

AUDITED FINANCIAL STATEMENTS

REMERGE OF OKLAHOMA COUNTY, INC.

December 31, 2017

Audited Financial Statements

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Independent Auditors' Report

To the Board of Directors
ReMerge of Oklahoma County, Inc.
Oklahoma City, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of ReMerge of Oklahoma County, Inc. (the "Organization"), a nonprofit organization, which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 control relevant to the Organization'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 Organization'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 the Organization as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Rose Rock CPAs PLLC

Edmond, Oklahoma
April 5, 2018

REMERGE OF OKLAHOMA COUNTY, INC.

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2017	2016
ASSETS		
Cash and cash equivalents	\$ 2,089,835	\$ 507,063
Contributions receivable, net	2,176,120	129,972
Other receivables	-	3,500
Prepaid expenses	16,533	19,450
Deposits	900	900
Fixed assets:		
Equipment	35,458	29,907
Database software	77,329	61,504
Construction in progress	64,023	-
	<u>176,810</u>	<u>91,411</u>
Less accumulated depreciation	30,480	13,204
	<u>146,330</u>	<u>78,207</u>
 Total assets	 <u>\$ 4,429,718</u>	 <u>\$ 739,092</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 53,944	\$ 25,539
Accrued payroll and payroll taxes	10,386	15,300
Accrued leave	25,654	21,641
Total liabilities	<u>89,984</u>	<u>62,480</u>
Net Assets:		
Unrestricted	254,621	215,359
Temporarily restricted	4,085,113	461,253
Total net assets	<u>4,339,734</u>	<u>676,612</u>
 Total liabilities and net assets	 <u>\$ 4,429,718</u>	 <u>\$ 739,092</u>

See notes to financial statements.

REMERGE OF OKLAHOMA COUNTY, INC.

STATEMENTS OF ACTIVITIES

	Year Ended December 31, 2017			Year Ended December 31, 2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND OTHER REVENUES						
Contributions	\$ 1,043,966	\$ 3,879,924	\$ 4,923,890	\$ 573,803	\$ 603,500	\$ 1,177,303
Interest income	679	-	679	552	-	552
In-kind	369,716	-	369,716	466,086	-	466,086
Net assets released from restrictions	256,064	(256,064)	-	598,894	(598,894)	-
TOTAL SUPPORT AND OTHER REVENUES	1,670,425	3,623,860	5,294,285	1,639,335	4,606	1,643,941
EXPENSES						
Program services	1,417,484	-	1,417,484	1,331,283	-	1,331,283
Administrative and general	120,244	-	120,244	146,928	-	146,928
Development	93,435	-	93,435	158,030	-	158,030
TOTAL EXPENSES	1,631,163	-	1,631,163	1,636,241	-	1,636,241
CHANGE IN NET ASSETS	39,262	3,623,860	3,663,122	3,094	4,606	7,700
NET ASSETS AT BEGINNING OF YEAR	215,359	461,253	676,612	212,265	456,647	668,912
NET ASSETS AT END OF YEAR	\$ 254,621	\$ 4,085,113	\$ 4,339,734	\$ 215,359	\$ 461,253	\$ 676,612

See notes to financial statements.

REMERGE OF OKLAHOMA COUNTY, INC.

STATEMENTS OF CASH FLOWS

	Year Ended December 31	
	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 3,663,122	7,700
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	17,277	10,572
Amortization of discount	-	(11,637)
Changes in operating assets and liabilities:		
Contributions receivable	(2,046,148)	347,028
Other receivables	3,500	(162)
Prepaid expenses	2,917	(9,284)
Accounts payable	28,405	(37,912)
Accrued payroll and payroll taxes	(4,914)	8,126
Accrued leave	4,013	12,841
Net cash provided by operating activities	<u>1,668,172</u>	<u>327,272</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets	<u>(85,400)</u>	<u>(36,606)</u>
Net cash used in investing activities	<u>(85,400)</u>	<u>(36,606)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,582,772	290,666
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>507,063</u>	<u>216,397</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 2,089,835</u></u>	<u><u>\$ 507,063</u></u>

See notes to financial statements.

REMERGE OF OKLAHOMA COUNTY

STATEMENTS OF FUNCTIONAL EXPENSES

	Year Ended December 31, 2017				Year Ended December 31, 2016			
	Program Services	Administrative and General	Development	Total Expenses	Program Services	Administrative and General	Development	Total Expenses
Salaries and personnel	\$ 587,174	\$ 73,041	\$ 58,782	\$ 718,997	\$ 260,798	\$ 90,094	\$ 123,287	\$ 474,179
External salary support	194,032	-	-	194,032	626,520	-	-	626,520
Food and kitchen	27,189	-	14	27,203	18,361	-	-	18,361
Housing	166,861	-	-	166,861	152,202	-	-	152,202
Transportation	35,634	-	-	35,634	51,708	-	-	51,708
Medical and dental	36,794	-	-	36,794	28,074	-	-	28,074
Client assistance	33,734	-	-	33,734	7,395	-	-	7,395
Rent	116,985	9,278	8,352	134,615	40,138	9,820	1,784	51,742
Training	14,589	991	2,722	18,302	6,115	860	-	6,975
Supplies	5,868	2,018	517	8,403	8,527	508	1,117	10,151
Accounting and professional	116,635	22,921	-	139,556	50,000	31,457	-	81,457
Insurance	4,134	230	229	4,593	4,053	225	225	4,503
Depreciation	15,549	864	864	17,277	10,094	149	328	10,572
Luncheon and events	-	-	11,915	11,915	-	-	14,592	14,592
Other	62,306	10,901	10,040	83,247	67,298	13,815	16,697	97,810
	<u>\$ 1,417,484</u>	<u>\$ 120,244</u>	<u>\$ 93,435</u>	<u>\$ 1,631,163</u>	<u>\$ 1,331,283</u>	<u>\$ 146,928</u>	<u>\$ 158,030</u>	<u>\$ 1,636,241</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

REMERGE OF OKLAHOMA COUNTY, INC.

December 31, 2017

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: ReMerge of Oklahoma County, Inc. (the “Organization”) is a nonprofit corporation located in Oklahoma City, Oklahoma. The Organization received 501(c)(3) status effective January 2014. The IRS deemed the Organization to be a public charity.

The Organization was formed to provide a female diversion program that is an alternative to incarceration for mothers in Oklahoma County who are charged with nonviolent crimes. The Organization serves only women with minor children or women who are pregnant. As part of operating the program, the Organization provides various services to participants including transportation, housing, medical and dental, educational and employment training, and evidence based treatment for trauma, mental health and substance abuse. Children and family services are also provided to increase family support and stability. The Organization operates through a blending of public and private funding. The Organization partners with the Oklahoma Department of Corrections, the Oklahoma County District Attorney, the Oklahoma County Public Defender and the Oklahoma Department of Mental Health and Substance Abuse Services. Participants enter the Organization’s program based on recommendations from the Oklahoma County District Attorney and the Oklahoma County Public Defender.

Basis of Accounting: The financial statements have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenue is recorded when earned and expenses are recorded when incurred. Revenues earned but not received and expenses incurred but not paid are recorded as receivables and payables, respectively, on the statements of financial position. Net assets represent cumulative revenue over expenses incurred.

Basis of Presentation: Accounting principles generally accepted in the United States of America (“GAAP”) require the Organization to report information regarding its financial position and activities according to three classes of net assets as follows:

- Unrestricted net assets – Resources that are generally not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.
- Temporarily restricted net assets – Net assets subject to donor-imposed restrictions that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.
- Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. The Organization did not have any permanently restricted net assets at December 31, 2017 or 2016.

NOTES TO FINANCIAL STATEMENTS

REMERGE OF OKLAHOMA COUNTY, INC.--Continued

December 31, 2017

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Basis of Presentation--Continued: Contributions, including unconditional promises to give, are recognized as revenues in the period received at their fair values. Conditional promises to give are recognized when the conditions on which they depend are substantially met. The Organization distinguishes between contributions of unrestricted assets, temporarily restricted assets, and permanently restricted assets. The Organization reports gifts of cash and other assets as restricted support if they are received with donor restrictions that limit the use of the donated assets. Donor restricted contributions, whose restrictions are met in the same reporting period, are reported as unrestricted support.

Cash and Cash Equivalents: For purposes of the statements of cash flows, the Organization considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The Organization had no cash equivalents as of December 31, 2017 and 2016.

Expense Allocation: The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying statements of activities and statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services.

Fixed Assets: Fixed assets are carried at cost at the date of acquisition or fair value at the date of donation in the case of gifts. Asset purchases equal to or greater than \$500 are capitalized. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets, which are three to seven years for equipment and seven years for software. The Organization reports gifts of property and equipment as unrestricted support unless explicit donor restrictions specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor restrictions about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Contributions Receivable: Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits. Unconditional promises to give which are due in more than one year, are discounted to net present value by the Organization's management using the risk-free rate at the time the unconditional promise to give was made. The Organization considers these contributions receivable to be temporarily restricted support if their use is restricted for specific purposes. As of December 31, 2017 and 2016, contributions receivable of \$2,176,120 and \$129,972, respectively, are expected to be fully collected within one year, and therefore, no allowance for uncollectible contributions receivable has been included in the accompanying financial statements.

Concentrations of Credit Risk: The Organization has concentrated its credit risk for cash by maintaining deposits at a financial institution which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts, and management does not consider this to be an unreasonable risk of loss.

As of December 31, 2017, approximately 89% of the outstanding contributions receivable were due from two donors.

NOTES TO FINANCIAL STATEMENTS

REMERGE OF OKLAHOMA COUNTY, INC.--Continued

December 31, 2017

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Donated Services: Donated services consisting of specialized skills are recorded at fair market value based on standardized hourly rates as approved by the Organization's management.

Tax Status: The Organization is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (IRC) of 1986, as amended, as an organization described in Section 501(c)(3). The Organization has been classified as a publicly supported organization under IRC Section 509(a)(1). However, income generated from activities unrelated to the Organization's exempt purpose is subject to tax under IRC Section 511. The Organization had no unrelated business taxable income for the years ended December 31, 2017 and 2016.

The Organization complies with the requirements of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, Income Taxes, which prescribes a recognition threshold and measurement requirements for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In addition, ASC 740 provides guidance on recognition, classification, and accounting in interim periods and disclosure requirements for uncertain tax provisions. The Organization does not have any uncertain tax positions and therefore, has recorded no liability or benefit for such position for the years ended December 31, 2017 and 2016.

The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

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

Development Costs: The Organization's policy is to expense the costs of development as incurred. For the years ended December 31, 2017 and 2016, development expense was approximately \$93,000 and \$158,000, respectively.

Reclassifications: Certain reclassifications of in-kind expense have been made to the prior year presentation to conform to the current year presentation. The reclassification had no impact on prior year activities or net assets.

Subsequent Events: Subsequent events have been evaluated through April 5, 2018, which is the date the financial statements were available to be issued.

NOTES TO FINANCIAL STATEMENTS

REMERGE OF OKLAHOMA COUNTY, INC.--Continued

December 31, 2017

NOTE B--CONTRACTS

The Organization has entered into various contracts with other entities to assist in conducting its program. Descriptions of the agreements in place as of December 31, 2017 and 2016 are as follows:

North Oklahoma Community Mental Health Center (“NorthCare”): A memorandum of understanding (“MOU”) was entered into with NorthCare to provide a variety of services necessary for carrying out the Organization’s program, including:

- Perform the initial assessment on individuals that are referred to the program to determine their eligibility.
- Prepare required court reports and reports for the Oklahoma Department of Health and Human Services.
- Work with the Oklahoma County District Attorney and the Oklahoma County Public Defender and attend court proceedings of participants in the program.
- Provide psychiatric clinic services to participants in the program.
- Operate a 5 day per week treatment program to participants for substance abuse, mental health and trauma at NorthCare’s facilities in Oklahoma City.
- Provide ongoing staff training to NorthCare employees that work with the program.

The MOU established a budget that details the funded positions that will provide the services to the Organization’s participants and which of those positions will be funded by the Organization and/or NorthCare. The MOU was terminated prior to January 1, 2017. The Organization made payments to NorthCare in relation to providing the services under the MOU of approximately \$346,000 during the year ended December 31, 2016. NorthCare also provided various in-kind contributions to the Organization in carrying out the requirements of the MOU. The in-kind services included payment of a portion of salaries and benefits, various operating costs and utilization of NorthCare’s facilities. The total value of the in-kind contributions for the year ended December 31, 2016 was approximately \$158,000, and is included as an in-kind contribution and external salary support expense in the accompanying financial statements.

OKC Metro Alliance, Inc. (“OKC Metro”): The contract was entered into in January of 2014 and is for OKC Metro to provide various services for up to a maximum of 20 of the Organization’s participants including safe, sober and supervised housing, random drug testing, daily meals, hygiene, bedding and linen, transportation, minor medical and dental, education, and case management. OKC Metro may charge a rate of \$25 per day, per participant. The contract may be terminated for cause, as defined in the terms of the contract, or with 30 days written notice by either party. Payments made to OKC Metro by the Organization for the years ended December 31, 2017 and 2016 totaled approximately \$59,000 and \$70,000, respectively.

NOTES TO FINANCIAL STATEMENTS

REMERGE OF OKLAHOMA COUNTY, INC.--Continued

December 31, 2017

NOTE B--CONTRACTS--Continued

Central Oklahoma Workforce Investment Board (“COWIB”): The contract was entered into in December of 2014 and is for COWIB to provide a Workforce Improvement Act (“WIA”) job coach through ResCare Workforce Services, Inc. (“RWS”) to assist the Organization’s participants in securing employment through providing them preparation and employment training. The WIA job coach will also provide case management services to participants that are placed in employment positions. The job coach’s compensation is 50% funded by the Organization and 50% funded by COWIB. Payments made to RWS by the Organization for the years ended December 31, 2017 and 2016 totaled approximately \$24,000 and \$20,000, respectively.

United Way: An MOU was entered into in March of 2014 with the United Way and is for the Organization’s use of space at the United Way’s headquarters in Oklahoma City. The Organization received free use of the space as well as a portion of utility and janitorial costs allocated for the space through 2016. The Organization also utilized the services of the United Way’s IT personnel. Total value of the contributed space, utilities, janitorial costs and IT services for the year ended December 31, 2016 was approximately \$16,000 and is included as an in-kind contribution and rent expense in the accompanying financial statements.

The Salvation Army: The contract was entered into in March of 2014 and is for The Salvation Army to provide transportation services to the Organization’s participants at a rate of \$150 per day, but no more than \$37,500 annually. The contract may be terminated for cause, as defined in the terms of the contract, or with 30 days written notice by either party. Payments made to The Salvation Army by the Organization for the years ended December 31, 2017 and 2016 totaled approximately \$30,000 and \$32,000, respectively.

NOTE C--PUBLIC FUNDING

As discussed in Note A, the Organization receives both public and private funding for its operations. The public funding for the years ended December 31, 2017 and 2016 consisted of the following:

Oklahoma Department of Mental Health and Substance Abuse Services: Directly funded a portion of the cost of the services provided by NorthCare in conjunction with services provided to the Organization. Funding for each of the years ended December 31, 2017 and 2016 was approximately \$72,000 and \$127,000, respectively, and is included as an in-kind contribution and external salary support expense in the accompanying financial statements.

Oklahoma Department of Corrections: Directly funded the cost of providing security personnel utilized by the Organization’s program. Funding for each of the years ended December 31, 2017 and 2016 was approximately \$50,000 and \$60,000, respectively, and is included as an in-kind contribution and external salary support expense in the accompanying financial statements.

NOTES TO FINANCIAL STATEMENTS

REMERGE OF OKLAHOMA COUNTY, INC.--Continued

December 31, 2017

NOTE D--TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2017</u>	<u>2016</u>
Capital Campaign new building fund	\$ 3,753,780	\$ -
Rees Family Fund	112,401	99,972
OCCF: Biometric Wellness	12,000	-
Boeing: Wellness program	9,924	19,219
InAsMuch Foundation	170,358	277,913
Rockefeller: Listen for good program	14,180	59,011
Delta Dental: Dental program	<u>12,470</u>	<u>5,138</u>
	<u>\$ 4,085,113</u>	<u>\$ 461,253</u>

NOTE E--LEASES

Effective October 1, 2016, the Organization entered into a twenty-four-month lease agreement for property located in Oklahoma City, Oklahoma at \$3,263 per month. The lease is at a rate well below market value, therefore, the difference was recorded as an in-kind contribution and rent expense of approximately \$95,000 and \$25,000 for the years ended December 31, 2017 and 2016, respectively. The lease requires future minimum lease payments of \$29,367 during 2018.

NOTE F--SIMPLE IRA PLAN

During 2016, the Organization adopted a Simple IRA Plan covering all eligible employees. The Organization makes matching contributions of 3%. The Organization made matching contributions of approximately \$12,000 and \$3,000 for the years ended December 31, 2017 and 2016, respectively.

NOTES TO FINANCIAL STATEMENTS

REMERGE OF OKLAHOMA COUNTY, INC.--Continued

December 31, 2017

NOTE G--RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In August 2015, the FASB issued Accounting Standards Update (“ASU”) 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*. The amendments in this ASU defer the effective date of FASB ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* for all entities by one year. The provisions of FASB ASU 2014-09 affect any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets and supersedes the revenue recognition requirements in *Revenue Recognition (Topic 605)*, and most industry-specific guidance. FASB ASU 2014-09 also supersedes some cost guidance included in *Revenue Recognition-Construction-Type and Production-Type Contracts (Subtopic 605-35)*. FASB ASU 2014-09’s core principle is that an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. In doing so, entities will need to use more judgment and make more estimates than under today’s guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. In March 2016, the FASB issued ASU 2016-08 further clarifying aspects of *Topic 606* which discuss the core principle of *Topic 606* in order to improve the operability and understandability of the implementation guidance on principal versus agent considerations. For nonpublic entities, the provisions of FASB ASU 2014-09 are effective for fiscal years beginning after December 15, 2018.

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The amendments are effective for fiscal years beginning after December 15, 2019.

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958)*. ASU 2016-14 changes the financial statement presentation and disclosure requirements for not-for-profit entities with the intention of providing more relevant information about their resources and changes in those resources to financial statement users. ASU 2016-14 decreases the number of net asset classifications from three to two based on the existence of donor restrictions. ASU 2016-14 also requires additional disclosures regarding board-designations on net assets, “underwater” endowment funds, liquidity and methods used to allocate costs to functional expense categories. Investment expenses must be presented net of investment returns, and reconciliations from the direct method of presenting operating cash flows to the indirect is no longer required. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017. Early adoption is permitted.

Management is currently evaluating the impact adoption of the pronouncements will have on the Organization’s financial statements in future reporting periods.