PHOENIX FAMILY

FINANCIAL STATEMENTS

Years Ended June 30, 2018 and 2017

MHM

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors

PHOENIX FAMILY

We have audited the accompanying financial statements of Phoenix Family (the "Organization"), which comprise the statements of financial position as of June 30, 2018, and the related statements of activities and changes in net assets, 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. 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 Phoenix Family as of June 30, 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.

Other Matters

Report on Summarized Comparative Information

We have previously audited the financial statements for Phoenix Family as of and for the year ended June 30, 2017, and our report dated October 26, 2017 expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Mayer Hoffman McCann P.C.

Kansas City, Missouri
October 25, 2018

PHOENIX FAMILY

STATEMENTS OF FINANCIAL POSITION

June 30, 2018 and 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents		
Operating cash	$ 209,539	$ 240,909
Cash reserve	290,557	250,215
Restricted cash	83,419	96,510
Cash held for other organizations	298,091	358,984
Total cash and cash equivalents	881,606	946,618
Receivables	288,937	415,174
Prepaid expenses	-	114
Developer fee receivable, current portion	93,542	93,542
Unconditional promises to give, current portion	33,150	73,691
TOTAL CURRENT ASSETS	1,297,235	1,529,139
DEVELOPER FEE RECEIVABLE, less current portion	54,079	147,620
FIXED ASSETS, at cost, less accumulated depreciation	22,506	15,813
TOTAL ASSETS	$ 1,373,820	$ 1,692,572
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$ 37,567	$ 23,861
Accrued expenses	147,589	133,343
Deferred revenue	314,097	422,695
TOTAL CURRENT LIABILITIES	499,253	579,899
NET ASSETS		
UNRESTRICTED NET ASSETS		
Undesignated net assets	471,756	692,859
Designated net assets	290,557	250,214
TOTAL UNRESTRICTED NET ASSETS	762,313	943,073
TEMPORARILY RESTRICTED NET ASSETS	112,254	169,600
TOTAL NET ASSETS	874,567	1,112,673
TOTAL LIABILITIES AND NET ASSETS	$ 1,373,820	$ 1,692,572

See Notes to Financial Statements

PHOENIX FAMILY

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2018, with Summarized Financial Information for the Year Ended June 30, 2017

	2018			2017
	Unrestricted	Temporarily Restricted	Total	
SERVICE REVENUE	$ 1,583,717	$ -	$ 1,583,717	$ 1,347,550
GRANTS AND CONTRIBUTIONS	421,966	263,032	684,998	1,070,711
OTHER SUPPORT AND REVENUE				
Special event income	397,091	-	397,091	370,240
Less: special event expenditures	(165,481)	-	(165,481)	(182,071)
Net revenues from special events	231,610	-	231,610	188,169
Partnership management fees	57,414	-	57,414	58,700
Interest income	352	-	352	296
Gain on sale of fixed assets	4,361	-	4,361	-
Other income	6,388	-	6,388	-
Release of temporary restrictions	320,378	(320,378)	-	-
TOTAL OTHER SUPPORT AND REVENUE	620,503	(320,378)	300,125	247,165
TOTAL REVENUE	2,626,186	(57,346)	2,568,840	2,665,426
EXPENSES				
Program services	2,271,178	-	2,271,178	2,122,687
Supporting services				
Management and general	371,449	-	371,449	333,922
Fundraising	164,319	-	164,319	165,740
Total supporting services	535,768	-	535,768	499,662
TOTAL EXPENSES	2,806,946	-	2,806,946	2,622,349
TOTAL CHANGES IN NET ASSETS	(180,760)	(57,346)	(238,106)	43,077
NET ASSETS, BEGINNING OF YEAR	943,073	169,600	1,112,673	1,069,596
NET ASSETS, END OF YEAR	$ 762,313	$ 112,254	$ 874,567	$ 1,112,673

See Notes to Financial Statements

PHOENIX FAMILY

STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended June 30, 2018 and 2017

	2018				2017			
	Program Services	Fundraising Services	Management and General	Total All Funds	Program Services	Fundraising Services	Management and General	Total All Funds
Payroll and related expenses	$ 1,765,601	$ 154,261	$ 278,311	$ 2,198,173	$ 1,702,667	$ 147,704	$ 247,399	$ 2,097,770
Supplies and office	197,801	8,291	42,118	248,210	150,760	16,086	41,322	208,168
Tenant and family services	263,525	-	-	263,525	223,435	-	-	223,435
Meetings and training	31,613	-	23,377	54,990	25,133	-	16,875	42,008
Accounting and professional fees	-	-	24,455	24,455	20	-	25,060	25,080
Depreciation	3,127	-	-	3,127	9,276	211	354	9,841
Insurance	9,511	1,767	3,188	14,466	11,396	1,739	2,912	16,047
TOTAL FUNCTIONAL EXPENSES	$ 2,271,178	$ 164,319	$ 371,449	$ 2,806,946	$ 2,122,687	$ 165,740	$ 333,922	$ 2,622,349
	80.91%	5.85%	13.24%	100.00%	80.95%	6.32%	12.73%	100.00%

See Notes to Financial Statements

PHOENIX FAMILY

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ (238,106)	$ 43,077
Adjustments to reconcile changes in net assets to net cash flows from operating activities:		
Gain on sale of fixed assets	(4,361)	-
Depreciation	3,127	9,841
Change in operating assets and liabilities:		
Receivables	126,237	(288,886)
Prepaid expenses	114	274
Developer fee receivable	93,541	93,541
Unconditional promises to give	40,541	52,677
Accounts payable	13,706	(7,103)
Accrued expenses	14,246	1,534
Deferred revenue	(108,598)	74,075
NET CASH FLOWS FROM OPERATING ACTIVITIES	(59,553)	(20,970)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	(24,199)	-
Proceeds from sale of fixed assets	18,740	-
NET CASH FLOWS FROM INVESTING ACTIVITIES	(5,459)	-
NET DECREASE IN CASH AND CASH EQUIVALENTS	(65,012)	(20,970)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	946,618	967,588
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 881,606	$ 946,618
CASH AND CASH EQUIVALENTS, END OF YEAR		
Operating cash	$ 209,539	$ 240,909
Cash reserve	290,557	250,215
Restricted cash	83,419	96,510
Cash held for other organizations	298,091	358,984
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 881,606	$ 946,618

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies

Nature of operations - Phoenix Family Housing Corporation d/b/a Phoenix Family (the "Organization") empowers people living in low-income housing communities with the on-site support they need to gain stability and achieve self-sufficiency. The services help residents to build personal and financial assets, to overcome barriers to success, and to develop the skills needed to create a stable home. The Organization connects residents to critical resources and services, provides direct support, and supports residents as they become self-sufficient. Skilled and knowledgeable on-site staff members carry out the Organization's mission by providing support, advocacy, referrals, and program management to 5,659 people living in 3,329 units at 24 senior residential communities and 11 multi-family communities in Missouri, Kansas and Iowa. In addition, the Organization has partnerships with 14 other affordable housing communities, serving 1,132 units in 10 states nationwide. During the year ended June 30, 2013, the Organization underwent a reorganization wherein Phoenix Family Ventures, Inc. ("Ventures") a not-for-profit with a similar mission, was given control over the appointment of the Board of Directors of the Organization. The restructuring was completed to allow the two organizations to segregate the social services and future affordable housing services components of each organization's operations on a going forward basis.

Depreciation - Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Assets	Estimated Useful Lives
Furniture, fixtures and equipment	5
Computer equipment	3 - 5
Vehicles	5

Capitalization policy - The Organization capitalizes fixed asset additions over $1,500. Assets purchased are capitalized based on the cost of the asset. Assets donated are capitalized based on the fair value of the asset at the time of donation.

Cash and cash equivalents - For purposes of the statements of cash flows, cash and cash equivalents are considered to be bank checking and money market accounts and cash on hand.

Investments - The Organization has a small fractional interest in several low-income housing partnerships. Management estimates that the current value of their partnership interests is negligible to the financial statements as a whole and, accordingly, has not reflected any value in these financial statements.

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. Actual results could differ from those estimates.

Taxes - The Organization has been granted exemption from income taxes by the Internal Revenue Service under the provisions of Section 501(c)(3) of the Internal Revenue Code and is considered a public charity.

Functional expenses - The Organization allocates its expenses on a functional basis among its various program and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expenditure classification. Expenses that are common to several functions are allocated by management's estimate of resources devoted to the program or support service.

Designated net assets - Designated net assets represent funds designated by the board of directors for specific projects and/or cash shortfalls and are held in a separate bank account.

(1) Summary of significant accounting policies (continued)

Temporarily restricted net assets - Temporarily restricted net assets consist of purpose and time restrictions on grants and other contributions.

Revenue recognition - All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. As of June 30, 2018 and 2017, temporarily restricted net assets are net assets subject to restrictions imposed by donors and grantors that will be met by actions of the Organization or the passage of time. Service, grant and partnership management fee revenues are recognized as services are performed. Developer fee revenue is recognized over the course of the construction or rehabilitation of projects.

Donated assets are reflected as contributions at their estimated fair value at the date of receipt. A substantial number of volunteers have donated hundreds of hours during the years ended June 30, 2018 and 2017, which do not meet the requirements of the Not-For-Profit Topic of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) related to revenue recognition of contributions received and, accordingly, are not recorded in these financial statements. The Organization received $129,425 and $69,625 of donated services and goods during the years ended June 30, 2018 and 2017, respectively. During the years ended June 30, 2018 and 2017, the amount of donated services and goods included $10,500 and $2,625, respectively, of donated office space, which reflects management's estimate of the value of the space.

Consolidation - In connection with the Organization's investments in certain real estate partnerships, as required by accounting principles generally accepted in the United States of America, management annually assesses whether consolidation is required in the financial statements of these interests, either directly at the Organization level or indirectly through the Organization's ownership in various limited partner and general partner positions in various affordable housing projects. Factors that are considered include assessment of the power to control the entities in question and the economic obligations of the projects. As of June 30, 2018 and 2017, management has assessed each of these projects and determined that consolidation of project level activity is either not required or the activities were negligible. However, should economic factors or other factors change in the future, consolidation may be required.

Reclassifications - Certain reclassifications have been made to the 2017 financial statements in order to confirm to 2018 presentation. These reclassifications have no impact on the changes in net assets.

(2) Receivables

	June 30, 2018	June 30, 2017
Trade receivables	$ 20,932	$ 20,380
Grants receivable	26,621	27,435
HUD receivable	210,884	342,859
Partnership management fees receivable	30,500	24,500
Total	$ 288,937	$ 415,174

Management believes all receivables are fully collectible as of June 30, 2018 and 2017.

The U.S. Department of Housing and Urban Development's system for making payments towards the service coordinator grant changed towards the end of the year ended June 30, 2016. The result of this change was that payments towards the service coordinator grants weren't being paid out to the Organization and, consequently, the HUD receivable balance has continued to increase. It is management's belief that the entire balance due as of June 30, 2018 will be collected. Management's assessment included the following considerations: all services reflected within the HUD receivable balance were approved during the U.S. Department of Housing and Urban Development's 2017 and 2018 budgets; the Organization has never experienced issued in collecting on these receivables in the

(2) Receivables (continued)

past; and HUD is funded by the United States federal government, which has sufficient resources to pay the obligation.

(3) Developer fee receivable

In connection with the Organization's participation in the development of an apartment complex located in Burlington, Iowa ("Stone Gardens"), the Organization earned, along with the co-developer, a development fee totaling $1,650,000, of which the Organization's portion of the fee amounted to $825,000. The Organization is the sole member in the general partner for the partnership that owns this apartment complex. Any unpaid development fee will be non-interest bearing. Of the fee earned, $93,542 was paid during both the years ended June 30, 2018 and 2017.

The anticipated payout for the remaining fee is expected to be as follows:

Years ending June 30,		
2019	$	93,542
2020		54,079
Total	$	147,621

(4) Note receivable

The Organization owns a 100% interest in Greenway GP, LLC. Greenway GP, LLC is the general partner in Greenway of Burlington Associates, LP, which owns the apartment complex discussed in Note 3. HUD assigned its interest in the previous owner's mark-to-market mortgage note, which amounted to approximately $1,420,280, to Greenway GP, LLC. Due to the low priority of this obligation in relation to the other obligations of the partnership and management's assessment of the low likelihood that the complex will generate sufficient cash flow to provide for repayment of this obligation prior to its maturity on December 31, 2041, management has assessed the probability of the note generating positive cash flow to be remote. In the event that the project does generate sufficient cash flow to make payments on this obligation, the Organization, in negotiations with the special limited partner, has agreed to use a substantial portion of such funds received to provide on-site social services at the complex. With consideration of the aforementioned factors, the Organization has fully reserved the note as of June 30, 2018 and 2017. All other activities of Greenway GP, LLC, as a subsidiary of the Organization, are considered negligible to the financial statements of the Organization taken as a whole. Management will reassess the value of this obligation on an annual basis and, if economic factors and cash flows change, the Organization will reflect the changes as current period income or expense. During each of the years ended June 30, 2018 and 2017 there was no activity included in the financial statements for this note receivable.

(5) Unconditional promises to give

Promises to give are carried at promised amounts, less a discount for promised gifts to be received more than one year from the statement of financial position date. The discounts on these amounts are computed using interest rates applicable to the years in which the promises are received. The discount rate used in valuing unconditional promises to give is 4% per year. Amortization of the discount is included in contribution revenue. On a periodic basis, the Organization evaluates promises to give and establishes an allowance for doubtful collections, based on history, past write-offs and collections and current conditions. A promise is written off when it is determined that all collection efforts have been exhausted. Management has determined that an allowance for uncollectible accounts was not needed as of June 30, 2018 and 2017.

(5) Unconditional promises to give (continued)

As of June 30, 2018, all unconditional promises to give were expected to be collected within one year. As such, no discount was applied to the balance. The following table summarizes promises to give as of June 30, 2018 and 2017.

	June 30, 2018	June 30, 2017
Unconditional promises to give	$ 33,150	$ 73,691

(6) Fixed assets

	June 30, 2018	June 30, 2017
Cost		
Furniture, fixtures and equipment	$ 7,718	$ 7,718
Computer equipment	104,935	104,935
Vehicles	44,302	47,603
Total cost	156,955	160,256
Less: accumulated depreciation	(134,449)	(144,443)
Net fixed assets	$ 22,506	$ 15,813

(7) Deferred revenue

Deferred revenue represents funding that has been received from individual apartment complexes and/or state agencies under contractual obligations to provide services to tenants at future points in time. The revenue is to be recognized as expenses are incurred and/or as time lapses. As funds are received they are maintained in cash held for other organizations until the revenue is earned, at which time the funds are transferred to operating cash.

(8) Temporarily restricted net assets

Temporarily restricted net assets are comprised of the following:

	June 30, 2018	June 30, 2017
HIKE Reading Achievement Program	$ 46,240	$ 45,857
Senior Empowerment Program	22,644	-
Emergency Assistance	-	2,618
Program Services	10,220	47,434
Time restricted	33,150	73,691
Total	$ 112,254	$ 169,600

Of the time restricted net assets as of June 30, 2018 and 2017, approximately 0% and 69%, respectively, consist of restricted gifts for the HIKE Reading Achievement Program.

(8) Temporarily restricted net assets (continued)

Temporarily restricted net assets were released from restriction for the following purposes:

	June 30, 2018	June 30, 2017
HIKE Reading Achievement Program	$ 149,019	$ 159,532
Senior Empowerment Program	11,229	13,387
School Readiness Program	-	9,950
Emergency Assistance	36,908	51,030
Technology	-	6,873
Program Services	49,531	3,485
Time restricted	73,691	75,867
Total	$ 320,378	$ 320,124

(9) Lease commitments

The Organization leases a copier under an operating lease. Minimum future rental payments under these non-cancelable leases with an original term in excess of one year are as follows:

Years ending June 30,	
2019	$ 3,492
2020	3,492
2021	1,164
Total	$ 8,148

Total rent and occupancy expense was $34,857 and $47,850 for the years ended June 30, 2018 and 2017, respectively.

(10) Related party transactions

During the years ended June 30, 2018 and 2017, respectively, $140,000 and $538,476 was contributed to the Organization from Ventures.

In addition to the developer fee discussed in Note 3, the Organization also received partnership management fees of $51,200 and $46,200 from Partnerships in which the Organization holds an ownership interest, which have been reflected on the statements of activities and changes in net assets for the years ended June 30, 2018 and 2017, respectively.

(11) Concentrations

The Organization maintains cash balances in financial institutions in excess of FDIC insurance limits. Management monitors the soundness of the institutions involved and feels that the Organization’s risk is negligible. The Organization has not experienced any losses in such accounts.

The Organization offers services to multiple properties, of which 59% and 47% of these properties are owned by two different entities as of June 30, 2018 and 2017, respectively. The remaining properties are owned by various owners.

The Organization depends on service coordinator grant proceeds from the United States Department of Housing and Urban Development (HUD) to fund a substantial portion of its programs. Approximately 73% and 83% of the total accounts receivable balance was due from HUD as of June 30, 2018 and 2017, respectively.

(12) Subsequent events

The Organization has evaluated subsequent events through October 25, 2018, which is the date the financial statements were available to be issued. No significant matters were identified for disclosure during this evaluation.