

**COMMUNITY
CONNECTIONS, INC.**

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

June 30, 2018 and 2017



FREDRICKZINK & Associates

A professional corporation. | CPAs

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Community Connections, Inc.
Durango, Colorado

We have audited the accompanying financial statements of Community Connections, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Connections, Inc. as of June 30, 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.

FredrickZink & Associates, PC

FredrickZink & Associates, PC
Durango, Colorado
October 24, 2018

FINANCIAL STATEMENTS

COMMUNITY CONNECTIONS, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2018 and 2017

ASSETS

	<u>2018</u>	<u>2017</u>
Current assets		
Cash and cash equivalents.....	\$ 825,482	\$ 607,761
Cash - two month operating reserve (Note 9).....	831,625	874,000
Fees and grants due from governmental agencies (Note 4).....	507,750	491,628
Accounts receivable, net of allowance of \$27,826 in 2018 and \$23,833 in 2017.....	17,346	18,958
Current portion of long-term contribution receivable (Note 6).....	9,250	9,250
Prepaid expenses and other.....	21,118	25,217
Total current assets.....	<u>2,212,571</u>	<u>2,026,814</u>
Non-current assets		
Investments (Note 3).....	282,352	271,591
Property and equipment, net (Notes 5 and 7).....	1,037,663	1,088,304
Long-term contribution receivable, net of current portion (Note 6).....	46,250	55,500
Total non-current assets.....	<u>1,366,265</u>	<u>1,415,395</u>
Total assets.....	<u>\$ 3,578,836</u>	<u>\$ 3,442,209</u>

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable and accrued expenses (Note 14).....	\$ 531,813	\$ 574,473
Current portion of notes payable (Note 7).....	12,057	11,335
Total current liabilities.....	<u>543,870</u>	<u>585,808</u>
Long-term liabilities		
Notes payable, net of current portion (Note 7).....	217,230	229,093
Total liabilities.....	<u>761,100</u>	<u>814,901</u>
Net assets		
Unrestricted		
Undesignated.....	1,110,641	834,816
Board designated operating reserves (Note 9).....	831,625	874,000
Net investment in property and equipment.....	808,376	847,876
Total unrestricted.....	<u>2,750,642</u>	<u>2,556,692</u>
Temporarily restricted (Note 10).....	67,094	70,616
Total net assets.....	<u>2,817,736</u>	<u>2,627,308</u>
Total liabilities and net assets.....	<u>\$ 3,578,836</u>	<u>\$ 3,442,209</u>

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

COMMUNITY CONNECTIONS, INC.

STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2018 and 2017

	2018	2017
Unrestricted net assets activity:		
Support and revenue		
Fees and grants from governmental agencies		
Fees for services		
State of Colorado		
State General Fund		
Comprehensive services.....	\$ 33,141	\$ 35,625
Adult supported living services.....	124,267	194,549
Early intervention.....	278,246	290,699
Family support services program.....	123,636	119,192
Total fees from State General Fund.....	559,290	640,065
Medicaid		
Comprehensive services.....	3,317,783	3,325,857
Adult supported living services.....	523,027	606,342
Children's extensive supports.....	53,520	60,935
Early intervention.....	109,560	87,127
Home and community based services.....	9,457	10,549
Total fees from Medicaid.....	4,013,347	4,090,810
Grants and other government sources		
State Part C - Early intervention.....	50,239	62,435
Counties and cities.....	73,000	83,136
Department of Housing and Urban Development.....	2,208	2,001
Colorado Department of Transportation.....	-	34,293
Other.....	4,385	1,407
Total grants and other government sources.....	129,832	183,272
Total fees and grants from governmental agencies.....	4,702,469	4,914,147
Public support - contributions.....	28,521	22,608
Public support - in-kind contributions.....	-	1,485
Special events, net (Note 11).....	3,866	10,379
Residential room and board.....	434,079	428,345
Net investment return (Note 3).....	10,760	22,185
Other revenue.....	69,333	45,643
Total before reclassifications.....	5,249,028	5,444,792
Net assets released from restrictions.....	10,522	11,361
Total support and revenue.....	5,259,550	5,456,153

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

COMMUNITY CONNECTIONS, INC.

STATEMENTS OF ACTIVITIES - Continued For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Expenses and losses		
Program services		
Medicaid comprehensive services.....	\$ 2,866,462	\$ 3,144,597
State adult supported living services.....	69,036	82,416
Medicaid adult supported living services.....	543,874	583,210
Children's extensive supports.....	37,639	34,443
Early intervention.....	247,176	258,588
Family support services program.....	123,068	120,910
Case management.....	518,665	464,829
Other program services.....	18,635	12,777
Total program services.....	<u>4,424,555</u>	<u>4,701,770</u>
Supporting services		
Management and general.....	625,047	613,850
Fundraising	12,005	-
Bad debt provision (Note 14).....	3,993	3,130
Total supporting services.....	<u>641,045</u>	<u>616,980</u>
Total expenses and losses.....	<u>5,065,600</u>	<u>5,318,750</u>
Change in unrestricted net assets.....	<u>193,950</u>	<u>137,403</u>
Temporarily restricted net assets activity:		
Public support - contributions (Note 10).....	7,000	-
Net assets released from restrictions.....	<u>(10,522)</u>	<u>(11,361)</u>
Change in temporarily restricted net assets.....	<u>(3,522)</u>	<u>(11,361)</u>
Change in total net assets.....	190,428	126,042
Net assets, beginning of year.....	<u>2,627,308</u>	<u>2,501,266</u>
Net assets, end of year.....	<u>\$ 2,817,736</u>	<u>\$ 2,627,308</u>

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

COMMUNITY CONNECTIONS, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2018 and 2017

Increase (Decrease) in Cash and Cash Equivalents

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Cash received from governmental agencies and others.....	\$ 5,223,083	\$ 5,340,162
Cash paid to suppliers and employees.....	(5,001,543)	(5,207,320)
Interest received.....	685	2,053
Interest paid.....	(14,073)	(15,491)
Net cash provided by operating activities.....	<u>208,152</u>	<u>119,404</u>
Cash flows from investing activities:		
Purchase of property and equipment.....	(23,183)	(57,490)
Purchases of investments.....	(81,489)	(26,600)
Proceeds from sale of investments.....	83,007	26,600
Net cash used by investing activities.....	<u>(21,665)</u>	<u>(57,490)</u>
Cash flows from financing activities:		
Payments on notes payable.....	(11,141)	(21,106)
Net cash used by financing activities.....	<u>(11,141)</u>	<u>(21,106)</u>
Net increase in cash and cash equivalents.....	175,346	40,808
Cash and cash equivalents, beginning of year.....	1,481,761	1,440,953
Cash and cash equivalents, end of year.....	<u>\$ 1,657,107</u>	<u>\$ 1,481,761</u>
Cash and cash equivalents as reported on the statements of financial position		
Cash and cash equivalents.....	\$ 825,482	\$ 607,761
Cash - two month operating reserve.....	831,625	874,000
	<u>\$ 1,657,107</u>	<u>\$ 1,481,761</u>

COMMUNITY CONNECTIONS, INC.

STATEMENTS OF CASH FLOWS - Continued

For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Reconciliation of change in net assets to net cash provided		
by operating activities:		
Change in net assets.....	\$ 190,428	\$ 126,042
Adjustments to reconcile:		
Depreciation and amortization.....	73,824	69,743
Change in allowance for uncollectible client accounts receivable.....	3,993	2,354
Net gain on investments.....	(12,279)	(22,185)
Non-cash expense (land lease).....	9,250	9,250
Decrease (increase) in		
Fees and grants due from governmental agencies.....	(16,122)	(69,921)
Accounts receivable.....	(2,381)	(3,205)
Prepaid expenses and other.....	4,099	(19,794)
Increase (decrease) in		
Accounts payable and accrued expenses.....	(42,660)	32,262
Deferred revenue.....	-	(5,142)
Total adjustments.....	<u>17,724</u>	<u>(6,638)</u>
Net cash provided by operating activities.....	<u>\$ 208,152</u>	<u>\$ 119,404</u>

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

COMMUNITY CONNECTIONS, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 1 - ORGANIZATION AND NATURE OF ACTIVITIES

Community Connections, Inc. (the Center) was incorporated under the laws of the State of Colorado in 1985 for the purpose of providing a community center board to coordinate programs through interagency cooperation and local agencies to provide services to persons with intellectual and developmental disabilities (IDD) in La Plata, Archuleta, Montezuma, Dolores, and San Juan Counties. The Center's revenue comes primarily from the State of Colorado for services provided. The major program services or supports and functional activities directly provided or purchased by the Center are:

Adult Comprehensive Services (Residential)

Home and Community Based Residential services for persons with IDD provide access to 24-hour supports to assist adults with IDD to live more independently in their community. Services are designed to provide the most integrated options for active community living, including support for basic health and safety needs (such as care of personal hygiene, eating, following medical regimens and care of the home) and participating in valued roles in the community (such as jobs and volunteering). Individuals in services set personal goals for community living and select appropriate support services to reach those goals through supervision, training and physical assistance when needed. There were 58 individuals served in 2018, 62 in 2017.

Adult Supported Living Services

Home and Community Based Supported Living Services are provided for individuals with IDD who live independently or with alternative residential supports (such as family). Services may assist caregivers to be more effective in their role or support adults with IDD to increase their independence and social integration into their community of choice. Participants set personal goals and select from a variety of services to meet those goals. Typical services include personal care, homemaking, respite, supported employment, assistive technology and supported community connections. There were 64 individuals served in 2018, 69 in 2017.

Children's Extensive Supports

Children's Extensive Supports provide services similar to Supported Living Services. The target population for this program are children under 18 with IDD who are living with family and require frequent and intensive support due to medical condition or behavioral needs. Services provided through this program are intended to supplement the supports provided by the family and ensure successful continued care in the family home, thereby reducing risk of damaging and costly out-of-home placements. Services may include personal care, respite, home modifications, assistive technology and professional services. Four children were served in 2018, three in 2017.

Early Intervention

Early intervention is a program for children from birth through age two offering infants and toddlers and their families services and supports to enhance child development in the areas of cognition, speech, communication, physical, motor, vision, hearing, social-emotional developmental, and self-help skills, parent-child or family interactions; and early identification, screening and assessment services. There were 140 persons served in 2018, 131 in 2017.

Family Support Services Program

Family support services provide an array of supportive services to the person with a development disability and his/her family when the person remains within the family home, thereby preventing or delaying the need for out-of-home placement that is unwanted by the person or the family. There were 45 persons served in 2018 and 2017.

COMMUNITY CONNECTIONS, INC.

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2018 and 2017

NOTE 1 - ORGANIZATION AND NATURE OF ACTIVITIES - Continued

Case Management

Case Management services often begin with information and referral and determination of eligibility for IDD services and supports. Case Managers assist individuals and families with developing goals, selecting appropriate services and supports, coordination services and monitoring to ensure the effectiveness of the services in place in reaching the desired outcomes. The Center served 450 persons with Case Management in 2018, 448 in 2017.

Other Program Services

Other program services include contractual employment opportunities for consumers in the community.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and presentation

The financial statements of the Center have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities. The Center reports information regarding its financial position and activities according to three general classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. Donor restricted revenue for which restrictions are satisfied in the same fiscal year, are reported as unrestricted revenue, rather than temporarily restricted. Donor restricted contributions for which restrictions are not currently met, are reflected as an increase to temporarily restricted net assets.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United State of America requires management to make estimates. Estimates affect financial statement amounts and the disclosure of contingent assets and liabilities at the date of the financial statements. Due to their inherent nature, estimates may differ from future actual results.

Cash and cash equivalents

For purposes of the statement of cash flows, the Center defines cash or cash equivalents as all cash on hand and cash on deposit subject to immediate withdrawal, and certificates of deposits with an original maturity of three months or less.

Investments

Investments in marketable securities are carried at the quoted market value of the securities. Total investment return consists of investment income in the form of interest and dividends and realized and unrealized gains and losses, less administrative fees and taxes.

Receivables

The majority of the Center's receivables are due from the State of Colorado through Medicaid funding. Other accounts receivables are primarily due from consumers for room and board. Accounts are due according to contractual terms and are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts considering a number of factors, including the length of time accounts receivables are past due and the Center's previous collection history. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance.

COMMUNITY CONNECTIONS, INC.

NOTES TO FINANCIAL STATEMENTS - Continued June 30, 2018 and 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fair value of financial instruments

Generally accepted accounting principles (GAAP) requires disclosure of an estimate of fair value of certain financial instruments. The Center's significant financial instruments are cash, accounts receivable, and other short-term assets and liabilities. For these financial instruments, carrying values approximate fair value.

Fair value measurements

The Center applies GAAP for fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis. GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in an active market for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

Property and equipment

Property and equipment are stated at cost at date of acquisition or estimated fair value at date of donation. The Center capitalizes property and equipment acquisitions of \$1,000 or more that have a useful life of more than two years. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets. Lives are estimated at five to forty years for buildings and improvements, and three to ten years for equipment.

Revenue recognition

Revenues are recognized when services are performed. Deferred revenue represents payments received by the Center not spent in the current year, but for which the Center has met certain control points. Under contract provisions, the Center is allowed to defer a portion of unspent awards to the following year.

In-kind contributions

Donations of property, material, and personal services are known as in-kind contributions and are recorded at estimated value as of the date received. These donations (other than contributions of property and equipment) are included as program costs to properly reflect the total cost of the particular program.

Income taxes

The Center is exempt from income tax as provided under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The Center adopted accounting requirements that prescribe when to recognize and how to measure the financial statement effects of income tax positions taken or expected to be taken on its income tax returns, including the position that the Center continues to qualify to be treated as a tax-exempt organization for both federal and state income tax purposes. These rules require management to evaluate the likelihood that, upon examination by relevant taxing jurisdictions, those income tax positions would be sustained.

Based on that evaluation, if it were more than 50% probable that a material amount of income tax would be imposed at the entity level upon examination by the relevant taxing authorities, a liability would be recognized in the accompanying statement of financial position along with any interest and penalties that would result from that assessment. When the Center has unrelated business income, the federal Exempt Organization Business Income Tax Return (Form 990T) would be subject to examination by the Internal Revenue Service for three years after filing. Should any penalties and interest be incurred, they would be recognized as management and general expenses.

COMMUNITY CONNECTIONS, INC.

NOTES TO FINANCIAL STATEMENTS - Continued June 30, 2018 and 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Reclassifications

Certain reclassifications have been made in the prior year financial statements to conform to the current year presentation. Such reclassifications have no effect on net assets.

Subsequent events

Management has evaluated subsequent events through October 24, 2018, the date which the financial statements were available to be issued. Except as described in Note 15, no events were identified that required additional disclosure.

NOTE 3 - INVESTMENTS

Investments are carried at market value. Market values are provided by the brokerage firm and are based on quoted market prices (a Level 1 measurement) as of the date of the statement of financial position. Market risk exists and potential gains and losses are dependent on future changes in market prices of various investments held.

The Center's investment account includes cash, cash equivalents and mutual funds. At June 30, 2018 and 2017, the account consisted of the following:

	2018		2017	
	Cost	Market Value	Cost	Market Value
Cash and Equivalents	\$ 5,284	\$ 5,284	\$ 6,015	\$ 6,015
Mutual Funds	<u>275,354</u>	<u>277,068</u>	<u>258,831</u>	<u>265,576</u>
	<u>\$ 280,638</u>	<u>\$ 282,352</u>	<u>\$ 264,846</u>	<u>\$ 271,591</u>

Net investment return is included in other revenue in the accompanying statements of activities. The net gains and losses generated by investments are summarized as follows for the respective years ended June 30, 2018 and 2017:

	2018	2017
Interest and dividends	\$ 12,041	\$ 9,823
Realized losses	(5,783)	(514)
Unrealized gains	<u>6,752</u>	<u>14,967</u>
Total investment income before expenses	13,010	24,276
Custodial fees	<u>(2,250)</u>	<u>(2,091)</u>
Net investment return	<u>\$ 10,760</u>	<u>\$ 22,185</u>

COMMUNITY CONNECTIONS, INC.

NOTES TO FINANCIAL STATEMENTS - Continued June 30, 2018 and 2017

NOTE 4 - FEES AND GRANTS DUE FROM GOVERNMENTAL AGENCIES

Amounts receivable due from governmental agencies at June 30, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
State of Colorado		
General Fund	\$ 76,629	\$ 103,153
Medicaid	372,817	329,278
Part C	<u>31,485</u>	<u>20,788</u>
Due from State of Colorado	480,931	453,219
Local governments	24,480	21,755
Other	<u>2,339</u>	<u>16,654</u>
	<u>\$ 507,750</u>	<u>\$ 491,628</u>

NOTE 5 - PROPERTY AND EQUIPMENT

The cost of property and equipment and related accumulated depreciation at June 30, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Land	\$ 296,898	\$ 296,898
Buildings and improvements	1,608,511	1,595,150
Program and administrative equipment	<u>305,843</u>	<u>305,420</u>
	2,211,252	2,197,468
Accumulated depreciation and amortization	<u>(1,173,589)</u>	<u>(1,109,164)</u>
Net property and equipment	<u>\$ 1,037,663</u>	<u>\$ 1,088,304</u>

NOTE 6 - CONTRIBUTED USE OF LAND

In 1984, the City of Durango approved a 20-year lease for the use of land by the Center for \$1 per year. During that year the Center had a new facility built with a grant that restricted the use of the building. In 1996, the restriction was removed and the Center obtained unrestricted use of the facility. In 2004, the City of Durango renewed the land lease for another 20 years for \$1 per year. The Center assigned a value of \$185,000 to the land based on the median sale price of similar property in 2004. Since title to the property was not conveyed to the Center, the Center cannot recognize the land as an asset; rather, a restricted contribution for the use of the land equal to its estimated value was recognized in 2004, along with a long-term contribution receivable. The receivable is reduced annually through the recognition of rental expense for one-twentieth of the value, which releases that amount from restriction. The balance of the receivable was \$55,500 and \$64,750 at June 30, 2018 and 2017, respectively, including \$9,250 classified as current each year. Rent expense of \$9,250 was recognized during each of the years ended June 30, 2018 and 2017.

COMMUNITY CONNECTIONS, INC.

NOTES TO FINANCIAL STATEMENTS - Continued June 30, 2018 and 2017

NOTE 7 - NOTES PAYABLE

At June 30, 2018 and 2017, the Center had the following notes payable:

	<u>2018</u>	<u>2017</u>
Note payable to Wells Fargo Bank, due February 2029, payable in monthly installments of \$1,122 including interest at 5.75%, guaranteed by a deed of trust on a residential facility with a carrying value of \$139,670	\$ 106,975	\$ 113,980
Note payable to First National Bank of Durango, due February 2035, payable in monthly installments of \$979 including interest at 6.00%, guaranteed by USDA and collateralized by inventory, accounts receivable and equipment and a deed of trust on a residential facility with a carrying value of \$130,877	<u>122,312</u>	<u>126,448</u>
Total	229,287	240,428
Current portion	<u>(12,057)</u>	<u>(11,335)</u>
Long-term portion	<u>\$ 217,230</u>	<u>\$ 229,093</u>

Future maturities of notes payable at June 30, 2018 are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2019	\$ 12,057
2020	12,781
2021	13,548
2022	14,361
2023	15,224
Thereafter	<u>161,316</u>
	<u>\$ 229,287</u>

Interest expense on notes payable was \$14,073 and \$15,491 for the years ended June 30, 2018 and 2017, respectively.

Line of Credit

The Center has a \$200,000 line of credit arrangement with Alpine Bank expiring in April 2019. The line is secured by a lien on all business assets and carries certain financial covenants. The interest rate applied to outstanding borrowings is fixed at 6.00%. Nothing was borrowed against the line during the years ended June 30, 2018 or 2017.

NOTE 8 - COMMITMENTS

Operating leases

The Center entered into an agreement for telecom services for a period of five years ending in 2018. The total annual rate was \$13,337 and \$20,346 for the years ended June 30, 2018 and 2017, respectively. The Center has multiple operating leases generating expenses of \$10,683 and \$2,116 for the years ended June 30, 2018 and 2017, respectively, for the use of office equipment through April 2022.

COMMUNITY CONNECTIONS, INC.

NOTES TO FINANCIAL STATEMENTS - Continued June 30, 2018 and 2017

NOTE 8 - COMMITMENTS - Continued

Future minimum lease payments as of June 30, 2018 are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2019	\$ 38,495
2020	8,804
2021	3,814
2022	1,662
	<u>\$ 52,775</u>

NOTE 9 - BOARD DESIGNATED OPERATING RESERVES

During 2014, the Board of Trustees approved the establishment of an operating reserve. Operating reserves are the portion of available unrestricted net assets that are specifically reserved for use in emergencies to sustain operations in the event of significant unanticipated increases in operating expenses or reductions in operating revenues, or both. The reserve balance is \$831,625 and \$874,000 for years ended June 30, 2018 and 2017, respectively. Operating reserves give the Center greater financial stability and flexibility to respond to potential threats in the future. The reserve represents approximately two months of operating expenses. An equal amount of cash has been separately identified on the accompanying statement of financial position.

NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2018 and 2017 included the following:

	<u>2018</u>	<u>2017</u>
Contributed use of land (Note 6)	\$ 55,500	\$ 64,750
Green House	4,064	5,193
Family Support Services Program	673	673
Company-Wide Training Grant	4,857	-
Cortez Family Support Service Grant	2,000	-
Total temporarily restricted net assets	<u>\$ 67,094</u>	<u>\$ 70,616</u>

NOTE 11 - SPECIAL EVENTS

During 2018 and 2017, the Center held two special events for the purpose of fundraising.

	<u>2018</u>	<u>2017</u>
Cash contributions	\$ 14,162	\$ 18,934
Non-cash contributions	<u>12,000</u>	<u>12,000</u>
Special event income	<u>26,162</u>	<u>30,934</u>
Direct expenses	(10,296)	(8,555)
Value of donated space and materials	<u>(12,000)</u>	<u>(12,000)</u>
Total event cost	<u>(22,296)</u>	<u>(20,555)</u>
Net special event income	<u>\$ 3,866</u>	<u>\$ 10,379</u>

COMMUNITY CONNECTIONS, INC.

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2018 and 2017

NOTE 12 - RETIREMENT PLAN

The Center maintains a 401(k) plan for the benefit of its employees. All employees who have completed one year of service and are age 21 or older may participate in the Plan. Employees may elect to make a salary reduction contribution of up to \$18,000 annually. Contributions made by the employee are immediately vested. Plan expenses for fees incurred by the employer were \$500 for each of the years ended June 30, 2018 and 2017.

NOTE 13 - RELATED PARTY TRANSACTIONS

The State of Colorado is considered a related party by virtue of significant management influence exercised by the State through contract provisions. The Center received a substantial portion of its revenue from the State of Colorado as identified in the statement of activities. The amount due to the Center from the State of Colorado is described in Note 4. The Center had balances due to the State of Colorado for expenses and reimbursements, which are recorded in accounts payable and accrued expenses. The balances due at June 30, 2018 and 2017 were \$83,630 and \$83,055, respectively.

NOTE 14 - CONCENTRATION OF RISK

Credit risk

During the years ended June 30, 2018 and 2017, bad debt expense of \$3,993 and \$3,130, respectively, was recognized as a supporting service expense.

ACA estimated penalty

For part of the year ended June 30, 2017, the Center had elected to not provide health insurance for its employees. Failure to provide such insurance in accordance with the federal Affordable Care Act (ACA) results in penalties. In November 2016, the Center began offering health insurance in accordance with ACA. At that time, the Center was considered compliant with the law and not subject to further penalties. At June 30, 2018 and 2017, the accrued penalties totaled \$39,134 and \$79,000, respectively.

NOTE 15 - SUBSEQUENT EVENTS

Certificate of deposits

Subsequent to June 30, 2018, the Center purchased six certificates of deposit at local banks totaling \$375,000, maturing at intervals between six to twelve months.

Investments

Beginning in August 2018, the Center transferred \$50,000 monthly for three months to their investment account.