

Florence Immigrant and Refugee Rights Project, Inc.

Financial Statements and
Independent Auditor's Report

December 31, 2018

Florence Immigrant and Refugee Rights Project, Inc.
December 31, 2018

Table of Contents

Independent Auditor's Report	1
Financial Statements:	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7

Member of the American Institute of
Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
Florence Immigrant and Refugee Rights Project, Inc.

We have audited the accompanying financial statements of Florence Immigrant and Refugee Rights Project, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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 Florence Immigrant and Refugee Rights Project, Inc. as of December 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 Notes 1 and 2 to the financial statements, the Financial Accounting Standards Board Accounting Standards Update 2016-14, Not – for – Profit Entities (Topic 958): Presentation of Financial Statements was adopted in 2018. Our opinion is not modified with respect to that matter.

Ward, Neal CPAs PC

Scottsdale, Arizona
August 6, 2019

Florence Immigrant and Refugee Rights Project, Inc.
Statement of Financial Position
December 31, 2018

Assets

Current assets:	
Cash and cash equivalents	\$ 3,381,077
Investments	5,849,680
Grants and contracts receivable	1,004,316
Accounts receivable	17,864
Accrued interest receivable	23,963
Prepaid expenses	<u>100,105</u>
Total current assets	10,377,005
Security deposits	21,687
Property and equipment, net of accumulated depreciation of \$214,633	<u>373,785</u>
Total assets	<u><u>\$ 10,772,477</u></u>

Liabilities and Net Assets

Current liabilities:	
Accounts payable	\$ 87,340
Accrued expenses	146,799
Deferred revenue	<u>309,320</u>
Total current liabilities	<u>543,459</u>
Net assets:	
Without donor restrictions	7,313,370
With donor restrictions	<u>2,915,648</u>
Total net assets	<u>10,229,018</u>
Total liabilities and net assets	<u><u>\$ 10,772,477</u></u>

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

Florence Immigrant and Refugee Rights Project, Inc.
Statement of Activities
For the Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Operating activities:			
Contributions	\$ 4,492,828	\$ 2,409,259	\$ 6,902,087
Grants and contracts	4,254,529	-	4,254,529
Investment income	100,002	-	100,002
Other income	6,116	-	6,116
Gain (loss) on disposal of fixed assets	(6,864)	-	(6,864)
Net assets released from restrictions	1,060,611	(1,060,611)	-
Total revenue, support and other changes	9,907,222	1,348,648	11,255,870
Expenses:			
Program services:			
Legal services	4,836,975	-	4,836,975
Supporting services:			
Management and general	525,733	-	525,733
Fundraising	429,728	-	429,728
Total expenses	5,792,436	-	5,792,436
Change in net assets	4,114,786	1,348,648	5,463,434
Net assets at beginning of year	3,198,584	1,567,000	4,765,584
Net assets at end of year	\$ 7,313,370	\$ 2,915,648	\$ 10,229,018

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

Florence Immigrant and Refugee Rights Project, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2018

	Program Services – <u>Legal Services</u>	Supporting Services- Management and General	Supporting Services – <u>Fundraising</u>	<u>Total</u>
Compensation and related expense:				
Compensation	\$ 3,295,064	\$ 302,995	\$ 189,372	\$ 3,787,431
Payroll taxes and benefits	<u>578,859</u>	<u>53,228</u>	<u>33,268</u>	<u>665,355</u>
Total compensation and related expense	3,873,923	356,223	222,640	4,452,786
Accounting fees	-	44,619	-	44,619
Client services	117,569	-	-	117,569
Depreciation	21,230	4,246	2,831	28,307
Equipment rental and maintenance	21,423	4,285	2,856	28,564
Facilities rent	197,218	39,444	26,296	262,958
Fundraising and development	-	-	123,827	123,827
Insurance	38,506	7,701	5,134	51,341
Legal materials	19,394	-	-	19,394
Miscellaneous	2,254	451	301	3,006
Office expense	83,871	16,774	11,183	111,828
Office repair and maintenance	14,947	2,989	1,993	19,929
Operating supplies	38,119	7,624	5,083	50,826
Outside services	72,494	-	-	72,494
Policy advocacy	3,909	-	-	3,909
Postage	39,041	7,808	5,206	52,055
Professional dues	19,515	-	-	19,515
Social services	8,019	-	-	8,019
Staff events	32,479	-	-	32,479
Telephone	48,558	9,712	6,474	64,744
Training	65,216	-	-	65,216
Utilities	5,587	1,117	745	7,449
Vehicle and travel	<u>113,703</u>	<u>22,740</u>	<u>15,159</u>	<u>151,602</u>
Total functional expenses	<u>\$ 4,836,975</u>	<u>\$ 525,733</u>	<u>\$ 429,728</u>	<u>\$ 5,792,436</u>

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

Florence Immigrant and Refugee Rights Project, Inc.
Statement of Cash Flows
For the Year Ended December 31, 2018

Cash flows from operating activities:	
Change in net assets	\$ 5,463,434
Adjustments to reconcile change in net assets to net cash flows provided by operating activities:	
Loss on disposal of fixed assets	6,864
Depreciation expense	28,307
Changes in asset and liability accounts:	
Increase in accrued interest receivable	(6,680)
Decrease in grants and contracts receivable	96,818
Increase in accounts receivable	(17,864)
Increase in prepaid expenses	(96,547)
Increase in security deposits	(5,280)
Increase in accrued expenses	34,845
Increase in accounts payable	55,163
Decrease in deferred revenue	<u>(159,446)</u>
Net cash provided by operating activities	<u>5,399,614</u>
Cash flows from investing activities:	
Purchased of investments	(5,514,210)
Proceeds from matured investments	2,958,206
Purchased of property and equipment	<u>(1,331)</u>
Net cash used by investing activities	<u>(2,557,335)</u>
Net change in cash and cash equivalents	2,842,279
Cash and cash equivalents, beginning of year	<u>538,798</u>
Cash and cash equivalents, end of year	<u>\$ 3,381,077</u>

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

Florence Immigrant and Refugee Rights Project, Inc.
Notes to Financial Statements
December 31, 2018

Note 1 – Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities

Florence Immigrant and Refugee Rights Project, Inc. (the "Project") is a nonprofit, community-based legal service organization that provides and coordinates legal and related social services to indigent men, women, and unaccompanied children detained in Arizona for immigration removal proceedings. The Project strives to ensure that detained individuals have access to counsel, understand their rights under immigration law, and are treated fairly and humanely by the judicial system. Programs are funded primarily through grants and contributions.

Basis of Presentation

The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States.

The Project reports information regarding its financial position and activities based on the existence or absence of restrictions imposed by donors or grantors. Accordingly, net assets and changes therein are classified and reported as follows:

Without Donor Restrictions – Net assets available for use in general operations and not subject to donor or grantor restrictions, including, if applicable, net assets that have been designated by the Board of Directors for expenditure on specific purposes or projects.

With Donor Restrictions – Net assets subject to restrictions imposed by donors or grantors. Most donor restrictions are temporary in nature; those restrictions will be met by actions of the Project or by the passage of time. Restrictions can be perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity. At year – end there are no restrictions that are perpetual in nature.

Cash and Cash Equivalents

The Project considers cash and cash equivalents to be cash on hand, demand deposits and short-term investments with original maturities of 90 days or less. The Project continually monitors its positions with and the credit quality of the financial institutions with which funds are held. Money market cash equivalents held at a brokerage institution at year-end total \$2,656,471 of the total cash and cash equivalents balance.

Contributions and Contributions Receivable

Unconditional contributions are recognized when pledged and recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and nature of any donor-imposed restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Gifts of cash and other assets are reported with donor restricted support if they are received with donor stipulations that limit the use of the donated assets.

When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported

Florence Immigrant and Refugee Rights Project, Inc.
Notes to Financial Statements
December 31, 2018

as net assets without donor restriction support. Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Contributions restricted for the acquisition of land, building, and equipment are reported as net assets without donor restriction upon acquisition of the assets and the assets are placed in service.

Contributions receivable are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be received in more than one year.

Investments and Related Income, Gains, and Losses

Investments with fixed or determinable payments, and fixed maturity dates are classified as held to maturity when the Project has the positive intention and ability to hold to maturity. These financial assets are measured at amortized cost using the effective interest rate method, less any impairment. Amortized cost is computed as the amount initially recognized including the premium or discount that may arise on the date of acquisition, as well as transaction costs. Investment return is presented net of investment fees. Interest arising from these investments is reported in operating activities and realized gains and losses are reflected in nonoperating activities.

Concentration of Credit Risk

Financial instruments that potentially subject the Project to concentrations of credit risk consist of cash deposits in excess of FDIC limitations. The Project maintains its cash balances with financial institutions. At times, these balances may exceed the FDIC insured limits. The Project has not experienced any loss on these accounts and believes there is no significant exposure of credit risk on cash and cash equivalents.

Grants and Contracts Receivable

Grants and contracts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual receivables from grants and contracts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to the applicable receivable.

Property and Equipment

Property and equipment are recorded at cost, or if donated, at the estimated fair market value at the date of receipt. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets which range from five to forty years. In general, acquisition of property and equipment in excess of \$1,000 is capitalized.

Compensated Absences

Compensated absences are those absences for which employees will be paid, such as vacation leave. A liability for compensated absences that is attributable to services already rendered and that is not contingent on a specific event, outside the control of the Project and its employees, is accrued as employees earn the rights to the benefits.

Florence Immigrant and Refugee Rights Project, Inc.
Notes to Financial Statements
December 31, 2018

Deferred Revenue

Grants and contracts are recorded as receivables and revenues when the related expenses are incurred. That portion of reimbursement in excess of expenses is offset in the deferred revenues account.

Contributed Materials and Services

Donated materials and services which meet the criteria for recognition are recorded in the accompanying financial statements at fair market value at the date of donation.

Federal and State Income Taxes

The Project is exempt from federal and state income taxation under Section 501(c)(3) of the Internal Revenue Code and under Title 43 of the Arizona Revised Statutes, as amended. Accordingly, no provision for income taxes has been made in these financial statements. The Project has determined that it does not have any material unrecognized tax benefits or obligations as of December 31, 2018. The Project's federal and state tax filings are generally subject to examination by the taxing authorities for three years after the date filed. Tax years 2014 through 2016 remain within the three year statutory period of examination.

Measure of Operations

The statement of activities reports all changes in net assets. Operating activities consist of those items attributable to ongoing activities. Non – operating activities are limited to other activities considered to be of a more unusual or nonrecurring nature.

New Accounting Pronouncement

During 2018, the Project adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, Not - for -Profit Entities (Topic 958) – Presentation of Financial Statements. The update addresses the complexity and understandability of net asset classifications, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Project has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods.

Functional Allocation of Expenses

The cost of providing program and other activities have been summarized on a functional basis in the statement of activities. As such, certain costs have been allocated among programs and supporting activities. Management on a fair and equitable basis determines such allocations.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries and benefits	Time and effort
Vehicle and travel	Time and effort
Depreciation	Square footage
Facilities rent	Square footage

Florence Immigrant and Refugee Rights Project, Inc.
Notes to Financial Statements
December 31, 2018

<u>Expense</u>	<u>Method of Allocation</u>
Utilities	Square footage
Professional services	Analysis of purpose
Equipment rental and maintenance	Analysis of purpose
Property and casualty insurance	Analysis of purpose
Office maintenance and supplies	Analysis of purpose
Vehicle and travel	Analysis of purpose
Telephone	Analysis of purpose

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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Prior Period Adjustment for Adoption of ASU No. 2016-14

The effect of the adjustment for ASU 2016-14 is as follows:

Statement of Financial Position	ASU 2016-14 Classifications		
	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Previously stated for net assets at 12/31/2017:			
Unrestricted	\$ 3,198,584	\$ -	\$ 3,198,584
Temporarily restricted	-	1,567,000	1,567,000
Net assets reclassified at 12/31/2017	<u>\$ 3,198,584</u>	<u>\$ 1,567,000</u>	<u>\$ 4,765,584</u>

Note 3 - Net Assets – With Donor Restrictions

Donor restricted net assets consist for the following purposes at December 31, 2018:

Subject to expenditure for specified purpose:

Legal services activities:

Compensation, benefits, and general support	\$ 2,897,894
Purchase of database software	17,754
	<u>\$ 2,915,648</u>

Florence Immigrant and Refugee Rights Project, Inc.
Notes to Financial Statements
December 31, 2018

Note 4 - Liquidity

Financial assets available within one year of the balance sheet date for general expenditure are as follows:

Cash and cash equivalents	\$ 3,381,077
Investments	5,849,680
Grants and contracts receivable	1,004,316
Accounts receivable	17,864
Accrued interest receivable	23,963
Prepaid expenses	100,105
	<u>\$ 10,377,005</u>

As part of its liquidity management, the Project structures its financial assets to be available as its general expenses and liabilities come due. In addition, the Project invests cash in excess of daily requirements in short-term investments.

Note 5 - Cash

Cash is composed of available cash balances. The Project maintains its cash in bank and brokerage deposit accounts.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Project's deposits may not be returned to it. The Project does not have a deposit policy for custodial credit risk. All bank deposits held by financial institutions at year end were subject to FDIC coverage limits. At year-end, the bank balance of cash and cash equivalents was \$3,419,576. Of this amount \$2,905,213 was exposed to custodial credit risk.

The Projects certificates of deposit are individually held at separate financial institutions. These deposits are insured up to \$250,000 per institution by the FDIC. At year – end, there was no exposure to custodial credit risk.

Note 6 - Investments

The Project's investments are comprised of the following:

	As of December 31, 2018		
	Cost	Accumulated Amortization	Amortized Cost
Certificates of deposit	\$ 1,885,000	\$ -	\$ 1,885,000
Bonds	3,979,870	(15,190)	3,964,680
	<u>\$ 5,864,870</u>	<u>\$ (15,190)</u>	<u>\$ 5,849,680</u>

Florence Immigrant and Refugee Rights Project, Inc.
Notes to Financial Statements
December 31, 2018

Note 7 – Grants and Contracts Receivable

Grants and contracts receivable are deemed to be fully collectible by management and are composed of the following amounts as of December 31, 2018:

Vera Institute of Justice	\$	989,046
IOLTA		15,000
Other		270
		1,004,316
	\$	1,004,316

Note 8 – Property and Equipment

Property and equipment consists of the following at December 31, 2018:

Land	\$	42,500
Building		414,839
Leasehold improvements		6,319
Office furniture and equipment		124,760
		588,418
Less accumulated depreciation		(214,633)
	\$	373,785

Note 9 – Compensated Absences

The Project has established a policy to pay each employee their accrued vacation time upon termination. It is the Project's policy to permit employees to accumulate earned but unused vacation time. Employees are allowed to carry forward 120 hours into the next year. The cost of current leave privileges is recognized as a current year expense in the period in which it is earned, in accordance with generally accepted accounting principles.

At December 31, 2018 total leave to be paid upon termination totaled \$146,799.

Note 10 – Defined Contribution Plan

Savings Incentive Match Plan for Employees (SIMPLE IRA)

The Project sponsors a defined contribution plan that meets the requirements of Section 408(p) of the Internal Revenue Code. Employees who receive compensation of at least \$5,000 during any two prior years and are reasonably expected to receive at least \$5,000 in compensation during the current year are eligible to participate in the plan. The Project matches the employee's contribution up to a maximum of two percent of the eligible employee's compensation. The Project contributed \$27,655 in matching contributions for the year ended December 31, 2018.

Florence Immigrant and Refugee Rights Project, Inc.
Notes to Financial Statements
December 31, 2018

Note 11 – Commitments and Contingencies

The Project is obligated under the terms of non-cancellable operating leases for the rental of office and storage space for several of its administrative locations. Rental expense for these leases for the year ended December 31, 2018 totaled \$262,957.

Future minimum lease payments are as follows for the years ending December 31:

2019	\$	244,107
2020		263,332
2021		272,518
2022		<u>91,860</u>
	\$	<u>871,817</u>

Note 12 - Current Vulnerability Due to Certain Concentrations

The Project received approximately 38% of its support through agreements with the Vera Institute of Justice during the year ended December 31, 2018. Programs operated by the Florence Project depend on continued support by Vera. If the amount of revenues received from this organization falls below critical levels, operating results could be adversely affected.

Note 13 – Subsequent Events

Management has evaluated for potential recognition and disclosure, events subsequent to the date of the statement of financial position through August 6, 2019, the date on which the financial statements were available to be issued. The following is a summary of the subsequent event.

Beginning effective February 1, 2019, the Project leased additional office space to expand its Phoenix, Arizona office under the terms of an operating occupancy lease with the existing lessor. The expiration date of the lease is April 30, 2022. The terms of the lease agreement provide for minimum lease payments of \$19,393 which escalates 11% beginning May 1, 2019 then 4% beginning May 1, 2020 and May 1, 2021, respectively.

No other events have occurred subsequent to December 31, 2018, that would require adjustment to or disclosure in the accompanying financial statements.