

Consolidated Financial Statements and Supplementary
Information Together with Report of Independent
Certified Public Accountants

PHOENIX HOUSES OF CALIFORNIA, INC. AND AFFILIATES

June 30, 2018 and 2017

PHOENIX HOUSES OF CALIFORNIA, INC. AND AFFILIATES

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of
Phoenix Houses of California, Inc. and Affiliates:

We have audited the accompanying consolidated financial statements of Phoenix Houses of California, Inc. and Affiliates (collectively, “PHC&A”), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management’s responsibility for the financial statements

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

Auditor’s responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to PHC&A’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PHC&A’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Phoenix Houses of California, Inc. and Affiliates as of June 30, 2018 and 2017, and the results of their operations and changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As further detailed in Note 1 to the accompanying consolidated financial statements, PHC&A has recurring operating losses. Management's evaluation of the events and conditions and management's plans to mitigate these matters are also described in Note 1. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audits were conducted for the purposes of forming an opinion on the consolidated financial statements of PHC&A as of and for the years ended June 30, 2018 and 2017, taken as a whole. The supplementary information included on pages 17 through 22 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.



New York, New York
May 3, 2019

PHOENIX HOUSES OF CALIFORNIA, INC. AND AFFILIATES
Consolidated Statements of Financial Position
As of June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,155,477	\$ 1,274,556
Due from government agencies, net of allowance of approximately \$139,000 and \$15,000 in 2018 and 2017, respectively	2,928,341	3,084,995
Other receivables, net of allowance of approximately \$32,000 and \$19,000 in 2018 and 2017, respectively	196,749	42,671
Property held for sale (Note 4)	570,000	857,587
Prepaid expenses and other assets	<u>313,148</u>	<u>427,665</u>
Total current assets	<u>5,163,715</u>	<u>5,687,474</u>
Property and equipment, net	<u>5,764,378</u>	<u>5,709,110</u>
Total assets	<u>\$ 10,928,093</u>	<u>\$ 11,396,584</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 1,148,058	\$ 1,593,575
Due to government agencies	1,379,494	1,158,731
Current portion of long-term debt	<u>-</u>	<u>257,856</u>
Total current liabilities	<u>2,527,552</u>	<u>3,010,162</u>
Conditional asset retirement obligations	57,459	55,473
Due to parent	9,037,959	5,183,452
Long-term debt, net of current portion	<u>-</u>	<u>251,074</u>
Total liabilities	<u>11,622,970</u>	<u>8,500,161</u>
Commitments and contingencies (Note 10)		
NET ASSETS (DEFICIT)		
Unrestricted	(801,453)	2,893,555
Temporarily restricted	<u>106,576</u>	<u>2,868</u>
Total net assets (deficit)	<u>(694,877)</u>	<u>2,896,423</u>
Total liabilities and net assets (deficit)	<u>\$ 10,928,093</u>	<u>\$ 11,396,584</u>

The accompanying notes are an integral part of these consolidated financial statements.

PHOENIX HOUSES OF CALIFORNIA, INC. AND AFFILIATES
Consolidated Statement of Operations and Changes in Net Assets
For the year ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
OPERATING REVENUES AND SUPPORT			
Government contract revenue	\$ 19,090,849	\$ -	\$ 19,090,849
Client and third-party revenue	3,485,477	-	3,485,477
Donated services	2,043,055	-	2,043,055
Other revenue	113,298	-	113,298
Contributions	66,229	50,791	117,020
Net assets released from restrictions	47,083	(47,083)	-
Total operating revenues and support	<u>24,845,991</u>	<u>3,708</u>	<u>24,849,699</u>
OPERATING EXPENSES (Note 9)			
Salaries	14,213,252	-	14,213,252
Employee benefits and payroll taxes	3,786,956	-	3,786,956
Consulting and contractual services	3,401,429	-	3,401,429
Resident sustenance	539,887	-	539,887
Occupancy costs	1,014,375	-	1,014,375
Vehicle costs	71,631	-	71,631
Communications	545,818	-	545,818
Supplies	532,174	-	532,174
Insurance	671,862	-	671,862
Travel	248,422	-	248,422
Interest	9,131	-	9,131
Miscellaneous	208,942	-	208,942
Repairs and maintenance	506,528	-	506,528
Administrative charges from Parent	1,876,310	-	1,876,310
Depreciation	574,581	-	574,581
Total operating expenses	<u>28,201,298</u>	<u>-</u>	<u>28,201,298</u>
(Loss) income from operations	<u>(3,355,307)</u>	<u>3,708</u>	<u>(3,351,599)</u>
OTHER ITEMS			
Depreciation on capital assets funded by government grants	(40,033)	-	(40,033)
Accretion of interest on conditional asset retirement obligations	(1,986)	-	(1,986)
Loss on impairment of property held for sale	(287,587)	-	(287,587)
Loss on disposal of asset	(10,095)	-	(10,095)
Total other items	<u>(339,701)</u>	<u>-</u>	<u>(339,701)</u>
(Deficiency in) excess of revenues and support over expenses	<u>(3,695,008)</u>	<u>3,708</u>	<u>(3,691,300)</u>
OTHER CHANGES IN NET ASSETS			
Capital contributions	-	100,000	100,000
Changes in net assets	<u>(3,695,008)</u>	<u>103,708</u>	<u>(3,591,300)</u>
Net assets, beginning of year	<u>2,893,555</u>	<u>2,868</u>	<u>2,896,423</u>
Net assets (deficit), end of year	<u>\$ (801,453)</u>	<u>\$ 106,576</u>	<u>\$ (694,877)</u>

The accompanying notes are an integral part of this consolidated financial statement.

PHOENIX HOUSES OF CALIFORNIA, INC. AND AFFILIATES
Consolidated Statement of Operations and Changes in Net Assets
For the year ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
OPERATING REVENUES AND SUPPORT			
Government contract revenue	\$ 17,796,577	\$ -	\$ 17,796,577
Client and third-party revenue	5,870,497	-	5,870,497
Donated services	239,142	-	239,142
Other revenue	136,202	-	136,202
Contributions	60,832	100,487	161,319
Net assets released from restrictions	<u>360,711</u>	<u>(360,711)</u>	<u>-</u>
Total operating revenues and support	<u>24,463,961</u>	<u>(260,224)</u>	<u>24,203,737</u>
OPERATING EXPENSES (Note 9)			
Salaries	13,538,107	-	13,538,107
Employee benefits and payroll taxes	4,196,228	-	4,196,228
Consulting and contractual services	1,486,366	-	1,486,366
Resident sustenance	688,268	-	688,268
Occupancy costs	1,029,689	-	1,029,689
Vehicle costs	99,647	-	99,647
Communications	548,776	-	548,776
Supplies	578,717	-	578,717
Insurance	663,351	-	663,351
Travel	264,889	-	264,889
Interest	12,543	-	12,543
Miscellaneous	180,329	-	180,329
Repairs and maintenance	696,075	-	696,075
Administrative charges from Parent	186,000	-	186,000
Depreciation	<u>586,537</u>	<u>-</u>	<u>586,537</u>
Total operating expenses	<u>24,755,522</u>	<u>-</u>	<u>24,755,522</u>
Loss from operations	<u>(291,561)</u>	<u>(260,224)</u>	<u>(551,785)</u>
OTHER ITEMS			
Depreciation on capital assets funded by government grants	(40,442)	-	(40,442)
Accretion of interest on conditional asset retirement obligations	(1,986)	-	(1,986)
Gain on write-down of conditional asset retirement obligation	<u>121,758</u>	<u>-</u>	<u>121,758</u>
Total other items	<u>79,330</u>	<u>-</u>	<u>79,330</u>
Deficiency in revenues and support over expenses	<u>(212,231)</u>	<u>(260,224)</u>	<u>(472,455)</u>
OTHER CHANGES IN NET ASSETS			
Net assets released from restrictions for capital initiatives	<u>25,000</u>	<u>(25,000)</u>	<u>-</u>
Changes in net assets	<u>(187,231)</u>	<u>(285,224)</u>	<u>(472,455)</u>
Net assets, beginning of year	<u>3,080,786</u>	<u>288,092</u>	<u>3,368,878</u>
Net assets, end of year	<u>\$ 2,893,555</u>	<u>\$ 2,868</u>	<u>\$ 2,896,423</u>

The accompanying notes are an integral part of this consolidated financial statement.

PHOENIX HOUSES OF CALIFORNIA, INC. AND AFFILIATES
Consolidated Statements of Cash Flows
For the years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (3,591,300)	\$ (472,455)
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Gain on write-down of conditional asset retirement obligation	-	(121,758)
Accretion of interest on conditional asset retirement obligations	1,986	1,986
Loss on impairment of property held for sale	287,587	-
Loss on disposal of asset	10,095	-
Depreciation and amortization	614,614	626,979
Change in provision for uncollectible amounts	135,768	(22,337)
Changes in operating assets and liabilities:		
Due from government agencies	32,786	(268,054)
Receivables	(165,978)	51,018
Contributions receivable	-	-
Prepaid expenses and other assets	114,517	462,499
Accounts payable and accrued expenses	(445,517)	(201,102)
Due to government agencies	220,763	37,333
Other liabilities	-	(2,350,001)
Due to Parent	<u>3,854,507</u>	<u>3,333,422</u>
Net cash provided by operating activities	<u>1,069,828</u>	<u>1,077,530</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(679,977)</u>	<u>(660,137)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	<u>(508,930)</u>	<u>(257,674)</u>
Net (decrease) increase in cash and cash equivalents	(119,079)	159,719
Cash and cash equivalents, beginning of year	<u>1,274,556</u>	<u>1,114,837</u>
Cash and cash equivalents, end of year	<u>\$ 1,155,477</u>	<u>\$ 1,274,556</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 9,000</u>	<u>\$ 13,000</u>

The accompanying notes are an integral part of these consolidated financial statements.

PHOENIX HOUSES OF CALIFORNIA, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

1. ORGANIZATION

The accompanying consolidated financial statements include the accounts and transactions of Phoenix Houses of California, Inc. and Affiliates (collectively, “PHC&A”). PHC&A is a Section 501(c)(3) not-for-profit organization exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (the “IRC”) and has been classified as an organization that is not a private foundation under Section 509(a) of the IRC. PHC&A is also exempt from state and local income taxes.

The accompanying consolidated financial statements include the accounts of Phoenix Houses of California, Inc.; Phoenix House San Diego, Inc.; Phoenix House Orange County, Inc.; and, Phoenix Houses of Los Angeles, Inc.

Through June 30, 2016, Phoenix House Foundation, Inc. was the sole member of PHC&A and the following affiliated organizations: Phoenix Houses of New York, Inc. and Affiliates (which consist of Phoenix Houses of New York, Inc. and Phoenix Houses of Long Island, Inc.); Phoenix Houses of New England, Inc.; Phoenix Houses of Texas, Inc.; Phoenix Programs of Florida, Inc.; Phoenix Houses of the Mid-Atlantic, Inc. and Affiliates (which consist of Phoenix House of the Mid-Atlantic, Inc. and Phoenix House Mid-Atlantic Property Management, Inc.); American Council for Drug Education, Inc.; Center on Addiction and the Family, Inc.; and, Phoenix Houses of New Jersey, Inc.

On April 11, 2016, a new corporation, named “Phoenix House,” was incorporated in the State of Minnesota. Phoenix House is a nonprofit corporation, which on September 29, 2017 was granted recognition of its federal tax exempt status as an organization described in Internal Revenue Code § 501(c)(3) effective retroactively to its formation on April 11, 2016.

As of July 1, 2016, Phoenix House (the “Parent”) became the sole corporate member of the following affiliated organizations: Phoenix House Foundation, Inc., Phoenix Houses of California, Inc., Phoenix Houses of New York, Inc., Phoenix Houses of New England, Inc., Phoenix Houses of Texas, Inc., Phoenix Programs of Florida, Inc., and Phoenix Houses of the Mid-Atlantic, Inc. Phoenix House Foundation, Inc. remains the sole corporate member of the American Council for Drug Education, Inc., Center on Addiction and the Family, Inc., and Phoenix Houses of New Jersey, Inc.

The accompanying 2018 and 2017 consolidated financial statements reflect losses from operations totaling \$3,351,599 and \$551,785, respectively. In order to address the operating deficits and ensure the long-term viability of PHC&A’s program services, management and the Board are evaluating the discontinuation of unprofitable programs and will restructure the remaining programs in order to improve operating margins. Further, subsequent to year-end, the Parent began to undertake a restructuring plan for the Phoenix House organization as a whole. The thrust of the restructuring plan is to right-size the infrastructure and adjust the revenue mix with the principal goal of improving cash flows and ensuring the sustainability of the regional affiliates. During March 2019, the Board of the Parent voted to dissolve the sole corporate member (the Phoenix House parent entity, incorporated in Minnesota). The effect of this dissolution will cause PHC&A to become a stand-alone organization, with a self-governing operating board. All amounts owed to Phoenix House Foundation, Inc. (“PH Foundation”) by PHC&A, as of the dissolution date, have been forgiven. Additionally, during fiscal 2019, PH Foundation made a non-reciprocal transfer of \$2 million in cash to PHC&A to provide additional liquidity for operations, and PH Foundation will license the “Phoenix House” name and intellectual property to PHC&A at no cost.

PHOENIX HOUSES OF CALIFORNIA, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

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Following the effectuation of the dissolution of the sole corporate member, PH Foundation will have no further obligation to support the operations of PHC&A.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“US GAAP”). Accordingly, all significant intercompany accounts and transactions have been eliminated in the preparation of the accompanying consolidated financial statements.

The net assets of PHC&A and changes therein are classified and reported based upon the existence or absence of donor-imposed restrictions as follows:

- Unrestricted net assets represent expendable resources that are used to carry out PHC&A’s operations and are not subject to donor-imposed stipulations.
- Temporarily restricted net assets contain donor-imposed restrictions that permit PHC&A to use or expend such resources only as or when specified. Restrictions are satisfied either by the passage of time or by actions of PHC&A.
- Permanently restricted net assets contain donor-imposed restrictions that stipulate that such resources be maintained permanently, but permit PHC&A to expend all of the income for unrestricted purposes or as stipulated by the donor. PHC&A had no permanently restricted net assets as of June 30, 2018 and 2017.

Use of Estimates

The preparation of financial statements in conformity with US 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. The allowance for doubtful accounts pertaining to receivables, the useful lives assigned to fixed assets, the fair value of donated goods and services, and the determination of year-end operating accruals represent significant accounting estimates reflected in the consolidated financial statements. Actual results could differ from those estimates.

Contributed Services

PHC&A receives certain contributed services that meet criteria established by US GAAP for recognition as contributions. Such services, primarily legal services, are reflected as donated services on the accompanying consolidated statements of operations and changes in net assets at fair value, which for fiscal 2018 and 2017 approximated \$2,043,000 and \$239,000, respectively.

Conditional Asset Retirement Obligation

Conditional Asset Retirement Obligations (“CARO”) are legal obligations associated with the eventual retirement of long-lived assets. PHC&A’s CAROs include costs associated with the eventual remediation and abatement of asbestos utilized within the construction of certain of its facilities and are initially recorded at fair value along with the related asset retirement costs which were capitalized by increasing the carrying amount of the related assets by the same amount as the liability. During fiscal 2017, due to the

PHOENIX HOUSES OF CALIFORNIA, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

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sale of the Hillview property, a facility for which a CARO liability had been recorded, \$122,000 of the liability was written off and recorded as a gain and is reflected as gain on write-down of conditional asset retirement obligation on the accompanying 2017 consolidated statement of operations and changes in net assets.

For each of the years ended June 30, 2018 and 2017, the accretion of interest associated with CAROs totaled approximately \$2,000 and \$2,000, respectively. At June 30, 2018 and 2017, property and equipment includes capitalized conditional asset retirement obligations at an approximate cost of \$19,000 which have been fully depreciated. The total CARO liability at June 30, 2018 and 2017 totaled \$57,000 and \$55,000, respectively.

Property and Equipment

Property and equipment are stated at cost if purchased or at fair value at the date of gift if donated, less accumulated depreciation. PHC&A capitalizes assets acquired for greater than \$1,000 and with useful lives greater than one year. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets as follows:

Buildings and improvements	10 - 30 years
Vehicles	5 years
Furniture, fixtures and equipment	7 years
Computer equipment and software	5 - 7 years

Costs incurred for repairs, maintenance and minor improvements that do not substantially extend an asset's useful life are charged to expense as incurred. Major improvements, which substantially extend the useful lives of assets, are capitalized.

Revenues and Support

Contributions (including unconditional promises to give) are recorded at fair value when received. Revenues and expenses relative to special events are recognized upon occurrence of the respective event. Contributions received with donor stipulations that limit the use of donated assets are reported as either temporarily or permanently restricted support. Unconditional promises to give, with payments due in future years, are reported as temporarily restricted or permanently restricted support, discounted to present value using credit adjusted discount rates which articulate with the collection period of the respective pledge. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported on the consolidated statement of operations and changes in net assets as net assets released from restrictions. Contributions restricted by donors for the acquisition of property and equipment are released from their restrictions when the respective assets are acquired or constructed and placed in service. Such net asset releases are reflected as part of other changes in net assets. There were contributions of \$100,000 restricted by donors for the acquisition of property and equipment received during the year ended June 30, 2018; there were no such contributions received during the year ended June 30, 2017.

PHC&A's contracts and other program funding arrangements with government agencies are classified as part of operating activities within unrestricted net asset activities. However, government funding for the purchase of fixed assets is recognized as part of other items. Client and third-party revenue (including Medi-Cal) is recognized as earned when services are provided.

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Notes to Consolidated Financial Statements

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Government Contract Revenue

PHC&A operates under various contracts with government agencies which generally cover a one-year period, subject to annual renewal. The terms of these contracts allow the grantors the right to audit the costs incurred thereunder and adjust contract funding based upon, among other things, the amount of program income received. Any costs disallowed by the grantor would be absorbed by PHC&A and any adjustments by grantors would be recorded when amounts are known; however, it is the opinion of management that disallowances, if any, would not be material to the accompanying consolidated financial statements.

Client and Third-Party Revenue

Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon pre-determined rates. Medicaid and managed Medicaid approximated 58% and 41% of total client and third-party revenue for the years ended June 30, 2018 and 2017, respectively. Contracts have been entered into with commercial insurance carriers and reimbursement is based on contracted rates.

Laws and regulations governing healthcare programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near-term. Noncompliance with such laws and regulations could result in fines, penalties, and exclusion from such programs. The federal government and many states have aggressively increased enforcement under Medicaid antifraud and abuse legislation. PHC&A believes that it is in compliance, in all material respects, with all applicable laws and regulations and, is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation.

Noncompliance with such laws and regulations could result in repayments of amounts improperly reimbursed, substantial monetary fines, civil and criminal penalties and exclusion from the Medicaid program.

Consolidated Statement of Operations and Changes in Net Assets

PHC&A's operating income includes all unrestricted revenues and expenses. Other items include accretion of interest on conditional asset retirement obligations, gain (loss) on sale and disposal of property, and depreciation on capital assets funded by government grants. The consolidated statement of operations and changes in net assets also includes the caption "(Deficiency in) excess of revenues and support over expenses," which is the performance indicator. Other changes in net assets, which are excluded from the performance indicator, consistent with industry practice, include net assets released from restrictions for capital initiatives.

Cash and Cash Equivalents

PHC&A considers all highly liquid financial instruments with maturities of three months or less from the date of purchase to be cash equivalents.

Fair Value of Financial Instruments

The carrying amounts of cash, prepaid expenses and other assets, amounts due to Parent, accounts payable and accrued expenses reported on the accompanying consolidated statements of financial position approximate fair value due to the short maturity of these financial instruments. The carrying values of

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amounts due from government agencies and other receivables approximate net realizable value, and have been reduced by an appropriate allowance for doubtful accounts based on historical collection experience. The carrying value of long-term debt approximates fair value.

Concentration of Credit Risk

PHC&A maintains its cash and cash equivalents in various bank deposit accounts that, at times, may exceed federally insured limits. PHC&A's cash and cash equivalents were placed with high credit quality financial institutions at June 30, 2018 and 2017, and PHC&A believes the risk of nonperformance by these financial institutions is remote.

PHC&A provides drug and alcohol rehabilitation services through its inpatient and outpatient care facilities. PHC&A grants credit without collateral to clients, however, it routinely obtains assignment of (or is otherwise entitled to receive) clients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicaid and commercial insurance providers).

Other receivables, by financial class, as a percentage of total accounts receivable at June 30, 2018 and 2017, are as follows:

	<u>2018</u>	<u>2017</u>
Medicaid	14 %	- %
Commercial insurance	3	1
Other third-party payors	82	99
Self-pay	<u>1</u>	<u>-</u>
	<u>100 %</u>	<u>100 %</u>

Income Taxes

PHC&A follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

PHC&A is exempt from federal income tax under IRC section 501(c)(3), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. PHC&A has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. PHC&A has determined that there are no material uncertain tax positions that require recognition or disclosure in its consolidated financial statements.

Subsequent Events

PHC&A evaluated its June 30, 2018 consolidated financial statements for subsequent events through May 3, 2019, the date the consolidated financial statements were issued, and determined that there are no matters to report, except as noted in Notes 1, 3 and 4.

PHOENIX HOUSES OF CALIFORNIA, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

3. RELATED PARTY TRANSACTIONS

PHC&A is charged for administrative services provided by the Parent based upon a cost allocation plan. The administrative expenses charged by the Parent approximate the federally approved indirect cost rate for the Parent and its affiliates on a consolidated basis, adjusted to reflect PHC&A's own administrative expenses. For the years ended June 30, 2018 and 2017, such allocated charges totaled approximately \$1,876,000 and \$186,000 respectively. The increase in administrative expense was twofold; the parent contribution to FHC&A, which was \$1,141,000 in FY17, was eliminated in FY18, and the contribution to parent increased from \$1,327,000 in FY17 to \$1,876,000 in FY18.

Amounts reflected as due to Parent on the accompanying consolidated statements of financial position as of June 30, 2018 and 2017, relate to operating costs incurred by PHC&A that were paid for by the Parent. Subsequent to June 30, 2018, the Parent forgave all amounts due from PHC&A, as more fully described in Note 1.

4. PROPERTY AND EQUIPMENT, NET

At June 30, 2018 and 2017, property and equipment, net, consists approximately of the following:

	<u>2018</u>	<u>2017</u>
Land	\$ 2,191,000	\$ 2,191,000
Buildings and improvements	12,588,000	12,002,000
Furniture, fixtures and equipment	1,295,000	1,342,000
Computer equipment and software	595,000	534,000
Vehicles	58,000	58,000
Construction-in-progress	<u>552,000</u>	<u>565,000</u>
	17,279,000	16,692,000
Less: Accumulated depreciation	<u>(11,515,000)</u>	<u>(10,983,000)</u>
	<u>\$ 5,764,000</u>	<u>\$ 5,709,000</u>

Construction-in-progress at June 30, 2017, consists of costs incurred pertaining program expansion project, at Lake View Terrace as well as the construction of the new parking lot for the Lake View Terrace property. The project was completed in December 2018 at an additional cost of approximately \$100,000.

During fiscal 2017, PHC&A's Board of Directors passed a resolution to place on the market with the intent to sell its Descanso property. During the year ended June 30, 2018, an impairment loss of approximately \$288,000 was recorded to adjust the property held for sale asset to its current fair value less anticipated selling costs. As of June 30, 2018 and 2017, the net book value of the property was approximately \$570,000 and \$858,000, respectively, which is included in property held for sale in the accompanying consolidated statements of financial position.

PHOENIX HOUSES OF CALIFORNIA, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

5. LONG-TERM DEBT

At June 30, 2017, long-term debt consists of tax-exempt debt through the California Statewide Communities Development Authority (“CSCDA”) and Wells Fargo Bank, N.A. PHC&A’s performance under the debt agreement is guaranteed by the Parent. The outstanding principal balance of the loan was approximately \$509,000 at June 30, 2017. As of June 30, 2018, the debt has been paid off.

6. CLIENT AND THIRD-PARTY REVENUE

For the years ended June 30, 2018 and 2017, client and third-party revenue consists approximately of the following:

	<u>2018</u>	<u>2017</u>
Aid for Families with Dependent Children funding	\$ 1,033,000	\$ 3,049,000
Private insurance and client payments	486,000	289,000
Healthcare services	1,902,000	2,442,000
Lunch program	<u>64,000</u>	<u>90,000</u>
	<u>\$ 3,485,000</u>	<u>\$ 5,870,000</u>

7. TEMPORARILY RESTRICTED NET ASSETS

At June 30, 2018 and 2017, temporarily restricted net assets total approximately \$107,000 and \$3,000, respectively, and are restricted to various program and capital initiatives.

Consistent with donor-specified use restrictions, temporarily restricted net assets totaling approximately \$47,000 and \$386,000 during fiscal years 2018 and 2017, respectively, were released from restrictions in support of program and capital initiatives.

8. RETIREMENT PLANS

PHC&A has a tax-deferred annuity plan, which is sponsored by the Parent, for all eligible employees under Section 403(b) of the IRC. Contributions to the plan through December 31, 2015 by PHC&A were equal to 3% to 10% of each active participant’s compensation, based on years of service, as defined in the plan agreement. Effective January 1, 2016, the plan was amended and currently provides annual safe harbor non-elective contributions of 3.5% of eligible compensation and a 50% match on participant contributions (maximum match is 2.5%).

Total contributions to this plan by PHC&A during fiscal 2018 and 2017 totaled approximately \$335,000 and \$222,000, respectively, and are recorded to employee benefits and payroll taxes on the accompanying consolidated statements of operations and changes in net assets.

PHC&A has a 457(b) deferred compensation plan, which is administered by the Parent, to provide certain employees of PHC&A with the benefit of additional tax-deferred retirement savings opportunities. The annual 457(b) deferral limitation for 2018 and 2017 was \$18,500 and \$18,000, respectively. This plan is entirely funded by employee salary deferrals. Plan assets and liabilities pertaining to the 457(b) plan, which are immaterial to the accompanying consolidated financial statements, have not been recognized.

PHOENIX HOUSES OF CALIFORNIA, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

9. FUNCTIONAL EXPENSES

PHC&A provides drug and alcohol rehabilitative healthcare services to clients and related support activities. Expenses related to providing these services, included in the accompanying consolidated statements of operations and changes in net assets, for the years ended June 30, 2018 and 2017, are as follows:

	<u>2018</u>	<u>2017</u>
Program services		
Residential treatment services	\$ 17,808,000	\$ 17,748,000
Ambulatory treatment services	1,215,000	1,095,000
Prevention and education services	2,504,000	2,413,000
Supporting services		
Administration and general	6,620,000	3,405,000
Fundraising	<u>54,000</u>	<u>95,000</u>
Total expenses	<u>\$ 28,201,000</u>	<u>\$ 24,756,000</u>

Residential treatment services are costs associated with providing residential care and treatment to clients. Ambulatory treatment services are costs associated with providing treatment on an outpatient basis to clients. Prevention services are costs associated with providing preventive programs in the community and schools.

Supporting services represent costs for administration and general support activities not directly related to providing rehabilitation services. Fundraising includes the salaries and related expenses of employees involved in fundraising activities.

10. COMMITMENTS AND CONTINGENCIES

Lease Commitments

PHC&A leases treatment facilities and vehicles under various non-cancelable operating leases expiring at various dates through fiscal 2021. Total expense under these leases approximated \$296,000 and \$325,000 for the years ended June 30, 2018 and 2017, respectively.

Future minimum remaining rental payments due under these leases are approximately as follows for the years ending June 30:

2019	\$ 102,000
2020	19,000
2021	<u>1,000</u>
	<u>\$ 122,000</u>

In addition, PHC&A rents certain treatment facilities under operating leases on a month-to-month basis. Rent expense relating to these facilities totaled approximately \$13,000 and \$13,000 for the years ended June 30, 2018 and 2017, respectively.

PHOENIX HOUSES OF CALIFORNIA, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

Litigation

PHC&A is contingently liable under various claims which have arisen in the ordinary course of its business. In the opinion of management, these claims will be defended as appropriate and are adequately covered by insurance in certain cases. PHC&A believes that the resolution of these matters will not have a material effect on its consolidated financial statements.

SUPPLEMENTARY INFORMATION

PHOENIX HOUSES OF CALIFORNIA, INC. AND AFFILIATES
Consolidated Schedule of Functional Expenses
For the year ended June 30, 2018

	Program Services				Supporting Services			
	Residential Treatment Services	Ambulatory Treatment Services	Prevention and Education Services	Total	Administration and General	Fund- raising	Total	Total
Salaries	\$ 10,466,321	\$ 780,816	\$ 1,502,045	\$ 12,749,182	\$ 1,418,564	\$ 45,506	\$ 1,464,070	\$ 14,213,252
Employee benefits and payroll taxes	2,877,605	205,995	392,778	3,476,378	304,701	5,877	310,578	3,786,956
Consulting and contractual services	881,096	29,300	124,903	1,035,299	2,366,130	-	2,366,130	3,401,429
Resident sustenance	527,604	6,113	6,018	539,735	152	-	152	539,887
Occupancy costs	648,084	46,872	138,949	833,905	180,427	43	180,470	1,014,375
Vehicle costs	57,509	5,229	6,206	68,944	2,687	-	2,687	71,631
Communications	398,321	41,849	63,885	504,055	41,568	195	41,763	545,818
Supplies	318,057	13,894	155,177	487,128	43,969	1,077	45,046	532,174
Insurance	514,567	29,768	47,685	592,020	79,842	-	79,842	671,862
Travel	119,864	20,201	45,460	185,525	62,897	-	62,897	248,422
Interest	9,131	-	-	9,131	-	-	-	9,131
Miscellaneous	71,943	5,938	14,251	92,132	115,656	1,154	116,810	208,942
Repairs and maintenance	446,425	20,221	5,465	472,111	34,417	-	34,417	506,528
Administrative charges from Parent	-	-	-	-	1,876,310	-	1,876,310	1,876,310
Depreciation	471,719	8,556	778	481,053	93,030	498	93,528	574,581
Total	<u>\$ 17,808,246</u>	<u>\$ 1,214,752</u>	<u>\$ 2,503,600</u>	<u>\$ 21,526,598</u>	<u>\$ 6,620,350</u>	<u>\$ 54,350</u>	<u>\$ 6,674,700</u>	<u>\$ 28,201,298</u>

This schedule should be read in conjunction with the report of independent certified public accountants and the accompanying consolidated financial statements and notes thereto.

PHOENIX HOUSES OF CALIFORNIA, INC. AND AFFILIATES
Consolidated Schedule of Functional Expenses
For the year ended June 30, 2017

	Program Services				Supporting Services			
	Residential Treatment Services	Ambulatory Treatment Services	Prevention and Education Services	Total	Administration and General	Fund- raising	Total	Total
Salaries	\$ 9,688,655	\$ 704,336	\$ 1,453,965	\$ 11,846,956	\$ 1,616,273	\$ 74,878	\$ 1,691,151	\$ 13,538,107
Employee benefits and payroll taxes	2,997,110	193,235	434,635	3,624,980	554,796	16,452	571,248	4,196,228
Consulting and contractual services	925,131	27,817	107,842	1,060,790	425,576	-	425,576	1,486,366
Resident sustenance	672,003	6,297	6,465	684,765	3,503	-	3,503	688,268
Occupancy costs	728,148	35,662	112,746	876,556	152,931	202	153,133	1,029,689
Vehicle costs	85,110	5,630	6,493	97,233	2,414	-	2,414	99,647
Communications	381,687	37,879	59,266	478,832	67,672	2,272	69,944	548,776
Supplies	405,858	12,033	119,293	537,184	41,380	153	41,533	578,717
Insurance	486,856	36,421	55,872	579,149	84,202	-	84,202	663,351
Travel	118,246	16,239	41,004	175,489	89,400	-	89,400	264,889
Interest	12,543	-	-	12,543	-	-	-	12,543
Miscellaneous	84,766	3,068	7,353	95,187	84,840	302	85,142	180,329
Repairs and maintenance	658,806	10,036	7,055	675,897	20,178	-	20,178	696,075
Administrative charges from Parent	-	-	-	-	186,000	-	186,000	186,000
Depreciation	502,799	6,712	492	510,003	76,036	498	76,534	586,537
Total	<u>\$ 17,747,718</u>	<u>\$ 1,095,365</u>	<u>\$ 2,412,481</u>	<u>\$ 21,255,564</u>	<u>\$ 3,405,201</u>	<u>\$ 94,757</u>	<u>\$ 3,499,958</u>	<u>\$ 24,755,522</u>

This schedule should be read in conjunction with the report of independent certified public accountants and the accompanying consolidated financial statements and notes thereto.

PHOENIX HOUSES OF CALIFORNIA, INC. AND AFFILIATES
Consolidating Schedule of Financial Position
As of June 30, 2018

	Phoenix Houses of California, Inc. (Parent Organization Only)	Phoenix House San Diego, Inc.	Phoenix House Orange County, Inc.	Phoenix Houses of Los Angeles, Inc.	Total
ASSETS					
Cash and cash equivalents	\$ 1,142,829	\$ -	\$ 7,948	\$ 4,700	\$ 1,155,477
Due from government agencies, net	1,160,976	-	873,584	893,781	2,928,341
Other receivables, net	100	-	78,651	117,998	196,749
Property held for sale	570,000	-	-	-	570,000
Prepaid expenses and other assets	<u>272,427</u>	<u>-</u>	<u>19,206</u>	<u>21,515</u>	<u>313,148</u>
Total current assets	<u>3,146,332</u>	<u>-</u>	<u>979,389</u>	<u>1,037,994</u>	<u>5,163,715</u>
Property and equipment, net	<u>3,913,076</u>	<u>-</u>	<u>303,420</u>	<u>1,547,882</u>	<u>5,764,378</u>
Total assets	<u>\$ 7,059,408</u>	<u>\$ -</u>	<u>\$ 1,282,809</u>	<u>\$ 2,585,876</u>	<u>\$ 10,928,093</u>
LIABILITIES AND NET ASSETS					
LIABILITIES					
Accounts payable and accrued expenses	\$ 610,458	\$ 17,489	\$ 229,563	\$ 290,548	\$ 1,148,058
Due to government agencies	<u>-</u>	<u>-</u>	<u>50,130</u>	<u>1,329,364</u>	<u>1,379,494</u>
Total current liabilities	<u>610,458</u>	<u>17,489</u>	<u>279,693</u>	<u>1,619,912</u>	<u>2,527,552</u>
Conditional asset retirement obligations	57,459	-	-	-	57,459
Due to affiliates	<u>2,846,787</u>	<u>1,104,528</u>	<u>1,508,623</u>	<u>3,578,021</u>	<u>9,037,959</u>
Total liabilities	<u>3,514,704</u>	<u>1,122,017</u>	<u>1,788,316</u>	<u>5,197,933</u>	<u>11,622,970</u>
Commitments and contingencies					
NET ASSETS (DEFICIT)					
Unrestricted	3,544,704	(1,121,916)	(501,885)	(2,722,356)	(801,453)
Temporarily restricted	<u>-</u>	<u>(101)</u>	<u>(3,622)</u>	<u>110,299</u>	<u>106,576</u>
Total net assets (deficit)	<u>3,544,704</u>	<u>(1,122,017)</u>	<u>(505,507)</u>	<u>(2,612,057)</u>	<u>(694,877)</u>
Total liabilities and net assets	<u>\$ 7,059,408</u>	<u>\$ -</u>	<u>\$ 1,282,809</u>	<u>\$ 2,585,876</u>	<u>\$ 10,928,093</u>

This schedule should be read in conjunction with the report of independent certified public accountants and the accompanying consolidated financial statements and notes thereto.

PHOENIX HOUSES OF CALIFORNIA, INC. AND AFFILIATES
Consolidating Schedule of Financial Position
As of June 30, 2017

ASSETS	Phoenix Houses of California, Inc. (Parent Organization Only)	Phoenix House San Diego, Inc.	Phoenix House Orange County, Inc.	Phoenix Houses of Los Angeles, Inc.	Total
Cash and cash equivalents	\$ 1,260,534	\$ -	\$ 9,322	\$ 4,700	\$ 1,274,556
Due from government agencies, net	979,362	-	1,138,409	967,224	3,084,995
Other (payables) receivables, net	-	-	(7,116)	49,787	42,671
Property held for sale	857,587	-	-	-	857,587
Prepaid expenses and other assets	<u>380,663</u>	<u>-</u>	<u>36,112</u>	<u>10,890</u>	<u>427,665</u>
Total current assets	<u>3,478,146</u>	<u>-</u>	<u>1,176,727</u>	<u>1,032,601</u>	<u>5,687,474</u>
Property and equipment, net	<u>3,745,432</u>	<u>-</u>	<u>410,620</u>	<u>1,553,058</u>	<u>5,709,110</u>
Total assets	<u>\$ 7,223,578</u>	<u>\$ -</u>	<u>\$ 1,587,347</u>	<u>\$ 2,585,659</u>	<u>\$ 11,396,584</u>
LIABILITIES AND NET ASSETS					
LIABILITIES					
Accounts payable and accrued expenses	\$ 872,728	\$ 30,640	\$ 242,307	\$ 447,900	\$ 1,593,575
Due to government agencies	40,379	-	12,238	1,106,114	1,158,731
Current portion of long-term debt	<u>219,178</u>	<u>-</u>	<u>-</u>	<u>38,678</u>	<u>257,856</u>
Total current liabilities	<u>1,132,285</u>	<u>30,640</u>	<u>254,545</u>	<u>1,592,692</u>	<u>3,010,162</u>
Conditional asset retirement obligations	55,473	-	-	-	55,473
Due to affiliates	1,246,015	1,091,377	1,824,994	1,021,066	5,183,452
Long-term debt, net of current portion	<u>215,569</u>	<u>-</u>	<u>-</u>	<u>35,505</u>	<u>251,074</u>
Total liabilities	<u>2,649,342</u>	<u>1,122,017</u>	<u>2,079,539</u>	<u>2,649,263</u>	<u>8,500,161</u>
Commitments and contingencies					
NET ASSETS (DEFICIT)					
Unrestricted	4,574,236	(1,121,916)	(495,161)	(63,604)	2,893,555
Temporarily restricted	<u>-</u>	<u>(101)</u>	<u>2,969</u>	<u>-</u>	<u>2,868</u>
Total net assets (deficit)	<u>4,574,236</u>	<u>(1,122,017)</u>	<u>(492,192)</u>	<u>(63,604)</u>	<u>2,896,423</u>
Total liabilities and net assets	<u>\$ 7,223,578</u>	<u>\$ -</u>	<u>\$ 1,587,347</u>	<u>\$ 2,585,659</u>	<u>\$ 11,396,584</u>

This schedule should be read in conjunction with the report of independent certified public accountants and the accompanying consolidated financial statements and notes thereto.

PHOENIX HOUSES OF CALIFORNIA, INC. AND AFFILIATES
Consolidating Schedule of Operations and Changes in Net Assets
For the year ended June 30, 2018

	Phoenix Houses of California, Inc. (Parent Organization Only)		Phoenix House San Diego, Inc.		Phoenix House Orange County, Inc.		Phoenix Houses of Los Angeles, Inc.		Consolidation Entries	Phoenix Houses of California, Inc. and Affiliates		
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Unrestricted	Unrestricted	Temporarily Restricted	Total
OPERATING REVENUES AND SUPPORT												
Government contract revenue	\$ 6,902,755	\$ -	\$ -	\$ -	\$ 7,623,215	\$ -	\$ 4,564,879	\$ -	\$ -	\$ 19,090,849	\$ -	\$ 19,090,849
Client and third-party revenue	(10,000)	-	-	-	172,789	-	3,322,688	-	-	3,485,477	-	3,485,477
Donated services	2,043,055	-	-	-	-	-	-	-	-	2,043,055	-	2,043,055
Other revenue	3,276,293	-	-	-	(15,841)	-	(117,264)	-	(3,029,890)	113,298	-	113,298
Contributions	66,229	-	-	-	-	12,147	-	38,644	-	66,229	50,791	117,020
Net assets released from restrictions	3,750	-	-	-	18,738	(18,738)	24,595	(28,345)	-	47,083	(47,083)	-
Total operating revenues and support	12,282,082	-	-	-	7,798,901	(6,591)	7,794,898	10,299	(3,029,890)	24,845,991	3,708	24,849,699
OPERATING EXPENSES												
Salaries	5,851,508	-	-	-	3,887,748	-	4,473,996	-	-	14,213,252	-	14,213,252
Employee benefits and payroll taxes	1,517,176	-	-	-	1,082,960	-	1,186,820	-	-	3,786,956	-	3,786,956
Consulting and contractual services	2,476,661	-	-	-	198,739	-	726,029	-	-	3,401,429	-	3,401,429
Resident sustenance	5,030	-	-	-	353,689	-	181,168	-	-	539,887	-	539,887
Occupancy costs	221,793	-	-	-	384,780	-	634,469	-	(226,667)	1,014,375	-	1,014,375
Vehicle costs	2,266	-	-	-	21,890	-	47,475	-	-	71,631	-	71,631
Communications	58,544	-	-	-	237,827	-	249,447	-	-	545,818	-	545,818
Supplies	89,551	-	-	-	247,616	-	195,007	-	-	532,174	-	532,174
Insurance	289,647	-	-	-	163,292	-	218,923	-	-	671,862	-	671,862
Travel	82,018	-	-	-	92,339	-	74,065	-	-	248,422	-	248,422
Interest	7,780	-	-	-	-	-	1,351	-	-	9,131	-	9,131
Miscellaneous	123,670	-	-	-	39,005	-	46,267	-	-	208,942	-	208,942
Repairs and maintenance	34,551	-	-	-	113,705	-	358,272	-	-	506,528	-	506,528
Administrative costs charged by Parent	1,876,310	-	-	-	941,724	-	1,861,499	-	(2,803,223)	1,876,310	-	1,876,310
Depreciation	375,441	-	-	-	40,311	-	158,829	-	-	574,581	-	574,581
Total operating expenses	13,011,946	-	-	-	7,805,625	-	10,413,617	-	(3,029,890)	28,201,298	-	28,201,298
Income (loss) from operations	(729,864)	-	-	-	(6,724)	(6,591)	(2,618,719)	10,299	-	(3,355,307)	3,708	(3,351,599)
OTHER ITEMS												
Depreciation on capital assets funded by government grants	-	-	-	-	-	-	(40,033)	-	-	(40,033)	-	(40,033)
Loss on disposal of assets	(10,095)	-	-	-	-	-	-	-	-	(10,095)	-	(10,095)
Gain on write-down of conditional asset retirement obligation	-	-	-	-	-	-	-	-	-	-	-	-
Loss on impairment of property held for sale	(287,587)	-	-	-	-	-	-	-	-	(287,587)	-	(287,587)
Accretion expense	(1,986)	-	-	-	-	-	-	-	-	(1,986)	-	(1,986)
Total other items	(299,668)	-	-	-	-	-	(40,033)	-	-	(339,701)	-	(339,701)
Excess of (deficiency in) revenues over expenses and changes in net assets	(1,029,532)	-	-	-	(6,724)	(6,591)	(2,658,752)	10,299	-	(3,695,008)	3,708	(3,691,300)
OTHER CHANGES IN NET ASSETS												
Capital contributions	-	-	-	-	-	-	-	100,000	-	-	100,000	100,000
Changes in net assets	(1,029,532)	-	-	-	(6,724)	(6,591)	(2,658,752)	110,299	-	(3,695,008)	103,708	(3,591,300)
Net assets (deficit), beginning of year	4,574,236	-	(1,121,916)	(101)	(495,161)	2,969	(63,604)	-	-	2,893,555	2,868	2,896,423
Net assets (deficit), end of year	\$ 3,544,704	\$ -	\$ (1,121,916)	\$ (101)	\$ (501,885)	\$ (3,622)	\$ (2,722,356)	\$ 110,299	\$ -	\$ (801,453)	\$ 106,576	\$ (694,877)

This schedule should be read in conjunction with the report of independent certified public accountants and the accompanying consolidated financial statements and notes thereto.

PHOENIX HOUSES OF CALIFORNIA, INC. AND AFFILIATES
Consolidating Schedule of Operations and Changes in Net Assets
For the year ended June 30, 2017

	Phoenix Houses of California, Inc. (Parent Organization Only)		Phoenix House San Diego, Inc.		Phoenix House Orange County, Inc.		Phoenix Houses of Los Angeles, Inc.		Consolidation Entries	Phoenix Houses of California, Inc. and Affiliates		Total
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Unrestricted	Unrestricted	Temporarily Restricted	
OPERATING REVENUES AND SUPPORT												
Government contract revenue	\$ 4,782,247	\$ -	\$ -	\$ -	\$ 7,581,729	\$ -	\$ 5,432,601	\$ -	\$ -	\$ 17,796,577	\$ -	\$ 17,796,577
Client and third-party revenue	21,718	-	-	-	30,756	-	5,818,023	-	-	5,870,497	-	5,870,497
Donated services	239,142	-	-	-	-	-	-	-	-	239,142	-	239,142
Other revenue	3,606,305	-	-	-	473	-	1,473	-	(3,472,049)	136,202	-	136,202
Contributions	60,745	-	-	-	-	18,900	87	81,587	-	60,832	100,487	161,319
Net assets released from restrictions	-	-	-	-	17,084	(17,084)	343,627	(343,627)	-	360,711	(360,711)	-
Total operating revenues and support	8,710,157	-	-	-	7,630,042	1,816	11,595,811	(262,040)	(3,472,049)	24,463,961	(260,224)	24,203,737
OPERATING EXPENSES												
Salaries	4,673,389	-	-	-	3,756,015	-	5,108,703	-	-	13,538,107	-	13,538,107
Employee benefits and payroll taxes	1,497,261	-	-	-	1,150,730	-	1,548,237	-	-	4,196,228	-	4,196,228
Consulting and contractual services	554,679	-	-	-	109,882	-	826,556	-	(4,751)	1,486,366	-	1,486,366
Resident sustenance	7,858	-	-	-	412,355	-	268,055	-	-	688,268	-	688,268
Occupancy costs	229,850	-	-	-	456,676	-	727,163	-	(384,000)	1,029,689	-	1,029,689
Vehicle costs	4,140	-	-	-	27,103	-	68,404	-	-	99,647	-	99,647
Communications	87,050	-	-	-	183,316	-	278,410	-	-	548,776	-	548,776
Supplies	93,444	-	-	-	256,202	-	229,071	-	-	578,717	-	578,717
Insurance	200,912	-	-	-	161,023	-	301,416	-	-	663,351	-	663,351
Travel	101,081	-	-	-	95,291	-	68,517	-	-	264,889	-	264,889
Interest	10,721	-	-	-	-	-	1,822	-	-	12,543	-	12,543
Miscellaneous	102,514	-	-	-	36,394	-	41,421	-	-	180,329	-	180,329
Repairs and maintenance	34,749	-	-	-	138,062	-	523,264	-	-	696,075	-	696,075
Administrative costs charged by Parent	179,613	-	-	-	904,175	-	2,185,510	-	(3,083,298)	186,000	-	186,000
Depreciation	415,342	-	-	-	40,676	-	130,519	-	-	586,537	-	586,537
Total operating expenses	8,192,603	-	-	-	7,727,900	-	12,307,068	-	(3,472,049)	24,755,522	-	24,755,522
Income (loss) from operations	517,554	-	-	-	(97,858)	1,816	(711,257)	(262,040)	-	(291,561)	(260,224)	(551,785)
OTHER ITEMS												
Depreciation on capital assets funded by government grants	(7,493)	-	-	-	-	-	(32,949)	-	-	(40,442)	-	(40,442)
Gain on write-down of conditional asset retirement obligation	121,758	-	-	-	-	-	-	-	-	121,758	-	121,758
Accretion expense	(1,986)	-	-	-	-	-	-	-	-	(1,986)	-	(1,986)
Total other items	112,279	-	-	-	-	-	(32,949)	-	-	79,330	-	79,330
Excess of (deficiency in) revenues over expenses and changes in net assets	629,833	-	-	-	(97,858)	1,816	(744,206)	(262,040)	-	(212,231)	(260,224)	(472,455)
OTHER CHANGES IN NET ASSETS												
Net assets released from restriction for capital expenditures	-	-	-	-	-	-	25,000	(25,000)	-	25,000	(25,000)	-
Changes in net assets	629,833	-	-	-	(97,858)	1,816	(719,206)	(287,040)	-	(187,231)	(285,224)	(472,455)
Net assets (deficit), beginning of year	3,944,403	-	(1,121,916)	(101)	(397,303)	1,153	655,602	287,040	-	3,080,786	288,092	3,368,878
Net assets (deficit), end of year	\$ 4,574,236	\$ -	\$ (1,121,916)	\$ (101)	\$ (495,161)	\$ 2,969	\$ (63,604)	\$ -	\$ -	\$ 2,893,555	\$ 2,868	\$ 2,896,423

This schedule should be read in conjunction with the report of independent certified public accountants and the accompanying consolidated financial statements and notes thereto.