

Adelante Development Center, Inc.

FINANCIAL STATEMENTS

June 30, 2017 and 2016

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Adelante Development Center, Inc.

We have audited the accompanying financial statements of Adelante Development Center, Inc. (Adelante), which comprise the statements of financial position as of June 30, 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 controls 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Adelante'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 Adelante's internal controls. 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.

Basis for Qualified Opinion

As explained in Note 16 to the financial statements, an entity under common control is not combined into the financial statements. Accounting principles generally accepted in the United States of America require combination of entities under common control for financial statement presentation.

Qualified Opinion on 2017 and 2016

In our opinion, except for the effects on the 2017 and 2016 financial statements of the matter discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Adelante as of June 30, 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.

September 28, 2017


Pulakos CPAs, PC

Adelante Development Center, Inc.
STATEMENTS OF FINANCIAL POSITION
June 30, 2017 and 2016

<u>Assets</u>	<u>2017</u>	<u>2016</u>
Current assets		
Cash and cash equivalents	\$ 1,747,584	\$ 882,106
Accounts receivable		
Medicaid waiver	495,690	571,933
Program services, net	910,254	922,553
Governmental	97,389	84,969
Promises to give	354,489	23,809
Other receivables	129,103	191,854
Investments	1,662,325	1,550,649
Prepaid expenses and deposits	283,168	354,101
Inventories	149,982	30,311
Total current assets	5,829,984	4,612,285
Deferred compensation	797,763	992,756
Endowment	145,738	130,166
Beneficial interest in assets held by others	143,439	129,157
Property and equipment, net	12,078,720	11,394,834
Total assets	<u>\$ 18,995,644</u>	<u>\$ 17,259,198</u>
<u>Liabilities and Net Assets</u>		
Current liabilities		
Accounts payable	\$ 477,536	\$ 561,699
Accrued expenses		
Accrued leave and benefits	464,316	532,299
Salaries and wages	706,135	646,540
Other	702,841	301,735
Short-term debt	-	308,190
Current maturities of long-term debt	370,982	361,608
Current portion of capital lease obligations	418,135	-
Total current liabilities	3,139,945	2,712,071
Long-term debt	7,182,390	7,549,577
Capital lease obligations	1,011,937	-
Deferred compensation	797,763	992,756
Total liabilities	12,132,035	11,254,404
Net assets		
Unrestricted	6,232,621	5,502,829
Temporarily restricted	625,988	496,965
Permanently restricted	5,000	5,000
Total net assets	6,863,609	6,004,794
Total liabilities and net assets	<u>\$ 18,995,644</u>	<u>\$ 17,259,198</u>

Adelante Development Center, Inc.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Public Support				
Fees for Services				
Medicaid waiver	\$ 10,660,563	\$ -	\$ -	\$ 10,660,563
Program service fees	1,787,971	-	-	1,787,971
Total fees for services	12,448,534	-	-	12,448,534
Revenues Generated from Affirmative Enterprises				
Enterprise sales revenue	14,423,035	-	-	14,423,035
Public Support				
Federal and State grants	-	275,496	-	275,496
United Way	-	103,905	-	103,905
Contributions	26,799	370,384	-	397,183
In-kind contributions	53,423	-	-	53,423
Total public support	80,222	749,785	-	830,007
Other Revenues, Gains and Losses				
Leases	448,286	-	-	448,286
Miscellaneous	360,914	-	-	360,914
Unrealized gain on investments	153,001	-	-	153,001
Total other revenues, gains and losses	962,201	-	-	962,201
Net assets released from restriction	620,762	(620,762)	-	-
Total revenues, gains and public support	28,534,754	129,023	-	28,663,777
Expenses				
Program services:				
Community Living	5,259,066	-	-	5,259,066
Adelante Enterprises	9,253,351	-	-	9,253,351
Facility support services	4,988,000	-	-	4,988,000
Community options	2,686,751	-	-	2,686,751
Adelante Employment Services	785,381	-	-	785,381
In-kind contributions consumed	40,265	-	-	40,265
Total program services	23,012,814	-	-	23,012,814
Supporting services:				
Fundraising	284,402	-	-	284,402
Management and general	4,507,746	-	-	4,507,746
Total supporting services	4,792,148	-	-	4,792,148
Total program and supporting services	27,804,962	-	-	27,804,962
Change in net assets	729,792	129,023	-	858,815
Net assets, beginning of year	5,502,829	496,965	5,000	6,004,794
Net assets, end of year	\$ 6,232,621	\$ 625,988	\$ 5,000	\$ 6,863,609

See Notes to Financial Statements and Independent Auditors' Report.

Adelante Development Center, Inc.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Public Support				
Fees for Services				
Medicaid waiver	\$ 11,417,761	\$ -	\$ -	\$ 11,417,761
Program service fees	1,733,393	-	-	1,733,393
Total fees for services	13,151,154	-	-	13,151,154
Revenues Generated from Affirmative Enterprises				
Enterprise sales revenue	10,484,117	-	-	10,484,117
Public Support				
Federal and State grants	-	138,103	-	138,103
United Way	-	24,964	-	24,964
Contributions	16,983	441,450	-	458,433
In-kind contributions	61,643	-	-	61,643
Total public support	78,626	604,517	-	683,143
Other Revenues, Gains and Losses				
Leases	442,466	-	-	442,466
Net gain on property lost due to fire	393,683	-	-	393,683
Miscellaneous	311,038	-	-	311,038
Unrealized loss on investments	92,588	-	-	92,588
Total other revenues, gains and losses	1,239,775	-	-	1,239,775
Net assets released from restriction	725,084	(725,084)	-	-
Total revenues, gains and public support	25,678,756	(120,567)	-	25,558,189
Expenses				
Program services:				
Community Living	5,393,206	-	-	5,393,206
Adelante Enterprises	6,505,306	-	-	6,505,306
Facility Support Services	5,018,961	-	-	5,018,961
Community Options	2,889,377	-	-	2,889,377
Adelante Employment Services	779,691	-	-	779,691
In-kind contributions consumed	61,643	-	-	61,643
Total program services	20,648,184	-	-	20,648,184
Supporting services:				
Fundraising	294,868	-	-	294,868
Management and general	4,447,413	-	-	4,447,413
Total supporting services	4,742,281	-	-	4,742,281
Total program and supporting services	25,390,465	-	-	25,390,465
Change in net assets	288,291	(120,567)	-	167,724
Net assets, beginning of year	5,214,538	617,532	5,000	5,837,070
Net assets, end of year	\$ 5,502,829	\$ 496,965	\$ 5,000	\$ 6,004,794

Adelante Development Center, Inc.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2017

	Program Services					Supporting Services				
	Community Living	Adelante Enterprises	Facility Support Services	Community Options	Adelante Employment Services	Total Program Services	Fund-raising	Management and General	Total Supporting Services	Total Functional Expenses
Salaries	\$ 3,340,257	\$ 3,708,824	\$ 3,715,150	\$ 1,572,203	\$ 576,995	\$ 12,913,429	\$ 220,752	\$ 2,057,431	\$ 2,278,183	\$ 15,191,612
Payroll taxes and employee benefits	736,505	685,294	530,813	358,430	141,116	2,452,158	42,796	532,015	574,811	3,026,969
Total salaries and related expenses	4,076,762	4,394,118	4,245,963	1,930,633	718,111	15,365,587	263,548	2,589,446	2,852,994	18,218,581
Cost of goods - other	-	2,423,721	9,134	-	-	2,432,855	-	-	-	2,432,855
Rent	12,447	430,169	17,759	130,047	6,797	597,219	271	42,322	42,593	639,812
Supplies	10,108	343,935	291,365	40,132	3,807	689,347	1,083	72,349	73,432	762,779
Professional fees	21,112	129,627	214,517	55,687	392	421,335	1,393	339,712	341,105	762,440
Telephone and utilities	139,423	201,695	35,206	120,785	15,838	512,947	3,602	150,430	154,032	666,979
Food, care and support	544,152	12,528	4,212	23,865	1,166	585,923	142	25,473	25,615	611,538
Repairs, maintenance and property insurance	118,722	184,836	32,417	95,681	6,634	438,290	1,556	127,002	128,558	566,848
Insurance- liability	45,951	27,937	35,387	31,688	1,847	142,810	1,000	262,581	263,581	406,391
Interest	-	165,996	-	-	-	165,996	-	371,367	371,367	537,363
Transportation	47,240	75,735	34,859	18,370	13,802	190,006	302	27,019	27,321	217,327
Miscellaneous	4,439	23,278	3,016	12,125	1,251	44,109	554	91,806	92,360	136,469
Activity Expense	23,890	33,592	18,103	15,715	4,905	96,205	1,766	38,180	39,946	136,151
Bank fees	75	30,394	13	49	11	30,542	1,069	66,277	67,346	97,888
Publications	3,764	6,910	640	2,352	1,333	14,999	499	29,353	29,852	44,851
Travel	2,896	12,664	1,015	1,376	1,476	19,427	2,195	33,814	36,009	55,436
Cost of goods - thrift	-	35,777	-	-	-	35,777	-	-	-	35,777
Postage and mailing	1,070	6,348	1,363	1,807	809	11,397	1,265	21,529	22,794	34,191
Advertising and marketing	1,678	8,483	1,386	4,076	238	15,861	26	11,717	11,743	27,604
Employee Training	809	2,241	224	391	419	4,084	1,870	14,434	16,304	20,388
Total expense before depreciation	5,054,538	8,549,984	4,946,579	2,484,779	778,836	21,814,716	282,141	4,314,811	4,596,952	26,411,668
Depreciation and amortization	204,528	703,367	41,421	201,972	6,545	1,157,833	2,261	192,935	195,196	1,353,029
Total expenses	\$ 5,259,066	\$ 9,253,351	\$ 4,988,000	\$ 2,686,751	\$ 785,381	\$ 22,972,549	\$ 284,402	\$ 4,507,746	\$ 4,792,148	\$ 27,764,697

Adelante Development Center, Inc.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2016

	Program Services					Supporting Services			Total	
	Community Living	Adelante Enterprises	Facility Support Services	Community Options	Adelante Employment Services	Total Program Services	Fund-raising	Management and General	Total Supporting Services	Total Functional Expenses
Salaries	\$3,518,239	\$3,707,324	\$3,764,729	\$ 1,730,346	\$ 570,507	\$ 13,291,145	\$ 195,223	\$ 1,960,893	\$ 2,156,116	\$ 15,447,261
Payroll taxes and employee benefits	742,817	684,979	573,160	376,223	143,884	2,521,063	43,240	511,020	554,260	3,075,323
Total salaries and related expenses	4,261,056	4,392,303	4,337,889	2,106,569	714,391	15,812,208	238,463	2,471,913	2,710,376	18,522,584
Professional fees	14,043	102,572	211,581	81,604	850	410,650	41,151	342,856	384,007	794,657
Supplies	7,577	288,647	257,557	40,240	3,147	597,168	850	123,779	124,629	721,797
Telephone and utilities	140,790	215,893	36,495	122,716	17,934	533,828	3,670	140,712	144,382	678,210
Food, care and support	545,808	12,349	3,294	23,387	(1,418)	583,420	240	17,927	18,167	601,587
Repairs and maintenance	116,242	178,629	41,645	87,109	3,120	426,745	564	139,845	140,409	567,154
Rent	2,732	348,985	8,046	125,689	5,553	491,005	294	44,852	45,146	536,151
Insurance - liability	52,382	55,444	28,892	48,588	4,854	190,160	1,154	270,625	271,779	461,939
Interest	-	122	-	-	-	122	-	388,485	388,485	388,607
Cost of goods - other	-	358,293	8,843	-	-	367,136	-	-	-	367,136
Transportation	44,020	64,353	35,158	16,587	20,267	180,385	311	36,696	37,007	217,392
Miscellaneous	3,463	37,526	2,764	12,356	1,143	57,252	3,369	70,994	74,363	131,615
Bank fees	225	35,556	425	144	55	36,405	1,039	57,725	58,764	95,169
Travel	493	9,575	2,723	1,072	1,730	15,593	497	38,548	39,045	54,638
Cost of goods - thrift items	-	50,819	-	-	-	50,819	-	-	-	50,819
Advertising and marketing	-	26,272	-	3,436	-	29,708	82	17,885	17,967	47,675
Publications	480	3,960	155	950	174	5,719	350	34,006	34,356	40,075
Activity expense	1,810	3,048	672	3,089	535	9,154	417	22,882	23,299	32,453
Postage and mailing	168	4,975	1,490	1,779	141	8,553	130	23,069	23,199	31,752
Employee training	7	761	295	403	-	1,466	20	14,821	14,841	16,307
Total expense before depreciation	5,191,296	6,190,082	4,977,924	2,675,718	772,476	19,807,496	292,601	4,257,620	4,550,221	24,357,717
Depreciation and amortization	201,910	315,224	41,037	213,659	7,215	779,045	2,267	189,793	192,060	971,105
Total expenses	<u>\$5,393,206</u>	<u>\$6,505,306</u>	<u>\$5,018,961</u>	<u>\$ 2,889,377</u>	<u>\$ 779,691</u>	<u>\$ 20,586,541</u>	<u>\$ 294,868</u>	<u>\$ 4,447,413</u>	<u>\$ 4,742,281</u>	<u>\$ 25,328,822</u>

See Notes to Financial Statements and Independent Auditors' Report.

Adelante Development Center, Inc.

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Cash received from customers and donors	\$ 28,158,174	\$ 25,225,215
Cash paid to suppliers and employees	(25,633,033)	(23,479,403)
Interest paid	(559,083)	(416,028)
	<u>1,966,058</u>	<u>1,329,784</u>
Net cash provided by operating activities	1,966,058	1,329,784
Cash flows from investing activities		
Purchases of investments	(4,046)	(1,420,336)
Proceeds from sale of investments	15,517	(11,828)
Purchase of property and equipment	(136,508)	(476,938)
Proceeds from disposal of property and equipment	32,262	213,993
	<u>(92,775)</u>	<u>(1,695,109)</u>
Net cash used by investing activities	(92,775)	(1,695,109)
Cash flows from financing activities		
Proceeds from short-term borrowings	19,153,113	19,021,526
Payment on short-term borrowings	(19,461,303)	(19,300,876)
Payment on long-term debt	(357,813)	(345,757)
Payment on capital leases	(341,802)	-
	<u>(1,007,805)</u>	<u>(625,107)</u>
Net cash used by financing activities	(1,007,805)	(625,107)
Net change in cash and cash equivalents	865,478	(990,432)
Cash and cash equivalents, beginning of year	<u>882,106</u>	<u>1,872,538</u>
Cash and cash equivalents, end of year	<u>\$ 1,747,584</u>	<u>\$ 882,106</u>
Supplemental schedule of non-cash investing and financing activities - asset additions through capital lease	<u>\$ 1,771,874</u>	<u>\$ -</u>

Adelante Development Center, Inc.

STATEMENTS OF CASH FLOWS - CONTINUED

Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Reconciliation of change in net assets to net cash provided by operating activities		
Change in net assets	\$ 858,815	\$ 167,724
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,353,029	971,105
Bad debt expense	32,189	7,220
Unrealized gain on investments	(153,001)	(92,588)
Gain on disposal of assets	(21,862)	(200,330)
Fixed assets - in-kind (non-cash) donations	(138,933)	(183,445)
Decrease (increase) in:		
Accounts receivable	(223,996)	136,169
Prepaid assets and deposits	70,933	(146,300)
Inventories	(119,671)	19,427
(Decrease) increase in:		
Accounts payable	(84,163)	179,856
Accrued liabilities	<u>392,718</u>	<u>470,946</u>
Total adjustments	<u>1,107,243</u>	<u>1,162,060</u>
Net cash provided by operating activities	<u>\$ 1,966,058</u>	<u>\$ 1,329,784</u>

Adelante Development Center, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 1 – NATURE OF BUSINESS

Adelante Development Center, Inc. (Adelante) is a nonprofit agency whose mission is to “assist and support people with disabilities and seniors in achieving their personal goals in life”. Adelante provides individualized support services for nearly 2,000 New Mexicans with mental, physical, and developmental disabilities, disabled veterans, and the elderly. Adelante began over 35 years ago and has innovated and expanded over the years to meet the needs and goals of people with disabilities. The agency currently provides employment, vocational and life skills training, residential services, and volunteer opportunities for people with disabilities. Adelante also supports the elderly through day programs and Senior Meal Services, and operates a Benefits Connection Center and Back in Use programs to benefit seniors and people with disabilities in New Mexico. Adelante has innovated over the years under the common goal of serving as a “community resource”, which has led to a steady expansion of programs and business services. In 2014, Adelante stepped in to support the continued operation of Storehouse New Mexico, the State’s largest food pantry, and continues to support that nonprofit entity with management, marketing, and fundraising support.

Adelante currently operates the following programs:

Community Living

Residential services including 24/7 Supported Living, Independent Living and Home-Based Living, which enables people with disabilities the opportunity to live as independently as possible.

Community Options

In the counties of Bernalillo and Valencia, Community Options day programs teach the life skills necessary for people with severe mental and physical disabilities to have the opportunity to live their lives to the fullest as contributing members of the community. Personal and social support is provided for clients who choose not to participate in a full-day work program, including meaningful volunteer opportunities.

Adelante Enterprises

Adelante Enterprises division provides a variety of high quality business services including custom packaging and fulfillment solutions, bulk mailing; janitorial and facility management services; document management through scanning, storage and shredding services, call center operation, to businesses and governmental agencies throughout New Mexico. The agency also operates one thrift store location. Following a social enterprise model, the nonprofit agency provides valuable business and community services while providing employment for people with disabilities.

Adelante Development Center, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 1 – NATURE OF BUSINESS – CONTINUED

Facility Support Services (FSS)

Through competitive contracts negotiated with commercial and federal entities, people with disabilities are employed providing facility maintenance, laundry, administration, janitorial and landscape maintenance services for State rest areas and local commercial, state, and federal buildings.

Adelante EmployAbility (Employment Services)

EmployAbility is an employment service designed to assist people with disabilities in the process of securing and maintaining employment with commercial businesses in the community.

Senior Meal Services

Under contract with New Mexico's non-metro Area Agencies on Aging, Adelante provides meals to seniors in Dona Ana County at six congregate senior center locations as well as home delivered meals. The service also includes some transportation services and employment opportunities for low-income seniors who qualify, in the Las Cruces metro area.

Back in Use

Adelante Back in Use recycles medical assistive devices and computer systems then provides them to people with disabilities and seniors who need them. The program is good for the environment, helpful to people receiving equipment, and provides jobs for people with disabilities, too.

Benefits Connection Center

Adelante offers a free service for adults across New Mexico, helping people discover which governmental benefits (SNAP, LIHEAP, SSI, etc.) they qualify for and then helps them enroll by assisting them in the application process.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Presentation

Adelante's financial statements have been prepared on the accrual basis of accounting. The accompanying financial statements reflect all significant receivables, payables and other liabilities.

Adelante reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Management has elected to not comply with the requirement to combine entities under common control. Adelante and the Storehouse New Mexico should be reported on a combined basis.

Adelante Development Center, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Cash and Cash Equivalents

For purposes of the statements of cash flows, Adelante considers unrestricted highly liquid investments with an original maturity date of 90 days or less to be cash equivalents.

Accounts Receivable

Adelante utilizes the allowance method of accounts receivable valuation. The allowance for uncollectible accounts was \$25,000 and \$15,000 at June 30, 2017 and 2016, respectively. 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 accounts receivable.

Contributions and Promises to Give

Contributions and unconditional promises to give are recognized as revenues in the period received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Non-cash donations are recorded at their estimated fair value on the date of donation.

Restricted and Unrestricted Contributions

Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets, if the restrictions expire in the reporting period in which revenue is recognized.

Investments

Investments have been presented at fair market value. Certain investments are held to satisfy deferred compensation arrangements and are classified as long-term. Alternative investments are carried at their net realizable value. Unrealized and realized gains and losses on investments are reported in the statements of activities and changes in net assets. Accordingly, the fair value measurement provisions of accounting principles generally accepted in the United States of America have been adopted by Adelante as disclosed in Note 4 to these financial statements.

Permanently Restricted Net Assets

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) provides industry guidance to organizations similar to Adelante. The State of New Mexico adopted UPMIFA effective July 1, 2009. Adelante's Board of Directors has determined that certain funds administered by the Albuquerque Community Foundation, a New Mexico non-profit corporation (the Foundation), meet the definition of endowment funds under UPMIFA.

Permanently restricted net assets at June 30, 2017 and 2016, include an initial endowment of approximately \$5,000 administered by the Foundation.

Adelante Development Center, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Permanently Restricted Net Assets – Continued

Adelante invests funds in investment pools as offered by the Foundation. Distributions are based on actual investment earnings. Income from the endowment is appropriated for program specific operational expenses as deemed necessary.

The investment with the Foundation is allocated among marketable securities, hedge funds, real estate, private equity and land.

Inventories

Inventories are comprised of assembly hardware, new tools held for resale, donated clothing and furniture at the Valencia County thrift store. Postage used for mailing services is also held in the inventory account. Inventory is valued at the lower of cost or market on a first-in, first-out basis.

Donated Assets and Services

Donated assets and services are recorded at their estimated fair values as of the date of contribution and capitalized if exceeding the \$1,000 threshold policy. Contributions of services are recognized in the financial statements if the services received enhance or create nonfinancial assets, require specialized skills and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Services are provided by volunteers who perform a variety of tasks that benefit Adelante but are not recorded, as they do not meet the above criteria. Total in-kind contributions were \$53,423 and \$61,643 for the years ended June 30, 2017 and 2016, respectively.

Property and Equipment

Property and equipment are recorded at cost. Expenditures for repairs and maintenance are charged to expense as incurred. Depreciation and amortization of fixed assets are computed using the straight-line method at rates sufficient to recover the basis of the asset over its estimated useful life. The lives used to compute depreciation and amortization range from three to forty years. Acquisitions of property and equipment over \$1,000 and useful life greater than one year are capitalized.

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are recorded as temporarily restricted support. It is Adelante's policy to record donations of property and equipment that have no donor restrictions as unrestricted support in the period of contribution.

Adelante Development Center, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Impairment of Long-lived Assets and Long-lived Assets to be Disposed of

Adelante reviews its long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of, if any, are reported at the lower of the carrying amount or the fair value less costs to sell.

Revenue Recognition

Support from grants and contracts is recognized when earned or when expenditures have been incurred in accordance with provisions of the grants and contracts. Monies received but not earned during the fiscal year are recorded as deferred revenue. Service revenue is recognized when the service is performed.

Functional Classification of Expenses

Adelante presents its expenses on a functional basis among its various programs and support services. Expenses and support services that can be identified with a specific program are allocated directly according to their natural expenditure classification. Other expenses that are common to several programs are allocated based on various relationships.

Advertising Costs

Advertising costs are expensed as incurred. Total advertising costs were approximately \$28,000 and \$51,000 for the years ended June 30, 2017 and 2016, respectively.

Fair Value Measurements

Accounting Standards Codification Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 – Unadjusted quoted prices in active markets for identical investments that Adelante has the ability to access at the measurement date.

Adelante Development Center, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fair Value Measurements – Continued

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the investment, either directly or indirectly. These inputs may include quoted prices for the identical instrument in an inactive market, inputs other than observable quoted prices, or inputs derived principally from or corroborated by observable market data by correlation or other means.

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

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

Income Taxes

Adelante is a non-profit corporation and qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is classified as other than a private foundation. As such, its normal activities do not result in any income tax liability. However, income from certain activities not directly related to Adelante's tax-exempt purpose is subject to taxation as unrelated business income.

Adelante has adopted accounting principles generally accepted in the United States of America as they relate to uncertain tax positions for the years ended June 30, 2017 and 2016. Any interest and penalties recognized associated with a tax position would be classified as current in the Adelante's financial statements. No interest or penalties were recorded in 2017 or 2016.

Currently Adelante's 2014, 2015, and 2016 tax years are open and subject to examination by the Internal Revenue Service and New Mexico Taxation and Revenue Department. However, Adelante is not currently under audit, nor has Adelante been contacted by any of these jurisdictions. Based on the evaluation of Adelante's tax positions, management believes all positions taken would be upheld under an examination. Therefore, no provision for the effects of uncertain income taxes has been recorded for the years ended June 30, 2017 and 2016.

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 amount 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. Those estimates and assumptions affect the reported revenues and expenses. Actual results could differ from these estimates.

Adelante Development Center, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial Instruments

The carrying amounts of cash, receivables, payables, debt, and accrued liabilities and other obligations approximate fair value due to the short-term nature of these instruments.

Subsequent Events

Adelante has evaluated all events occurring subsequent to June 30, 2017 through September 28, 2017, which is the date that the financial statements were issued, and does not believe that any events occurring during this period require either recognition or disclosure in the accompanying financial statements.

NOTE 3 – ACCOUNTS RECEIVABLE

As of June 30, 2017 and 2016, accounts receivable consisted of the following:

	<u>2017</u>	<u>2016</u>
Program services:		
Industries	\$ 458,635	\$ 454,213
Source America - FLETC	184,950	209,371
Source America - KAFB	105,953	103,446
Department of Labor	136,935	80,364
Source America - Other	35,853	72,862
ARCA	<u>12,928</u>	<u>17,297</u>
	935,254	937,553
Less allowance for doubtful accounts	<u>(25,000)</u>	<u>(15,000)</u>
Total program services	<u>\$ 910,254</u>	<u>\$ 922,553</u>
Governmental:		
NM Department of Health	\$ 74,580	\$ 70,864
NM Department of Education - Division of Vocational Rehabilitation	<u>22,809</u>	<u>14,105</u>
Total governmental	<u>\$ 97,389</u>	<u>\$ 84,969</u>

Adelante Development Center, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 4 – FAIR VALUE MEASUREMENT

The following tables present the fair value hierarchy for those assets measured at fair value on a recurring basis at June 30, 2017:

Assets at Fair Value

Description	Total	Level 1	Level 2	Level 3
Bonds				
Corporate bond	\$ 421,663	\$ 421,663	\$ -	\$ -
Intermediate-term bond	142,957	142,957	-	-
Long government	70,238	70,238	-	-
High yield bond	47,868	47,868	-	-
World bond	43,249	43,249	-	-
Intermediate government	26,220	26,220	-	-
Inflation-Protected bond	23,539	23,539	-	-
Emerging Markets bond	13,266	13,266	-	-
Short government	4,647	4,647	-	-
Emerging markets local currency bond	4,298	4,298	-	-
Total bonds	797,945	797,945	-	-
Equity securities				
Large blend	325,109	325,109	-	-
Large value	250,347	250,347	-	-
Large growth	115,629	115,629	-	-
Mid growth	48,792	48,792	-	-
Small growth	42,827	42,827	-	-
Small value	25,934	25,934	-	-
Mid value	13,785	13,785	-	-
Diversified Pacific/Asia	12,831	12,831	-	-
Europe stock	12,697	12,697	-	-
Small blend	8,640	8,640	-	-
Commodities - precious metals	7,789	7,789	-	-
Total equity securities	864,380	864,380	-	-
Deferred compensation agreement				
Mutual fund – large growth	495,839	495,839	-	-
Mutual fund – mid growth	139,628	139,628	-	-
Mutual fund – large blend	57,081	57,081	-	-
Money market	48,088	48,088	-	-
Mutual fund – small blend	29,042	29,042	-	-
Mutual fund – mid blend	28,085	28,085	-	-
Total deferred compensation agreement	797,763	797,763	-	-

Adelante Development Center, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 4 – FAIR VALUE MEASUREMENT – CONTINUED

Assets at Fair Value – Continued

Description	Total	Level 1	Level 2	Level 3
Endowment	145,738	-	-	145,738
Beneficial interest in assets held by others	143,439	-	-	143,439
	<u>\$ 2,749,265</u>	<u>\$ 2,460,088</u>	<u>\$ -</u>	<u>\$ 289,177</u>

The following tables present the fair value hierarchy for those assets measured at fair value on a recurring basis at June 30, 2016:

Assets at Fair Value

Description	Total	Level 1	Level 2	Level 3
Bonds				
Corporate bonds	\$ 443,649	\$ 443,649	\$ -	\$ -
Intermediate-term bonds	150,932	150,932	-	-
Long government bonds	79,573	79,573	-	-
High yield bonds	47,907	47,907	-	-
World bonds	45,221	45,221	-	-
Intermediate government bonds	26,319	26,319	-	-
Emerging markets bonds	12,667	12,667	-	-
Inflation-protected bonds	12,232	12,232	-	-
Total bonds	818,500	818,500	-	-
Equity securities				
Large blend	270,222	270,222	-	-
Large value	192,387	192,387	-	-
Large growth	131,429	131,429	-	-
Mid growth	49,392	49,392	-	-
Small growth	25,963	25,963	-	-
Small value	22,852	22,852	-	-
Commodities – precious metals	20,362	20,362	-	-
Mid value	11,491	11,491	-	-
Small blend	8,051	8,051	-	-
Total equity securities	732,149	732,149	-	-

Adelante Development Center, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 4 – FAIR VALUE MEASUREMENT – CONTINUED

Assets at Fair Value – Continued

Description	Total	Level 1	Level 2	Level 3
Deferred compensation agreement				
Mutual fund – large growth	488,989	488,989	-	-
Mutual fund – large blend	287,365	287,365	-	-
Mutual fund – mid cap	123,230	123,230	-	-
Money market	48,218	48,218	-	-
Mutual fund – small blend	22,502	22,502	-	-
Mutual fund – mid blend	22,452	22,452	-	-
Total deferred compensation agreement	992,756	992,756	-	-
Endowment	130,166	-	-	130,166
Beneficial interest in assets held by others	129,157	-	-	129,157
	<u>\$ 2,802,728</u>	<u>\$ 2,543,405</u>	<u>\$ -</u>	<u>\$ 259,323</u>

Level 3 – Investments

The following tables present the Adelante’s activities for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2017 and 2016: Adelante activity follows:

	<u>2017</u>	<u>2016</u>
Beginning balances	\$ 259,323	\$ 273,716
Investment gains and (losses)	33,559	(11,163)
Investment management fees	<u>(3,705)</u>	<u>(3,230)</u>
Ending balances	<u>\$ 289,177</u>	<u>\$ 259,323</u>

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value.

Bonds, Equity, and Deferred Compensation Agreement: Fair value determined using quoted prices in active markets for units held at the end of the year.

Endowment and Beneficial interest in assets held by others: Fair value determined using net realizable value as determined in good faith by the investment fund manager at the end of the year.

Adelante Development Center, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 4 – FAIR VALUE MEASUREMENT – CONTINUED

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

NOTE 5 – LONG-TERM INVESTMENTS

Adelante maintains a deferred compensation agreement for the benefit of certain employees. The chairman of Adelante's board of directors is named as the trustee. The market value of assets held by the Mutual of America was approximately \$359,185 and \$622,862 at June 30, 2017 and 2016, respectively. The principal of the agreement, and any earnings thereon, is held separate and apart from other funds of Adelante and is segregated for the purposes of Plan Participants.

Adelante maintains another separate Deferred Compensation Agreement for the benefit of certain employees. Adelante is the plan sponsor. The market value of assets held by the Principal Financial Group was approximately \$438,578 and \$369,894 at June 30, 2017 and 2016, respectively. The principal of the agreement, and any earnings thereon, is held separate and apart from other funds of Adelante and is segregated for the purposes of Plan Participants.

Investments classified as endowment and beneficial interest in assets held by others are administered by the Albuquerque Community Foundation, a New Mexico non-profit corporation (Foundation). The Foundation manages a pool of charitable funds in which Adelante's endowment and beneficial interest are invested. That pool is then invested in various investments including marketable securities, hedge funds, real estate, private equity, and land. In the case of Adelante's investments in the Foundation's investment pool, the inputs which would be used to measure its fair value fall into different levels of the fair value hierarchy. Classification is determined based on the lowest level in the fair value hierarchy therefore, the entire investment is classified as Level 3.

The endowment consists of \$5,000 permanently restricted net assets at June 30, 2017 and 2016, with remaining balances recorded as unrestricted net assets of \$140,738 and \$125,166 at June 30, 2017 and 2016, respectively. Distributions in the amount of \$1,401 and \$5,189 were made in 2017 and 2016, respectively. No contributions were made in either 2017 or 2016. All accumulation resulted from investment earnings that were recorded as unrestricted net assets, as Adelante can use these funds at their discretion for operations.

Adelante Development Center, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 5 – LONG-TERM INVESTMENTS – CONTINUED

The beneficial interest in assets held by others is recorded as temporarily restricted net assets (see Note 9). Distributions in the amount of \$2,303 and \$6,504 were made in 2017 and 2016, respectively. There were no contributions in 2017 or 2016. All investment earnings were recorded as temporarily restricted net assets due to purpose restrictions imposed by the donor.

NOTE 6 – PROPERTY AND EQUIPMENT

As of June 30, property and equipment consisted of the following:

	<u>2017</u>	<u>2016</u>
Buildings	\$ 14,247,540	\$ 14,195,475
Furniture, equipment and machinery	3,031,792	2,943,168
Vehicles	2,697,838	2,723,408
Capital leases	1,771,874	-
Leasehold improvements	<u>614,595</u>	<u>599,209</u>
	22,363,639	20,461,260
Less accumulated depreciation	<u>(12,371,094)</u>	<u>(11,273,926)</u>
	9,992,545	9,187,334
Construction in progress	125,715	247,040
Land	<u>1,960,460</u>	<u>1,960,460</u>
Total property and equipment, net	<u>\$ 12,078,720</u>	<u>\$ 11,394,834</u>

In May 2013, a fire significantly damaged the Belen Thrift Store. Adelante filed a claim with their insurance company and have received the full value of insurance proceeds under the claim as of June 30, 2016. Insurance proceeds net of the book value of the damaged property in the amount of zero and \$393,683 were recorded to other revenue in 2017 and 2016, respectively.

Insurance proceeds received for business interruption of \$50,043 and zero were recorded to other revenue in 2017 and 2016, respectively.

Construction in progress at June 30, 2017 consists of miscellaneous costs incurred for housing renovations and rebuilding a partially destroyed truck. Construction in progress at June 30, 2016 consists of miscellaneous costs incurred for the bulk mailing project placed into operations during 2017.

Adelante Development Center, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 7 – LINES-OF-CREDIT

Adelante has available an operating line-of-credit at a bank secured by accounts receivable and inventory with no stated maturity. Interest at the prime rate (4.25% and 3.5% at June 30, 2017 and 2016, respectively), with a floor of 2.65%, is due monthly. As of June 30, 2017, the total open line amount was \$1,500,000. The outstanding balance was zero and \$308,190 at June 30, 2017 and 2016, respectively.

NOTE 8 – LONG-TERM DEBT

As of June 30, 2017 and 2016, long-term debt consisted of the following:

	<u>2017</u>	<u>2016</u>
Note payable to bank, secured by land and building, due in monthly installments of \$51,082, including interest at 4.75% with final payment due March 2035.	\$ 7,298,615	\$ 7,553,361
Note payable to bank, secured by vehicles, due in monthly installments of \$9,267, including interest fixed at 4.75%, with final payment due November 2019.	254,757	352,824
Note payable to Source America, secured by equipment, due in quarterly installments of \$2,500, plus interest at 1.625%, with final payment due October 2016.	<u>-</u>	<u>5,000</u>
	7,553,372	7,911,185
Less current maturities	<u>(370,982)</u>	<u>(361,608)</u>
Total	<u>\$ 7,182,390</u>	<u>\$ 7,549,577</u>

Adelante Development Center, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 8 – LONG-TERM DEBT – CONTINUED

Long-term debt maturities are as follows:

Years ending June 30:

2018	\$ 370,982
2019	388,667
2020	341,546
2021	310,359
2022	325,641
Thereafter	<u>5,816,177</u>
	<u>\$ 7,553,372</u>

Adelante must comply with certain financial covenants, including a debt service coverage ratio, minimum net assets and a leverage ratio, as defined in the agreement. Management believes Adelante is in compliance with its financial covenants for the years ended June 30, 2017 and 2016.

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

Adelante's temporarily restricted net assets consisted of the following:

<u>Restrictions</u>	<u>Balance June 30, 2016</u>	<u>Additions</u>	<u>Restrictions Released</u>	<u>Balance June 30, 2017</u>
United Way	\$ 14,359	\$ 103,905	\$ 53,273	\$ 64,991
NM State Grant	138,103	275,496	138,103	275,496
Mutual of America	15,000	-	1,880	13,120
Source America Contact Center	60,000	-	60,000	-
Wilhelmina Coe/ Friends in Time	129,157	14,282	-	143,439
CHIPS	68,539	178,776	244,087	3,228
Other	<u>71,807</u>	<u>177,326</u>	<u>123,419</u>	<u>125,714</u>
Total	<u>\$ 496,965</u>	<u>\$ 749,785</u>	<u>\$ 620,762</u>	<u>\$ 625,988</u>

Adelante Development Center, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS – CONTINUED

<u>Restrictions</u>	<u>Balance June 30, 2015</u>	<u>Additions</u>	<u>Restrictions Released</u>	<u>Balance June 30, 2016</u>
United Way	\$ 23,949	\$ 24,964	\$ 34,554	\$ 14,359
NM State Grant	208,435	138,103	208,435	138,103
Mutual of America	15,000	-	-	15,000
Source America Contact Center	60,000	-	-	60,000
Wilhelmina Coe/ Friends in Time	139,422	-	10,265	129,157
CHIPS	-	201,009	132,470	68,539
Other	<u>170,726</u>	<u>240,441</u>	<u>339,360</u>	<u>71,807</u>
Total	<u>\$ 617,532</u>	<u>\$ 604,517</u>	<u>\$ 725,084</u>	<u>\$ 496,965</u>

Temporarily restricted net assets are contributions with donor-imposed stipulations. The promise to give receivable balance was \$354,489 and \$23,809 at June 30, 2017 and 2016, respectively.

NOTE 10 – EMPLOYMENT PROGRAM FUNDING

For the years ended June 30, 2017 and 2016, program service fees and enterprise sales revenue include various employment programs funded, in part, by the following:

	<u>2017</u>	<u>2016</u>
Industry Sales	\$ 3,270,589	\$ 1,337,897
Source America FLETC - Ability 1	2,555,233	2,317,114
Source America KAFB - Ability 1	1,866,076	1,847,944
Retail sales	758,320	997,648
Senior meal services	703,429	761,094
Private pay	494,698	362,159
Recycle revenues	277,126	235,683
Ticket to work	167,451	242,553
ARCA-ICF	162,271	193,396
Other janitorial contracts	88,851	107,569
Snack bars and vending machines	11,716	11,809
Situational assessment revenue	<u>3,800</u>	<u>3,974</u>
Total employment program funding	<u>\$ 10,359,560</u>	<u>\$ 8,418,840</u>

Adelante Development Center, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 11 – LEASE REVENUE

Adelante leases portions of its commercial office buildings as operating leases to unrelated third-parties. The operating leases expire at various times through fiscal year 2017, with one lease extended through July 2022. The remaining leases operate on a month-to-month basis.

Minimum future rentals do not include contingent rentals that may be received over the base amount, which are tied to operating results of the lessee. There were no contingent rentals received in 2017 or 2016. Annual lease revenue was \$448,286 and \$442,466 for 2017 and 2016, respectively. Future minimum lease payments related to the operating lease revenues are approximately:

Years ending June 30:

2018	\$ 76,228
2019	50,780
2020	50,780
2021	50,780
2022	50,780
Thereafter	<u>2,116</u>
Total minimum lease payments	<u>\$ 281,464</u>

NOTE 12 – BENEFIT PLANS

The Adelante Development Center, Inc. 403(b) Plan (the Plan) was established January 1, 2000 for the benefit of the employees of Adelante Development Center, Inc. (the Company). The Company acts as the Plan discretionary sponsor and administrator. The Plan is a defined contribution plan covering substantially all employees of the Company. Employees may elect not to participate in the salary deferral program. Employees must have attained age eighteen to be eligible for contributions other than elective deferral contributions. The Plan entry dates for participant deferrals and employer matching contributions occurs immediately upon attaining eligibility. Adelante contributed approximately \$121,000 and \$109,000 to this Plan during the years ended June 30, 2017 and 2016, respectively.

NOTE 13 – LEASES

Adelante leases building space, vehicles and equipment used for training purposes under long-term operating lease agreements. The leases expire in various years through fiscal year 2022. One of the leases for building space contains a ten-year renewal option. Monthly lease expense ranges from \$220 to \$10,911.

Adelante Development Center, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 13 – LEASES – CONTINUED

Future minimum lease payments related to the operating leases are approximately:

Years ending June 30:

2018	\$ 369,615
2019	297,993
2020	245,066
2021	102,455
2022	<u>81,372</u>

Total minimum lease payments \$ 1,096,501

Total rent expense was \$639,812 and \$536,151 for the years ended June 30, 2017 and 2016, respectively.

NOTE 14 – CAPITAL LEASE OBLIGATIONS

Adelante has capital leases for equipment used for operations of Bulk Printing and Mailing. The assets are depreciated over their respective lease periods. Total assets under capital lease were approximately \$1,772,000 and zero at June 30, 2017 and 2016, respectively. Accumulated depreciation associated with these assets was approximately \$400,000 and zero as of June 30, 2017 and 2016, respectively. Depreciation of assets under capital leases is included in depreciation expense. Future minimum lease payments related to the operating leases are approximately:

Years ending June 30:

2018	\$ 418,135
2019	464,768
2020	520,743
2021	25,626
2022	<u>800</u>

Total minimum lease payments \$ 1,430,072

Adelante Development Center, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 15 – RELATED PARTY TRANSACTIONS

As discussed in Note 2, Adelante controls the Storehouse's operations. The Storehouse reimburses Adelante for any costs incurred on behalf of Storehouse, as well as the cost of full time employees assigned to the Storehouse and a management fee. Income recognized for management fees was \$112,322 and \$93,218 in 2017 and 2016, respectively, and is included in miscellaneous income in the accompanying statement of activities and changes in net assets. Costs reimbursed for salaries and related costs and various operating costs incurred on behalf of the Storehouse was \$273,352 and \$298,657 in 2017 and 2016, respectively. Amounts receivable from the Storehouse was \$84,800 and \$39,308 at June 30, 2017 and 2016, respectively, and is included in other receivables in the accompanying statement of financial position.

NOTE 16 – THE STOREHOUSE NEW MEXICO

Departure from Generally Accepted Accounting Principles

In 2014 the Storehouse New Mexico (the Storehouse) was created as a separate 501(c)(3) organization operating for the purpose of providing food to those in need. Adelante, at the Board's discretion, has the ability to appoint board members and to direct the activities of the Storehouse. As a result, Adelante directly controls the Storehouse and is required to combine entities under common control in accordance with accounting principles generally accepted in the United States of America. Management has elected to not comply with the requirement to combine entities under common control.

Selected 2017 and 2016 summarized financial information for the Storehouse is as follows:

	<u>2017</u>	<u>2016</u>
Assets	\$ 1,540,133	\$ 1,396,874
Liabilities	615,700	557,217
Net assets	924,433	839,657
Revenues	3,341,275	2,390,631
Expenses	3,256,499	2,430,408

NOTE 17 – COMMITMENTS AND CONTINGENCIES

Major Customers

Adelante receives a significant portion of its revenue from grants and contracts from government agencies, which subjects it to possible fluctuations due to changes in funding priorities. During 2017 and 2016, Adelante received approximately 45% and 48%, respectively, of its gross revenues from such grants and contracts. Related receivables were approximately 44% and 34% of total receivables at June 30, 2017 and 2016, respectively.

Adelante Development Center, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 17 – COMMITMENTS AND CONTINGENCIES – CONTINUED

Contingencies

Certain funds received are subject to review and audit by grantor agencies. Such audits could result in requests for reimbursements by the grantor agencies for amounts disallowed under terms and conditions of the grantor agencies. As of June 30, 2017 or 2016, no amounts were due from these examinations.

Adelante is subject to various claims that arise in the ordinary course of business. In the opinion of management, the amount of the ultimate liability will not materially affect the financial position, results of operations, or liquidity of Adelante.