

AVIVO AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2017 AND 2016

**AVIVO AND SUBSIDIARY
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2017 AND 2016**

INDEPENDENT AUDITORS' REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS	
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION	3
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS	4
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSE	5
CONSOLIDATED STATEMENTS OF CASH FLOWS	7
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	8

INDEPENDENT AUDITORS' REPORT

Board of Directors
Avivo and Subsidiary
Minneapolis, Minnesota

We have audited the accompanying consolidated financial statements of Avivo and Subsidiary (a nonprofit organization), which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities and changes in net assets, functional expense, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors
Avivo and Subsidiary

Opinion

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
March 28, 2018

AVIVO AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016

ASSETS	2017	2016
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,241,131	\$ 1,899,435
Accounts Receivable (Less Allowance for Doubtful Accounts of \$227,971 in 2017 and \$310,701 in 2016)	3,652,584	3,671,405
Pledges Receivable	6,640	40,709
Prepaid Expenses	537,217	590,521
Investments	1,584	2,721
Total Current Assets	5,439,156	6,204,791
OTHER ASSETS		
Real Estate Assessments	-	22,350
Charitable Remainder Unitrust	304,409	241,531
Unemployment Trust	308,939	267,655
Pledges Receivable Noncurrent	6,000	11,550
Property and Equipment, Net	4,098,304	4,489,054
Total Other Assets	4,717,652	5,032,140
Total Assets	\$ 10,156,808	\$ 11,236,931
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 376,703	\$ 380,229
Accrued Expense	1,657,509	2,137,232
Notes Payable - Current	184,252	90,484
Refundable Advances	57,732	93,479
Deferred Revenue	171,151	263,523
Total Current Liabilities	2,447,347	2,964,947
LONG-TERM LIABILITIES		
Notes Payable - Long-Term	3,606,490	3,821,354
Asset Retirement Obligation	126,609	120,855
Total Long-Term Liabilities	3,733,099	3,942,209
Total Liabilities	6,180,446	6,907,156
NET ASSETS		
Unrestricted Net Assets	3,511,868	3,762,970
Temporarily Restricted Net Assets	464,494	566,805
Total Net Assets	3,976,362	4,329,775
Total Liabilities and Net Assets	\$ 10,156,808	\$ 11,236,931

See accompanying Notes to Consolidated Financial Statements

**AVIVO AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017		2016					
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE								
Government Contracts	\$ 15,976,135	-	\$ -	\$ 15,976,135	\$ 16,990,079	-	\$ -	\$ 16,990,079
Program Service Fees	10,398,453	-	-	10,398,453	9,725,485	-	-	9,725,485
Contributions (Including In-Kinds of \$40,705 and \$102,477 in 2017 and 2016, Respectively)	310,066	352,681	-	662,747	277,150	382,085	-	659,235
United Way	708,627	-	-	708,627	749,533	-	-	749,533
Change In Value of Trust	-	62,878	-	62,878	-	17,525	-	17,525
Interest Income (Loss)	(20)	-	-	(20)	91	-	-	91
Loss on Disposal of Property and Equipment	-	-	-	-	(28,418)	-	-	(28,418)
Miscellaneous	73,318	-	-	73,318	23,391	-	-	23,391
Net Assets Released from Restriction	517,870	(517,870)	-	-	515,939	(512,689)	(3,250)	-
Total Support and Revenue	27,984,449	(102,311)	-	27,882,138	28,253,250	(113,079)	(3,250)	28,136,921
EXPENSE								
Program Services:								
Career Education	2,962,907	-	-	2,962,907	3,736,173	-	-	3,736,173
Employment Services	6,974,192	-	-	6,974,192	7,077,630	-	-	7,077,630
Chemical and Mental Health	15,352,697	-	-	15,352,697	14,336,691	-	-	14,336,691
Total Program Services	25,289,796	-	-	25,289,796	25,150,494	-	-	25,150,494
Support Services:								
Management and General	2,475,510	-	-	2,475,510	2,099,313	-	-	2,099,313
Fundraising	470,245	-	-	470,245	414,643	-	-	414,643
Total Support Services	2,945,755	-	-	2,945,755	2,513,956	-	-	2,513,956
Total Expense	28,235,551	-	-	28,235,551	27,664,450	-	-	27,664,450
CHANGE IN NET ASSETS								
Net Assets - Beginning of Year	(251,102)	(102,311)	-	(353,413)	588,800	(113,079)	(3,250)	472,471
Net Assets - End of Year	3,762,970	566,805	-	4,329,775	3,174,170	679,884	3,250	3,857,304
NET ASSETS - END OF YEAR	\$ 3,511,868	\$ 464,494	\$ -	\$ 3,976,362	\$ 3,762,970	\$ 566,805	\$ -	\$ 4,329,775

See accompanying Notes to Consolidated Financial Statements

**AVIVO AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSE
YEAR ENDED DECEMBER 31, 2017**

	Program Services				Support Services			Total All Services
	Career Education	Employment Services	Chemical and Mental Health	Total Program Services	Management and General	Fundraising	Total Support Services	
Salaries	\$ 1,731,620	\$ 4,197,848	\$ 7,892,238	\$ 13,821,706	\$ 1,319,777	\$ 257,404	\$ 1,577,181	\$ 15,398,887
Payroll Taxes	140,084	341,202	641,681	1,122,967	107,535	21,695	129,230	1,252,197
Employee Benefits	220,817	530,804	1,059,193	1,810,814	157,140	24,236	181,376	1,992,190
Total Personnel Costs	2,092,521	5,069,854	9,593,112	16,755,487	1,584,452	303,335	1,887,787	18,643,274
Assistance Provided to								
Individuals	311,354	765,495	2,105,687	3,182,536	243	-	243	3,182,779
Professional Fees	92,803	176,794	388,999	658,596	299,907	98,996	398,903	1,057,499
Occupancy	170,351	549,645	1,616,793	2,336,789	247,169	9,995	257,164	2,593,953
Supplies	57,469	47,078	242,423	346,970	31,649	17,148	48,797	395,767
Interest Expense	17,475	34,728	82,772	134,975	23,327	1,331	24,658	159,633
Telephone	20,168	32,252	109,237	161,657	10,730	2,056	12,786	174,443
Postage and Shipping	1,296	20,407	4,265	25,968	7,962	2,262	10,224	36,192
Printing and Publications	2,586	409	5,824	8,819	29,768	8,892	38,660	47,479
Local Transportation	34,391	30,381	193,265	258,037	2,217	396	2,613	260,650
Conferences and Meetings	10,556	25,269	22,579	58,404	18,117	15,945	34,062	92,466
Equipment	27,378	60,969	77,744	166,091	22,807	3,130	25,937	192,028
Insurance	8,534	16,817	32,207	57,558	65,325	642	65,967	123,525
Membership Dues	8,509	18,892	24,099	51,500	7,069	934	8,003	59,503
Uncollectable Accounts	25,473	-	541,626	567,099	-	-	-	567,099
Depreciation	52,114	112,528	246,335	410,977	76,178	3,454	79,632	490,609
Other Expense	29,929	12,674	65,730	108,333	48,590	1,729	50,319	158,652
Total Expense	\$ 2,962,907	\$ 6,974,192	\$ 15,352,697	\$ 25,289,796	\$ 2,475,510	\$ 470,245	\$ 2,945,755	\$ 28,235,551

See accompanying Notes to Consolidated Financial Statements

**AVIVO AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSE
YEAR ENDED DECEMBER 31, 2016**

	Program Services			Support Services			Total All Services
	Career Education	Employment Services	Chemical and Mental Health	Total Program Services	Management and General	Fundraising	
Salaries	\$1,930,945	\$3,904,793	\$7,419,021	\$ 13,254,759	\$1,094,065	\$176,852	\$ 14,525,676
Payroll Taxes	138,838	281,327	540,443	960,608	81,245	13,088	1,054,941
Employee Benefits	265,161	553,707	1,052,526	1,871,394	95,933	20,693	1,988,020
Total Personnel Costs	2,334,944	4,739,827	9,011,990	16,086,761	1,271,243	210,633	17,568,637
Assistance Provided to							
Individuals	751,530	776,187	1,879,724	3,407,441	151,730	2,987	3,562,158
Professional Fees	177,512	532,666	328,925	1,039,103	257,863	167,924	1,464,890
Occupancy	216,275	611,854	1,820,527	2,648,656	105,162	11,402	2,765,220
Supplies	80,133	50,759	190,778	321,670	22,406	6,575	350,651
Interest Expense	4,182	22,026	139,210	165,418	19,907	788	186,113
Telephone	20,434	32,577	105,934	158,945	18,888	877	178,710
Postage and Shipping	4,105	24,520	3,539	32,164	8,753	843	41,760
Printing and Publications	6,093	10,374	8,630	25,097	22,529	3,943	51,569
Local Transportation	33,162	36,579	179,276	249,017	1,935	584	251,536
Conferences and Meetings	22,268	23,871	44,663	90,802	21,351	1,110	113,263
Equipment	29,268	72,516	141,860	243,644	11,285	1,713	256,642
Insurance	-	-	-	-	116,652	-	116,652
Membership Dues	6,217	755	8,634	15,606	36,406	1,085	53,097
Uncollectable Accounts	(4,972)	-	164,887	159,915	-	-	159,915
Depreciation	49,225	134,671	288,968	472,864	43,470	2,654	518,988
Other Expense	5,797	8,448	19,146	33,391	(10,267)	1,525	24,649
Total Expense	\$ 3,736,173	\$ 7,077,630	\$ 14,336,691	\$ 25,150,494	\$ 2,099,313	\$ 414,643	\$ 27,664,450
							\$ 2,513,956

See accompanying Notes to Consolidated Financial Statements

AVIVO AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (353,413)	\$ 472,471
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Realized and Unrealized Gain on Investments	(223)	(1,114)
Costs on Real Estate Assessments	22,350	42,149
Change in Value of Charitable Remainder Unitrust	(62,878)	(17,525)
Change in Value of Unemployment Trust	(41,284)	(153)
Loss on Disposal of Fixed Assets	-	28,418
Depreciation	490,609	518,988
Environmental Remediation Liabilities	5,754	5,755
Uncollectible Accounts	567,099	159,915
Decrease in Current Assets:		
Accounts Receivable	(548,278)	516,181
Pledges Receivable	39,619	97,165
Prepaid Expense	53,304	144,946
Increase (Decrease) in Current Liabilities:		
Accounts Payable	(3,526)	(32,126)
Accrued Expenses	(479,723)	205,894
Refundable Advances	(35,747)	(109,132)
Deferred Revenue	(92,372)	145,117
Net Cash Provided (Used) by Operating Activities	(438,709)	2,176,949
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(98,499)	(240,597)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Capital Leases Payable	-	(19,990)
Proceeds from Refinancing of Debt	3,820,772	-
Principal Payments on 2017 Debt	(30,030)	
Payments on 2010 to 2015 Debt (see Note 4 for Refinance)	(3,911,838)	(191,137)
Net Cash Used by Financing Activities	(121,096)	(211,127)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(658,304)	1,725,225
Cash and Cash Equivalents - Beginning	1,899,435	174,210
CASH AND CASH EQUIVALENTS - ENDING	\$ 1,241,131	\$ 1,899,435
SUPPLEMENTAL INFORMATION		
Cash Paid for Interest	\$ 149,536	\$ 186,113
In-Kind Contributions of Services	\$ 40,705	\$ 102,477
Capital Lease Property and Equipment Purchase (Written Off)	\$ -	\$ (27,337)

See accompanying Notes to Consolidated Financial Statements

**AVIVO AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organizational Purpose

Avivo (the Organization) is a nonprofit organization whose mission is to increase well-being through recovery, employment, and career advancement. Annually, the Organization serves nearly 20,000 individuals and families through:

Career Education – Provides career training programs and job placement services for people with disabilities and other barriers to employment.

Employment Services – Provides employment services, education, and family-support services to low-income adults, youth, and families to ensure economic success, academic achievement, and family stability.

Chemical and Mental Health – Supports low-income men, women, and families in recovery through integrated, trauma-informed care-access, treatment, recovery support, and care coordination to help them achieve wellness and life-long recovery.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Avivo and HEART, Inc. All significant intercompany balances and transactions have been eliminated.

Financial Statement Presentation

Net assets and revenues, gains, and losses are classified based on donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted Net Assets – Resources over which the board of directors has discretionary control. Designated amounts represent amounts which the board has set aside for a particular purpose.

Temporarily Restricted Net Assets – Those resources subject to donor-imposed restrictions which will be satisfied by actions of the Organization or passage of time.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable are stated at net realizable value. The Organization provides an allowance for bad debts using the allowance method, which is based on management judgment considering historical information and specific payer limitations. Accounts past due are individually analyzed for collectability. An allowance is provided for accounts when a significant pattern of uncollectibility has occurred. When all collection efforts have been exhausted, the accounts are written off against the related allowance.

AVIVO AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Promises-to-Give (Pledges Receivable)

Unconditional promises-to-give are recognized in the period the promises are made. Conditional promises-to-give are recognized when the conditions on which they depend are substantially met, that is, when the conditional promise becomes unconditional. Pledges receivable at December 31, 2017 are expected to be received through 2020.

Investments

Investments are stated at fair value based on quoted market prices and consist of contributions received of shares of stock.

Property and Equipment

All major expenditures for property and equipment that are over \$5,000 are capitalized at cost. Contributed items are recorded at fair market value at date of donation. Depreciation is calculated using the straight-line method over the estimated useful lives.

Charitable Remainder Unitrust

HEART, Inc. is party to a Trust Agreement for which they are the remainder beneficiary upon the death of the lead beneficiary. The interest in the charitable remainder unitrust is carried at fair value based on the life expectancy of lead beneficiary and the fair value of the trust assets.

Unemployment Trust

The Organization has an unemployment trust agreement for which they make contributions to cover future claims from former employees.

Asset Retirement Obligations

The Organization owns buildings that contain asbestos floor tiles. At this time, the Organization has no plans to renovate or demolish these buildings. In accordance with standards relating to *Accounting for Conditional Asset Retirement Obligations*, the Organization accrued a liability for the fair value of future costs to remediate environmental hazards related to certain property. The Organization uses a future value rate assumption of 5% and discounted the estimate to present value using a risk-free rate of return of 3%. The potential environmental remediation liability is reported on the consolidated statements of financial position as an asset retirement obligation in the amount of \$126,609 and \$120,855 at December 31, 2017 and 2016, respectively.

Government Contracts

Government grants and contract funds are recorded as revenue when earned. Revenue is earned when eligible expenditures, as defined in each contract, are made. Funds received but not yet earned are shown as Deferred Revenue. Expenditures under government contracts are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these contracts, the Organization will record such disallowance at the time the final assessment is made.

**AVIVO AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions

Contributions are recorded as support in the period received. If donor-imposed restrictions accompany the contribution, the amount is recorded as temporarily or permanently restricted until the donor-imposed restrictions expire or are fulfilled. Temporarily restricted net assets are reclassified to unrestricted in the period donor-imposed restrictions expire or are fulfilled and are reported in the consolidated statements of activities and changes in net assets under the support and revenue category – Net Assets Released from Restrictions.

In-Kind Contributions

Contribution of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period receive. The contributions presented on the accompanying consolidated statements of activities and changes in net assets include contributed materials and services valued at \$40,705 and \$102,477 for the years ended December 31, 2017 and 2016, respectively.

Functional Allocation of Expense

Salaries and related expenses are allocated based on time spent and program assignments. Expenses, other than salaries and related expenses, which are not directly identifiable by program or supporting services, are allocated based on time and occupancy percentages.

Risks and Uncertainties

Management uses estimates and assumptions in preparing the consolidated financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses.

Federal Income Taxes

The Organization is classified as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, accordingly, is not subject to federal income taxes. As such, it is subject to federal and state income taxes on net unrelated business income.

The Organization follows the accounting standards for contingencies in evaluating uncertain tax positions and files as a tax-exempt organization. Should that status be challenged in the future, all years since inception could be subject to review by the Internal Revenue Service.

**AVIVO AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements

The Organization has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the consolidated statements of financial position are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities. The inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets.

Level 2 – Financial assets and liabilities are valued using inputs quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data. Level 2 includes private collateralized mortgage obligations, municipal bonds, and corporate debt securities.

Level 3 – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset. Level 3 includes private equity, venture capital, hedge funds, and real estate.

The organization has one Level 3 investment in their interest in the Charitable Remainder Unitrust that was valued at \$304,409 and \$241,531 at December 31, 2017 and 2016, respectively. There are no contributions to the unitrust and the value has changed based on the fair value calculation.

The following table provides a summary of changes in fair value of the Level 3 financial asset, the Charitable Remainder Unitrust for the years ended December 31:

	2017	2016
Balance - Beginning of Year	\$ 241,531	\$ 224,006
Change in Fair Value of Trust	62,878	17,525
Balance - End of Year	<u>\$ 304,409</u>	<u>\$ 241,531</u>

Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through March 28, 2018, the date the consolidated financial statements were available to be issued.

**AVIVO AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 2 CONCENTRATIONS

Significant Concentrations of Credit Risk

The Organization provides services primarily within the Twin Cities and surrounding communities. The amounts due for services provided are from individuals, substantially all of which are local residents or their third-party payors. In addition, accounts and pledges receivable are primarily from local residents, governments, or institutions.

Concentrations of Credit Risk Arising from Cash Deposits in Excess of Insured Limits

At various times during 2017 and 2016, the Organization held funds at a local financial institution in excess of federally insured limits.

NOTE 3 PROPERTY AND EQUIPMENT

The Organization owns the following as of December 31:

	2017	2016
Land	\$ 687,700	\$ 687,700
Buildings and Leasehold Improvements	7,509,223	7,456,392
Equipment and Furniture	1,804,331	1,731,799
Construction in Progress	14,151	39,655
Total	10,015,405	9,915,546
Less: Accumulated Depreciation/Amortization	(5,917,101)	(5,426,492)
Property and Equipment, Net	<u>\$ 4,098,304</u>	<u>\$ 4,489,054</u>

Depreciation expense was \$490,609 and \$518,988 for the years ended December 31, 2017 and 2016, respectively.

NOTE 4 NOTES PAYABLE

In 2017, the Organization consolidated their three notes outstanding with Bremer Bank and financed one note for \$3,913,000. The 2017 tax-exempt revenue bond was issued by the City of Landfall, secured by certain land, buildings, and improvements payable to Bremer Bank. The first payment was due June 1, 2017 and, the first four monthly payments were interest only. Beginning October 1, 2017 principal and interest were due monthly through May 1, 2034. The initial seven-year fixed rate was set at 3.02% and the rate will be adjusted after each seven-year period to 68% of the applicable London Interbank Offered Rate (LIBOR) plus 2.35%.

AVIVO AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 4 NOTES PAYABLE (CONTINUED)

Notes payable consists of the following at December 31:

<u>Description</u>	<u>2017</u>	<u>2016</u>
2017 tax exempt revenue bond issued by the City of Landfall, monthly amounts including interest of 3.02%. Last principal and interest payments due 2034.	\$ 3,882,970	\$ -
2010 tax exempt revenue bond issued by Minneapolis Community Development Agency, monthly amounts including interest of 4.55%. Last payment and all remaining principal and interest due in 2020.	-	2,314,390
2011 note payable at rate of 4.22% fixed for five-year period with monthly payments. The unpaid principal and interest due in 2017.	-	1,332,707
2015 mortgage issued with a fixed interest rate of 3.9%, monthly amounts with one final payment of all remaining principal and interest in 2017.	-	264,741
Total	3,882,970	3,911,838
Less: Portion Due Within One Year	(184,252)	(90,484)
Less: Unamortized Issuance Costs, Net	(92,228)	-
Long-Term Portion	<u>\$ 3,606,490</u>	<u>\$ 3,821,354</u>

Each note is secured by certain land, buildings, and improvements.

Future principal payment amounts include payment due for debt outstanding at December 31, 2017, and amounts due under the expected refinancing. Principal payments required are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2018	\$ 184,252
2019	189,973
2020	195,573
2021	201,945
2022	208,216
Thereafter	2,903,011
Total	<u>\$ 3,882,970</u>

Effective August 15, 2016, the Organization entered into a promissory note with an original expiration date of July 31, 2017. Effective April 28, 2017, the Organization renewed the promissory note agreement. Available borrowings under the line of credit are \$1,000,000. Interest is payable monthly at 0.5% above the bank's index rate (3.5% at December 31, 2017). This promissory note is secured by all business assets. The note expires on July 31, 2018. At December 31, 2017 and 2016, there was \$-0- of borrowings on the note.

**AVIVO AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 5 LEASED FACILITIES AND EQUIPMENT

Rental commitments under noncancelable leases for building and equipment in effect at December 31, 2017 total \$1,925,651. The future annual rental commitments are as follows:

<u>Year Ending December 31,</u>	<u>Building</u>	<u>Equipment</u>	<u>Total</u>
2018	\$ 886,030	\$ 29,772	\$ 915,802
2019	317,201	14,388	331,589
2020	225,406	2,066	227,472
2021	147,297	-	147,297
2022	150,243	-	150,243
Thereafter	153,248	-	153,248
Total	<u>\$ 1,879,425</u>	<u>\$ 46,226</u>	<u>\$ 1,925,651</u>

The rental expense for the years ended December 31, 2017 and 2016 was \$1,674,965 and \$1,743,463, respectively.

NOTE 6 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of amounts for the following programs at December 31:

	<u>2017</u>	<u>2016</u>
Employment Services	\$ 82,884	\$ 65,252
Career Education	9,710	75,010
Chemical and Mental Health	-	50,000
General Fundraising	67,491	135,013
Charitable Remainder Unitrust	304,409	241,530
Total	<u>\$ 464,494</u>	<u>\$ 566,805</u>

Temporarily restricted net assets released from restriction related to the following programs for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Employment Services	\$ 64,916	\$ 38,248
Career Education	241,979	329,705
Chemical and Mental Health	152,300	117,358
General Fundraising	58,675	27,378
Total	<u>\$ 517,870</u>	<u>\$ 512,689</u>

AVIVO AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 7 EMPLOYEE RETIREMENT PLAN

The Organization maintains a 401(k) retirement plan for employees. Employees are allowed to make voluntary contributions immediately after six months of employment. The Organization has the ability to make discretionary matches to the 401(k) but did not make discretionary contributions for the years ended December 31, 2017 and 2016. Additionally, the Organization makes an annual 3% nondiscretionary safe harbor payment. The total expense for years ended December 31, 2017 and 2016 was \$360,564 and \$398,964, respectively.