The Men’s Center, Incorporated
(dba Recenter)

Consolidated Financial Statements
and Independent Auditors’ Report
for the years ended December 31, 2018 and 2017

The Men’s Center, Incorporated (dba Recenter)

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Independent Auditors' Report

To the Board of Directors of
The Men's Center, Incorporated:

We have audited the accompanying financial statements of The Men's Center, Incorporated (dba Recenter), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017 and the related statements of activities, of functional expenses, and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal 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 our 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Men's Center, Incorporated (dba Recenter) as of December 31, 2018 and 2017 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.

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Adoption of New Accounting Standard

As discussed in Note 2 to the financial statements, The Men's Center, Incorporated (dba Recenter) adopted the amendments of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities,* as of and for the year ended December 31, 2018. These amendments have been applied on a retrospective basis to the financial statements as of and for the year ended December 31, 2017, except that certain information has been omitted as permitted by the ASU. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. Supplementary information included in the consolidating statement of financial position as of December 31, 2018, consolidating statement of activities for the year ended December 31, 2018, consolidating statement of cash flows for the year ended December 31, 2018, and schedule of real property as of December 31, 2018 is presented for purposes of additional analysis 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 information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Blazek & Vetterling

September 6, 2019

The Men's Center, Incorporated (dba Recenter)

Consolidated Statements of Financial Position as of December 31, 2018 and 2017

	2018	2017
ASSETS		
Cash	$ 350,028	$ 354,082
Prepaid and other assets	52,615	12,821
Contributions receivable:		
Government grants	2,691,838	20,957
Other	14,300	34,000
Cash restricted for capital projects *(Note 7)*	17,288,067	80,971
Note receivable *(Note 4)*	9,986,437	
Property, net *(Note 5)*	13,433,160	9,233,523
TOTAL ASSETS	$ 43,816,445	$ 9,736,354
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 128,660	$ 73,378
Construction payable	3,178,569	135,574
New Market Tax Credits notes payable, net *(Note 7)*	13,666,442	
Notes payable *(Note 6)*	16,003,432	957,144
Total liabilities	32,977,103	1,166,096
Commitments and contingencies *(Notes 5, 8 and 9)*		
Net assets:		
Without donor restrictions	6,215,510	7,377,392
With donor restrictions – transitional housing construction	4,623,832	1,192,866
Total net assets	10,839,342	8,570,258
TOTAL LIABILITIES AND NET ASSETS	$ 43,816,445	$ 9,736,354

See accompanying notes to consolidated financial statements.

The Men's Center, Incorporated (dba Recenter)

Consolidated Statement of Activities for the year ended December 31, 2018

	WITHOUT DONOR RESTRICTONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Rent and other income	$ 893,563		$ 893,563
Interest income	55,326		55,326
Contributions:			
Government grants		$ 3,524,338	3,524,338
Other	83,953		83,953
Total revenue	1,032,842	3,524,338	4,557,180
Net assets released from restrictions:			
Satisfaction of program restrictions	93,372	(93,372)	
Total	1,126,214	3,430,966	4,557,180
EXPENSES:			
Program services	1,199,597		1,199,597
Management and general	972,130		972,130
Fundraising	116,369		116,369
Total expenses	2,288,096		2,288,096
CHANGES IN NET ASSETS	(1,161,882)	3,430,966	2,269,084
Net assets, beginning of year	7,377,392	1,192,866	8,570,258
Net assets, end of year	$ 6,215,510	$ 4,623,832	$ 10,839,342

See accompanying notes to consolidated financial statements.

The Men's Center, Incorporated (dba Recenter)

Statement of Activities for the year ended December 31, 2017

	WITHOUT DONOR RESTRICTONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Rent and other income	$ 797,130		$ 797,130
Contributions:			
Government grants		$ 134,827	134,827
Other	98,690	50,000	148,690
Total revenue	895,820	184,827	1,080,647
Net assets released from restrictions:			
Satisfaction of program restrictions	163,628	(163,628)	
Total	1,059,448	21,199	1,080,647
EXPENSES:			
Program services	1,067,053		1,067,053
Management and general	296,804		296,804
Fundraising	47,044		47,044
Total expenses	1,410,901		1,410,901
CHANGES IN NET ASSETS	(351,453)	21,199	(330,254)
Net assets, beginning of year *(Note 2)*	7,728,845	1,171,667	8,900,512
Net assets, end of year	$ 7,377,392	$ 1,192,866	$ 8,570,258

See accompanying notes to consolidated financial statements.

The Men's Center, Incorporated (dba Recenter)

Consolidated Statements of Functional Expenses for the years ended December 31, 2018 and 2017

	2018			
	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries and related expenses	$ 464,306	$ 172,959	$ 9,300	$ 646,565
Interest	44,675	561,380		606,055
Professional services		143,530	105,853	249,383
Depreciation	201,379	12,169		213,548
Utilities	153,171	469		153,640
Grant to other non-profit	105,000			105,000
Repairs and maintenance	52,837	8,988		61,825
Insurance	55,937	2,438		58,375
Supplies	14,026	42,725	269	57,020
Rent	50,000			50,000
Food	28,583	1,567	947	31,097
Property tax	22,321			22,321
Other	7,362	25,905		33,267
Total expenses	$ 1,199,597	$ 972,130	$ 116,369	$ 2,288,096

	2017			
	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries and related expenses	$ 430,073	$ 125,444	$ 15,724	$ 571,241
Interest	44,675			44,675
Professional services	30,500	111,631	30,000	172,131
Depreciation	200,264	10,405		210,669
Utilities	128,267	17,031		145,298
Repairs and maintenance	52,670			52,670
Insurance	63,285	4,166	156	67,607
Supplies	20,184	20,127	1,164	41,475
Rent	50,000			50,000
Food	12,844			12,844
Property tax	24,035			24,035
Other	10,256	8,000		18,256
Total expenses	$ 1,067,053	$ 296,804	$ 47,044	$ 1,410,901

See accompanying notes to consolidated financial statements.

The Men's Center, Incorporated (dba Recenter)

Consolidated Statements of Cash Flows for the years ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ 2,269,084	$ (330,254)
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation	213,548	210,669
Contributed property		(12,000)
Government grants and other contributions restricted for construction	(3,430,966)	(21,199)
Changes in operating assets and liabilities:		
Prepaid and other assets	(39,794)	14,048
Contributions receivable	21,067	8,315
Accounts payable and accrued expenses	55,282	4,911
Net cash used by operating activities	(911,779)	(125,510)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from note receivable	(9,986,437)	
Payments for acquisition and construction of property	(1,370,190)	(229,188)
Net cash used by investing activities	(11,356,627)	(229,188)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from New Market Tax Credits notes payable	13,666,442	
Proceeds from notes payable	15,869,181	
Repayments on notes payable	(822,893)	(40,159)
Proceeds from government grants and other contributions restricted for construction	758,718	49,774
Net cash provided by financing activities	29,471,448	9,615
NET CHANGE IN CASH	17,203,042	(345,083)
Cash, beginning of year	435,053	780,136
Cash, end of year	$ 17,638,095	$ 435,053

Reconciliation of cash reported in the consolidated statements of financial position with cash reported in the consolidated statements of cash flows:

	2018	2017
Cash	$ 350,028	$ 354,082
Cash restricted for capital projects	17,288,067	80,971
Total cash	$ 17,638,095	$ 435,053

Supplemental disclosure of cash flow information:

	2018	2017
Interest paid	$526,268	$44,675
Debt issuance costs paid	$599,799	

See accompanying notes to consolidated financial statements.

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – The Men's Center, Incorporated (dba Recenter) is a Texas nonprofit charitable organization located in Houston, Texas which began operating in 1950. Recenter helps individuals who are predominately homeless recover from alcoholism and/or drug addiction in order to lead more productive lives. Recenter provides onsite housing and meals for men and women recovering from alcoholism and drug addiction, offering an affordable alternative for those wishing to re-enter society as productive citizens. Recenter supports those in recovery through ongoing programs and supportive services such as case management, physical and mental health referrals and collaborations, community education, and hosting forty 12-Step meetings each week. Recenter assists in creating healthy lifestyles by establishing productive habits and routines, including obtaining gainful employment, volunteering in the community and paying monthly rent.

Hope Harbor QALICB (Hope Harbor) was formed in 2018 as a Texas nonprofit corporation for the sole benefit of The Men's Center, Incorporated. Hope Harbor is utilized for the Fred & Susan Dailey Building New Market Tax Credits transaction (see Notes 4 and 6).

Basis of consolidation – These financial statements include the assets, liabilities, net assets, and activities of Recenter and Hope Harbor (collectively Recenter). All balances and transactions between the consolidated entities have been eliminated.

Federal income tax status – Recenter and Hope Harbor are exempt from federal income tax under §501(c)(3) of the Internal Revenue Code. Recenter is classified as a public charity under §509(a)(2). Hope Harbor is classified as a Type III functionally integrated supporting organization under §509(a)(3).

Cash – Bank deposits exceed the federally insured limit per depositor per institution.

Contributions receivable that are expected to be collected within one year are reported at net realizable value. Amounts expected to be collected after one year, if material, are discounted to estimate the present value of future cash flows. All contributions receivable at December 31, 2018 are expected to be collected in 2019.

Note receivable is reported at its outstanding principal balance. The note receivable is considered to be fully collectible, and accordingly, no allowance for doubtful accounts has been provided. In making that determination, management evaluated the financial condition of the borrower, the estimated value of the underlying collateral, and current economic conditions. Interest on the note receivable is recognized over the term of the note receivable and is calculated using the simple-interest method on principal amounts outstanding.

Property is reported at cost if purchased or at fair value at the date of gift if donated. Acquisitions in excess of $2,500 are capitalized. Depreciation is provided on a straight-line basis over estimated useful lives of 10 to 40 years for buildings and building improvements, and 5 to 10 years for furniture and equipment, and vehicles.

Net asset classification – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.
- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both. Contributions of long-lived assets and of assets restricted for acquisition of long-lived assets are released when those assets are placed in service.

Rent revenue is recognized when the related services are provided.

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as restricted support. Conditional contributions are recognized in the same manner when the conditions are substantially met. 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 revenue. Absent explicit donor stipulations about how long those long-lived assets must be maintained, Recenter reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Donated materials and services – Donated materials are recognized as contributions at fair value when an unconditional commitment is received from the donor. The related expense is recognized as the item is used. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Functional allocation of expenses – Expenses are reported by their functional classification as program services or supporting activities. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific programs or fundraising activities. Expenses that are attributable to one or more programs or supporting activities are allocated among the activities benefitted. Depreciation and occupancy costs are allocated based on square footage. Other costs are allocated on the basis of estimated time and effort expended.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts of reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Recent financial accounting pronouncements – In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, which replaces most existing revenue recognition guidance for exchange transactions not specifically covered by other guidance. This ASU does not apply to non-exchange transactions such as contributions. The core principle of the new guidance is that an entity should recognize revenue in an amount that reflects the consideration to which it expects to be entitled in exchange for transferred goods or services and establishes a 5-step process to determine when performance obligations are satisfied and revenue is recognized. Recenter is required to adopt this ASU for fiscal year 2019 using an appropriate retrospective method. Management has not yet determined the impact adoption of this ASU will have on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. Under this ASU, a lessee should recognize in the statement of financial position a lease liability and a lease asset representing its right to use the underlying asset for the term of the lease for both finance and operating leases. An entity may make an accounting policy election not to recognize lease assets and lease liabilities for leases with a term of 12 months or less. Recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee have not changed significantly. Qualitative and quantitative disclosures are required by lessees and lessors to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The ASU is effective for fiscal years beginning after December 15, 2019. Recenter plans to adopt this ASU for its fiscal year ending December 31, 2020. Management has not yet determined the impact adoption of this ASU will have on the financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction and provides additional guidance on determining whether a contribution is conditional or unconditional. This ASU could impact the timing of revenue recognition and the financial statement disclosures related to such transactions. Recenter is required to apply the amendments of this ASU for the fiscal year 2019 financial statements. Management has not yet determined the impact adoption of this ASU will have on the financial statements.

NOTE 2 – ADOPTION OF ACCOUNTING STANDARDS UPDATE 2016-14

Recenter adopted the amendments of ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended December 31, 2018. These amendments have been applied on a retrospective basis to the financial statements for the year ended December 31, 2017, except that information regarding liquidity has been omitted as permitted by the ASU. Adoption of this ASU resulted in reclassification of previously reported activities and net assets to conform to the 2018 presentation but had no impact on total net assets or total changes in net assets for 2017.

NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of December 31, 2018 comprise the following:

Financial assets at December 31, 2018:	
Cash	$ 350,028
Other assets	27,850
Contributions receivable:	
Government grants	2,691,838
Other	14,300
Cash restricted by notes payable	17,288,067
Note receivable	9,986,437
Total financial assets	30,358,520
Less financial assets not available for general expenditure:	
Contributions receivable restricted for construction	(2,671,749)
Note receivable due in more than one year	(9,986,437)
Less contractually restricted financial assets:	
Cash restricted for capital projects	(17,288,067)
Total financial assets available for general expenditure	$ 412,267

Recenter is substantially supported by program revenue, in the form of weekly and monthly rents from residents, and federal grants reimbursing program expenses on a monthly basis. Liquidity is managed by developing an annual budget approved by the Board of Directors and monthly cash flow projections. Monthly cash flow projections are evaluated, updated, and reviewed by the Board of Directors each month. Cash flow projections are planned to match monthly expenditures to monthly program revenues and grant reimbursements. Additionally, annual unrestricted contributions are solicited from foundations and individual donors to fund operating expenses in excess of program and federal grant revenues.

Recenter maintains a separate bank account to be utilized as a reserve for unexpected repairs on the housing facilities that it operates, but the balance is not donor-restricted or board-designated and is available for general expenditure, if needed. Recenter has at least 90 days available for general expenditure for the fiscal year ending December 31, 2019.

NOTE 4 – NOTE RECEIVABLE

Recenter entered into an agreement in June 2018 to loan $9,986,437 to COCRF Investor 111, LLC c/o Capital One, National Association Debt Capital Markets (Capital One NMTC Fund). The note is secured by Capital One NMTC Fund's membership interest in PeopleFund NMTC 7, LLC (PeopleFund), COCRF Sub-CDE 72, LLC (COCRF), and UACD Sub-CDE 37, LLC (UACD) (collectively the CDEs). The interest rate on the note is fixed at 1.05%. Interest is due quarterly beginning December 2018 until September 2025. Thereafter, principal and interest payments are due quarterly with all unpaid principal and interest due on June 20, 2042, the maturity date. Interest earned in 2018 was $55,326.

Within 90 days after the seventh anniversary of the note receivable, Capital One can exercise a put option to sell its interest to the Capital One NMTC Fund to Hope Harbor for $1,000. If Capital One does not exercise the put option, Hope Harbor can exercise a call option within 90 days after the put option period ends to purchase the interest in the Capital One NMTC Fund at fair market value. After exercising its option to purchase the interest in the Capital One NMTC Fund, Hope Harbor may cancel the New Market Tax Credits notes payable.

NOTE 5 – PROPERTY

Property consists of the following:

	2018	2017
Land	$ 1,583,115	$ 1,583,115
Buildings	6,952,907	6,952,907
Building improvements	509,934	509,934
Furniture and equipment	98,201	87,219
Vehicles	19,000	19,000
Construction in progress	5,649,673	1,247,469
Total property, at cost	14,812,830	10,399,644
Accumulated depreciation	(1,379,670)	(1,166,121)
Property, net	$ 13,433,160	$ 9,233,523

Construction commitments – At December 31, 2018, Recenter had additional construction commitments totaling approximately $10,716,000.

NOTE 6 – NOTES PAYABLE

Recenter has a promissory note with a bank that bears interest at 4.5%. Principal and interest are due in monthly installments, with a final payment of principal and accrued interest due at maturity on December 13, 2020. The note is secured by property. Interest expense recognized in 2018 and 2017 is $42,792 and $44,675, respectively. The principal balance of this loan at December 31, 2018 and 2017 is $918,467 and $957,144, respectively.

In May 2018, Recenter entered into a $2,739,462 U. S. Department of Housing and Urban Development (HOME) loan with Harris County. The loan is based on a 50-year amortization with a portion being forgiven at the end of year 20 and bears interest at 1%. Principal and interest payments of $69,646 are due monthly, of which $27,395 is remitted to Harris County and the remaining $42,251 from residual receipts remitted to Hope Harbor. Payments begin on November 1, 2020. The loan is collateralized by a lien on the Fred & Susan Daily Building. The principal balance of the loan at December 31, 2018 is $25,498.

In June 2018, Recenter entered into a loan agreement with Capital One Bank to facilitate the New Market Tax Credits transaction for the construction of the Fred & Susan Dailey Building. The loan bears interest at prime plus one quarter of one percent per annum (5.75% at December 31, 2018). The loan matures on June 15, 2021. Interest only payments are due monthly until maturity, at which time the remaining balance is due. Interest expense recognized in 2018 was $443,126. The principal balance of this loan at December 31, 2018 is $15,059,467.

Debt Maturities

Principal payments at December 31, 2018 are due as follows:

2019	$ 45,923
2020	898,041
2021	15,059,468
Total	$ 16,003,432

NOTE 7 – NEW MARKET TAX CREDITS NOTES PAYABLE

Hope Harbor executed loan agreements in June 2018 that provide for borrowings of $3,430,000 from UACD, $3,000,000 from COCRF, and $7,791,000 from PeopleFund. The loans financed a portion of the Fred & Susan Dailey Building construction. The loans are intended to be treated as a "qualified low-income community investment" for purposes of generating New Market Tax Credits under Section 45D of the Internal Revenue Code of 1986, as amended. The loans are collateralized by the property and are guaranteed by Recenter, the owner of the property.

Pursuant to the issuance of the New Market Tax Credits Financing Commitment, Hope Harbor is required to maintain certain funds at Capital One Bank until such time as they are disbursed for the project's approved expenses. At December 31, 2018, amounts totaling $16,090,724 are held at Capital One Bank for this purpose; included in this amount is a contribution to Hope Harbor from Recenter as required under the New Market Tax Credits transaction which was funded through Capital One.

At December 31, 2018, New Market Tax Credits notes payable consist of the following:

Note payable to PeopleFund QLICI, loan A, net of unamortized debt issuance costs of $189,768	$ 5,444,794
Note payable to UACD QLICI, loan A, net of unamortized debt issuance costs of $102,275	2,273,350
Note payable to PeopleFund QLICI, loan B, net of unamortized debt issuance costs of $72,628	2,083,810
Note payable to COCRF, loan A, net of unamortized debt issuance costs of $95,186	1,881,064
Note payable to UACD QLICI, loan B, net of unamortized debt issuance costs of $45,392	1,008,983
Note payable to COCRF, loan B, net of unamortized debt issuance costs of $49,309	974,441
Total New Market Tax Credits notes payable, net	$ 13,666,442

Each loan accrues interest at 1%. Interest is due quarterly beginning September 2018 through September 2025; thereafter, principal and interest payments are due quarterly beginning in December 2025 with the unpaid balance due in its entirety at the maturity date of June 20, 2048. Hope Harbor is not permitted to prepay any portion of the loans until the seventh anniversary of the loan.

Interest expense was $120,137 in 2018.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

A portion of the development costs of Recenter's residential housing properties was funded through HOME funds, government grants funded by the U. S. Department of Housing and Urban Development (HUD), or performance-based loans. These agreements have various restrictive covenants, including operating and financial constraints such as limitations on the transfer or sale of the properties or additional borrowings and required replacement and other reserves. These sources of funding generally place specific long-term restrictions on the properties to operate as low-income housing. Should these restrictions not be met in the future, Recenter would be responsible for refunding all or a portion of these proceeds to the government. A liability for such repayment is not reported in these financial statements because management believes the properties are and will continue to be operated in accordance with such restrictions.

Outstanding contingencies are as follows:

Texas Community Development Block Grant Disaster Recovery – In 2012, Recenter was awarded a Community Development Block Grant (CDBG), later amended in 2018, for a total award of $10,482,910 from Harris County to develop transitional and permanent supportive housing for the homeless. The agreement requires that 62 units be "set-aside" for rent to low-income households, as defined in the agreement. Recenter executed a deed of trust to secure performance according to the agreement for 20 years following the date of project completion. Revenue recognized from this grant was approximately $1,731,000 and $21,000 in 2018 and 2017, respectively. Recognition of the remaining grant is conditioned upon construction in progress.

HOME Investment Partnership Agreements – In 2012, Recenter entered into a $3,000,000 loan agreement with the City of Houston (the City) to provide funding for construction of a building to provide transitional housing to homeless men recovering from addiction. Under the terms of the agreement, this amount and accrued interest are to be forgiven 20 years from the project completion date, provided Recenter complies with the terms of the agreement, including lease of the units at rents affordable to low-income households, as defined in the agreement. The agreement requires that 31 units be "set-aside" for rent to low-income households. The loan agreement is collateralized by real property and improvements.

In May 2011, Recenter was awarded a HUD grant of $1,687,000 from Harris County to develop a transitional housing complex for homeless men recovering from addiction. The agreement requires that 25 units be "set-aside" for rent to low-income individuals, as defined in the agreement. Recenter executed a deed of trust to secure performance according to the agreement for 20 years following the project completion in 2014.

Federal Home Loan Bank subsidy – In 2013, Recenter recognized an Affordable Housing Program subsidy of $500,000 from the Federal Home Loan Bank of Dallas to partially finance the Center of Hope Project. The funds were used for construction of rental housing affordable to households with incomes not exceeding 80% of the area median income for a period of 15 years commencing upon the project completion.

HOME Investment Partnership Agreements – In 2018, Recenter entered into a $2,739,462 loan agreement with Harris County to provide funding for construction of a building to provide transitional housing to low-income households. Under the terms of the agreement, approximately $1,800,000 of this amount will be forgiven 20 years from the project completion date, provided Recenter complies with the terms of the agreement, including lease of the units at rents affordable to low-income households, as defined in the agreement. The agreement requires that 62 units be "set-aside" for rent to low-income households. The loan agreement is collateralized by a first lien deed of trust to the property.

NOTE 9 – LEASE COMMITMENTS

In 2014, Recenter entered into a property lease agreement that expires in May 2029, with an option to renew for three additional five-year terms. Recenter constructed a meeting hall and kitchen on the site. All improvements will become the property of the landlord at the termination of the lease. At December 31, 2018, future minimum lease payments are as follows:

2019	$ 56,667
2020	60,000
2021	60,000
2022	60,000
2023	60,000
Thereafter	340,000
Total	$ 636,667

Lease expense of approximately $50,000 was recognized in both 2018 and 2017.

NOTE 10 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 6, 2019, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.

The Men's Center, Incorporated (dba Recenter)

Consolidating Statement of Financial Position as of December 31, 2018

	THE MEN'S CENTER INCORPORATED	HOPE HARBOR QALICB	ELIMINATIONS	TOTAL
ASSETS				
Cash	$ 349,238	$ 790		$ 350,028
Prepaid and other assets	93,905	12,435	$ (53,725)	52,615
Contributions receivable:				
Government grants	2,691,838			2,691,838
Other	14,300			14,300
Cash restricted for capital projects	1,197,343	16,090,724		17,288,067
Note receivable	9,986,437	410,071	(410,071)	9,986,437
Property, net	7,879,933	5,553,227		13,433,160
TOTAL ASSETS	$ 22,212,994	$ 22,067,247	$ (463,796)	$ 43,816,445
LIABILITIES AND NET ASSETS				
Liabilities:				
Accounts payable and accrued expenses	$ 118,934	$ 63,451	$ (53,725)	$ 128,660
Construction payable		3,178,569		3,178,569
New Market Tax Credits notes payable, net		13,666,442		13,666,442
Notes payable	16,413,503		(410,071)	16,003,432
Total liabilities	16,532,437	16,908,462	(463,796)	32,977,103
Net assets:				
Without donor restrictions	1,466,796	4,748,714		6,215,510
With donor restrictions – transitional housing construction	4,213,761	410,071		4,623,832
Total net assets	5,680,557	5,158,785		10,839,342
TOTAL LIABILITIES AND NET ASSETS	$ 22,212,994	$ 22,067,247	$ (463,796)	$ 43,816,445

The Men’s Center, Incorporated (dba Recenter)

Consolidating Statement of Activities for the year ended December 31, 2018

	THE MEN’S CENTER INCORPORATED	HOPE HARBOR QALICB	ELIMINATIONS	TOTAL
REVENUE:				
Rent and other income	$ 893,563			$ 893,563
Interest income	55,326			55,326
Contributions:				
Government grants	3,114,267	$ 410,071		3,524,338
Other	83,953	5,004,484	$ (5,004,484)	83,953
Total revenue	4,147,109	5,414,555	(5,004,484)	4,557,180
EXPENSES:				
Program services	6,099,081	105,000	(5,004,484)	1,199,597
Management and general	821,360	150,770		972,130
Fundraising	116,369			116,369
Total expenses	7,036,810	255,770	(5,004,484)	2,288,096
CHANGES IN NET ASSETS	(2,889,701)	5,158,785	0	2,269,084
Net assets, beginning of year	8,570,258	0		8,570,258
Net assets, end of year	$ 5,680,557	$ 5,158,785	$ 0	$ 10,839,342

The Men’s Center, Incorporated (dba Recenter)

Consolidating Statement of Cash Flows for the year ended December 31, 2018

	THE MEN’S CENTER INCORPORATED	HOPE HARBOR QALICB	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:			
Changes in net assets	$ (2,889,701)	$ 5,158,785	$ 2,269,084
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:			
Depreciation	213,548		213,548
Government grants and other contributions restricted for construction	(3,020,895)	(410,071)	(3,430,966)
Changes in operating assets and liabilities:			
Prepaid and other assets	(27,359)	(12,435)	(39,794)
Contributions receivable	21,067		21,067
Accounts payable and accrued expenses	(399,339)	454,621	55,282
Net cash provided (used) by operating activities	(6,102,679)	5,190,900	(911,779)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Issuance of note receivable	(9,986,437)		(9,986,437)
Expenditures for acquisition and construction of property	1,395,638	(2,765,828)	(1,370,190)
Net cash used by investing activities	(8,590,799)	(2,765,828)	(11,356,627)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from New Market Tax Credits notes payable	15,869,181		15,869,181
Proceeds from notes payable and bridge loan		13,666,442	13,666,442
Repayments on notes payable	(822,893)		(822,893)
Proceeds from government grants and other contributions restricted for construction	758,718		758,718
Net cash provided by financing activities	15,805,006	13,666,442	29,471,448
NET CHANGE IN CASH	1,111,528	16,091,514	17,203,042
Cash, beginning of year	435,053	0	435,053
Cash, end of year	$ 1,546,581	$ 16,091,514	$ 17,638,095

The Men's Center, Incorporated (dba Recenter)

Schedule of Real Property as of December 31, 2018

	FUNDING		
	PRIVATE	FEDERAL	TOTAL
Land	$ 979,543	$ 603,572	$ 1,583,115
Buildings	2,265,907	4,687,000	6,952,907
Building improvements	509,934		509,934
Construction in progress	1,584,095	4,065,578	5,649,673
Total	$ 5,339,479	$ 9,356,150	$ 14,695,629