Keegan, Linscott & Kenon, PC
Certified Public Accountants
Certified Fraud Examiners
Certified Insolvency & Restructuring Advisors

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THE PRIMAVERA FOUNDATION, INC.

AUDITED FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013
(WITH SUMMARIZED COMPARATIVE TOTALS
FOR THE YEAR ENDED JUNE 30, 2012)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Primavera Foundation, Inc.
Tucson, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of The Primavera Foundation, Inc. (the "Organization") which comprise the statements of financial position as of June 30, 2013 and 2012, the related statements of cash flows for the years then ended, and the related statement of activities and changes in net assets for the year ended June 30, 2013, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Primavera Foundation, Inc. as of June 30, 2013 and 2012, and cash flows for the years then ended and the results of its activities and changes in net assets for the year ended June 30, 2013, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedules are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited the Organization's 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 5, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2013 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Keegan, Linscott & Kenon, PC

Tucson, Arizona
November 14, 2013

AUDITED FINANCIAL STATEMENTS

STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30,

	2013	2012
Assets		
Current assets		
Cash and cash equivalents	$ 1,524,308	$ 1,156,117
Investments		
Debt and equity securities	1,759,329	1,540,480
Other	-	27,993
Accounts and grants receivable, net	413,690	529,875
Pledge receivable	-	150,000
Real estate projects		
Property held for development	-	53,767
Property held for sale, net	1,608,651	840,746
Prepaid expenses and other assets	70,399	60,534
Total current assets	5,376,377	4,359,512
Cash restricted for capital purposes	139,829	355,042
Property and equipment, net	6,856,959	4,690,989
Other assets		
Notes receivable - permanent liens	215,621	180,136
Investment in family limited partnership	150,000	150,000
Total assets	$ 12,738,786	$ 9,735,679
Liabilities and Net Assets		
Current liabilities		
Accounts payable	$ 204,025	$ 82,366
Accrued expenses	346,922	209,537
Deferred revenue	2,009,034	514,155
Security deposits and other liabilities	38,582	37,257
Current maturities of long-term debt	7,678	7,235
Total current liabilities	2,606,241	850,550
Long-term debt	1,436,478	235,947
Note payable - Pima County (Forgivable Loan)	151,631	151,631
Total liabilities	4,194,350	1,238,128
Unrestricted net assets		
Undesignated	5,282,038	5,723,540
Board designated	1,759,329	1,540,480
Temporarily restricted net assets	509,652	213,068
Permanently restricted net assets	993,417	1,020,463
Total net assets	8,544,436	8,497,551
Total liabilities and net assets	$ 12,738,786	$ 9,735,679

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2013
(WITH COMPARATIVE SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2012)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2013	Summarized Total 2012
Revenues and Other Support					
Government grants and contracts	$ 3,040,852	$ -	$ -	$ 3,040,852	$ 2,705,275
Contributions and donations	1,174,895	179,632	-	1,354,527	1,328,917
NeighborWorks® America grants	140,896	-	75,000	215,896	707,465
Other grants	354,886	247,826	-	602,712	601,913
Primavera Works contracts	485,561	-	-	485,561	327,388
Donated meals	312,370	-	-	312,370	321,742
Rent income	419,384	-	-	419,384	414,755
Client fees	185,110	-	-	185,110	186,013
Special events	173,791	-	-	173,791	173,074
Rehabilitation program income	377,978	-	-	377,978	192,751
Investment income, net	229,386	-	-	229,386	90,270
Loss on disposal of assets	(7,928)	-	-	(7,928)	(306)
Miscellaneous income	23,314	-	-	23,314	20,907
Net assets released from restrictions	232,920	(130,874)	(102,046)	-	-
Total revenues and other support	7,143,415	296,584	(27,046)	7,412,953	7,070,164
Expenses					
Program services	6,311,943	-	-	6,311,943	5,138,176
Management and general	650,211	-	-	650,211	883,197
Fundraising and development	403,914	-	-	403,914	378,132
Total expenses	7,366,068	-	-	7,366,068	6,399,505
Change in net assets	(222,653)	296,584	(27,046)	46,885	670,659
Net assets, beginning of year	7,264,020	213,068	1,020,463	8,497,551	7,826,892
Net assets, end of year	$ 7,041,367	$ 509,652	$ 993,417	$ 8,544,436	$ 8,497,551

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30,

	2013	2012
Cash Flows from Operating Activities		
Change in net assets	$ 46,885	$ 670,659
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	408,579	265,872
Loss on disposal of assets	7,928	306
Unrealized gain on investments	(177,173)	(44,343)
Grants restricted for capital purposes	(75,000)	(153,000)
Changes in operating assets and liabilities		
Accounts and grants receivable, net	116,185	(26,604)
Pledge receivable	150,000	(150,000)
Real estate projects		
Property held for development	53,767	136,864
Property held for sale, net	(767,905)	(458,143)
Prepaid expenses and other assets	(9,865)	(47,227)
Accounts payable	121,659	(45,771)
Accrued expenses	137,385	(62,416)
Deferred revenue	1,494,879	101,950
Security deposits and other liabilities	1,325	(3,075)
Net cash provided by operating activities	1,508,649	185,072
Cash Flows from Investing Activities		
Decrease in cash restricted for capital purposes	215,213	157,697
Purchases of property and equipment	(2,582,477)	(601,235)
Proceeds from sale of investments	27,993	-
Purchases of investments	(41,676)	(35,792)
Additional permanent liens provided	(35,485)	(15,000)
Net cash used in investing activities	(2,416,432)	(494,330)
Cash Flows from Financing Activities		
Proceeds from issuance of long-term debt	1,200,974	-
Principal payments on long-term debt	-	(3,726)
Grants restricted for capital purposes	75,000	153,000
Net cash provided by financing activities	1,275,974	149,274
Net change in cash and cash equivalents	368,191	(159,984)
Cash and cash equivalents, beginning of year	1,156,117	1,316,101
Cash and cash equivalents, end of year	$ 1,524,308	$ 1,156,117

NOTES TO FINANCIAL STATEMENTS

1. Purpose of Organization

The Primavera Foundation, Inc. the (the "Organization") is a non-profit community housing development and social service agency incorporated in Arizona in 1983. The mission of the Organization is "to provide pathways out of poverty through safe, affordable housing, workforce development, and neighborhood revitalization." On July 1, 2007, Traveler's Aid Society, Inc. merged into the Organization.

The purpose of the Organization is to address the systematic causes of homelessness in Tucson, Arizona and the surrounding areas through education, advocacy, and model programs in emergency services, affordable rental housing, workforce development, neighborhood revitalization, and homeownership promotion and preservation. The Organization's programs are designed to facilitate progress toward individual economic independence, asset building, and community development with the goal of empowering the impoverished of the community to move from homelessness to maintaining social and economic well-being and long-term financial security. The Organization's primary sources of revenue are grants, unrestricted contributions, rent from low income housing, workforce development contracts, and homeownership promotion and education services.

2. Significant Accounting Policies

Basis of Presentation
The Organization follows accounting standards set by the Financial Accounting Standards Board ("FASB"). The FASB sets accounting principles generally accepted in the United States of America ("GAAP") that the Organization follows to ensure the consistent reporting of its financial condition, changes in net assets and cash flows. References to GAAP issued by the FASB are to the FASB Accounting Standards Codificaiton ("ASC").

The Organization's financial statements have been prepared on the accrual basis of accounting in accordance with the provisions of ASC 958, *Not-for-Profit Entities*. Under this authoritative guidance, the Organization is required to provide financial statements which are prepared to focus on the Organization as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. Resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets that have similar characteristics have been combined into similar categories as follows:

- **Unrestricted** – Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

- **Temporarily Restricted** – Net assets whose use by the Organization is subject to donor-imposed stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire through the passage of time.

- **Permanently Restricted** – Net assets that are subject to donor-imposed stipulations that assets be maintained permanently by the Organization. The donors of these assets permit the Organization to use all or part of the investment return of these assets for futhering the Organization's mission. All permanently restricted net assets of the Organization were derived from capital grants received from NeighborWorks® America. The write-down, transfer or release from restriction of all permanently restricted NeighborWorks® America capital funds requires prior written approval from NeighborWorks® America.

NOTES TO FINANCIAL STATEMENTS

Significant Accounting Policies (continued)

Basis of Presentation (continued)
The Organization reports contributions of cash and other assets as restricted support, if they are received with donor stipulations that limit the use of the donated assets to a specific time period or a specific purpose, as temporarily restricted net assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statement of activities and changes in net assets as net assets released from restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the same reporting period in which the support is received.

NeighborWorks® America Permanently Restricted Net Assets
The Organization has interpreted the "Management of Charitable Funds Act" (Arizona's version of the Uniform Prudent Management of Institutional Funds Act) as requiring the preservation of the fair value of the original gift. As a result of this interpretation, the Organization classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the endowment fund.

In accordance with the NeighborWorks® America Investment and Grant agreement, the Organization is required to use the restricted endowment funds for capital projects and making affordable loans. Any funds not expended for these purposes, are fully invested in either United States government securities (or securities guaranteed by the United States government), or exclusively in federally (or state) insured depository accounts.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or current law requires the Organization to retain for a fund of perpetual duration. There were no such deficiencies as of June 30, 2013 and 2012.

Cash and Cash Equivalents
The Organization considers all highly liquid instruments purchased with original maturities of three months or less to be cash equivalents. Cash and cash equivalents include short-term certificates of deposit and money market accounts. Cash equivalents are stated at cost plus accrued interest, which approximates fair value and are considered Level 1 inputs in the fair value hierarchy.

The Organization places its cash and cash equivalents with high credit quality institutions. At times, such deposits may be in excess of the FDIC insurance limit; however, management does not believe it is exposed to any significant credit risk on cash and cash equivalents. All such cash accounts are monitored by management to mitigate risk.

Investments
Debt and Equity Securities – Investments are accounted for in accordance with ASC 958-320, *Investments - Debt and Equity Securities*. Investments are valued at their fair values in the accompanying statements of financial position. Investment income, including gains and losses, are reported in the statement of activities and changes in net assets as increases or decreases in net assets. Donated investments are recorded at fair value at the date of donation.

NOTES TO FINANCIAL STATEMENTS

Significant Accounting Policies (continued)

Investments (continued)
Debt and Equity Securities – **(continued)**
The Organization invests in professionally managed portfolios that contain equity and fixed income securities. Such investments are exposed to various risks such as market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

Investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary. The Organization employs a systematic methodology on an annual basis that considers available quantitative and qualitative evidence in evaluating potential impairment of investments. If the cost of an investment exceeds its fair value, management evaluates, among other factors, general market conditions, the duration and extent to which the fair value is less than cost, and the intent and ability to hold the investment. The Organization also considers specific adverse conditions related to the financial health of and business outlook for the investee, including industry and sector performance, changes in technology, operational and financing cash flow factors, and rating agency actions. Once a decline in fair value is determined to be other-then-temporary, an impairment charge is recorded and a new cost basis in the investment is established.

Other – Certificates of deposit held for investment that are not debt or equity securities are included in other investments. Certificates of deposit with original maturities greater than three months and remaining maturities less than one year are classified as current assets in the accompanying statements of financial position.

Accounts and Grants Receivable
Accounts and grants receivable balances are primarily due from governmental agencies and service recipients in Arizona. The Organization grants unsecured credit to these customers. The carrying amount of accounts and grants receivable are reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. The allowance for doubtful accounts is based on management's assessment of the collectability of specific accounts and the aging of the receivable. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. Accounts and grants receivable are presented net of an allowance for doubtful accounts of $15,249 and $7,576 as of June 30, 2013 and 2012, respectively.

Real Estate Projects
The Organization participates in federally sponsored projects that construct; or, acquire, renovate, rent, and sell homes to low income qualified buyers. All costs associated with the purchase and renovations of these homes are capitalized. The amounts received from the federal sponsor are deferred until the actual date of sale of the home or the completion of the contract period at which time the deferred revenue and the associated capitalized costs are relieved and recognized as revenue and expense.

The Organization reviews the carrying value of property held for development for impairment whenever events and circumstances indicate that the carrying value may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value. The factors considered by management in performing this assessment include real estate trends and prospects, demand, and other economic factors. Property held for sale is stated at the lower of its carrying value (cost) or fair value and is presented net of a valuation allowance of $0 and $16,671 as of June 30, 2013 and 2012, respectively.

NOTES TO FINANCIAL STATEMENTS

Significant Accounting Policies (continued)

Cash Restricted for Capital Purposes
NeighborWorks® America requires that unspent grant funds restricted for capital purposes be kept in separate accounts and requires that they be invested in government securities or federally (or state) insured depository accounts. At times, such deposits may be in excess of the FDIC insurance limit; however, all such accounts are monitored by management to mitigate risk.

The Organization received $75,000 and $153,000 in capital grant funds from NeighborWorks® America during the years ended June 30, 2013 and 2012, respectively. The Organization spent $188,167 and $0 for capital improvements and foreclosure prevention loans during the years ended June 30, 2013 and 2012, respectively. In addition, NeighborWorks® America released $102,046 of capital funds to support the Organization's operations. Cash restricted for capital purposes totaled $139,829 and $355,042 as of June 30, 2013 and 2012, respectively, and are held in FDIC insured money market depository accounts. The fair value of these money market accounts approximates their carrying value and are considered Level 1 inputs in the fair value hierarchy.

Property and Equipment
Property and equipment are stated at cost if purchased, or fair value if donated. Depreciation is calculated using the straight-line method over the estimated useful life of the assets as follows:

Buildings and improvements	7 - 40 years
Vehicles	5 years
Furniture, fixtures and equipment	5 – 8 years

Amortization of leasehold improvements is computed using the straight-line method over the shorter of the remaining lease term or the estimated useful lives of the improvements, and is included in depreciation expense. Acquisitions of property and equipment and repairs or betterments that materially prolong the useful lives of assets in excess of $1,000 are capitalized. Repairs and maintenance for normal upkeep are charged to expense as incurred. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is recognized.

In accordance with ASC 360-10, *Property, Plant and Equipment*, the Organization periodically reviews the carrying value of long-lived assets held and used, and assets to be disposed of, for possible impairment when events and circumstances warrant such a review. Through June 30, 2013, the Organization had not experienced impairment losses on its long-lived assets.

Investment in Family Limited Partnership
The investment in family limited partnership consists of a limited partnership interest representing 0.66% of the Bartol Family Partnership L.P. ("Partnership") and in accordance with ASC 958-325-15 is stated at the lower of cost or fair value. The Partnership holds certain investments including stocks, bonds, marketable securities, and other investment partnerships and generates investment income, a portion of which is distributed on a semi-annual basis. The Partnership, by its own terms, will terminate on December 31, 2039, unless all partners vote to dissolve the Partnership before that time.

Because this is a limited partnership, the Organization, as a limited partner, cannot obtain the underlying assets until Partnership dissolution. Therefore, the charitable gift has been recorded at $150,000, which was the fair value determined by representatives of the Partnership at the time of the gift, and represents the carrying value for financial reporting purposes. Distributions received during the years ended June 30, 2013 and 2012 were $9,764 and $8,266, respectively.

NOTES TO FINANCIAL STATEMENTS

Significant Accounting Policies (continued)

Revenue Recognition
The Organization accounts for its government funded grants and contracts as exchange transactions. Revenue is recognized as an increase in the statement of activities and changes in net assets as expenditures are incurred in accordance with applicable grant agreements under expenditure reimbursement contracts. Amounts received from government funding in connection with homes or property to be used or sold are deferred until such time that the home or property is placed into service or sold to qualified buyers. Amounts received under unit rate contracts and client fees are earned when services are provided. A receivable is recorded to the extent contract revenue exceeds payment received; conversely, advances in excess of costs incurred under grants are deferred and recognized as revenue when the related expense is incurred or service is rendered. Rental income is recognized as rents become due. Revenue is generated through monthly rental payments from qualified low-income tenants. All revenue received from tenants is recognized when services are provided. Rental receipts received in advance are deferred until earned. Contributions are recognized upon the Organization receiving notification of an unconditional promise to give. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Donated Goods, Property and Services
Support arising from donated goods, property and services is recognized in the financial statements at its fair value. Donated services are recognized when the services received:

- Create or enhance non-financial assets, or

- Require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Although the Organization utilizes the services of outside volunteers to perform a variety of tasks that assist the Organization, the fair value of all these services may not be reflected in the financial statements because the above criteria are not met.

During the years ended June 30, 2013 and 2012, the Organization maintained records to accumulate and value donated meals. Meals are valued using a blended rate of $4.50 per meal to reflect differences in costs between breakfast, lunch and dinner.

Allocation of Expenses
Directly identifiable expenses are charged to programs. Expenses related to more than one function are charged to programs and supporting services on the basis of management's estimate of time and utilization. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support of the Organization.

Income Taxes
The Organization is exempt from income taxes under both Federal Internal Revenue Code ("IRC") Section 501(c)(3) and Arizona income tax laws, and is classified as other than a private foundation under IRC section 509(a)(1). Accordingly, no provision is made in the financial statements for federal or state income taxes. The Organization also qualifies for the charitable contribution deduction under Section 170(b)(1)(a). Income from certain activities not directly related to the Organization's tax-exempt purpose, however may be subject to taxation as unrelated business income.

NOTES TO FINANCIAL STATEMENTS

Significant Accounting Policies (continued)

Income Taxes (continued)
Management evaluated the Organization's tax positions in accordance with the accounting standard on accounting for uncertainty in income taxes and concluded that the Organization had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of the accounting standard. In addition, Management is not aware of any matters which would cause the Organization to lose its tax-exempt status. In general, the Organization is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for tax years before 2009.

The Organization recognizes interest and penalties related to unrecognized tax benefits as management and general expenses in its accompanying financial statements. During the years ended June 30, 2013 and 2012, the Organization did not recognize any interest and penalties.

Use of Estimates
The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates relate to the allowance for doubtful accounts, valuation allowance for property held for sale, fair value of donated meals and useful life of property and equipment. These estimates may be adjusted as more current information becomes available, and any adjustment could be significant.

Prior Year Information
The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2012, from which the summarized information was derived.

3. Recent Accounting Pronouncements

In May 2011, the FASB issued Accounting Standards Update ("ASU") No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. ASU 2011-04 updated accounting guidance related to fair value measurements and disclosures that result in common fair value measurements and disclosures between U.S. GAAP and International Financial Reporting Standards. This guidance includes amendments that clarify the application of existing fair value measurement requirements, in addition to other amendments that change principles or requirements for measuring fair value and for disclosing information about fair value measurements. This guidance is effective for annual periods beginning after December 15, 2011. The adoption of this guidance did not have a material impact on the Organization's financial position or results of operations.

In October 2102, the FASB issued ASU No. 2012-05, *Statement of Cash Flows (Topic 230): Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*. The amendments in this ASU require a not-for-profit entity to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any not-for-profit - imposed limitations for sale and were converted nearly immediately into cash. Accordingly, the cash receipts from the sale of those financial assets should be classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes, in which case those cash receipts should be classified as cash flows from financing activities. Otherwise, cash receipts from the sale of donated financial assets should be classified as cash flows from investing activities by the not-for-profit entity.

NOTES TO FINANCIAL STATEMENTS

Recent Accounting Pronouncements (continued)

The amendments in the ASU are effective prospectively for fiscal years, and interim fiscal periods within those years, beginning after June 15, 2013. Retrospective application to all periods presented upon the date of adoption is permitted. Early adoption from the beginning of the fiscal year of adoption is permitted. The Organization is currently evaluating the impact of this amendment on the financial statements.

4. Investments

Debt and equity investments consist of the following as of June 30:

	2013	2012
Mutual funds	$ 1,759,329	$ 1,540,480

Other investments consist of the following as of June 30:

	2013	2012
Certificates of deposit	$ -	$ 27,993

Included in investment income, net:

	2013	2012
Interest and dividends	$ 42,449	$ 37,661
Unrealized gain, net	177,173	44,343
Distributions from the limited partnership	9,764	8,266
	$ 229,386	$ 90,270

5. Fair Value Measurements

The Organization utilizes the fair value hierarchy required by ASC 820 which prioritizes the inputs to valuation techniques used to measure fair value into three levels:

Level 1: Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.

Level 2: Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.

Level 3: Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

NOTES TO FINANCIAL STATEMENTS

Fair Value Measurements (continued)

The fair value of the Organization's mutual funds was determined based on Level 1 inputs, using unadjusted quoted market prices as of the measurement date. The fair value of the investment in family limited partnership was based on significant inputs that are not observable in the market and, therefore, is classified within Level 3 of the fair value hierarchy.

The following table represents the Organization's financial assets that are measured at fair value on a recurring basis as of June 30, 2013:

		Fair Value Measurements as of June 30, 2013 Using:		
Description	6/30/2013	Level 1	Level 2	Level 3
Mutual funds	$ 1,759,329	$ 1,759,329	$ -	$ -
Investment in Family Limited Partnership	150,000	-	-	150,000
Total	$ 1,909,329	$ 1,759,329	$ -	$ 150,000

The following is a reconciliation of the beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the year ended June 30, 2013:

	Investment in Family Limited Partnership
Beginning balance, July 1, 2012	$ 150,000
Purchases	-
Sales	-
Transfers in and/or out of Level 3	-
Ending balance, June 30, 2013	$ 150,000

The following table represents the Organization's financial assets that are measured at fair value on a recurring basis as of June 30, 2012:

		Fair Value Measurements as of June 30, 2012 Using:		
Description	6/30/2012	Level 1	Level 2	Level 3
Mutual funds	$ 1,540,480	$ 1,540,480	$ -	$ -
Investment in Family Limited Partnership	150,000	-	-	150,000
Total	$ 1,690,480	$ 1,540,480	$ -	$ 150,000

The following is a reconciliation of the beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the year ended June 30, 2012:

NOTES TO FINANCIAL STATEMENTS

Fair Value Measurements (continued)

	Investment in Family Limited Partnership
Beginning balance, July 1, 2011	$ 150,000
Purchases	-
Sales	-
Transfers in and/or out of Level 3	-
Ending balance, June 30, 2012	$ 150,000

There were no non-recurring measurments of fair value during 2013 and 2012.

6. Accounts and Grants Receivable

The following is a summary of accounts and grants receivable by source as of June 30:

	2013	2012
City of Tucson	$ 27,344	$ 35,474
City of South Tucson	6,601	6,601
Pima County	177,881	209,037
Community Planning and Development	44,194	120,283
U.S. Department of Labor	13,188	55,426
U.S. Department of Veterans Affairs	59,384	41,752
Others	100,347	68,878
	428,939	537,451
Less allowance for doubtful accounts	(15,249)	(7,576)
	$ 413,690	$ 529,875

7. Property and Equipment

Property and equipment consist of the following as of June 30:

	2013	2012
Land	$ 829,220	$ 829,220
Buildings and improvements	6,264,303	6,259,115
Leasehold improvements	28,525	28,525
Vehicles	145,772	100,612
Furniture, fixtures and equipment	410,553	369,144
Construction in process	2,484,302	-
	10,162,675	7,586,616
Less accumulated depreciation	(3,305,716)	(2,895,627)
	$ 6,856,959	$ 4,690,989

Construction in process is stated at cost, which includes the cost of construction and other direct costs attributable to the Organization's rental housing projects, including the Las Abuelitas family housing project (a 12-unit multi-family housing rental complex). No provision for depreciation is made on construction in process until such time as the relevant projects are completed and placed into service.

NOTES TO FINANCIAL STATEMENTS

8. Long-Term Debt

The Organization has a note payable agreement with the City of Tucson dated June 14, 2000 for an original amount of $107,452 for the rehabilitation of the Winstel Apartments, with interest at 2%, collateralized by the related property. The loan requires annual payments of principal and interest of $5,731 which began on June 1, 2010. Beginning on June 1, 2020, the interest shall be forgiven and only annual payments of principal of $3,582 will be required, with a balloon payment for the remaining balance due on May 31, 2030. The amount outstanding as of June 30, 2013 and 2012 totaled $97,259.

The Organization has a note payable agreement with the City of Tucson dated February 23, 2009 for an amount of up to $153,502, of which a total of $145,923 had been drawn for the rehabilitation of the Las Casitas Apartments, with interest at 2%, collateralized by the related property. The loan requires annual payments of principal and interest of $7,200 to begin on June 1, 2020. A balloon payment for the remaining balance will be due on June 1, 2039. The amount outstanding as of June 30, 2013 and 2012 totaled $145,923.

On December 28, 2012, the Organization executed a development loan agreement with NeighborWorks® Capital with an available amount not to exceed $1,600,000, of which a total of $300,974 had been drawn as of June 30, 2013. The proceeds of the loan are to be used for the construction of the Las Abuelitas family housing project. The loan bears interest at a rate of 5.5% per annum, payable quarterly and is collateralized by a first lien deed of trust on various properties, including the project, capital campaign pledges and donations, and cash. Once the Organization has raised $200,000 in capital campaign donations, the loan requires that all additional capital campaign donations be remitted on a quarterly basis to pay the outstanding principal balance of the loan. However, the loan also requires that as of 24 months from the loan's closing date, the principal balance must not exceed $400,000. As of June 30, 2013, the Organization had raised $50,317 in capital campaign donations which is included in temporarily restricted net assets. As repayment of the loan cannot reasonably be determined in advance, the full amount of the outstanding balance is reported as long term debt in the accompanying statements of financial position. A balloon payment for any remaining outstanding balance will be due on March 15, 2016. The amount outstanding as of June 30, 2013 totaled $300,974.

The Organization has a non-interest bearing note payable agreement with Pima County dated January 1, 2013 for an original amount of $900,000 of which the full amount had been drawn for the construction of the Las Abuelitas family housing project, collateralized by an assignment of beneficial interest under the deed of trust and assignment of rents. The note is subordinated to the NeighborWorks® Capital loan. The loan requires annual payments of principal of $22,500 to begin on December 1, 2023. A balloon payment for the remaining outstanding balance will be due on December 31, 2043. The outstanding balance as of June 30, 2013 totaled $900,000.

The following is a summary of future principal maturities of long-term as of June 30, 2013:

2014	$ 7,678
2015	3,955
2016	305,008
2017	4,114
2018	4,197
Thereafter	1,119,204
Total	1,444,156
Less current maturities	(7,678)
Long-term portion	$ 1,436,478

NOTES TO FINANCIAL STATEMENTS

9. Notes Payable – Pima County

The Organization has a non-recourse promissory note with Pima County for an original amount of $151,631 that matures on May 26, 2031, for the purpose of maintaining and renting a duplex property to low income households. The promissory note is collateralized by a deed of trust on the related property, and the Organization's liability under the note is limited to the underlying value of the real estate. The promissory note bears no interest and will be forgiven on the maturity date, so long as the Organization remains in compliance with the covenants, terms and provisions of the promissory note. In general, the Organization must rent the duplex to low income households earning at or below 50% of the area median income as determined by the U.S. Department of Housing and Urban Development ("HUD") during a 20 year period, which ends on the maturity date of May 26, 2031.

10. Deferred Revenue

Deferred revenue consists of the following as of June 30:

	2013	2012
Neighborhood Stabilization Program 1	$ 72,805	$ 66,601
Neighborhood Stabilization Program 2	1,740,337	340,926
Other grants	195,892	106,628
Total	$ 2,009,034	$ 514,155

During 2012 and 2013, the Organization received federal funding for the Neighborhood Stabilization Program 1 ("NSP1") and Neighborhood Stabilization Program 2 ("NSP2") in aggregate amounts of $72,805 and $1,740,337, respectively, for the purpose of stabilizing communities that have suffered from foreclosures and abandonment, through the purchase and redevelopment of homes and residential properties. All costs associated with the purchase and renovations and/or construction of homes under NSP1 and NSP2 are capitalized including the Las Abuelitas family housing project. The amounts received from the federal sponsor are deferred until either the home is sold or construction is complete and the project is placed into service as a rental at which point the deferred revenue is recognized as revenue. As of June 30, 2013, total Neighborhood Stabilization funds of $1,813,142 are included in deferred revenue in the accompanying statements of financial position.

Included under the NSP2 funding of $1,740,337, Pima County provided the Organization $1,000,000 for the purpose of constructing the Las Abuelitas family housing project, a 12-unit multi-family housing property for rental to low income households. As of June 30, 2013, $1,000,000 represents the cumulative grant funds received from Pima County. The grant funds are collateralized by a lien on the related property in favor of Pima County, which is limited to the underlying value of the real estate. The lien will be removed at the end of a 30 year affordability period, so long as the Organization remains in compliance with the covenants, terms and provisions of the related funding agreement. In general, the Organization must rent these units to low income households earning a specified percentage of the area median income as determined by HUD during the 30 year period.

NOTES TO FINANCIAL STATEMENTS

11. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following as of June 30:

	2013	2012
Purpose and Time Restrictions		
Emergency Services	$ 81,909	$ -
Emergency Services – Community Wide Coordinated Intake and Assessment	167,000	-
Equal Voice Network – 2014	83,422	181,575
Homeownership and City of South Tucson Revitalization Programs	80,826	16,493
Las Abuelitas	50,317	-
Men's Shelter Kitchen	41,778	-
Primavera Works	-	15,000
5 Point Rehabilitation	4,400	-
Total	$ 509,652	$ 213,068

12. Permanently Restricted Net Assets

Permanently restricted net assets represent funding received from NeighborWorks® America Capital Funds. Permanently restricted net assets consist of the following as of June 30:

	2013	2012
Revolving loan fund for first-time homebuyers	$ 100,877	$ 100,877
Financing to qualify homebuyers for streetscape improvements	60,000	60,000
Neighborhood revitalization	100,000	100,000
Capital improvements	732,540	759,586
Total	$ 993,417	$ 1,020,463

For all homebuyer assistance, a repayable lien is to be placed on the property for the amount of the assistance. Any interest income generated is classified as temporarily restricted until appropriated for expenditure, at which time it becomes available to support the operations of the Organization.

13. Endowment Funds

Endowment net asset composition by type of fund as of June 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ -	$ 993,417	$ 993,417
Board designated endowment funds	1,759,329	-	-	$ 1,759,329
Total funds	$ 1,759,329	$ -	$ 993,417	$ 2,752,746

NOTES TO FINANCIAL STATEMENTS

Endowment Funds (continued)

Changes in endowment net assets for the year ended June 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2012	$ 1,540,480	$ -	$ 1,020,463	$ 2,560,943
Investment return:				
Investment income	41,676	-	-	41,676
Net appreciation	177,173	-	-	177,173
Total investment return	218,849	-	-	218,849
Contributions	-	-	75,000	75,000
Appropriation of endowment funds for expenditure	(102,046)	-	-	(102,046)
Program expenditures	-	-	(188,167)	(188,167)
Acquisition of foreclosure prevention loans and program capital assets	-	-	188,167	188,167
Loss on foreclosure prevention loan	-	-	-	-
Transfer between funds	102,046	-	(102,046)	-
Endowment net assets, June 30, 2013	$ 1,759,329	$ -	$ 993,417	$ 2,752,746

Endowment net asset composition by type of fund as of June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ -	$ 1,020,463	$ 1,020,463
Board designated endowment funds	1,540,480	-	-	1,540,480
Total funds	$ 1,540,480	$ -	$ 1,020,463	$ 2,560,943

Changes in endowment net assets for the year ended June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2012	$ 1,460,848	$ -	$ 1,365,641	$ 2,826,489
Investment return:				
Investment income	35,289	-	-	35,289
Net appreciation	44,343	-	-	44,343
Total investment return	79,632	-	-	79,632
Contributions	-	-	153,000	153,000
Appropriation of endowment funds for expenditure	(498,178)	-	-	(498,178)
Program expenditures	-	-	-	-
Acquisition of foreclosure prevention loans and program capital assets	-	-	-	-
Loss on foreclosure prevention loan	-	-	-	-
Transfer between funds	498,178	-	(498,178)	-
Endowment net assets, June 30, 2012	$ 1,540,480	$ -	$ 1,020,463	$ 2,560,943

NOTES TO FINANCIAL STATEMENTS

Endowment Funds (continued)

During 2013 and 2012, the Organization was granted written approval from NeighborWorks® America (based on the Organization's exemplary rating) to convert $102,046 and $498,178 in permanently restricted funds to unrestricted undesignated funds for uses that support the Organization's mission.

14. Operating Leases

The Organization leases office equipment, a store front, and a modular office under non-cancelable operating lease agreements. The following is a summary of future minimum lease payments under the non-cancelable operating leases as of June 30, 2013:

Year Ending	Amount
2014	$ 69,455
2015	46,788
2016	35,014
2017	34,543
2018	31,060

Rental expense for the years ended June 30, 2013 and 2012 totaled $96,396 and $82,730, respectively.

15. Retirement Plan

The Organization offers a 401(k) plan for its employees. The plan covers employees who complete one year of eligible service. Employees may make contributions to the plan up to the maximum amount allowed by the plan within the limits set forth in the IRC. The Organization may make a discretionary matching contribution, which is determined annually. Employer matching contributions to the plan were $16,719 and $16,892 for the years ended June 30, 2013 and 2012, respectively. Employees are 100% vested after three years of continuous employment.

16. Concentrations of Credit Risk

The Organization derives the majority of its revenues and support from governmental grants for various programs. At times, grants for particular programs may constitute a concentration as defined by the accounting standards. As of June 30, 2013 and 2012, government grants receivable comprised 98% of total receivables. For 2013 and 2012, government grants and contracts accounted for approximately 41% and 38%, respectively, of total revenues and other support.

17. Commitments and Contingencies

Funding and Audit Assessments
The Organization participates in a number of federal, state and local grant programs, and a significant reduction in the level of this support, if it were to occur, would have a material effect on the programs and activities of the Organization. The governmental funding is subject to compliance audits by the respective governmental agencies. Assessments from such audits, if any, are recorded when the amounts of such assessments are reasonably determinable. Certain of the governmental contracts are also subject to termination for convenience clauses. The Organization has received no such termination notices.

NOTES TO FINANCIAL STATEMENTS

Commitments and Contingencies (continued)

Property Use Restriction
In 1995, the Organization was gifted the Women's Housing and Hospitality Home. A gift deed requires property be used solely for purposes of providing short-term transitional housing, daytime shelter and/or other housing uses for women. The gift deed expires automatically if the property ceases to be used for the specific purposes described.

Neighborhood Stabilization Program 2 ("NSP2") Agreement
On April 6, 2010, the Organization entered into a $2,098,500 NSP2 Consortium Funding Agreement, as amended, with Pima County to purchase and construct or rehabilitate 14 dilapidated homes, and construct a 12 unit multi-family complex for low income households in Tucson, Arizona. The funds originate with HUD and are passed through Pima County. Costs are reimbursed as expenses are incurred. Under the terms of the agreement, the Organization is required to expend all the funds for their intended purposes by February 28, 2014. As of June 30, 2013, two homes were sold, ten homes were completed and ready to be sold, two homes were under construction and are expected be completed during fiscal year 2014, and the multi-unit housing complex (Las Abuelitas) was under construction and is expected to be completed during fiscal year 2014. Through June 30, 2013, the Organization has received and expended the entire $2,098,500 under this agreement.

18. Property Liens

The Organization has acquired and constructed real property under various Community Development Block Grants, HOME Program grants, and Neighborhood Stabilization grants. Terms of the grant funds require the Organization to use the facilities for the intended program purpose for the minimum period of time ranging from five to thirty years. Disposition of the property, including non-program use, or failure to meet affordability requirements prior to the minimum period noted would require repayment of the original grant. The estimated amount of liens and their expiration are summarized as follows as of June 30, 2013:

Project	Expiration	Amount
Alamo Apartments	2026	$ 98,600
34th Street Duplex	2032	153,969
Las Abuelitas Apartments	2044	1,000,000
Total		$ 1,252,569

19. Subsequent Events

The Organization evaluated subsequent events through November 14, 2013, which represents the date the financial statements were available to be issued and noted no material subsequent events that required recognition or additional disclosure in these financial statements.

SUPPLEMENTARY SCHEDULES

Schedule of Functional Expenses
For the Year Ended June 30, 2013

	Emergency Shelter	Transitional Housing	Affordable Housing	Work Force Development	Home Ownership	Neighborhood Revitalization	Community Engagement	Total Programs	Management and General	Fundraising and Development	Total
Expenses											
Salaries and wages	$ 780,166	$ 514,286	$ 78,840	$ 713,330	$ 288,488	$ 154,532	$ 95,547	$ 2,625,189	$ 400,184	$ 190,822	$ 3,216,195
Employee benefits	126,962	99,541	10,944	122,989	40,621	18,013	10,980	430,050	80,585	32,921	543,556
Total personnel	907,128	613,827	89,784	836,319	329,109	172,545	106,527	3,055,239	480,769	223,743	3,759,751
Professional and outside services	238,720	53,832	893	17,039	7,181	23,666	49,251	390,582	48,824	14,791	454,197
Transportation	25,117	15,741	3,818	40,908	1,315	6,805	518	94,222	640	1,960	96,822
Repairs and maintenance	25,836	29,114	17,789	5,395	3,900	41,032	493	123,559	2,535	1,570	127,664
Occupancy	212,154	128,677	47,088	25,401	28,517	10,116	5,385	457,338	8,048	4,188	469,574
Equipment	10,293	11,586	1,893	2,732	589	1,106	169	28,368	1,295	78	29,741
Materials and supplies	43,969	67,305	7,092	27,166	32,655	15,407	6,774	200,368	36,493	79,315	316,176
Operating expenses	68,317	34,224	12,245	42,677	48,939	16,496	7,564	230,462	44,741	22,988	298,191
Fundraising materials	-	-	-	-	-	-	-	-	-	50,264	50,264
Donated meals	255,884	20,907	-	30,600	-	-	-	307,391	-	-	307,391
Bad debt	-	10,167	436	1,915	-	-	-	12,518	-	-	12,518
Direct client support	448,736	134,508	-	83,037	32,500	330,250	-	1,029,031	-	-	1,029,031
Total expenses before interest and depreciation	2,236,154	1,119,888	181,038	1,113,189	484,705	617,423	176,681	5,929,078	623,345	398,897	6,951,320
Interest expense	-	-	-	-	-	-	-	-	6,169	-	6,169
Depreciation	94,488	133,188	112,858	20,885	14,499	6,767	180	382,865	20,697	5,017	408,579
Total expenses	$ 2,330,642	$ 1,253,076	$ 293,896	$ 1,134,074	$ 499,204	$ 624,190	$ 176,861	$ 6,311,943	$ 650,211	$ 403,914	$ 7,366,068

Schedule of Functional Expenses
For the Year Ended June 30, 2012

	Emergency Shelter	Transitional Housing	Affordable Housing	Work Force Development	Home Ownership	Neighborhood Revitalization	Community Engagement	Total Programs	Management and General	Fundraising and Development	Total
Expenses											
Salaries and wages	$ 680,958	$ 372,615	$ 62,078	$ 597,393	$ 324,701	$ 6,445	$ 91,140	$ 2,135,330	$ 633,043	$ 180,056	$ 2,948,429
Employee benefits	112,303	76,415	10,865	114,651	47,895	775	9,323	372,227	104,950	28,255	505,432
Total personnel	793,261	449,030	72,943	712,044	372,596	7,220	100,463	2,507,557	737,993	208,311	3,453,861
Professional and outside services	186,297	49,145	3,091	17,876	3,908	11,378	54,106	325,801	20,055	32,567	378,423
Transportation	26,742	10,750	3,466	42,902	1,335	374	728	86,297	1,699	1,453	89,449
Repairs and maintenance	37,024	17,029	12,432	4,769	4,065	16,605	39	91,963	2,470	841	95,274
Occupancy	141,855	108,596	43,861	25,491	33,714	4,773	4,100	362,390	6,848	3,604	372,842
Equipment	15,297	4,712	343	5,674	2,562	3,300	1,196	33,084	4,129	2,085	39,298
Materials and supplies	63,957	39,271	5,307	25,304	32,019	7,939	2,769	176,566	38,387	70,150	285,103
Operating expenses	44,692	25,724	1,863	37,908	38,457	34,002	6,847	189,493	48,410	14,499	252,402
Fundraising materials	-	-	-	-	-	-	-	-	-	39,920	39,920
Donated meals	265,698	25,511	-	30,533	-	-	-	321,742	-	-	321,742
Bad debt	-	2,594	1,643	-	-	-	-	4,237	-	-	4,237
Direct client support	219,619	158,699	743	99,478	2,100	284,487	-	765,126	2,477	-	767,603
Total expenses before interest and depreciation	1,794,442	891,061	145,692	1,001,979	490,756	370,078	170,248	4,864,256	862,468	373,430	6,100,154
Interest expense	-	-	33,479	-	-	-	-	33,479	-	-	33,479
Depreciation	49,189	93,506	57,648	20,631	14,042	4,444	981	240,441	20,729	4,702	265,872
Total expenses	$ 1,843,631	$ 984,567	$ 236,819	$ 1,022,610	$ 504,798	$ 374,522	$ 171,229	$ 5,138,176	$ 883,197	$ 378,132	$ 6,399,505

SCHEDULE OF FINANCIAL POSITION - NEIGHBORWORKS® AMERICA CAPITAL FUND AS OF JUNE 30,

	2013	2012
Assets		
Cash in bank	$ 139,829	$ 355,042
Foreclosure prevention loans - revolving loan funds	143,451	111,565
Fixed assets		
Construction in process	156,281	-
Building improvements	553,856	553,856
Total assets	$ 993,417	$ 1,020,463
Liabilities and Net Assets		
Permanently restricted net assets	993,417	1,020,463
Total liabilities and net assets	$ 993,417	$ 1,020,463

As of June 30, 2012, the Organization received capital funding for the rehabilitation of affordable housing in the cumulative amounts of $254,800, $97,200 and $142,500 for Winstel Apartments, Greyhound Shelter and South Tucson Revitalization, respectively. These funds have been segregated from the existing NeighborWorks® America permanently restricted capital funds on the balance sheet above.

SCHEDULE OF ACTIVITIES - NEIGHBORWORKS® AMERICA CAPITAL FUND FOR THE YEAR ENDED JUNE 30,

	2013	2012
Revenue and Support		
Capital Grant - NeighborWorks America	$ 75,000	$ 153,000
Total revenue and support	75,000	153,000
Expenses and Losses		
Releases from permanently restricted net assets	102,046	498,178
Total expenses and losses	102,046	498,178
(Decrease) in permanently restricted net assets	(27,046)	(345,178)
Permanently restricted net assets, beginning of year	1,020,463	1,365,641
Permanently restricted net assets, end of year	$ 993,417	$ 1,020,463

During the years ended June 30, 2013 and 2012, no investment income was earned on the net assets of the NeighborWorks® America Capital Fund.

NOTES TO SUPPLEMENTARY SCHEDULES

1. **Basis of Presentation**

   The accompanying NeighborWorks® America schedule of financial position and NeighborWorks® America schedule of activities are presented on the accrual basis of accounting.

2. **Functional Expenses**

   The Organization allocates its expenses on a functional basis among its programs and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural classification. Other expenses that are common to several functions are allocated by other reasonable methods.

Keegan, Linscott & Kenon, PC
Certified Public Accountants
Certified Fraud Examiners
Certified Insolvency & Restructuring Advisors

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THE PRIMAVERA FOUNDATION, INC.

SINGLE AUDIT REPORTS AND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

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Keegan, Linscott & Kenon, PC

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Primavera Foundation, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Primavera Foundation, Inc. (the "Organization"), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 14, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Keegan, Linscott & Kenon, PC

Tucson, Arizona
November 14, 2013

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Primavera Foundation, Inc.

Report on Compliance for Each Major Federal Program

We have audited The Primavera Foundation, Inc. (the "Organization")'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2013. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the Organization as of and for the year ended June 30, 2013, and have issued our report thereon dated November 14, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Keegan, Linscott & Kenon, PC

Tucson, Arizona
November 14, 2013

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

PART I SUMMARY OF AUDITOR'S RESULTS

Financial Statements

1. Type of auditor's report issued: Unmodified

2. Internal control over financial reporting:

   a) Material weakness identified? No

   b) Significant deficiencies identified, which are not considered to be material weaknesses? No

3. Noncompliance material to financial statements noted? No

Federal Awards Section

1. Internal control over major programs:

   a) Material weakness identified? No

   b) Significant deficiencies identified, which are not considered to be material weaknesses? No

2. Type of auditor's report issued on compliance for major programs: Unmodified

3. Any audit findings disclosed, which are required to be reported in accordance with section 510(a) of Circular A-133? No

4. Identification of major programs:

CFDA Number		Name of Federal Program or Cluster
14.235		Supportive Housing Program
14.256		Neighborhood Stabilization Program (Recovery Act Funded)

5. Dollar threshold used to distinguish between type A and type B programs: $300,000

6. Auditee qualified as low-risk under OMB Circular A-133, Section 530? Yes

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013 (CONTINUED)

PART II FINANCIAL STATEMENT AUDIT

This section identifies the significant deficiencies, material weaknesses, and instances of fraud, illegal acts, violations of provision of contracts and grant agreements, and abuse related to the financial statements for which Government Auditing Standards require reporting in a OMB Circular A-133 audit.

No findings were noted.

PART III FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAM

This section identifies the significant deficiencies, material weaknesses, and material instances of noncompliance, including questioned costs, as well as any abuse findings involving federal awards that are material to a major program.

No findings were noted.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Entity Identification Number	Federal Expenditures
U.S. Department of Housing and Urban Development			
City of Tucson Community Services			
Community Development Block Grants	14.218	16828-1	$ 24,080
Community Development Block Grants	14.218	16829-1	45,964
Pima County Community Services			
ARRA - Community Development Block Grants	14.218	11-70-P143290-0910	1,719
ARRA - Community Development Block Grants	14.218	11-70-P143290-0910	4,981
CDBG - Entitlement Grants Cluster (14.218, 14.253, 14.254)			76,744
City of Tucson Community Services			
Emergency Solutions Grant Program	14.231	16828-1	64,976
Emergency Solutions Grant Program	14.231	16830-1	63,770
State of Arizona Department of Economic Security			
Emergency Solutions Grant Program	14.231	DEO-70067-001	32,050
Pima County Community Services			
Emergency Solutions Grant Program	14.231	983-02	6,134
Emergency Solutions Grant Program	14.231	986-02	12,705
			179,635
City of Tucson Community Services			
Supportive Housing Program	*14.235	17377	256,223
Direct Program			
Supportive Housing Program	*14.235	AZ0031B9T011104	60,130
Supportive Housing Program	*14.235	AZ0031L9T011205	39,498
Supportive Housing Program	*14.235	AZ0028B9T011003	112,494
Pima County Community Services			
Supportive Housing Program	*14.235	395.3	83,624
Supportive Housing Program	*14.235	1264-1	90,192
			642,161
Pima County Department of Community Development and Neighborhood Conservation			
HOME Investment Partnerships Program	14.239	Las Abuelitas Family Housing	900,000
Direct Program			
Rural Housing Economic Development	14.250	RH09AZ10138	126,860
Pima County Community Services			
ARRA - Neighborhood Stabilization Program - NSP2	*14.256	B-09-CN-AZ-0051	1,597,196
City of Tucson Community Services			
ARRA - Reinvestment Act - HPRP	14.257	100245-02	1,186

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2013 (CONTINUED)

U.S. Department of Justice			
Pima County Department of Justice			
Drug Court Discretionary Grant Program	16.585	1265	43,932
Old Pueblo Community Services			
Second Chance Act Prisoner Reentry Initiative	16.812	IORP-Prima-02	1,787
U.S. Department of Labor			
Direct Program			
Homeless Veterans Reintegration Project	17.805	SD-21594-11-60-5-4	200,000
U.S. Department of Treasury			
NeighborWorks® America			
National Foreclosure Mitigation Counseling	21.000	NeighborWorks® America	114,963
Neighborhood Reinvestment	21.000	NeighborWorks® America	215,896
			330,859
U.S. Department of Veterans Affairs			
Direct Program			
Supportive Services for Veteran Families Program	64.033	11-AZ-331	1,046,564
U.S. Department of Health and Human Services			
Pima County Department of Justice			
Substance Abuse and Mental Health Services	93.243	1265	40,904
State of Arizona Department of Economic Security			
Social Services Block Grant	93.558	DEO-70067-001	42,367
Temporary Assistance for Needy Families	93.558	DEO-70067-001	120,000
Pima County Community Services			
Temporary Assistance for Needy Families	93.558	141758	34,934
TANF Cluster (93.558, 93.714 and 93.716)			197,301
Pima County Community Services			
Community Services Block Grant	93.569	141758	17,000
State of Arizona Department of Economic Security			
Social Services Block Grant	93.667	DEO-70067-001	28,466
Social Services Block Grant	93.667	DEO-70063-002	10,909
Social Services Block Grant	93.667	DEO-80051-002	24,436
			63,811
U.S. Department of Homeland Security			
Direct Program - Federal Emergency Management Agency	97.024	Phase 29	85,473
	Total		$ 5,551,413

* Denotes Major Program

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of The Primavera Foundation, Inc. (the "Organization"), under programs of the federal government for the year ended June 30, 2013. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133*, Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

3. Subrecipients

Of the federal expenditures presented in the Schedule, the Organization provided federal awards to subrecipients as follows:

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
Supportive Housing Program	14.235	$ 37,120
Supportive Services for Veteran Families Program	64.033	162,711
Total		$ 199,831