

**COMMUNITY
CONNECTIONS, INC.**

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

June 30, 2019 and 2018

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, 2019 and 2018, 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, 2019 and 2018, 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
November 27, 2019

FINANCIAL STATEMENTS

COMMUNITY CONNECTIONS, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2019 and 2018

ASSETS

	<u>2019</u>	<u>2018</u>
Current assets		
Cash and cash equivalents (Note 4).....	\$ 1,017,907	\$ 825,482
Cash - two month operating reserve (Note 10).....	861,739	831,625
Fees and grants due from governmental agencies (Note 5).....	426,917	507,750
Accounts receivable, net of allowance of \$27,826 in 2019 and 2018.....	16,691	17,346
Current portion of long-term contribution receivable (Note 7).....	9,250	9,250
Prepaid expenses and other.....	4,951	21,118
Total current assets.....	<u>2,337,455</u>	<u>2,212,571</u>
Non-current assets		
Investments (Note 3).....	456,616	282,352
Property and equipment, net (Notes 6 and 9).....	806,755	1,037,663
Long-term contribution receivable, net of current portion (Note 7).....	37,000	46,250
Total non-current assets.....	<u>1,300,371</u>	<u>1,366,265</u>
Total assets.....	<u>\$ 3,637,826</u>	<u>\$ 3,578,836</u>

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable and accrued expenses (Note 15).....	\$ 544,447	\$ 531,813
Current portion of notes payable (Note 8).....	7,962	12,057
Total current liabilities.....	<u>552,409</u>	<u>543,870</u>
Long-term liabilities		
Notes payable, net of current portion (Note 8).....	91,588	217,230
Total liabilities.....	<u>643,997</u>	<u>761,100</u>
Net assets		
Net assets without donor restrictions		
Net assets available for current operations.....	1,363,334	1,110,641
Board designated operating reserve (Note 10).....	861,739	831,625
Net investment in property and equipment.....	707,205	808,376
Total net assets without donor restrictions.....	<u>2,932,278</u>	<u>2,750,642</u>
Net assets with donor restrictions (Note 11).....	61,551	67,094
Total net assets.....	<u>2,993,829</u>	<u>2,817,736</u>
Total liabilities and net assets.....	<u>\$ 3,637,826</u>	<u>\$ 3,578,836</u>

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

COMMUNITY CONNECTIONS, INC.

STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2019 and 2018

	2019	2018
Net assets without donor restrictions activity:		
Support and revenue		
Fees and grants from governmental agencies		
Fees for services		
State of Colorado		
State General Fund		
Comprehensive services.....	\$ 28,343	\$ 33,141
Adult supported living services.....	173,645	124,267
Early intervention.....	293,789	278,246
Family support services program.....	141,806	123,636
Total fees from State General Fund.....	637,583	559,290
Medicaid		
Comprehensive services.....	3,350,865	3,317,783
Adult supported living services.....	467,180	523,027
Children's extensive supports.....	84,165	53,520
Early intervention.....	131,323	109,560
Home and community based services.....	6,944	9,457
Total fees from Medicaid.....	4,040,477	4,013,347
Grants and other government sources		
State Part C - Early intervention.....	-	50,239
Counties and cities.....	67,950	68,200
Department of Housing and Urban Development.....	508	2,208
Other.....	23,539	9,185
Total grants and other government sources.....	91,997	129,832
Total fees and grants from governmental agencies.....	4,770,057	4,702,469
Public support - contributions.....	26,370	28,521
Special events, net (Note 12).....	6,829	3,866
Residential room and board.....	399,964	434,079
Net investment return (Note 3).....	24,264	10,760
Gain on sale of property and equipment.....	90,520	-
Other revenue.....	55,576	69,333
Total before reclassifications.....	5,373,580	5,249,028
Net assets released from restrictions.....	29,543	10,522
Total support and revenue.....	5,403,123	5,259,550

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

COMMUNITY CONNECTIONS, INC.

STATEMENTS OF ACTIVITIES - Continued For the Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Expenses and losses		
Program services		
Medicaid comprehensive services.....	\$ 2,912,733	\$ 2,866,462
State adult supported living services.....	78,130	69,014
Medicaid adult supported living services.....	471,784	543,874
Children's extensive supports.....	56,385	37,639
Early intervention.....	261,273	247,176
Family support services program.....	117,064	123,068
Case management.....	576,723	518,660
Other program services.....	19,537	18,635
Total program services.....	<u>4,493,629</u>	<u>4,424,528</u>
Supporting services		
Management and general.....	686,847	628,825
Development and fundraising	40,199	8,254
Bad debt provision (Note 15).....	812	3,993
Total supporting services.....	<u>727,858</u>	<u>641,072</u>
Total expenses and losses.....	<u>5,221,487</u>	<u>5,065,600</u>
Change in net assets without donor restrictions.....	<u>181,636</u>	<u>193,950</u>
Net assets with donor restrictions activity:		
Public support - contributions.....	24,000	7,000
Net assets released from restrictions.....	<u>(29,543)</u>	<u>(10,522)</u>
Change in net assets with donor restrictions.....	<u>(5,543)</u>	<u>(3,522)</u>
Change in total net assets.....	176,093	190,428
Net assets, beginning of year.....	<u>2,817,736</u>	<u>2,627,308</u>
Net assets, end of year.....	<u>\$ 2,993,829</u>	<u>\$ 2,817,736</u>

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

COMMUNITY CONNECTIONS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2019

(with comparative totals for June 30, 2018)

	Program Services					
	Medicaid comprehensive services	State adult supported living services	Medicaid adult supported living services	Early intervention	Family support services	Case management
Salaries, benefits and taxes.....	\$ 1,017,845	\$ 67,270	\$ 416,158	\$ 237,053	\$ 11,395	\$ 540,338
Professional fees.....	1,611,401	2,936	14,846	2,077	105,401	74
Supplies.....	13,743	25	336	-	-	562
Repair and maintenance.....	60,174	384	2,760	-	-	2,091
Depreciation.....	36,931	192	1,840	3,439	-	6,727
Equipment lease expense.....	4,070	41	-	-	-	1,936
Other.....	20,879	559	5,523	551	100	1,349
Utilities.....	13,048	119	396	-	-	2,377
Staff development and travel.....	35,150	3,412	24,821	16,203	34	11,127
Insurance.....	20,215	590	3,387	1,468	74	3,222
Telephone.....	6,152	430	183	482	60	3,090
Occupancy.....	25,494	257	1,281	-	-	3,063
Development.....	-	-	-	-	-	-
Interest expense.....	11,362	-	-	-	-	-
Dues and subscriptions.....	148	-	-	-	-	767
Association dues.....	-	-	-	-	-	-
Transportation and auto expense.....	36,121	1,915	253	-	-	-
Total expenses.....	\$ 2,912,733	\$ 78,130	\$ 471,784	\$ 261,273	\$ 117,064	\$ 576,723

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

Other program services	Children's extensive services	Total	Supporting Services			Total Expenses	2018 Total Expenses
			Management and general	Development and fundraising	Total		
\$ 17,585	\$ 6,209	\$ 2,313,853	\$ 432,483	\$ 22,762	\$ 455,245	\$ 2,769,098	\$ 2,622,024
-	45,575	1,782,310	33,945	256	34,201	1,816,511	1,861,949
-	2,576	17,242	8,196	-	8,196	25,438	28,371
-	-	65,409	35,741	-	35,741	101,150	63,511
-	-	49,129	14,051	-	14,051	63,180	73,825
-	-	6,047	2,460	-	2,460	8,507	8,785
1,767	330	31,058	28,848	11,984	40,832	71,890	90,893
-	-	15,940	-	-	-	15,940	12,430
72	1,672	92,491	22,590	256	22,846	115,337	97,795
113	23	29,092	8,209	62	8,271	37,363	46,618
-	-	10,397	8,544	207	8,751	19,148	24,250
-	-	30,095	5,865	3,000	8,865	38,960	52,523
-	-	-	40,314	665	40,979	40,979	3,778
-	-	11,362	-	-	-	11,362	14,073
-	-	915	11,699	1,007	12,706	13,621	9,723
-	-	-	33,902	-	33,902	33,902	38,230
-	-	38,289	-	-	-	38,289	34,726
<u>\$ 19,537</u>	<u>\$ 56,385</u>	<u>\$ 4,493,629</u>	<u>\$ 686,847</u>	<u>\$ 40,199</u>	<u>\$ 727,046</u>	<u>\$ 5,220,675</u>	<u>\$ 5,083,504</u>

COMMUNITY CONNECTIONS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2018

	Program Services					
	Medicaid comprehensive services	State adult supported living services	Medicaid adult supported living services	Early intervention	Family support services	Case management
Salaries, benefits and taxes.....	\$ 929,990	\$ 58,358	\$ 470,318	\$ 216,525	\$ 16,178	\$ 487,055
Professional fees.....	1,653,933	1,847	23,643	9,118	106,429	75
Supplies.....	18,325	49	162	-	-	614
Repair and maintenance.....	27,424	308	1,688	136	-	3,073
Depreciation.....	49,981	700	4,578	2,110	-	5,301
Equipment lease expense.....	3,334	46	-	-	-	748
Other.....	30,104	2,295	11,417	3,521	193	1,867
Utilities.....	10,003	98	250	-	-	2,079
Staff development and travel.....	30,569	3,130	26,008	13,822	25	10,311
Insurance.....	26,126	733	4,527	1,704	206	4,160
Telephone.....	5,222	132	676	240	37	2,932
Occupancy.....	34,263	100	214	-	-	445
Development.....	-	-	-	-	-	-
Interest expense.....	14,073	-	-	-	-	-
Dues and subscriptions.....	-	-	-	-	-	-
Association dues.....	-	-	-	-	-	-
Transportation and auto expense.....	33,115	1,218	393	-	-	-
Total expenses.....	<u>\$ 2,866,462</u>	<u>\$ 69,014</u>	<u>\$ 543,874</u>	<u>\$ 247,176</u>	<u>\$ 123,068</u>	<u>\$ 518,660</u>

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

Other program services	Children's extensive services	Total	Supporting Services			Total Expenses
			Management and general	Development and Fundraising	Total	
\$ 18,351	\$ 1,181	\$ 2,197,956	\$ 415,385	\$ 8,683	\$ 424,068	\$ 2,622,024
-	36,175	1,831,220	23,998	6,731	30,729	1,861,949
-	-	19,150	9,221	-	9,221	28,371
-	-	32,629	30,882	-	30,882	63,511
-	-	62,670	11,155	-	11,155	73,825
-	-	4,128	4,657	-	4,657	8,785
74	270	49,741	38,581	2,571	41,152	90,893
-	-	12,430	-	-	-	12,430
43	3	83,911	13,818	66	13,884	97,795
122	10	37,588	9,030	-	9,030	46,618
45	-	9,284	14,966	-	14,966	24,250
-	-	35,022	5,501	12,000	17,501	52,523
-	-	-	3,778	-	3,778	3,778
-	-	14,073	-	-	-	14,073
-	-	-	9,623	100	9,723	9,723
-	-	-	38,230	-	38,230	38,230
-	-	34,726	-	-	-	34,726
<u>\$ 18,635</u>	<u>\$ 37,639</u>	<u>\$ 4,424,528</u>	<u>\$ 628,825</u>	<u>\$ 30,151</u>	<u>\$ 658,976</u>	<u>\$ 5,083,504</u>

COMMUNITY CONNECTIONS, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2019 and 2018

Increase (Decrease) in Cash and Cash Equivalents

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Cash received from governmental agencies and others.....	\$ 5,452,069	\$ 5,223,083
Cash paid to suppliers and employees.....	(5,220,296)	(5,001,543)
Interest received.....	5,746	685
Interest paid.....	(11,362)	(14,073)
Net cash provided by operating activities.....	<u>226,157</u>	<u>208,152</u>
Cash flows from investing activities:		
Purchase of property and equipment.....	(46,752)	(23,183)
Proceeds from sale of property and equipment.....	305,000	-
Purchases of investments.....	(150,980)	(81,489)
Proceeds from sale of investments.....	18,851	83,007
Net cash used by investing activities.....	<u>126,119</u>	<u>(21,665)</u>
Cash flows from financing activities:		
Payments on notes payable.....	(129,737)	(11,141)
Net cash used by financing activities.....	<u>(129,737)</u>	<u>(11,141)</u>
Net increase (decrease) in cash and cash equivalents.....	222,539	175,346
Cash and cash equivalents, beginning of year.....	<u>1,657,107</u>	<u>1,481,761</u>
Cash and cash equivalents, end of year.....	<u>\$ 1,879,646</u>	<u>\$ 1,657,107</u>
Cash and cash equivalents as reported on the statements of financial position		
Cash and cash equivalents.....	\$ 1,017,907	\$ 825,482
Cash - two month operating reserve.....	861,739	831,625
	<u>\$ 1,879,646</u>	<u>\$ 1,657,107</u>

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

COMMUNITY CONNECTIONS, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

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 56 individuals served in 2019, 58 in 2018.

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 58 individuals served in 2019, 64 in 2018.

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. Six children were served in 2019, four in 2018.

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 144 persons served in 2019, 140 in 2018.

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 49 persons served 2019, 45 in 2018.

COMMUNITY CONNECTIONS, INC.

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2019 and 2018

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 350 persons with Case Management in 2019, 354 in 2018

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 accompanying financial statements have been prepared using the accrual basis of accounting, in accordance with the U.S. generally accepted accounting principles (GAAP), whereby revenues are recorded when earned and expenses are recorded when the obligation is incurred. The financial statements reflect all significant receivables, payables, and other liabilities.

For financial reporting purposes, the Center follows the reporting requirements of GAAP, which requires that resources be classified for reporting purposes based on the existence or absence of donor-imposed restrictions. The Center reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions.

Descriptions of the two net asset categories and the types of transactions affecting each category follow:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor or certain grantor imposed restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor or certain grantor imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates the resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenues are reported as increases in net assets without donor restriction unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor restrictions on the net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

COMMUNITY CONNECTIONS, INC.

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2019 and 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could differ from those estimates, and those differences could be material.

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 deposit with an original maturity of twelve 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.

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

Fair value is defined as the price that would be received to sell an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset. GAAP establishes a fair value hierarchy that prioritizes investments based on those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs). The Center groups assets at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

COMMUNITY CONNECTIONS, INC.

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2019 and 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

These levels are:

- Level 1 Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date.
- Level 2 Other observable inputs, either directly or indirectly, including:
- Quoted prices for similar assets/liabilities in active markets;
 - Quoted prices for identical or similar assets in non-active markets;
 - Inputs other than quoted prices that are observable for the asset/liability; and,
 - Inputs that are derived principally from or corroborated by other observable market data.
- Level 3 Unobservable inputs that cannot be corroborated by observable market data.

Cash and cash equivalents are excluded from the fair value hierarchy as cash is generally measured at cost.

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 (\$3,000 or more effective July 1, 2019) 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.

Functional allocation of expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, depreciation and amortization, which are allocated on a square footage basis, as well as salaries and wages, benefits, payroll taxes, professional services, staff development and travel, office expenses, information technology, insurance, and other, which are allocated on the basis of estimates of time and effort.

COMMUNITY CONNECTIONS, INC.

NOTES TO FINANCIAL STATEMENTS - Continued June 30, 2019 and 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

Adopted accounting pronouncements in effect at year-end

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update ("ASU") No. 2016-14, Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. The amendment applies to all not-for-profit entities. The amendment reduces the classes of net assets to net assets with donor restrictions and net assets without donor restrictions; removes the reconciliation of cash flows to the indirect method if using the direct method; requires the reporting of investment returns, net of expenses, with no disclosure of netted expenses required; requires the use, in the absence of explicit donor stipulations, of the placed-in-service approach for reporting expirations of restrictions on cash or other asset donations; and requires disclosure of expenses by both their natural and functional classification on the face of the statement of activities, as a separate statement, or in the notes to the financial statements.

In addition, the amendment provides enhanced disclosures on amounts and purposes of board designations and appropriations, composition of net assets with donor restrictions, discussion of liquidity for the year following year-end, discussion of liquidity of financial assets at year-end, methodology used to allocate costs between program and support functions, and underwater endowment funds. The amendment is effective for the Center's June 30, 2019 year-end. Organizations should apply the amendment in this update retrospectively to all periods presented.

A recap of the net asset reclassifications driven by adoption of ASU 2016-14 as of June 30, 2019 follows:

<u>Net Assets Classifications</u>	<u>ASU 2016-14 Classifications</u>		
	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total Net Assets</u>
As previously presented:			
Unrestricted	\$ 2,750,642	\$ -	\$ 2,750,642
Temporarily restricted	-	67,094	67,094
Net assets as previously presented	<u>\$ 2,750,642</u>	<u>\$ 67,094</u>	<u>\$ 2,817,736</u>

COMMUNITY CONNECTIONS, INC.

NOTES TO FINANCIAL STATEMENTS - Continued June 30, 2019 and 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Reclassifications

Certain reclassifications have been made to the prior year statement presentation to correspond to the current year's format. Total net assets and the change in net assets are unchanged by these reclassifications.

Subsequent events

Management has evaluated subsequent events through November 27, 2019, the date which the financial statements were available to be issued. Except as described in Note 4, 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, 2019 and 2018, the account consisted of the following:

	<u>2019</u>		<u>2018</u>	
	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>
Cash and Equivalents	\$ 20,746	\$ 20,746	\$ 5,284	\$ 5,284
Mutual Funds	<u>407,483</u>	<u>435,870</u>	<u>275,354</u>	<u>277,068</u>
	<u>\$ 428,229</u>	<u>\$ 456,616</u>	<u>\$ 280,638</u>	<u>\$ 282,352</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, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Interest and dividends	\$ 18,799	\$ 12,041
Realized losses	(1,911)	(5,783)
Unrealized gains	<u>10,701</u>	<u>6,752</u>
Total investment income before expenses	27,589	13,010
Custodial fees	<u>(3,325)</u>	<u>(2,250)</u>
Net investment return	<u>\$ 24,264</u>	<u>\$ 10,760</u>

COMMUNITY CONNECTIONS, INC.

NOTES TO FINANCIAL STATEMENTS - Continued June 30, 2019 and 2018

NOTE 4 - CERTIFICATES OF DEPOSIT

The Center holds several certificates of deposit which are included in cash and cash equivalents. The certificates held as of June 30, 2019 are as follows:

	<u>Balance</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
First Southwest Bank - twelve month certificate	\$ 50,222	0.60%	July 2019
Vectra Bank - nine month certificate	75,912	2.08%	September 2019
Vectra Bank - nine month certificate	50,691	2.08%	August 2019
Vectra Bank - twelve month certificate	50,746	1.79%	August 2019
First Southwest Bank - twelve month certificate	75,374	0.09%	March 2020
First Southwest Bank - twelve month certificate	75,781	2.33%	February 2020
First Southwest Bank - nine month certificate	50,188	0.45%	February 2020
Community Bank of Colorado - twelve month certificate	50,007	0.40%	June 2020
Community Bank of Colorado - twelve month certificate	75,043	0.40%	May 2020
Community Bank of Colorado - twelve month certificate	50,098	0.40%	January 2020
Community Bank of Colorado - twelve month certificate	75,245	0.40%	January 2020
Vectra Bank - twelve month certificate	<u>75,995</u>	1.78%	October 2019
Total certificates of deposit	<u>\$ 755,302</u>		

Subsequent to year end, four certificates of deposit were renewed for terms of six to twelve months at interest rates ranging from 1.25% to 1.98%.

NOTE 5 - FEES AND GRANTS DUE FROM GOVERNMENTAL AGENCIES

Amounts receivable due from governmental agencies at June 30, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
State of Colorado		
General Fund	\$ 137,839	\$ 76,629
Medicaid	251,472	372,817
Part C	-	<u>31,485</u>
Due from State of Colorado	389,311	480,931
Local governments	13,694	24,480
Other	<u>23,912</u>	<u>2,339</u>
	<u>\$ 426,917</u>	<u>\$ 507,750</u>

NOTE 6 - PROPERTY AND EQUIPMENT

The cost of property and equipment and related accumulated depreciation at June 30, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Land	\$ 195,065	\$ 296,898
Buildings and improvements	1,482,092	1,608,511
Program and administrative equipment	<u>320,002</u>	<u>305,843</u>
	1,997,159	2,211,252
Accumulated depreciation and amortization	<u>(1,190,404)</u>	<u>(1,173,589)</u>
Net property and equipment	<u>\$ 806,755</u>	<u>\$ 1,037,663</u>

COMMUNITY CONNECTIONS, INC.

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2019 and 2018

NOTE 7 - 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 \$46,250 and \$55,500 at June 30, 2019 and 2018, respectively, including \$9,250 classified as current each year. Rent expense of \$9,250 was recognized during each of the years ended June 30, 2019 and 2018.

NOTE 8 - NOTES PAYABLE

At June 30, 2019 and 2018, the Center had the following notes payable:

	<u>2019</u>	<u>2018</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 \$153,163	\$ 99,550	\$ 106,975
Note payable to TBK Bank, 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. In the current year the facility elected to pay off the note associated with this property.	<u>-</u>	<u>122,312</u>
Total	99,550	229,287
Current portion	<u>(7,962)</u>	<u>(12,057)</u>
Long-term portion	<u>\$ 91,588</u>	<u>\$ 217,230</u>

Future maturities of notes payable at June 30, 2019 are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2020	\$ 7,962
2021	8,432
2022	8,930
2023	9,457
2024	10,015
Thereafter	<u>54,754</u>
	<u>\$ 99,550</u>

Interest expense on notes payable was \$11,362 and \$14,073 for the years ended June 30, 2019 and 2018, respectively.

COMMUNITY CONNECTIONS, INC.

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2019 and 2018

NOTE 8 - NOTES PAYABLE - Continued

Line of Credit

The Center has a \$200,000 line of credit arrangement with Alpine Bank expiring in April 2022. The line is secured by a lien on all business assets. The interest rate applied to outstanding borrowings is fixed at 6.08%. Nothing was borrowed against the line during the years ended June 30, 2019 or 2018.

NOTE 9 - COMMITMENTS

Operating leases

The Center entered into an agreement for telecom services for a period of five years which ended in 2018. The total annual rate was \$2,775 and \$13,337 for the years ended June 30, 2019 and 2018, respectively. The Center has multiple operating leases generating expenses of \$17,380 and \$10,683 for the years ended June 30, 2019 and 2018, respectively, for the use of office equipment through April 2022.

Operating leases - continued

Future minimum lease payments as of June 30, 2019 are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2020	\$ 13,285
2021	7,732
2022	3,651
2023	1,884
	<u>\$ 26,552</u>

NOTE 10 - 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 \$861,739 and \$831,625 for years ended June 30, 2019 and 2018, 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 11 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restriction at June 30, 2019 and 2018 included the following:

	<u>2019</u>	<u>2018</u>
Contributed use of land (Note 7)	\$ 46,250	\$ 55,500
Green house	3,809	4,064
Family support services program	479	673
Holly house repairs	8,835	-
Company-wide training grant	-	4,857
Cortez family support service grant	2,178	2,000
Total net assets with donor restrictions	<u>\$ 61,551</u>	<u>\$ 67,094</u>

COMMUNITY CONNECTIONS, INC.

NOTES TO FINANCIAL STATEMENTS - Continued June 30, 2019 and 2018

NOTE 12 - SPECIAL EVENTS

During 2019 and 2018, the Center held two special events for the purpose of fundraising.

	<u>2019</u>	<u>2018</u>
Cash contributions	\$ 28,207	\$ 14,162
Non-cash contributions	7,849	12,000
Special event income	<u>36,056</u>	<u>26,162</u>
Direct expenses	(21,378)	(10,296)
Value of donated space and materials	(7,849)	(12,000)
Total event cost	<u>(29,227)</u>	<u>(22,296)</u>
Net special event income	<u>\$ 6,829</u>	<u>\$ 3,866</u>

NOTE 13 - 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, 2019 and 2018.

NOTE 14 - 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 5. 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, 2019 and 2018 were \$97,624 and \$83,630, respectively.

NOTE 15 - CONCENTRATION OF RISK

Credit risk

During the years ended June 30, 2019 and 2018, bad debt expense of \$812 and \$3,993, 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 the accrued penalties associated with the year ended June 30, 2017 totaled \$39,134. There was no accrued penalty for the year ended June 30, 2019.

COMMUNITY CONNECTIONS, INC.

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2019 and 2018

NOTE 16 - LIQUIDITY AND AVAILABILITY

The Center monitors its liquidity so that it is able to meet its operating needs and other contractual commitments. The Center's assets available within one year of the financial statement date for general expenditure without limitations are as follows:

	<u>2019</u>
Cash and cash equivalents	\$ 1,017,907
Cash – two month operating reserve	861,739
Fees and grants due from governmental agencies	426,917
Accounts receivable, net	16,691
Current portion of long-term contribution receivable	9,250
Prepaid expenses	4,951
Investments	456,616
Less: amounts with donor restrictions	<u>(61,551)</u>
	<u>\$ 2,732,520</u>

None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditures within one year of the statement of financial position. The contributions receivable are subject to implied time restrictions but are expected to be collected within one year. The Center has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet 60 days of normal operating expense, which are, on average, approximately \$860,000. The Center has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, as part of its liquidity management, the Center invests cash in excess of daily requirements in various short-term investments, including certificates of deposit. As described in Note 8, the Center has a line of credit in the amount of \$200,000, which it could draw upon in the event of an unanticipated liquidity need.