

Financial Statements and
Independent Auditor's Report

Foothills Gateway, Inc.

June 30, 2019

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Foothills Gateway, Inc.

We have audited the accompanying financial statements of Foothills Gateway, Inc. (FGI), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year 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 that the audit evidence that 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 Foothills Gateway, Inc. as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited FGI's 2018 financial statements, and our report dated September 17, 2018, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Logan, Thomas + Johnson, LLC

Broomfield, Colorado

October 14, 2019

Financial Statements

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Foothills Gateway, Inc.
STATEMENT OF FINANCIAL POSITION
June 30, 2019
(With summarized financial information as of June 30, 2018)

ASSETS	<u>2019</u>	<u>2018</u>
Current assets		
Cash and cash equivalents	\$ 2,430,599	\$ 3,227,153
Investments	2,790,504	2,600,542
Accounts receivable		
Fees and grants from governmental agencies	2,879,779	2,562,112
Vocational contracts	35,731	26,683
Other	100,100	155,090
Prepaid expenses and other	56,865	109,483
Total current assets	<u>8,293,578</u>	<u>8,681,063</u>
Investments	2,891,802	2,395,521
Land, building and equipment, net	1,633,640	1,914,445
Total assets	<u>\$ 12,819,020</u>	<u>\$ 12,991,029</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 1,696,017	\$ 1,566,872
Deferred revenue	1,464	31,908
Total current liabilities	<u>1,697,481</u>	<u>1,598,780</u>
Net assets		
Without donor restrictions		
Designated memorial funds	148,012	166,050
Designated for capital repair and non billable services	136,867	275,869
Designated for conflict free case management project	2,000,000	-
Net investment in land, building and equipment	1,633,640	1,914,445
Undesignated	7,169,326	8,999,529
Total without donor restrictions	<u>11,087,845</u>	<u>11,355,893</u>
With donor restrictions - purpose restrictions	33,694	36,356
Total net assets	<u>11,121,539</u>	<u>11,392,249</u>
Total liabilities and net assets	<u>\$ 12,819,020</u>	<u>\$ 12,991,029</u>

The accompanying notes are an integral part of this statement.

Foothills Gateway, Inc.
STATEMENT OF ACTIVITIES
Year ended June 30, 2019

(With summarized financial information for the year ended June 30, 2018)

	Without donor restrictions	With donor restrictions	Total	
			2019	2018
Revenues and support				
Fees and grants from governmental agencies				
Fees for services				
State of Colorado				
State General Fund	\$ 3,684,731	\$ -	\$ 3,684,731	\$ 3,400,433
Medicaid	9,305,660	-	9,305,660	8,920,244
Larimer County	4,116,244	-	4,116,244	4,060,384
Grants and other				
Part C	115,547	-	115,547	252,105
U.S. Department of Housing and Urban Development	58,319	-	58,319	58,372
Other	100,108	-	100,108	189,217
Total fees and grants from governmental agencies	17,380,609	-	17,380,609	16,880,755
Public support				
Contributions	141,777	82,454	224,231	465,794
United Way	3,419	-	3,419	3,419
Residential room and board	24,696	-	24,696	24,102
In-kind contributions	15,874	-	15,874	28,852
Vocational revenue	306,097	-	306,097	358,549
Other revenue	675,889	-	675,889	448,831
Net assets released from restrictions				
Satisfaction of program restrictions	85,116	(85,116)	-	-
Total revenues and support	18,633,477	(2,662)	18,630,815	18,210,302

(Continued)

The accompanying notes are an integral part of this statement.

Foothills Gateway, Inc.
STATEMENT OF ACTIVITIES (CONTINUED)
Year ended June 30, 2019
(With summarized financial information for the year ended June 30, 2018)

	Without donor restrictions	With donor restrictions	Total	
			2019	2018
Expenses				
Program services				
Residential	\$ 2,697,775	\$ -	\$ 2,697,775	\$ 2,540,987
Adult day	4,511,347	-	4,511,347	4,665,239
Supported employment	502,549	-	502,549	575,328
Respite house	352,271	-	352,271	341,226
Transportation	768,610	-	768,610	541,309
Children & family services	1,967,617	-	1,967,617	1,925,738
Case management	4,726,396	-	4,726,396	4,241,072
Behavioral health	390,891	-	390,891	223,429
Housing choice voucher	112,954	-	112,954	96,504
Organized health care delivery system	870,744	-	870,744	885,285
Total program services	16,901,154	-	16,901,154	16,036,117
Supporting services				
Management and general	1,990,932	-	1,990,932	1,887,024
Fundraising	9,439	-	9,439	26,347
Total expenses	18,901,525	-	18,901,525	17,949,488
CHANGE IN NET ASSETS	(268,048)	(2,662)	(270,710)	260,814
Net assets, beginning of year	11,355,893	36,356	11,392,249	11,131,435
Net assets, end of year	\$ 11,087,845	\$ 33,694	\$ 11,121,539	\$ 11,392,249

The accompanying notes are an integral part of this statement.

Foothills Gateway, Inc.
 STATEMENT OF FUNCTIONAL EXPENSES
 Year ended June 30, 2019
 (With summarized financial information for the year ended June 30, 2018)

	Program Services				
	Residential	Adult day	Supported employment	Respite house	Transportation
Expenses					
Salaries, benefits and taxes	\$ 1,192,205	\$ 3,437,043	\$ 437,018	\$ 287,914	\$ 481,745
Professional services	4,804	9,487	925	897	960
Staff development and travel	7,518	20,579	5,217	1,999	1,700
Vehicles	5,473	37,342	8,339	1,700	79,478
Occupancy and equipment	34,920	204,908	18,217	32,895	10,522
Individuals in service - assistance and activities	1,393,107	474,858	156	16,923	62,967
Insurance	20,646	59,047	6,074	1,928	25,689
Other	14,135	79,281	6,794	4,795	3,404
In-kind contributions	46	1,736	56	12	566
Depreciation	24,921	187,066	19,753	3,208	101,579
	\$ 2,697,775	\$ 4,511,347	\$ 502,549	\$ 352,271	\$ 768,610
Total expenses	\$ 2,697,775	\$ 4,511,347	\$ 502,549	\$ 352,271	\$ 768,610

The accompanying notes are an integral part of this statement.

Program Services							Total	
Children & family services	Case management	Behavioral health	Housing choice voucher	Organized health care delivery system	Management and general	Fund-raising	2019	2018
\$ 168,175	\$ 4,187,300	\$ 233,226	\$ 91,261	\$ -	\$ 1,521,926	\$ -	\$ 12,037,813	\$ 11,287,963
293	28,397	18,559	6	-	87,742	-	152,070	119,879
6,852	68,587	7,643	1,025	-	61,565	56	182,741	219,122
1,163	1,785	842	5	-	208	-	136,335	126,502
680	134,694	27,550	1,991	-	49,342	(50)	515,669	550,521
1,785,692	192,481	94,330	14,362	870,744	-	-	4,905,620	4,667,444
834	15,985	2,125	397	-	14,841	-	147,566	139,551
2,227	58,966	2,937	3,125	-	226,712	5,581	407,957	401,444
7	9	4	-	-	9,586	3,852	15,874	28,852
1,694	38,192	3,675	782	-	19,010	-	399,880	408,210
<u>\$ 1,967,617</u>	<u>\$ 4,726,396</u>	<u>\$ 390,891</u>	<u>\$ 112,954</u>	<u>\$ 870,744</u>	<u>\$ 1,990,932</u>	<u>\$ 9,439</u>	<u>\$ 18,901,525</u>	<u>\$ 17,949,488</u>

The accompanying notes are an integral part of this statement.

Foothills Gateway, Inc.
STATEMENT OF CASH FLOWS
Year ended June 30, 2019

(With summarized financial information for the year ended June 30, 2018)

	2019	2018
Cash flows from operating activities		
Change in net assets	\$ (270,710)	\$ 260,814
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	399,880	408,210
Realized/unrealized gain on investments	(212,933)	(57,103)
(Gain) loss on sale of fixed assets	(20,822)	7,278
Change in assets and liabilities		
Increase in accounts receivable	(271,725)	(245,938)
Decrease in prepaid expenses and other	52,618	42,896
Increase in accounts payable and accrued expenses	129,145	120,900
Decrease in deferred revenue	(30,444)	(186,713)
Net cash provided by (used in) operating activities	(224,991)	350,344
Cash flows from investing activities		
Purchase of land, building and equipment	(119,075)	(391,099)
Proceeds from sale of fixed assets	20,822	16,570
Purchases of investments	(1,639,119)	(1,310,655)
Proceeds from sale of investments	1,165,809	1,466,720
Net cash used in investing activities	(571,563)	(218,464)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(796,554)	131,880
Cash and cash equivalents, beginning of year	3,227,153	3,095,273
Cash and cash equivalents, end of year	\$ 2,430,599	\$ 3,227,153

The accompanying notes are an integral part of this statement.

Foothills Gateway, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This description of Foothills Gateway, Inc.'s (FGI) nature of activities and summary of significant accounting policies is presented to assist in understanding FGI's financial statements.

1. *Summary of Business Activities*

Foothills Gateway, Inc., a Colorado nonprofit corporation, was incorporated under the laws of the State of Colorado in 1968 for the purpose of providing a Community Centered Board to coordinate programs through interagency cooperation and local agencies to provide services to persons with developmental disabilities in Larimer County. FGI's revenue comes primarily from the State of Colorado and Larimer County for services provided.

2. *Description of Services Provided*

The major program services or supports and functional activities directly provided or purchased by FGI are:

Program Services or Supports

Residential refers to residential services as specified in the eligible person's Individualized Plan (IP). Included are a number of different types of residential settings, which provide an array of training, learning, experiential and support activities provided in residential living alternatives designed to meet individual needs.

Adult Day includes a number of different type of services and supports which provide opportunities for individuals to experience and actively participate in valued roles in the community as specified in the IP. These services and supports enable individuals to access and participate in typical community activities such as work, recreation, and senior citizen activities. Included in this program are services for persons who are responsible for their own living arrangements in the community.

Supported Employment is individualized (one on one) community employment and small group or enclave employment services provided to adults with Intellectual and Developmental Disabilities (IDD).

Respite House provides respite and supervision services for adults.

Foothills Gateway, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. *Description of Services Provided (Continued)*

Program Services or Supports (Continued)

Transportation is “Home to Day Program transportation” services relevant to an individual’s work schedule as specified in the IP. For these purposes “work schedule” is defined broadly to include adult and retirement activities such as education, training, community integration and employment

Children and Family Services are for children from birth through age two which offer 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 development, and self-help skills; parent-child or family interaction; and early identification, screening and assessment services. In addition, this program provides an array of supportive services to the person with a developmental disability and his/her family when the person remains within the family home, thereby preventing or delaying the need for out-of-home placement, which is unwanted by the person or the family. Services and supports to eligible children under the age of 18 years in order for the children to remain in or return to the family home (only the child’s income is considered in determining eligibility) are targeted to children having extensive support needs, which require constant line-of-sight supervision due to significantly challenging behaviors and/or coexisting medical conditions. Available services include personal assistance, household modification, specialized medical equipment and supplies, professional services, and community connection services.

Case Management is the determination of eligibility for services and supports, service and support coordination, and the monitoring of all services and supports delivered pursuant to the IP, and the evaluation of results identified in the IP.

Behavioral Health includes access to an onsite agency which provides behavioral health services; provides crisis services for individuals ages six and older using the START program model; and behavioral services.

Housing Choice Voucher Program enables participants to better afford housing in Larimer County by subsidizing their rent with federal funds through Section 8 (HUD) housing subsidies.

Organized Health Care Delivery System is for services provided by third-party vendors that are funded through Medicaid Waivers. The third-party vendors are not approved purchase of service agencies.

Foothills Gateway, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. *Description of Services Provided (Continued)*

Supporting Services

Management and General includes those activities necessary for planning, coordination and overall direction of the organization, financial administration, general board activities and other related activities indispensable to FGI's corporate existence.

Fundraising represents FGI's costs to develop and maintain a fundraising effort that generates awareness and increases support for persons with disabilities.

3. *Basis of Accounting*

Financial statements of FGI have been prepared on the accrual basis, whereby revenue is recorded when services are performed and expenses are recognized when incurred.

4. *Use of Estimates*

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues, support and expenses during the reporting period. Actual results could differ from those estimates.

5. *Subsequent Events*

FGI has evaluated events and transactions occurring subsequent to the end of the fiscal year for potential recognition or disclosure through October 14, 2019, the date on which the financial statements were issued. FGI did not identify any events or transactions that would have a material impact on the financial statements.

6. *Cash and Cash Equivalents*

For purposes of the statement of cash flows, FGI considers cash to be cash on hand and cash on deposit, subject to immediate withdrawal, and cash equivalents to be certificates of deposit with an original maturity of three months or less. FGI maintains some of its cash balances at financial institutions located in Fort Collins, Colorado, which at times, may exceed federally insured limits. FGI has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Foothills Gateway, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

7. *Accounts Receivable*

The majority of FGI's accounts receivable are due from the State of Colorado. Accounts receivable are due according to contractual terms and are stated at the amount management expects to collect from outstanding balances. FGI believes all receivables are collectible and that no allowance for doubtful accounts is necessary. FGI writes off accounts receivable to bad debt expense after reasonable collection efforts have been made. Payments subsequently received on such receivables, if any, are recorded as other revenue.

8. *Investments*

FGI records investments in equity and debt securities at fair value in the statement of financial position as determined by quoted market prices. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

9. *Land, Building and Equipment*

Land, building and equipment are reported at cost for purchased assets with a cost of \$3,000 or more, and at estimated fair value, at date of receipt, for donated property. Depreciation is provided on the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings and improvements	10–50
Program and administrative equipment	3–10

10. *Accounting for Contributions*

All contributions are considered to be without donor restrictions unless specifically restricted by the donor. Amounts received that are designated for future periods, or are restricted by the donor for specific purposes are reported as increases in net assets with donor restrictions. Unconditional promises to give, which do not state a due date, are presumed to be time-restricted by the donor until received and are reported as net assets with donor restrictions.

Foothills Gateway, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

10. *Accounting for Contributions (Continued)*

A donor restriction expires when a stipulated time restriction ends, when an unconditional promise with an implied time restriction is collected, or when a purpose restriction is accomplished. Upon expiration, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statement of activities as net assets released from restrictions. Restricted contributions received in the same year in which the restrictions are met are recorded as increases in net assets without donor restrictions.

11. *In-Kind Contributions*

Contributions of property, materials and personal services are known as in-kind contributions and are recorded at estimated fair value at the date of receipt. The amount recorded for these contributions (other than contributions of land, building and equipment) is also included as program costs to properly reflect the total cost of the particular program.

12. *Income Taxes*

FGI is operated as a nonprofit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. FGI recognizes tax liabilities when, despite FGI's belief that its tax return positions are supportable, FGI believes that certain positions may not be fully sustained upon review by tax authorities. Benefits from tax positions are measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon settlement. FGI has concluded there is no tax liability or benefit required to be recorded as of June 30, 2019. FGI is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any tax periods. FGI believes it is no longer subject to income tax examinations for the years prior to the year ended June 30, 2016.

13. *Functional Allocation of Expenses*

The costs of supporting various programs and other 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. Certain costs have been allocated to program and management and general based on estimates of time and effort, square footage of the office and other methods.

Foothills Gateway, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

14. *Fair Value Measurements*

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. A fair value hierarchy has been established under generally accepted accounting principles, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and mutual funds that are traded in an active exchange market.

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. This category generally includes certain U.S. Government agency debt securities and corporate debt securities. FGI's Level 2 securities are primarily valued using quoted market prices for similar instruments and nonbinding market prices that are corroborated by observable market data.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of timing, amount of expected future cash flows, and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial asset. The disclosed fair values do not reflect any premium or discount that could result from offering for sale at one time an entire holding of a particular financial asset. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in amounts disclosed.

Foothills Gateway, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

15. *Prior Year Summarized Information and Reclassifications*

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with FGI's financial statements for the year ended June 30, 2018, from which the summarized information was derived. Certain financial information as of and for the year ended June 30, 2018 has been reclassified to conform with the presentation for the current year.

16. *Recent Accounting Pronouncements*

In August 2016, the FASB issued ASU No. 2016-14, *Not-for Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit organization's liquidity, financial performance and cash flows. For the year ended June 30, 2019, FGI has implemented ASU No. 2016-14 and has adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented and no adjustments were needed to the financial statements.

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in generally accepted accounting principles in the United States of America (US GAAP) when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2018. FGI has not yet selected a transition method and is currently evaluating the effect that the standard will have on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The most significant change for lessees is the requirement under the new guidance to recognize right-of-use assets and lease liabilities for all leases not considered short-term leases. Changes to the lessor

Foothills Gateway, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

16. *Recent Accounting Pronouncements (Continued)*

accounting model include: (a) synchronizing key aspects of the model with the new revenue recognition guidance, such as basing whether a lease is similar to a sale or whether control of the underlying asset has transferred to the lessee and (b) prospectively eliminating the specialized accounting for leveraged leases. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The ASU will be effective for fiscal years beginning after December 15, 2019, with early adoption permitted. FGI is in the process of evaluating the impact of this new guidance.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. The amendments in this update clarify the guidance regarding the classification of operating, investing and financing activities for certain types of cash receipts and payments. The amendments in this update are effective for the annual periods, and the interim periods within those years, beginning after December 15, 2018, and should be applied using a retrospective transition method to each period presented. Early adoption is permitted. FGI is evaluating the impact of adoption, if any, to the financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The amendments in this ASU require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The ASU will be effective for fiscal years beginning after December 15, 2018. Earlier adoption is permitted. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied. FGI is in the process of evaluating the impact of this new guidance.

In June 2018, the FASB issued ASU No. 2018-08 *Not-for Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU clarify and improve the scope and the accounting guidance for contributions received and contributions made. The ASU will be effective for all entities that have issued, or is a conduit bond obligor for, securities that are traded, listed or quoted on an exchange or an over-the-counter market services as a resource recipient, for fiscal years beginning after December 15, 2018. The ASU will be

Foothills Gateway, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

16. *Recent Accounting Pronouncements (Continued)*

effective for all entities that have not issued or is a conduit bond obligor for securities that are traded, listed or quoted on an exchange or an over-the-counter market services as a resource provider, for fiscal years beginning after December 15, 2019. FGI is in the process of evaluating the impact of this new guidance.

NOTE B – LIQUIDITY AND AVAILABILITY

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

Cash and cash equivalents	\$ 2,430,599
Investments	2,790,504
Accounts receivable	<u>3,015,610</u>
	<u>\$ 8,236,713</u>

As a part of FGI's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, FGI invests cash in excess of daily requirements in short-term investments.

NOTE C – INVESTMENTS

The following table presents FGI's investments and the fair value hierarchy for those assets measured at fair value as of June 30, 2019:

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial assets:				
Equity income securities:				
Domestic	\$ 1,609,661	\$ 1,609,661	\$ -	\$ -
International	352,068	352,068	-	-
U.S. Government agency securities	1,894,606	-	1,894,606	-
Corporate bonds	<u>1,825,971</u>	<u>-</u>	<u>1,825,971</u>	<u>-</u>
	<u>\$ 5,682,306</u>	<u>\$ 1,961,729</u>	<u>\$ 3,720,577</u>	<u>\$ -</u>

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NOTE C – INVESTMENTS (CONTINUED)

Investments are classified between current and noncurrent based on their maturity dates.

Current investments	\$ 2,790,504
Noncurrent investments	<u>2,891,802</u>
Total investments	\$ <u>5,682,306</u>

Investment return for the year ended June 30, 2019, consists of the following:

Investment income	\$ 182,278
Unrealized gain on investments	215,075
Realized loss on investments	<u>(2,142)</u>
	\$ <u>395,211</u>

NOTE D – LAND, BUILDING AND EQUIPMENT

Land, building and equipment consist of the following at June 30, 2019:

Buildings and improvements	\$ 6,198,126
Program and administrative equipment	<u>2,068,871</u>
	8,266,997
Less accumulated depreciation	<u>6,769,657</u>
	1,497,340
Land	<u>136,300</u>
	\$ <u>1,633,640</u>

Depreciation expense was \$399,880 for the year ended June 30, 2019.

NOTE E – DEFERRED REVENUE

Deferred revenue of \$1,464 at June 30, 2019 consists of unearned revenue from the U.S. Department of Housing and Urban Development.

NOTE F – NET ASSETS

From time to time, FGI's Board of Directors approves designating net assets for future use for a specific purpose. Net investment in land, building and equipment is comprised of net land, building and equipment. Net assets with donor restrictions are restricted for the following purposes as of June 30, 2019:

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NOTE F – NET ASSETS (CONTINUED)

Adult needs	\$ 11,336
FSS council	21,246
Other	<u>1,112</u>
	\$ <u>33,694</u>

NOTE G – RETIREMENT PLAN

FGI has established a defined contribution retirement plan for all employees age 21 and over who have completed one year of service. FGI contributes an amount equal to 5% of the salary of each participant totaling \$295,811 for the year ended June 30, 2019.

NOTE H – LEASES

FGI leases office space, transportation and workshop equipment as well as residential facilities under operating lease arrangements in the operation of its programs. The total rent expense for operating leases for the year ended June 30, 2019 was \$45,198.

Future minimum rental payments for these leases at June 30, 2019 are as follows:

Year ending June 30,	
2020	\$ 15,181
2021	7,610
2022	7,610
2023	996
2024	25
Thereafter	<u>25</u>
	\$ <u>31,447</u>

NOTE I – FUNCTIONALIZED EXPENSES

The financial statements report certain categories of expenses that are attributed 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 included salaries and benefits, telephone, depreciation and amortization, insurance, utilities, postage, storage and equipment lease, and miscellaneous, which are allocated on the basis of usage studies, square footage and other methods.

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NOTE J – RELATED PARTY TRANSACTIONS

FGI receives a substantial amount of revenue from the State of Colorado. The amount of receivables FGI has from the State of Colorado is \$1,827,224, at June 30, 2019. FGI has a payable at June 30, 2019 to the State of Colorado in the amount of \$13,502 which is recorded in accounts payable and accrued expenses. These transactions are considered to be transactions with a related party by virtue of the significant management influence exercised by the State of Colorado through contract provisions.