Street maintains compliance with terms of the agreement through 2025 (see Note 11). The note is collateralized by a deed of trust on property at 1323 Gilpin Street. This note requires certain rental occupancy rules, and was used to fund a portion of prior year rehabilitation project. The Organization intends to maintain compliance with the terms of the Note. Accordingly, the Note is expected to be forgiven at maturity in 2025, with no cash payments due at or prior to maturity.

(11) Commitments and Contingencies**Housing Renovation Grants**

In September 2010, the Organization signed an agreement with the CHFA to exchange low-income housing tax credits awarded in April 2009 for a federal grant under the TCEP. The amount of the TCEP grant was \$5,401,172. The Organization is required to maintain the Project as housing for low-income persons and meet other compliance requirements per the grant from CHFA.

If the Organization falls out of compliance, it is subject to a recapture agreement whereby they may have to repay a portion of the grant. The grant was used for major rehabilitation work on the Project, including air conditioning and new energy-efficient windows throughout. This grant also included a developer fee paid to the Organization of approximately \$600,000.

In addition, the Organization has received a \$300,000 grant from the state of Colorado as part of the Federal Home Investment Partnership Program (HOME). The proceeds of the grant were used for the rehabilitation project noted above.

Contracts

The Organization receives certain revenue from contracts with various governmental agencies. If the Organization does not meet the requirements of the contracts, it may have to return the funds received from these agencies.

Housing

The Organization has entered into a Housing Assistance Payments (“HAP”) contract with HUD through August 31, 2033. Under the terms of this contract, the Organization agrees to operate a subsidized housing project with a gross potential rent of approximately \$1,064,669 per year. Maximum payments are subject to change periodically by amendment to the HAP contract.

As a portion of the Organization’s operations is concentrated in the multi-family HUD-subsidized real estate market, which inherently is a heavily regulated environment, such operations are subject to the administrative directives, rules, and regulations of federal agencies, including, but not limited to HUD. Such administrative directives, rules, and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. The disbursement of funds received under these contracts generally requires compliance with terms and conditions specified in the contracts and are subject to audit by the contracting agencies. The amount of charges to these contracts that may be disallowed, if any, by such audits cannot be presently determined, and no provision for any liability that may result has been made in the financial statements. However, management believes that the effect, if any, of such audits would not have a significant impact on the financial statements; accordingly, no provision has been made in the financial statements for any liability that may result.

(12) Endowment

General

The Organization’s endowments consist of the Patricia A. Young Warren Village Learning Center Endowment Fund (established in December 2010), Warren Village Hope Endowment Fund (established in May 2012), Christopher Mix Wright Scholarship endowment (established in April 2013), Waddell Endowment (established in April 2013), Rose Community Foundation endowment (established in August 2016). The Organization’s endowments are held with The Denver Foundation and Rose Community Foundation as discussed in Note 4. The endowments can be used to fund the Organization’s Learning Center and the Organization’s programs that further children’s education and enrichment activities. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. The beneficial interest in trust amount reflected in permanently restricted net assets is adjusted for the annual appreciation or depreciation and distribution of the funds held by the Denver Foundation. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization

Changes in endowment net assets as of March 31, 2018:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of the year	\$	\$ 331,321	\$ 331,321
Investment return:			
Interest income, net of fees		3,305	3,305
Contributions		10,000	10,000
Net gain/loss on securities (realized and unrealized)		33,888	33,888
Total investment return		47,193	47,193
Endowment net assets, end of year	\$	\$ 378,514	\$ 378,514

Return Objectives and Risk Parameters

The Organization follows the investment and spending policies adopted by the Foundations holding the endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. Beneficial interest in trust include those assets of donor-restricted funds that the Foundations must hold in perpetuity.

Strategies Employed for Achieving Objectives

To satisfy its long-term objectives, the Organization relies on the Foundations' investment policies and strategies.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization can receive annual distributions of 6% of the market value of the endowments based on the four-quarter trailing average value, net of annual administrative fees as discussed in Note 4.

(13) Restricted Net Assets**Temporarily Restricted Net Assets**

Temporarily restricted net assets consisted of the following as of March 31, 2018:

College to career and youth program	\$ 30,881
Behavioral health program	95,789
Support of college scholarship program	10,293
Other program	4,000
	<u>\$ 140,963</u>

Permanently Restricted Net Assets

Permanently restricted net assets, which may only be used to fund the Organization's Learning Center and the Organization's programs that further children's education and enrichment activities, were as follows as of March 31, 2018:

Young Endowment Fund - Learning Center	\$ 146,618
Hope Endowment Fund - Learning Center	29,971
Christopher Mix Wright Scholarship Endowment Fund	42,515
Waddell Endowment Fund	132,266
Rose Community Foundation Endowment Fund	27,144
	<u>\$ 378,514</u>

(14) Donated Goods And Services

The value of donated goods and services included in the financial statements for the year ended March 31, 2018, are as follows:

	Goods & Supplies	Volunteer Services	Total
Learning center	\$ 28,192	\$ 1,079	\$ 29,271
Family services	63,302	68,075	131,377
First step		2,589	2,589
Management and general	2,844	2,801	5,645
Development and communication	64,859		64,859
	<u>\$ 159,197</u>	<u>\$ 74,544</u>	<u>\$ 233,741</u>

Numerous individuals volunteer their time in support of the Organization. These volunteers hours were not recognized in the financial statements because they did not meet the recognition criteria under the nonprofit accounting standards.

(15) **Retirement Plan**

The Organization sponsors a tax deferred annuity plan (the “Plan”) under provisions of United States Internal Revenue Code Section 403(b). The Plan is open to all eligible employees of the Organization. Participants may contribute a portion of earnings annually, not to exceed the annual limits established by the United States Internal Revenue Code. The Organization may elect to make annual discretionary matching contributions. Matching contributions for the year ended March 31, 2018, were \$27,964.

(16) **Restatement and Reclassifications**

The 2017 financial statements have been restated in the amount of \$101,533. Under non-profit accounting standards, promises to give are required to be recorded as receivables and revenue in the year promised. The restatement includes an adjustment to properly record promises to give in the amount of \$100,000, to correct understatement of accrued liabilities in the amount of \$23,467, and correct an overstatement of deferred revenue in the amount of \$25,000 to properly reflect a contribution as a revenue.

Beginning of the year net assets have been reclassified between unrestricted, temporarily restricted and permanently restricted net assets. Such reclassifications consisted of properly reflecting endowments as permanently restricted from unrestricted in the amount of \$170,815 and properly reflecting restricted contributions to temporarily restricted from unrestricted in the amount of \$127,700.

Such restatement and reclassifications impacted the March 31, 2017, financial statements as follows:

	Increase (decrease)
Promises to give	\$ 100,000
Accounts payable and other accrued liabilities	23,467
Deferred revenue	(25,000)
Contributions	125,000
Expenses	23,467
Changes in net assets	101,533
Permanently restricted net assets	170,815
Temporarily restricted net assets	127,700
Unrestricted net assets	196,982