

PROJECT ARRIBA
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2017 AND 2016
AND INDEPENDENT AUDITORS' REPORT

PROJECT ARRIBA

TABLE OF CONTENTS

December 31, 2017 and 2016

	<u>Page(s)</u>
Independent Auditors' Report	1-2
Financial Statements:	
Statements of Financial Position	3
Statements of Activities and Changes in Net Assets	4
Statements of Functional Expenses	5
Statements of Cash Flows	6
Notes to Financial Statements	7-15

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Project ARRIBA

We have audited the accompanying financial statements of Project ARRIBA (a non-profit organization), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 opinions.

(Continued)

To the Board of Directors
Project ARRIBA

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Project ARRIBA as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

SBNG, P.C.

El Paso, Texas
May 2, 2018

PROJECT ARRIBA

STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016

<u>ASSETS</u>	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents	\$447,965	\$532,723
Grants and contracts receivable	186,092	72,444
Current portion of pledge receivable, net of discount	28,428	28,943
Prepaid expenses	18,548	18,618
Inventory	<u>1,666</u>	<u>1,715</u>
Total current assets	682,699	654,443
Pledge receivable, net of current portion and discount	27,923	56,351
Furniture and equipment, net	20,194	21,660
Deposits	<u>6,429</u>	<u>6,429</u>
Total assets	<u>\$737,245</u>	<u>\$738,883</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 96,951	\$ 9,014
Accrued expenses	35,365	36,012
Refundable advances	70,714	21,519
Prepaid income	<u>200</u>	<u>200</u>
Total current liabilities	<u>203,230</u>	<u>66,745</u>
Unrestricted net assets:		
Undesignated	415,045	569,484
Board designated	98,776	80,994
Investment in furniture and equipment	<u>20,194</u>	<u>21,660</u>
Total unrestricted net assets	<u>534,015</u>	<u>672,138</u>
Total liabilities and net assets	<u>\$737,245</u>	<u>\$738,883</u>

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

PROJECT ARRIBA

**STATEMENTS OF ACTIVITIES AND
CHANGES IN NET ASSETS**

Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Unrestricted support and revenue:		
Grants and contracts	\$ 816,019	\$ 944,430
Unrestricted contributions	357,264	383,445
Other	<u>1,428</u>	<u>933</u>
Total support and revenue	<u>1,174,711</u>	<u>1,328,808</u>
Functional expenses:		
Program services	1,032,063	1,057,009
Administrative services	226,727	215,096
Fundraising	<u>54,044</u>	<u>51,915</u>
Total functional expenses	<u>1,312,834</u>	<u>1,324,020</u>
Change in unrestricted net assets	(138,123)	4,788
Unrestricted net assets, beginning of year	<u>672,138</u>	<u>667,350</u>
Unrestricted net assets, end of year	<u>\$ 534,015</u>	<u>\$ 672,138</u>

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

PROJECT ARRIBA

STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended December 31, 2017 and 2016

	2017				2016			
	<u>Program Services</u>	<u>Administrative Services</u>	<u>Fundraising</u>	<u>Total</u>	<u>Program Services</u>	<u>Administrative Services</u>	<u>Fundraising</u>	<u>Total</u>
Participant expenses:								
Tuition expense	\$ 260,618	\$	\$	\$ 260,618	\$ 241,536	\$	\$	\$ 241,536
Book expense	100,144			100,144	130,775			130,775
School/test materials	99,701			99,701	100,473			100,473
Child care expense	44,937			44,937	57,769			57,769
Tutoring expenses	3,098			3,098	5,811			5,811
Support services	49			49	300			300
Total participant expenses	<u>508,547</u>			<u>508,547</u>	<u>536,664</u>			<u>536,664</u>
Employee salaries	326,113	140,976	33,385	500,474	324,032	133,204	32,424	489,660
Employee benefits and payroll taxes	82,464	35,530	7,278	125,272	78,392	31,953	7,069	117,414
Rent expense	80,509	12,460	2,875	95,844	79,681	12,356	3,007	95,044
Contract labor and professional fees		15,349		15,349	118	16,258	21	16,397
Office expense	3,279	10,504	63	13,846	4,672	11,285	167	16,124
Telephone	6,009	4,437	193	10,639	6,784	4,792	342	11,918
Contributions	10,000			10,000	10,000			10,000
Fundraising event			9,640	9,640			8,211	8,211
Equipment lease	6,186	957	221	7,364	6,959	1,079	263	8,301
Depreciation	4,836	1,270	242	6,348	5,442	941	250	6,633
Insurance	4,120	637	147	4,904	4,265	661	161	5,087
Travel		4,595		4,595		2,567		2,567
Interest expense		12		12				
Total operating expenses	<u>523,516</u>	<u>226,727</u>	<u>54,044</u>	<u>804,287</u>	<u>520,345</u>	<u>215,096</u>	<u>51,915</u>	<u>787,356</u>
Total functional expenses	<u>\$ 1,032,063</u>	<u>\$ 226,727</u>	<u>\$ 54,044</u>	<u>\$ 1,312,834</u>	<u>\$ 1,057,009</u>	<u>\$ 215,096</u>	<u>\$ 51,915</u>	<u>\$ 1,324,020</u>

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

PROJECT ARRIBA

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$(138,123)	\$ 4,788
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	6,348	6,633
(Increase) decrease in:		
Grants, contracts and pledge receivable	(84,705)	88,942
Prepaid expenses	70	(3,681)
Inventory	49	
Increase (decrease) in:		
Accounts payable	87,937	(94,810)
Accrued expenses	(647)	338
Prepaid income		50
Refundable advances	<u>49,195</u>	<u>(2,730)</u>
Net cash used in operating activities	<u>(79,876)</u>	<u>(470)</u>
Cash flows from investing activities:		
Purchase of equipment	<u>(4,882)</u>	<u>(1,299)</u>
Net cash used in investing activities	<u>(4,882)</u>	<u>(1,299)</u>
Net decrease in cash and cash equivalents	(84,758)	(1,769)
Cash and cash equivalents, beginning of year	<u>532,723</u>	<u>534,492</u>
Cash and cash equivalents, end of year	<u>\$ 447,965</u>	<u>\$532,723</u>
Supplemental Cash Flows Information:		
Interest paid	<u>\$ 12</u>	<u>\$</u>

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

PROJECT ARRIBA

NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The summary of significant accounting policies of Project ARRIBA (the “Organization”) is presented to assist in understanding the Organization’s financial statements. The financial statements and notes are representations of the Organization’s management, who is responsible for their integrity and objectivity.

Nature of Activity – Project ARRIBA is an El Paso-based economic development initiative, incorporated in December 1998 as a public not-for-profit organization. The mission of the Organization is to provide long-term, high-skilled training and case management services to economically disadvantaged or multiple barriered individuals who require the occupational skills necessary to access jobs in hard to fill demand occupations. The Organization seeks to provide access to highly skilled jobs, which provide a living wage for adults who would otherwise not have the opportunity.

Basis of Accounting and Presentation – The accompanying financial statements have been prepared on the accrual basis of accounting. Under this method, revenues are recognized when they are earned and become measurable. Expenses are recognized when the related liability for payment is incurred. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. The Organization did not have any temporarily or permanently restricted net assets at December 31, 2017 or 2016. Accordingly, unrestricted net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted Net Assets – Unrestricted net assets represent resources that are not subject to donor-imposed stipulations and over which the Board of Directors has discretionary control. Net assets received and expended within the reporting period are reported in the Statement of Activities and Changes in Net Assets as unrestricted support or revenue.

Board Designated Net Assets – Board designated net assets represent resources that are not subject to donor-imposed stipulations but which the Board of Directors has designated for a specific purpose. Designations are voluntary and may be reversed by the governing Board of Directors at any time.

Investment in Furniture and Equipment – Investment in furniture and equipment is used to accumulate the net investment in equipment. The purchase (sale) of furniture and equipment is recognized as an increase (reduction) of available net assets.

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PROJECT ARRIBA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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.

Cash and Cash Equivalents – For purposes of the Statement of Cash Flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Grants and Contracts Receivable – Grants and contracts receivable are stated at net realizable value. In determining whether or not to record an allowance for doubtful accounts, management makes a judgmental determination based on an evaluation of the facts and circumstances related to each account. At December 31, 2017 and 2016, management determined all outstanding grants and contracts receivable to be fully collectable. Accordingly, no allowance has been established.

Inventory – Inventory consists of financial literacy kits used for the Organization’s job development workshops known as, “Vision, Initiative, and Perseverance (VIP),” group sessions. Inventory is stated at the lower of cost (utilizing the first-in, first-out method) or market.

Furniture and Equipment – Donations of property and equipment are recorded as support at their estimated fair values. Such donations are reported as unrestricted support, unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire furniture and equipment are reported as restricted support. Absent donor restrictions, the Organization records these assets as unrestricted net assets at the time of donation. Purchased furniture and equipment is recorded at cost and depreciated using the straight-line method over the estimated useful life of the asset which range from 3 to 20 years. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized. Fixed assets with a cost or fair value of \$1,000 or more are capitalized.

Restricted and Unrestricted Support and Revenue – All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted or permanently restricted for future periods or donor-restricted for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a donor-stipulated time restriction ends or a purpose restriction is accomplished, the restricted net assets are reclassified to unrestricted net assets and are reported in the Statement of Activities as net assets released from restriction. If a restriction is fulfilled in the same period in which the contribution is received, the contribution is reported as unrestricted.

(Continued)

PROJECT ARRIBA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Refundable Advances – The Organization records unexpended conditional grant awards as refundable advances until they are spent for the purpose of the grant, at which time they are recognized as revenue. Any amount remaining in excess of the final billing is required to be refunded to the granting agency.

Donated Materials, Equipment, and Services – Donated materials and equipment are recorded as contributions at their estimated values at the date of receipt. In-kind services, which are defined as donations of services that would have to be purchased in order for the Organization to operate if not donated, are recorded as revenue and expenses in the Statement of Activities at the fair market value of the services received. Volunteer services, which are not considered necessary for operations to continue, are not reflected in the financial statements, as no objective basis is available to measure the value of such services.

Functional Expense Allocation – Functional expenses have been allocated between Program Services, Administrative Services, and Fundraising in the Statement of Activities and Statement of Functional Expenses based upon direct charges and indirect expense allocations. Generally, training and support expenses for program participants are directly charged to a grant or contract while all other expenses are indirectly charged to a grant or contract through a cost allocation plan where expenses are charged based on the number of participants covered by each grant or contract. Direct and indirect expenses are charged in accordance with grant or contract budgets.

Participant Support Services – Participant support services include expenses related to a participant's education such as required immunizations, eye wear, and bus passes. Participant support services also include emergency assistance generally for a one-time event that creates an impediment to a participant's successful completion of their education. This emergency assistance is evaluated on a case by case basis and typically includes expenses related to housing, repairs, and utilities.

Federal Income Taxes – The Organization is a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of 509(a) of the Code. Accordingly, no liability or provision for federal income taxes is included in the accompanying financial statements. There was no unrelated business income tax for the years ended December 31, 2017 and 2016.

The Organization files a Return of Organization Exempt from Income Tax under Section 501(c)(3) of the Internal Revenue Code. The Organization is no longer subject to U.S. federal and state income tax examinations by tax authorities for years before December 31, 2014. There are no examinations in progress at December 31, 2017.

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PROJECT ARRIBA

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentration of Credit Risk – Financial instruments that are exposed to concentrations of credit risk are cash and grants, contracts and pledges receivable. The Organization maintains cash balances at financial institutions. Cash accounts are insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA) for up to \$250,000. Management assesses the financial condition of this bank and believes that the possibility of any credit loss is minimal.

Grants and contracts receivable are principally with federal, state or local governmental entities and are carried at estimated net realizable values. Realization of these amounts is dependent on the allowability of the costs claimed for reimbursement.

Promises to give are discounted to present value if collection is expected to be more than one year. Management periodically assesses collectability of promises to give and the amount of reserve, if any, is based on the credit-worthiness of the donor, current economic conditions and the length of the agreement.

Analysis for Impairment – Management reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In management’s opinion, there is no impairment of such assets at December 31, 2017 or 2016.

GRANTS AND CONTRACTS RECEIVABLE

Grants and contracts receivable arise from amounts due to the Organization from granting agencies for allowable expenditures not reimbursed at year-end. Grants and contracts receivable consisted of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
City of El Paso - Impact Fund	\$ 77,820	\$46,824
Austin Community College District	75,213	22,044
County of El Paso	25,258	2,090
TWC - Wagner Peyser	6,823	
General Fund	<u>978</u>	<u>1,486</u>
	<u>\$186,092</u>	<u>\$72,444</u>

(Continued)

PROJECT ARRIBA
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

PREPAID EXPENSES

Prepaid expenses consisted of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Prepaid rent	\$ 7,987	\$ 7,987
Insurance premiums	<u>10,561</u>	<u>10,631</u>
	<u>\$18,548</u>	<u>\$18,618</u>

INVENTORY

Inventory consisted of financial literacy kits that are used for the Vision, Initiative, and Perseverance group session. As of December 31, 2017 and 2016, inventory amounted to \$1,666 and \$1,715, respectively.

PLEDGE RECEIVABLE

On January 19, 2015, the Hunt Family Foundation provided the Organization with a written promise to give totaling \$150,000 to be equally distributed on or about January 15, of every year beginning in 2015 through 2019. The pledge was discounted to its present value, at an average discount rate of 1.81%, compounded annually. The discounted pledge is scheduled to be collected as follows:

Year Ending December 31,

2018	\$30,000
2019	<u>30,000</u>
Total	60,000
Less discount	<u>3,649</u>
Total pledge receivable, net of discount	56,351
Current portion, net of discount	<u>28,428</u>
Long-term portion, net of discount	<u>\$27,923</u>

(Continued)

PROJECT ARRIBA
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

PLEDGE RECEIVABLE (CONTINUED)

There was no bad debt expense associated with the pledge for the years ended December 31, 2017 or 2016. At December 31, 2016, the total pledge receivable amounted to \$85,294, net of a discount in the amount of \$4,706. The current portion, net of discount was \$28,943, resulting in the pledge receivable, net of current portion and discount, in the amount of \$56,351.

FURNITURE AND EQUIPMENT, NET

Furniture and equipment, net, consisted of the following at December 31, 2017 and 2016:

<u>Description</u>	<u>2017</u>	<u>2016</u>
Furniture and equipment	\$32,710	\$32,710
Website	5,500	5,500
Software	3,924	1,723
Computers	<u>25,406</u>	<u>22,725</u>
	67,540	62,658
Less accumulated depreciation	<u>47,346</u>	<u>40,998</u>
Furniture and equipment, net	<u>\$20,194</u>	<u>\$21,660</u>

Depreciation expense for the years ended December 31, 2017 and 2016 was \$6,348 and \$6,633, respectively.

MAJOR REVENUE AND SUPPORT

Major revenue and support was as follows at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
City of El Paso	32%	15%
Austin Community College District	21%	22%
Wells Fargo NeighborhoodLIFT	7%	
County of El Paso	6%	3%
Wagner Peyser	<u>1%</u>	<u>26%</u>
	<u>67%</u>	<u>66%</u>

(Continued)

PROJECT ARRIBA
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

EMPLOYEE BENEFITS

The Organization sponsors a 403(b) defined contribution plan (the Plan) for its employees. To participate in the Plan, an employee must be full-time, at least 21 years of age, and have completed two months of employment with the Organization. The Organization makes a matching contribution up to 100% of the first 5% of the amount deferred by employees. Contributions were made in the amount of \$7,799 and \$7,453 in 2017 and 2016, respectively.

REFUNDABLE ADVANCES

Refundable advances made to the Organization as of December 31, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
JP Morgan Chase & Co.	\$31,309	\$16,519
Wells Fargo - NeighborhoodLIFT	39,405	
Wells Fargo - Jim R. Phillips	_____	<u>5,000</u>
Total	<u>\$70,714</u>	<u>\$21,519</u>

COMMITMENTS AND CONTINGENCIES

Financial awards from federal, state, and local governmental entities in the form of grants are subject to special audit. Such audits could result in claims against the Organization for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this date.

The Organization receives a substantial amount of its support from government grants. Therefore, the Organization's ability to continue as a going-concern is dependent on the level of support received from the granting agencies.

In 2013, the Organization entered into an agreement with the City of El Paso expiring in August 2018 to receive \$300,000 per year covering expenses incurred in connection with the 2013-2017 Fall Semesters, and the 2014-2018 Spring and Summer Semesters. The City will reimburse the Organization on a monthly basis. The expenses to be reimbursed under the agreement include case management, school supplies and tuition assistance.

(Continued)

PROJECT ARRIBA
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

COMMITMENTS AND CONTINGENCIES (Continued)

The Organization entered into a new lease with a five-year term commencing May 1, 2016 through April 30, 2018 requiring monthly payments of \$7,987 and increasing to \$8,272 beginning May 1, 2018 through April 30, 2021.

The Organization leases office equipment under an operating lease expiring on October 27, 2019 for a total annual lease payment of \$5,400.

Minimum lease payments for the office building and equipment are as follows:

Year Ending December 31,

2018	\$105,314
2019	105,257
2020	99,267
2021	<u>33,089</u>
Total	<u>\$342,927</u>

Total lease expense including additional month-to-month leases, was \$103,208 and \$103,345 for the years ended December 31, 2017 and 2016, respectively.

LINE-OF-CREDIT

The Organization has a \$200,000 line-of-credit, of which \$200,000 was unused at December 31, 2017 and 2016. The line-of-credit matures on July 15, 2018 and bears an interest rate of 5.25%. The line-of-credit is secured by deposit accounts held with the lender.

BOARD DESIGNATED NET ASSETS

In September 2016, Project ARRIBA's Board of Directors passed a resolution to establish the Jim R. Phillips Endowment Fund, a board designated fund. The fund shall be perpetual and income from the fund will be used toward tuition assistance for participants pursuing a Bachelor of Science in Nursing. The Fund is maintained in an interest bearing NCUA insured account. The total designated fund balance at December 31, 2017 and 2016 was \$98,776 and \$80,994, respectively.

(Continued)

PROJECT ARRIBA
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

SUBSEQUENT EVENTS

In January 2018, the Organization received the fourth payment of a five payment commitment in the amount of \$30,000 from the Hunt Family Foundation. The original commitment was a \$150,000 grant to be used for the Promoting Higher Education Along the Border project that is administered by the Organization.

In February 2018, the Organization received the tenth and final payment of a \$600,000 commitment in the amount of \$50,000 from University Medical Center.

The date to which events occurring after December 31, 2017 have been evaluated for possible adjustment to the financial statements or disclosure is May 2, 2018, which is the date on which the financial statements were available to be issued.