



# CENTER FOR HEAD INJURY SERVICES

Financial Statements and Independent Auditors' Report

YEARS ENDED JUNE 30, 2019 AND 2018



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## **Independent Auditors' Report**

Board of Directors  
Center for Head Injury Services  
St. Louis, Missouri

We have audited the accompanying financial statements of the Center for Head Injury Services (the "Organization") (a not-for-profit organization), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, and 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.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 auditors' 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 Center for Head Injury Services 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.

*Anders Minkler Huber & Helms LLP*

December 11, 2019

**Center for Head Injury Services**  
**Statements of Financial Position**  
**June 30, 2019 and 2018**

**Assets**

	<u>2019</u>	<u>2018</u>
Current Assets		
Cash and cash equivalents	\$ 283,213	\$ 179,882
Accounts receivable, net	516,557	456,188
Prepaid expenses	<u>64,733</u>	<u>7,807</u>
Total Current Assets	864,503	643,877
Property and Equipment, net	<u>3,252,169</u>	<u>3,276,107</u>
Total Assets	<u><u>\$ 4,116,672</u></u>	<u><u>\$ 3,919,984</u></u>

**Liabilities and Net Assets**

Current Liabilities		
Current maturities of long-term debt	\$ 73,911	\$ 70,542
Accounts payable	133,797	112,184
Accrued expenses	<u>49,783</u>	<u>35,839</u>
Total Current Liabilities	257,491	218,565
Long-term Debt	<u>2,590,723</u>	<u>2,662,858</u>
Total Liabilities	<u>2,848,214</u>	<u>2,881,423</u>
Net Assets		
Without donor restrictions	1,128,038	1,020,730
With donor restrictions	<u>140,420</u>	<u>17,831</u>
Total Net Assets	<u>1,268,458</u>	<u>1,038,561</u>
Total Liabilities and Net Assets	<u><u>\$ 4,116,672</u></u>	<u><u>\$ 3,919,984</u></u>

**Center for Head Injury Services**  
**Statement of Activities**  
**Year Ended June 30, 2019**

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support			
Contributions	\$ 16,322	\$ -	\$ 16,322
Grants	239,066	140,420	379,486
Program fees	3,408,820	-	3,408,820
Other	<u>180,768</u>	<u>-</u>	<u>180,768</u>
Gross special events revenue	77,637	-	77,637
Less cost of direct benefits to donors	<u>22,295</u>	<u>-</u>	<u>22,295</u>
Net special events revenue	55,342	-	55,342
Net assets released from restrictions:			
Satisfaction of time and usage restrictions	<u>17,831</u>	<u>(17,831)</u>	<u>-</u>
Total Revenues, Gains and Other Support	<u>3,918,149</u>	<u>122,589</u>	<u>4,040,738</u>
Expenses			
Program Services			
Adult day program	437,434	-	437,434
Employment/ vocational	1,286,889	-	1,286,889
Community placement	327,641	-	327,641
Medical	394,790	-	394,790
Midwest Adult Autism Project	265,427	-	265,427
Social enterprises	<u>452,924</u>	<u>-</u>	<u>452,924</u>
Total Program Services	<u>3,165,105</u>	<u>-</u>	<u>3,165,105</u>
Supporting Activities			
Management and general	494,766	-	494,766
Fundraising	<u>150,970</u>	<u>-</u>	<u>150,970</u>
Total Supporting Activities	<u>645,736</u>	<u>-</u>	<u>645,736</u>
Total Expenses	<u>3,810,841</u>	<u>-</u>	<u>3,810,841</u>
Change in Net Assets	107,308	122,589	229,897
Net Assets, Beginning of Year	<u>1,020,730</u>	<u>17,831</u>	<u>1,038,561</u>
Net Assets, End of Year	<u>\$ 1,128,038</u>	<u>\$ 140,420</u>	<u>\$ 1,268,458</u>

**Center for Head Injury Services**  
**Statement of Activities**  
**Year Ended June 30, 2018**

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support			
Contributions	\$ 36,381	\$ -	\$ 36,381
Grants	364,434	17,831	382,265
Program fees	3,003,058	-	3,003,058
Other	207,269	-	207,269
 Gross special events revenue	 105,020	 -	 105,020
Less cost of direct benefits to donors	25,058	-	25,058
Net special events revenue	79,962	-	79,962
 Net assets released from restrictions:			
Satisfaction of time and usage restrictions	212,280	(212,280)	-
Total Revenues, Gains and Other Support	<u>3,903,384</u>	<u>(194,449)</u>	<u>3,708,935</u>
 Expenses			
Program Services			
Adult day program	272,838	-	272,838
Employment/vocational	1,170,110	-	1,170,110
Community placement	316,959	-	316,959
Medical	334,272	-	334,272
Midwest Adult Autism Project	346,574	-	346,574
Social enterprises	443,835	-	443,835
Total Program Services	<u>2,884,588</u>	<u>-</u>	<u>2,884,588</u>
 Supporting Activities			
Management and general	524,882	-	524,882
Fundraising	153,855	-	153,855
Total Supporting Activities	<u>678,737</u>	<u>-</u>	<u>678,737</u>
Total Expenses	<u>3,563,325</u>	<u>-</u>	<u>3,563,325</u>
 Change in Net Assets	340,059	(194,449)	145,610
 Net Assets, Beginning of Year	<u>680,671</u>	<u>212,280</u>	<u>892,951</u>
 Net Assets, End of Year	<u>\$ 1,020,730</u>	<u>\$ 17,831</u>	<u>\$ 1,038,561</u>

**Center for Head Injury Services  
Statement of Functional Expenses  
Year Ended June 30, 2019**

	Program Services							Supporting Activities		Total Expenses
	Adult Day Program	Employment/Vocational	Community Placement	Medical	Midwest Adult Autism Project	Social Enterprises	Total	Management and General	Fundraising	
Salaries and wages	\$ 219,731	\$ 972,677	\$ 226,599	\$ 255,559	\$ 202,828	\$ 207,080	\$ 2,084,474	\$ 287,564	\$ 105,749	\$ 2,477,787
Payroll taxes	15,322	71,712	15,443	18,117	14,144	14,389	149,127	20,794	7,560	177,481
Employee benefits	39,326	130,768	54,540	25,489	36,301	32,548	318,972	41,503	18,367	378,842
Client assistance	2,566	733	883	155	48	-	4,385	-	-	4,385
Dues and subscriptions	587	270	13	56	-	895	1,821	4,404	3,592	9,817
Equipment	3,643	1,953	341	1,537	-	1,854	9,328	4,396	429	14,153
Insurance	5,044	4,086	657	3,511	-	6,673	19,971	7,445	681	28,097
Interest expense	30,901	15,489	2,943	13,037	-	10,403	72,773	28,373	2,711	103,857
Licenses	4,513	2,584	440	1,832	-	3,858	13,227	7,551	1,034	21,812
Maintenance	16,442	8,080	1,501	6,703	2,454	23,807	58,987	22,588	1,341	82,916
Miscellaneous	9,758	3,016	-	2,051	10	199	15,034	-	127	15,161
Occupancy	-	650	(10)	7,800	-	-	8,440	-	-	8,440
Postage	421	211	40	177	-	1,205	2,054	643	849	3,546
Printing	-	436	32	100	-	845	1,413	351	1,068	2,832
Professional fees	7,347	4,343	728	3,056	-	3,963	19,437	18,145	1,484	39,066
Seminars	923	558	-	-	-	-	1,481	1,945	25	3,451
Subcontractors	32,046	8,239	1,297	36,662	3,000	23,836	105,080	15,392	1,170	121,642
Supplies	5,155	2,689	297	2,281	806	73,904	85,132	7,354	987	93,473
Telephone	3,712	4,870	1,682	1,548	4	1,270	13,086	3,368	310	16,764
Training	677	1,262	147	172	3,443	107	5,808	910	356	7,074
Travel	1,551	32,980	16,621	677	683	6,712	59,224	1,268	164	60,656
Utilities	10,859	9,532	1,624	6,133	1,706	13,392	43,246	3,066	1,339	47,651
Total Expense Before Depreciation	410,524	1,277,138	325,818	386,653	265,427	426,940	3,092,500	477,060	149,343	3,718,903
Depreciation	26,910	9,751	1,823	8,137	-	25,984	72,605	17,706	1,627	91,938
Total Expenses	<u>\$ 437,434</u>	<u>\$ 1,286,889</u>	<u>\$ 327,641</u>	<u>\$ 394,790</u>	<u>\$ 265,427</u>	<u>\$ 452,924</u>	<u>\$ 3,165,105</u>	<u>\$ 494,766</u>	<u>\$ 150,970</u>	<u>\$ 3,810,841</u>



**Center for Head Injury Services  
Statement of Functional Expenses  
Year Ended June 30, 2018**

	Program Services							Supporting Activities		Total Expenses
	Adult Day Program	Employment/Vocational	Community Placement	Medical	Midwest Adult Autism Project	Social Enterprise	Total	Management and General	Fundraising	
Salaries and wages	\$ 154,032	\$ 892,381	\$ 226,842	\$ 203,683	\$ 232,309	\$ 201,707	\$ 1,910,954	\$ 291,050	\$ 109,435	\$ 2,311,439
Payroll taxes	11,893	69,463	16,299	15,891	18,168	14,500	146,214	21,485	7,964	175,663
Employee benefits	20,196	82,567	39,037	22,202	20,173	22,682	206,857	27,579	14,857	249,293
Advertising	-	-	-	-	-	-	-	-	2,010	2,010
Client assistance	(2,769)	540	-	29,097	-	-	26,868	-	-	26,868
Dues and subscriptions	729	214	974	-	(2)	174	2,089	17,614	4,720	24,423
Equipment	218	2,297	975	215	1,156	4,306	9,167	13,279	112	22,558
Insurance	7,890	9,774	1,649	6,418	9,656	5,947	41,334	16,074	1,472	58,880
Interest expense	13,774	17,063	2,878	11,204	16,858	10,382	72,159	28,062	2,570	102,791
Licenses	92	-	-	6	-	4,156	4,254	121	-	4,375
Maintenance	11,022	11,610	1,958	7,624	11,470	13,802	57,486	19,094	1,749	78,329
Miscellaneous	-	6,279	350	-	-	-	6,629	2,187	-	8,816
Occupancy	-	710	-	8,400	-	-	9,110	-	-	9,110
Postage	-	-	-	-	-	822	822	1,747	77	2,646
Printing	32	433	216	-	-	-	681	2,854	1,037	4,572
Professional fees	2,718	3,353	566	2,202	3,322	3,608	15,769	31,735	2,046	49,550
Seminars	719	116	-	-	395	900	2,130	690	240	3,060
Subcontractors	20,830	7,484	1,617	9,681	7,213	22,194	69,019	12,893	1,099	83,011
Supplies	2,683	3,981	327	3,291	1,352	93,730	105,364	16,031	1,683	123,078
Telephone	968	9,081	2,552	955	2,343	2,405	18,304	1,159	496	19,959
Training	-	503	107	-	358	297	1,265	2,347	26	3,638
Travel	2,247	36,109	14,722	1,763	790	8,368	63,999	3,217	86	67,302
Utilities	5,810	7,198	4,727	1,213	7,111	4,379	30,438	11,838	1,084	43,360
Total Expense Before Depreciation	253,084	1,161,156	315,796	323,845	332,672	414,359	2,800,912	521,056	152,763	3,474,731
Depreciation	19,754	8,954	1,163	10,427	13,902	29,476	83,676	3,826	1,092	88,594
Total Expenses	<u>\$ 272,838</u>	<u>\$ 1,170,110</u>	<u>\$ 316,959</u>	<u>\$ 334,272</u>	<u>\$ 346,574</u>	<u>\$ 443,835</u>	<u>\$ 2,884,588</u>	<u>\$ 524,882</u>	<u>\$ 153,855</u>	<u>\$ 3,563,325</u>

**Center for Head Injury Services**  
**Statements of Cash Flows**  
**Years Ended June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Cash Flows From Operating Activities		
Change in net assets	\$ 229,897	\$ 145,610
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	91,938	88,594
Loss on disposal of equipment	-	26,550
(Increase) decrease in assets:		
Accounts receivable, net	(60,369)	192,942
Prepaid expenses	(56,926)	4,970
Increase (decrease) in liabilities:		
Accounts payable	11,613	(214,361)
Accrued expenses	<u>23,944</u>	<u>(35,151)</u>
Net Cash Provided by Operating Activities	<u>240,097</u>	<u>209,154</u>
Cash Flows From Investing Activities		
Purchases of property and equipment	<u>(68,000)</u>	<u>(647,494)</u>
Net Cash Used In Investing Activities	<u>(68,000)</u>	<u>(647,494)</u>
Cash Flows From Financing Activities		
Proceeds from long-term debt	-	386,103
Payments on long-term debt	<u>(68,766)</u>	<u>(43,006)</u>
Net Cash Provided By (Used In) Financing Activities	<u>(68,766)</u>	<u>343,097</u>
Net Increase (Decrease) in Cash and Cash Equivalents	103,331	(95,243)
Cash and Cash Equivalents, Beginning of Year	<u>179,882</u>	<u>275,125</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 283,213</u></u>	<u><u>\$ 179,882</u></u>
Supplemental Disclosures of Cash Flow Information		
Cash paid for		
Interest	<u><u>\$ 103,857</u></u>	<u><u>\$ 102,791</u></u>

**Center for Head Injury Services**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

**1. Nature of Operations and Basis of Presentation**

**Organization**

Center for Head Injury Services (the "Organization") was established in 1986 and incorporated in 1990 as a not-for-profit organization whose mission is to help people with brain injuries, autism and other disabilities reach their maximum potential by developing skills, creating opportunities and shaping brighter futures. The Organization's principal activities consist of low-cost programs to provide cognitive enrichment; training to improve social, recreational and leisure skills; training in adaptive physical fitness; experience in activities of daily living; family respite; and assistance to the clients to maximize prevocational potential and aid in eventual assimilation into the community. The Organization's clients are drawn from St. Louis City and the surrounding counties in Missouri and Illinois.

The Organization offers the following programs:

**Adult Day Program**

The Organization's day programs are tailored to the health and rehabilitation needs of the participants. This is accomplished with a variety of services and supervised activities. Individualized program goals are established to build skills for independence that enable the participants to continue to live and participate in their community.

The services provided in the adult day program for persons with brain injuries or other cognitive impairments include, but are not limited to: health services and medication management as needed, cognitive and physical restorative rehabilitation therapies, training and assistance with activities of daily living and work related skills, therapeutic recreational activities and physical training, and behavioral programming and social skills training. This is accomplished through individualized goal setting and progress monitoring.

**Employment/Vocational Services**

This program gives people who have sustained a brain injury or other neurological impairment the opportunity to evaluate and build their work potential. Our vocational and employment professionals are guided by licensed medical therapists and licensed counselors. They provide work-oriented neuro-rehabilitation activities such as physical and cognitive assessments, assessing work capabilities, treatment to improve physical and mental stamina, neuropsychological evaluations, independent living assessments, compensatory strategy training, accommodation and technology training, social skills training, disability adjustment counseling and behavior therapies. After the person meets their rehabilitation goals, employment specialists continue training as needed in other areas to develop a successful work personality by building work skills in the areas of orientation to work rules and expectations. Employment specialists also provide assistance to improve job seeking and interviewing skills and to obtain employment. Once employed, the Organization provides continuing employment support as needed to assist the individual in maintaining employment.

**Center for Head Injury Services  
Notes to Financial Statements  
June 30, 2019 and 2018**

**Medical Services**

This program includes physical, occupational, speech therapies and counseling services specifically designed to meet participants' individual needs. Neuropsychological evaluations are also available.

Specialized occupational therapy is provided in the home to provide adaptive equipment, devices, and home/vehicle modifications designed to address independence, health/safety in the home and accessibility in the community.

**Midwest Adult Autism Project (MAAP)**

Included in the Organization's day services is the Midwest Adult Autism Project. This program provides integrated therapies designed specifically for persons with severe autism in a structured day program setting. The program serves patients with severe autism who are not eligible to participate in school system provided programs due to age. This program provides continuing speech/communication, sensory, occupational and applied behavioral analysis therapy to improve the young adults' ability to function in their home and community as an alternative to institutional placement.

**Basis of Presentation**

The accompanying financial statements have been prepared in accordance with the provisions of the Financial Accounting Standards Board ("FASB"), Accounting Standards Codification (the "FASB ASC"), which is the source of authoritative, non-governmental accounting principles generally accepted in the United States of America ("GAAP"). All references to authoritative accounting guidance contained in our disclosures are based on the general accounting topics within the FASB ASC.

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified into two categories of net assets, as applicable, and reported as follows:

Net assets without donor restrictions - Net assets that are not subject to donor-imposed stipulations.

Net assets with donor restrictions - Net assets subject to donor-imposed stipulations that may be satisfied by specific activities or the passage of time, or are required to be maintained in perpetuity by the Organization. The income earned on any related investments may be subject to donor-imposed stipulations.

**2. Summary of Significant Accounting Policies**

**Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Center for Head Injury Services**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

**Fair Value Measurements**

The Organization follows guidance issued by the FASB on fair value measurements, which establishes a framework for measuring fair value, clarifies the definition of fair value within that framework, and expands disclosures about the use of fair value measurements. This guidance applies whenever fair value is the applicable measurement. The three general valuation techniques used to measure fair value are the market approach, cost approach, and income approach.

Carrying amounts of certain financial instruments such as cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, and long-term debt approximate fair value due to their short maturities or because the terms are similar to market terms. There have been no changes in the methodologies used at June 30, 2019 and 2018.

**Cash and Cash Equivalents**

The Organization considers all short-term investments with an original maturity of three months or less at the time of purchase to be cash and cash equivalents.

**Accounts Receivable**

Accounts receivable are uncollateralized obligations from supporting governmental agencies due under normal trade terms generally requiring payment within 30 days of the invoice date.

The Organization provides an allowance for doubtful accounts equal to the estimated losses that will be incurred in the collection of accounts receivable. This estimate is based on historical experience coupled with a review of the current status of existing receivables. The allowance and associated accounts receivable are reduced when the receivables are determined to be uncollectible. The allowance for doubtful accounts totaled \$6,000 as of June 30, 2019 and 2018.

**Property and Equipment**

Property and equipment acquisitions with a life of three years or greater and a cost in excess of \$1,000 are capitalized and recorded at cost, while maintenance and repairs are expensed as incurred. Donated assets are recorded at fair value at the date of donation. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose or period of time. When assets are sold or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts. Any gain or loss arising from such disposition is included as income or expense in the year of disposition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

**Center for Head Injury Services**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

The estimated lives for computing depreciation on property and equipment are:

<u>Classification</u>	<u>Years</u>
Buildings	40
Furniture and fixtures	5-7
Machinery and equipment	5-7
Vehicles	5

**Long-Lived Asset Impairment**

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended June 30, 2019 and 2018.

**Support and Revenue**

Contributions are recorded as received and unconditional promises to give are recorded as the promise is made. All contributions are available for use unless specifically restricted by the donor. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Contributions with donor restrictions in which the restrictions are met within the same year as received are reported as contributions without donor restrictions in the accompanying financial statements.

Government contracts are generally recognized as income in the period that specific services are provided.

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. It is the Organization's policy to imply a time restriction, based on the assets' estimated useful lives, on donations of property and equipment that are not restricted as to their use by the donor. Accordingly, those donations are recorded as support increasing temporarily restricted net assets. The Organization reclassifies temporarily restricted net assets to unrestricted net assets each year in the amount of the donated property and equipment's depreciation expense.

**Center for Head Injury Services  
Notes to Financial Statements  
June 30, 2019 and 2018**

**Functional Expense Allocation**

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

**Income Taxes**

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code"), except on net income derived from unrelated business activities as defined in the Code. Accordingly, the Organization files as a tax exempt organization.

The Organization follows guidance issued by the FASB on accounting for income taxes and has evaluated its tax positions, expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings, and believes that no provision for income taxes is necessary to cover any uncertain tax positions. The Organization's returns for tax years 2015 and later remain subject to examination by taxing authorities.

**Reclassifications**

Certain amounts in the 2018 financial statements have been reclassified to conform to the current year presentation.

**Subsequent Events**

The Organization has evaluated subsequent events through December 11, 2019, the date the financial statements were available to be issued.

**Center for Head Injury Services  
Notes to Financial Statements  
June 30, 2019 and 2018**

**Recent Accounting Pronouncements**

**Revenue from Contracts with Customers**

The FASB has issued new guidance on the recognition of revenue from contracts with customers. This guidance requires an entity to recognize 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. To achieve this, an entity should apply a five step process to (1) identify the contract(s) with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. The guidance also requires an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The guidance will be required for the first fiscal year beginning after December 15, 2018. Based on a preliminary analysis, the Organization does not expect the new guidance to have a significant impact on its financial statements.

**Leases**

The FASB has issued new guidance on the recognition of lease assets and lease liabilities by lessees for those leases previously classified as operating leases. The guidance requires a lessee to recognize in the statement of financial position a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. When measuring assets and liabilities arising from a lease, a lessee (and a lessor) should include payments to be made in optional periods only if the lessee is reasonably certain to exercise an option to extend the lease or not to exercise an option to terminate the lease. Similarly, optional payments to purchase the underlying asset should be included in the measurement of lease assets and lease liabilities only if the lessee is reasonably certain to exercise that purchase option. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous GAAP. There continues to be a differentiation between finance leases and operating leases. However, the principal difference from previous guidance is that the lease assets and lease liabilities arising from operating leases should be recognized in the statement of financial position. The guidance will be required for the first fiscal year beginning after December 15, 2020. Based on a preliminary analysis, the Organization does not expect the new guidance to have a significant impact on its financial statements.



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**3. Change in Accounting Principle**

On August 18, 2016 the FASB issued Accounting Standards Update ("ASU") 2016-14, Not-for-Profit Entities (Topic 958) - *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of financial assets, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented, except for disclosures related to liquidity and availability of financial assets.

**4. Property and Equipment**

Property and equipment at June 30, is as follows:

	<u>2019</u>	<u>2018</u>
Land	\$ 162,913	\$ 162,913
Buildings	2,556,771	2,584,640
Construction in progress	553,604	519,769
Furniture and fixtures	43,647	33,539
Machinery and equipment	83,547	45,120
Vehicles	<u>159,617</u>	<u>146,118</u>
	3,560,099	3,492,099
Less accumulated depreciation	<u>307,930</u>	<u>215,992</u>
	<u><u>\$ 3,252,169</u></u>	<u><u>\$ 3,276,107</u></u>

Depreciation expense for the years ended June 30, 2019 and 2018 totaled \$91,938 and \$88,594, respectively.

**5. Line of Credit**

The Organization has a line of credit agreement (the "Agreement") of \$150,000, scheduled to expire in September 2019. The agreement was subsequently extended to expire in September 2020. Borrowings are charged interest at the prime rate (5.50 percent at June 30, 2019), but no less than 4.75 percent per annum, and are secured by the Organization's assets. There were no borrowings outstanding under the line of credit at June 30, 2019 and 2018.

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**6. Long-term Debt**

Long-term debt at June 30, is as follows:

	<u>2019</u>	<u>2018</u>
Note payable, secured by real property on Lackland Road, interest of 4.675 percent, monthly payments of \$14,335, including interest, maturing in March 2022.	\$ 2,134,634	\$ 2,203,400
Mortgage payable, secured by deed of trust, payable when the Organization sells, trades or disposes of the Morganford property.	<u>530,000</u>	<u>530,000</u>
	2,664,634	2,733,400
Less current maturities	<u>73,911</u>	<u>70,542</u>
	<u><u>\$ 2,590,723</u></u>	<u><u>\$ 2,662,858</u></u>

Maturities of long-term debt as of June 30, 2019 are as follows:

<u>June 30,</u>	
2020	\$ 73,911
2021	77,441
2022	1,983,282
Thereafter	<u>530,000</u>
	<u><u>\$ 2,664,634</u></u>

**7. Net Assets With Donor Restrictions**

Net assets with donor restrictions at June 30, are restricted for the following purposes or periods:

	<u>2019</u>	<u>2018</u>
Time and usage restrictions	<u>\$ 140,420</u>	<u>\$ 17,831</u>

Assets released from restrictions for the years ended June 30, are as follows:

	<u>2019</u>	<u>2018</u>
Released from restrictions of purpose	<u>\$ 17,831</u>	<u>\$ 212,280</u>

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**8. Liquidity and Availability of Financial Assets**

The following reflects the Organization's financial assets as of June 30, 2019, reduced by amounts not available for general use within one year because of contractual or donor-imposed restrictions:

Cash and cash equivalents	\$ 283,213
Accounts receivable	516,557
Assets with donor restrictions	<u>(140,420)</u>
Financial Assets Available to Meet Cash Needs for Expenditures Within One Year	<u><u>\$ 659,350</u></u>

The Organization's primary sources of support are grants and program fees. Some support is required to be used in accordance with the purpose restrictions imposed by the donors. As part of a liquidity management plan, the Organization invests cash in excess of daily requirements in money market funds. To further manage liquidity the Organization maintains a line-of-credit with a bank that is drawn upon as needed during the year to manage cash flow. See Note 5 for further description of this line.

**9. Retirement Plan**

The Organization maintains a contributory retirement savings plan under Section 401(k) of the IRS covering substantially all employees who meet certain eligibility requirements. There were no employer contributions to the plan for the years ended June 30, 2019 and 2018.

**10. Risks and Uncertainties**

**Concentrations**

Program services from three sources were approximately 66 and 62 percent of the Organization's revenues during the years ended June 30, 2019 and 2018, respectively. Accounts receivable from four supporting governmental agencies were approximately 71 and 74 percent of the Organization's accounts receivable at June 30, 2019 and 2018, respectively.

**Concentration of Credit Risk**

Financial instruments, which potentially subject the Organization to concentrations of credit risk, consist principally of cash and cash equivalents and accounts receivable. The Organization maintains its cash primarily with one financial institution. Deposits at this bank are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. At June 30, 2019, there were cash balances of \$72,955 in excess of federally insured limits at the bank. The Organization performs ongoing credit evaluations of the supporting government agencies with whom they do business and donors and maintains allowances, as needed, for potential credit losses. Although the Organization is directly affected by the financial stability of these supporting governmental agencies, management does not believe significant credit risk exists at June 30, 2019.

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**11. Commitments and Contingencies**

**Leases**

The Organization leases office equipment under noncancellable operating leases. Future minimum lease payments at June 30, 2019, are as follows:

Years Ending June 30,	
2020	\$ 8,220
2021	8,220
2022	8,220
2023	4,795
	<u>\$ 29,455</u>

Rent expense related to operating leases for the year ended June 30, 2019 and 2018 totaled \$8,440 and \$9,110. There was no rent expense related to operating leases for the year ended June 30, 2018.