

COMMUNITY CONNECTIONS, INC.

Financial Statements

For the Year Ended June 30, 2020

And

Independent Auditors' Report

COMMUNITY CONNECTIONS, INC.

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Community Connections, Inc.

We have audited the accompanying financial statements of the Community Connections, Inc. (CCI), which comprise the statement of financial position as of June 30, 2020, 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 of 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 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 the Community Connections, Inc. as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2020 Community Connections, Inc. adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)* and ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* as of and for the year ended June 30, 2020. Our opinion is not modified with respect to these matters.

Report on Summarized Comparative Information

The financial statements of Community Connections, Inc. as of June 30, 2019 were audited by other auditors whose report dated November 27, 2019 expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Stockman Kast Ryan + Co. LLP

December 2, 2020

COMMUNITY CONNECTIONS, INC.

STATEMENT OF FINANCIAL POSITION JUNE 30, 2020 (with comparative totals for 2019)

	2020	2019
ASSETS		
Cash and cash equivalents	\$ 1,964,608	\$ 1,125,109
Fees and grants due from governmental agencies	418,909	426,917
Accounts receivable, net	8,530	16,691
Contributions receivable	37,000	46,250
Prepaid expenses and other	56,301	4,951
Investments	1,210,476	1,211,153
Property and equipment, net	<u>773,803</u>	<u>806,755</u>
TOTAL ASSETS	<u>\$ 4,469,627</u>	<u>\$ 3,637,826</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 608,525	\$ 544,447
Note payable	91,697	99,550
Conditional grants	<u>560,400</u>	<u> </u>
Total liabilities	<u>1,260,622</u>	<u>643,997</u>
NET ASSETS		
Without donor restrictions		
Undesignated	1,570,720	1,363,334
Designated by board for operating reserve	907,114	861,739
Net investment in property and equipment	<u>682,106</u>	<u>707,205</u>
Total net assets without donor restrictions	3,159,940	2,932,278
With donor restrictions	<u>49,065</u>	<u>61,551</u>
Total net assets	<u>3,209,005</u>	<u>2,993,829</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,469,627</u>	<u>\$ 3,637,826</u>

See notes to financial statements.

COMMUNITY CONNECTIONS, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2020 (with comparative totals for 2019)

	2020	2019
Net assets without donor restrictions activity:		
Support and revenue		
Fees from Medicaid services	\$ 4,166,419	\$ 4,040,477
Fees from State contract services	741,459	637,583
Other grants and revenue	<u>57,893</u>	<u>91,997</u>
Total fees and grants from governmental agencies	4,965,771	4,770,057
Public support - contributions	60,227	26,370
Residential room and board	378,638	399,964
Investment income, net	22,138	30,010
Other revenue	<u>38,297</u>	<u>147,179</u>
Total before reclassifications	5,465,071	5,373,580
Net assets released from restrictions	<u>18,537</u>	<u>29,543</u>
Total support and revenue	<u>5,483,608</u>	<u>5,403,123</u>
Expenses and losses		
Program services		
Comprehensive services (residential)	2,962,576	2,912,733
Case management	556,362	576,723
Supported living services	551,717	549,914
Other program services	<u>474,323</u>	<u>454,259</u>
Total program services	<u>4,544,978</u>	<u>4,493,629</u>
Supporting services		
Management and general	643,503	687,659
Fundraising	<u>67,465</u>	<u>40,199</u>
Total supporting services	<u>710,968</u>	<u>727,858</u>
Total expenses and losses	<u>5,255,946</u>	<u>5,221,487</u>
Change in net assets without donor restrictions	<u>227,662</u>	<u>181,636</u>

(Continued)

COMMUNITY CONNECTIONS, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2020 (with comparative totals for 2019)

	2020	2019
Net assets with donor restrictions activity:		
Public support - contributions	6,051	24,000
Net assets released from restrictions	<u>(18,537)</u>	<u>(29,543)</u>
Change in net assets with donor restrictions	<u>(12,486)</u>	<u>(5,543)</u>
Change in total net assets	215,176	176,093
Net assets, beginning of year	<u>2,993,829</u>	<u>2,817,736</u>
Net assets, end of year	<u>\$ 3,209,005</u>	<u>\$ 2,993,829</u>

(Concluded)

See notes to financial statements.

COMMUNITY CONNECTIONS, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020 (with comparative totals for 2019)**

	2020					2020			2019 Total Expenses	2019 Total Expenses
	Program Services					Supporting Services				
	Comprehensive Services (residential)	Supported Living Services	Case Management	Other	Total	Management and General	Fundraising	Total	Total Expenses	Total Expenses
Salaries, benefits and taxes	\$ 993,941	\$ 477,635	\$ 518,361	\$ 280,893	\$ 2,270,830	\$ 479,494	\$ 53,318	\$ 532,812	\$ 2,803,642	\$ 2,769,098
Professional fees	1,748,501	29,902		170,705	1,949,108	38,554	1,497	40,051	1,989,159	1,816,511
Repair and maintenance	42,480	4,809	10,008	59	57,356	38,519		38,519	95,875	101,150
Staff development and travel	29,472	23,540	5,658	12,517	71,187	14,445	221	14,666	85,853	115,337
Depreciation	35,300	1,919	7,235	3,699	48,153	17,024		17,024	65,177	63,180
Insurance	26,568	4,689	4,293	2,006	37,556	9,302	313	9,615	47,171	37,363
Supplies	13,970	1,523	2,110	4,030	21,633	4,803	8,262	13,065	34,698	25,438
Transportation and auto expense	21,640	5,026			26,666				26,666	38,289
Dues and subscriptions						16,438	478	16,916	16,916	13,621
Telephone	5,142	524	2,873	391	8,930	7,429		7,429	16,359	19,148
Utilities	10,577	461	2,565		13,603	159		159	13,762	15,940
Occupancy	12,050				12,050				12,050	38,960
Equipment lease expense	3,733	142	1,963		5,838	2,624		2,624	8,462	8,507
Interest expense	6,397				6,397				6,397	11,362
Other	12,805	1,547	1,296	23	15,671	14,712	3,376	18,088	33,759	147,583
TOTAL	\$ 2,962,576	\$ 551,717	\$ 556,362	\$ 474,323	\$ 4,544,978	\$ 643,503	\$ 67,465	\$ 710,968	\$ 5,255,946	
PERCENT OF TOTAL	56%	11%	11%	9%	87%	12%	1%	13%	100%	
COMPARATIVE TOTALS – 2019	\$ 2,912,733	\$ 549,914	\$ 576,723	\$ 454,259	\$ 4,493,629	\$ 687,659	\$ 40,199	\$ 727,858		\$ 5,221,487
PERCENT OF TOTAL – 2019	56%	10%	11%	9%	86%	13%	1%	14%		100%

See notes to financial statements.

COMMUNITY CONNECTIONS, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2020 (with comparative totals for 2019)

	2020	2019
OPERATING ACTIVITIES		
Cash received from governmental agencies and others	\$ 5,474,223	\$ 5,452,069
Cash paid to employees	(2,812,121)	(2,891,547)
Cash paid to professional providers and suppliers	(2,359,933)	(2,328,749)
Cash received from conditional grants	<u>560,400</u>	<u> </u>
Net cash provided by operating activities	<u>862,569</u>	<u>231,773</u>
INVESTING ACTIVITIES		
Purchase of property and equipment	(32,225)	(46,752)
Proceeds from sale of property and equipment		305,000
Purchases of investments	(759,771)	(901,101)
Proceeds from sale and maturities of investments	782,586	18,851
Interest received	<u>180</u>	<u>1,330</u>
Net cash used in investing activities	<u>(9,230)</u>	<u>(622,672)</u>
FINANCING ACTIVITIES		
Payments on notes payable	(7,853)	(129,737)
Interest paid	<u>(5,987)</u>	<u>(11,362)</u>
Net cash used in financing activities	<u>(13,840)</u>	<u>(141,099)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	839,499	(531,998)
CASH AND CASH EQUIVALENTS, Beginning of year	<u>1,125,109</u>	<u>1,657,107</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 1,964,608</u>	<u>\$ 1,125,109</u>

See notes to financial statements.

COMMUNITY CONNECTIONS, INC.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations — Community Connections, Inc. (CCI) 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. CCI'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 CCI 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. CCI served 54 and 56 individuals in 2020 and 2019, respectively.

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. CCI served 53 and 58 individuals in 2020 and 2019, respectively.

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. CCI served eight and six children in 2020 and 2019, respectively.

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. CCI served 146 and 144 individuals in 2020 and 2019, respectively.

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. CCI served 44 and 49 individuals in 2020 and 2019, respectively.

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. CCI served 361 and 350 individuals in 2020 and 2019, respectively.

Other Program Services

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

Basis of 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, CCI 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. CCI 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.

Comparative Financial Information — The financial statements include certain prior year summarized comparative information in total. 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 CCI's financial statements for the year ended June 30, 2019, from which the summarized information was derived.

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.

Cash and Cash Equivalents — For purposes of the statement of cash flows, CCI 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 three months or less.

Accounts Receivable and Amounts due from Governmental Agencies — The majority of CCI's receivables are due from the State of Colorado through Medicaid funding. Other accounts receivables are primarily due from individuals 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 CCI'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. At June 30, 2020 and 2019, management recorded an allowance of \$11,541 and \$27,826, respectively.

Investments — Investments are recorded at fair value. Realized and unrealized gains and losses are reflected in the statement of activities. Earnings and losses on investments are recognized as increases or decreases in net assets according to the nature of the restrictions on the original gift. Donated investments are recorded at fair market value on the date of donation.

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

Property and Equipment — Property and equipment are stated at cost at date of acquisition or estimated fair value at date of donation. CCI capitalizes property and equipment acquisitions of \$3,000 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 CCI not spent in the current year, but for which CCI has met certain control points. Under contract provisions, CCI 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 — CCI is a exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, CCI qualifies for the charitable contribution deduction. CCI believes that it does not have any uncertain tax positions that are material to the financial statements.

Change in Accounting Principle — In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most prior revenue recognition guidance, including industry-specific guidance, and requires expanded disclosures about revenue recognition. The core principles of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. During the year ended June 30, 2020, management implemented ASU 2014-09 and adjusted the presentation in these financial statements accordingly. The ASU has been applied using a modified-retrospective approach during the year ended June 30, 2020 and had no effect on the financial statements.

In June 2018, FASB issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides clarity related to determination of contributions, including conditional contributions, and exchange transactions. During the year ended June 30, 2020, management implemented ASU 2018-08 and adjusted the presentation in these financial statements accordingly. The ASU has been applied using a modified-retrospective approach during the year ended June 30, 2020 and had no effect on the financial statements.

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 — CCI has evaluated subsequent events for recognition or disclosure through the date of the Independent Auditors' Report, which is the date the financial statements were available for issuance.

2. FUNCTIONAL EXPENSES ALLOCATION METHODS

The financial statements report certain categories of expenses that are attributable to one or more program or supporting services of CCI. 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.

3. INVESTMENTS

The Foundation is required to use 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 active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that CCI has the ability to access.

Level 2: Prices determined using significant other observable inputs. Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Prices determined using significant unobservable inputs.

The investment's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no significant changes in the methodologies used at June 30, 2020 and 2019.

Mutual Funds, Money Market Fund, Preferred stock, and Exchange Traded Funds — Fair value is determined principally through quoted market prices in active markets.

Corporate Bonds, Bank Loan, and Certificates of Deposit — Price is determined by the asset custodian based on quoted prices for identical or similar assets in active markets.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
2020:				
Mutual funds:				
Domestic equity	\$ 146,196			\$ 146,196
International equity	29,025			29,025
Money market fund	17,929			17,929
Preferred stock	14,170			14,170
Exchanged traded funds	5,430			5,430
Certificates of deposit		\$ 743,179		743,179
Corporate bonds		218,292		218,292
Bank loan		36,255		36,255
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total investments in the fair value hierarchy	<u>\$ 212,750</u>	<u>\$ 997,726</u>	<u>\$ —</u>	<u>\$ 1,210,476</u>
2019:				
Mutual funds:				
Domestic equity	\$ 138,642			\$ 138,642
International equity	38,991			38,991
Money market	20,746			20,746
Exchanged traded funds	10,835			10,835
Preferred stock	9,439			9,439
Certificates of deposit		\$ 754,537		754,537
Corporate bonds		202,239		202,239
Bank loan		35,724		35,724
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total investments in the fair value hierarchy	<u>\$ 218,653</u>	<u>\$ 992,500</u>	<u>\$ —</u>	<u>\$ 1,211,153</u>

Net investment income was comprised of the following for the years ended June 30:

	2020	2019
Interest and dividends	\$ 28,810	\$ 24,545
Net realized and unrealized gains (losses)	(2,984)	8,790
Custodial fees	<u>(3,688)</u>	<u>(3,325)</u>
Investment income, net	<u>\$ 22,138</u>	<u>\$ 30,010</u>

4. FEES AND GRANTS DUE FROM GOVERNMENTAL AGENCIES

Amounts due from governmental agencies consist of the following at June 30:

	2020	2019
State of Colorado		
General Fund	\$ 115,617	\$ 137,839
Medicaid	<u>292,730</u>	<u>251,472</u>
Total	408,347	389,311
Local governments	2,086	13,694
Other	<u>8,476</u>	<u>23,912</u>
Total	<u>\$ 418,909</u>	<u>\$ 426,917</u>

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	2020	2019
Land	\$ 195,065	\$ 195,065
Buildings and improvements	1,514,314	1,482,092
Program and administrative equipment	<u>275,981</u>	<u>320,002</u>
Total	1,985,360	1,997,159
Less accumulated depreciation	<u>(1,211,557)</u>	<u>(1,190,404)</u>
Property and equipment, net	<u>\$ 773,803</u>	<u>\$ 806,755</u>

Depreciation expense was \$65,177 and \$63,180 during the years ending June 30, 2020 and 2019, respectively.

6. CONTRIBUTED USE OF LAND

In 1984, the City of Durango approved a 20-year lease for the use of land by CCI for \$1 per year. During that year CCI had a new facility built with a grant that restricted the use of the building. In 1996, the restriction was removed and CCI obtained unrestricted use of the facility. In 2004, the City of Durango renewed the land lease for another 20 years for \$1 per year. CCI 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 CCI, CCI 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 \$37,000 and \$46,250 at June 30, 2020 and 2019, respectively, including \$9,250 classified as current each year. Rent expense of \$9,250 was recognized during each of the years ended June 30, 2020 and 2019.

7. NOTE PAYABLE

Note payable consists of the following as of June 30:

	2020	2019
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 \$125,766.	\$ 91,697	\$ 99,550
Current portion	<u>8,432</u>	<u>7,962</u>
Long-term portion	<u>\$ 83,265</u>	<u>\$ 91,588</u>

Future maturities of note payable as of June 30, 2020 are as follows:

2021	\$ 8,432
2022	8,930
2023	9,457
2024	10,015
2025	10,607
Thereafter	<u>44,256</u>
Total	<u>\$ 91,697</u>

Interest expense on note payable was \$6,397 and \$11,362 for the years ended June 30, 2020 and 2019, respectively.

8. LINE OF CREDIT

CCI has a \$200,000 line of credit arrangement with Alpine Bank expiring in April 2022. The line is secured by a lien on all assets of CCI. The interest rate applied to outstanding borrowings is fixed at 6.08%. No amounts were borrowed against the line during the years ended June 30, 2020 or 2019.

9. CONDITIONAL GRANTS

CCI received a \$560,400 Paycheck Protection Program (PPP) Loan established by the CARES Act and has elected to account for the funding as a conditional contribution by applying ASC Topic 958-605, *Revenue Recognition*. Revenue is recognized when conditions are met, which include meeting FTE and salary reduction requirements and incurring eligible expenditures. PPP loans are subject to audit and acceptance by the U.S. Department of Treasury, Small Business Administration, or lender; as a result of such audit, adjustments could be required to the recognition of revenue. If conditions are met, the amount of the refundable advance will be forgiven. As of June 30, 2020 no amount has been recorded as being forgiven as conditions have not been met, including the covered period, which ended after June 30, 2020.

10. COMMITMENTS

CCI leases office space under non-cancellable operating lease through June 2021. Upon expiration, the lease will become month-to-month until a new lease or lease extension is signed. CCI also has multiple operating leases for the use of office equipment with varying expiration dates through May 2023.

As of June 30, 2020, future minimum lease payments under the leases are as follows:

2021	\$ 19,020
2022	6,747
2023	<u>4,840</u>
Total	<u>\$ 30,607</u>

Rental expense under the operating leases for the years ended June 30, 2020 and 2019 totaled \$15,627 and \$17,380, respectively.

11. BOARD DESIGNATED OPERATING RESERVES

During 2014, the Board of Directors approved the establishment of an operating reserve. Operating reserves are the portion of available net assets without donor restriction 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 \$907,114 and \$861,739 for the years ended June 30, 2020 and 2019, respectively. Operating reserves give CCI greater financial stability and flexibility to respond to potential threats in the future. The reserve represents approximately two months of operating expenses.

12. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restriction included the following at June 30:

	2020	2019
Contributed use of land	\$ 37,000	\$ 46,250
Cortez family support service grant	4,178	2,178
Green house	3,809	3,809
Other	4,078	479
Holly House repairs	<u> </u>	<u>8,835</u>
Total net assets with donor restrictions	<u>\$ 49,065</u>	<u>\$ 61,551</u>

13. SPECIAL EVENTS

During the years ended June 30, 2020 and 2019, CCI held one special event and two special events, respectively, for the purpose of fundraising. Special events revenue consisted of the following:

	2020	2019
Cash contributions	\$ 28,923	\$ 28,207
Non-cash contributions	<u>10,442</u>	<u>7,849</u>
Special event income	<u>39,365</u>	<u>36,056</u>
Direct expenses	16,852	21,378
Value of donated space and materials	<u>10,442</u>	<u>7,849</u>
Total event cost	<u>27,294</u>	<u>29,227</u>
Net special event income	<u>\$ 12,071</u>	<u>\$ 6,829</u>

14. RETIREMENT PLAN

CCI maintains a 401(k) plan for the benefit of its employees. The 401(k) plan calls for discretionary employer matching and profit sharing contributions. CCI has not made any contributions for the past ten years.

15. 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. CCI received a substantial portion of its revenue from the State of Colorado as identified in the statement of activities. The amount due to CCI from the State of Colorado is described in Note 4. CCI 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, 2020 and 2019 were \$123,530 and \$97,624, respectively.

16. RISKS AND CONCENTRATIONS

CCI invests in investment securities which 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 change in the values of investments will occur in the near term and that such changes could materially affect the recorded amount of investments in CCI's financial statements.

CCI had receivables from Medicaid and the State of Colorado of approximately 97% and 94%, respectively, of total accounts receivable at June 30, 2020 and 2019. During the years ended June 30, 2020 and 2019, CCI received grants and reimbursements from Medicaid and the State of Colorado of approximately 89% and 87%, respectively, of total revenues.

17. LIQUIDITY AND AVAILABILITY

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

	2020	2019
Cash and cash equivalents	\$ 1,964,608	\$ 1,125,109
Fees and grants due from governmental agencies	418,909	426,917
Accounts receivable, net	8,530	16,691
Contribution receivable	37,000	46,250
Investments	<u>1,210,476</u>	<u>1,211,153</u>
Total financial assets	<u>3,639,523</u>	<u>2,826,120</u>
Less amounts unavailable for general expenditures within one year, due to:		
Cash restricted for use by client	22,518	51,873
Restricted by donors with purpose restrictions	12,065	15,301
Restricted by donors with time restrictions	37,000	46,250
Board designated for operating reserve	<u>907,114</u>	<u>861,739</u>
Total amounts unavailable for general expenditures within one year	<u>978,697</u>	<u>975,163</u>
Total financial assets available to management to meet cash needs for general expenditures within one year	<u>\$ 2,660,826</u>	<u>\$ 1,850,957</u>

CCI has a goal to maintain financial assets on hand to meet 60 days of normal operating expense. CCI 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, CCI invests cash in excess of daily requirements in various short-term investments, including certificates of deposit. As described in Note 8, CCI has a line of credit in the amount of \$200,000, which it could draw upon in the event of an unanticipated liquidity need.

18. UNCERTAINTIES

On January 30, 2020, the World Health Organization (WHO) announced a global health emergency because of a new strain of coronavirus (the COVID-19 outbreak) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

CCI's operations are heavily dependent on funding from the state and federal government. Access to grants and contracts from federal, state and local governments may decrease or may not be available depending on appropriations. The outbreak may have a continued material adverse impact on economic and market conditions, triggering a period of global or national economic slowdown. As such, this may hinder our ability to advance our mission. As such, our financial condition and liquidity may be negatively impacted for the fiscal year 2020.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on CCI's financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global response to curb its spread, CCI is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition or liquidity for fiscal year 2021.

December 2, 2020

Janice Moen, Board Treasurer
Shannon Kreuser, Chief Financial Officer
Community Connections, Inc.

Dear Ms. Moen and Ms. Kreuser:

Enclosed is one copy of each of the following:

- The Financial Statements and Independent Auditors' Report for Community Connections, Inc. for the Year Ended June 30, 2020
- Letter to Those Charged with Governance

Should you have any questions, please call.

Sincerely,

STOCKMAN KAST RYAN + CO, LLP



Steven R. Hochstetter
Audit Partner

Enclosures