

CAPABILITY HEALTH & HUMAN SERVICES
FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

The logo for Capability Health & Human Services (HRC) is located in the bottom right corner. It consists of the letters "HRC" in a white, sans-serif font, centered within a dark blue square. The square has a white border and is set against a background of green curved shapes that frame the page.

HRC

CAPABILITY HEALTH & HUMAN SERVICES

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Capability Health & Human Services
Las Vegas, Nevada

We have audited the accompanying financial statements of Capability Health & Human Services (a nonprofit organization), which comprise the statement of financial position as of December 31, 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 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 Capability Health & Human Services as of December 31, 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 Capability Health & Human Services' (then known as Easter Seals Nevada) 2018 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated May 20, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Houldsworth, Russo & Company, P.C.

Las Vegas, Nevada
June 11, 2020

CAPABILITY HEALTH & HUMAN SERVICES

**STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018**

	2019	2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,327,565	\$ 63,889
Cash and cash equivalents, restricted	-	125,725
Certificate of deposit	313,141	310,040
Accounts receivable, net of allowance	664,941	849,480
Grants receivable	42,000	82,402
Prepaid expenses	208,412	66,898
	<u>2,556,059</u>	<u>1,498,434</u>
Property and equipment, net	<u>351,194</u>	<u>484,677</u>
Other noncurrent assets:		
Deposits	21,958	21,958
Gift annuities	-	69,200
	<u>21,958</u>	<u>91,158</u>
	<u>\$ 2,929,211</u>	<u>\$ 2,074,269</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 122,121	\$ 148,550
Accrued expenses	429,958	501,281
Refundable advances	273,216	367,051
Capital lease obligation	30,173	28,978
Line of credit	475,000	250,000
	<u>1,330,468</u>	<u>1,295,860</u>
Long-term liabilities:		
Capital lease obligation	-	32,861
	<u>1,330,468</u>	<u>1,328,721</u>
Net assets:		
Without donor restrictions	1,598,743	550,623
With donor restrictions	-	194,925
	<u>1,598,743</u>	<u>745,548</u>
Total net assets	<u>\$ 2,929,211</u>	<u>\$ 2,074,269</u>

See accompanying notes to financial statements

CAPABILITY HEALTH & HUMAN SERVICES

**STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019	2018
Changes in net assets without donor restrictions		
Revenues, gains and support:		
Grants	\$ 1,407,765	\$ 1,453,796
Contributions	519,698	210,336
In-kind contributions	45,428	40,702
Special events revenue, net of \$42,365 and \$43,590 of direct expenses, respectively	33,273	18,011
Community worksites	184,816	348,645
Fees for service	9,231,751	9,979,284
Assistive technology equipment sales	-	2,290
Investment return, net	3,100	928
Other income	62,213	26,271
Net assets released from restrictions	194,925	62,007
	<u>11,682,969</u>	<u>12,142,270</u>
Expenses:		
Program services:		
Early Intervention	3,175,150	3,590,178
Children's Therapy Clinics	394,385	1,069,203
Adult Enrichment Services	2,146,155	2,606,440
Capability and Career Exploration Center	1,406,283	1,894,720
Capability Enhancement for Independent Living	1,451,752	1,533,129
Toys 4 Smiles	-	68,931
Support services:		
Management and general	1,639,724	1,656,378
Fundraising	289,299	257,954
	<u>10,502,748</u>	<u>12,676,933</u>
Bad debt expense	84,842	180,500
Unallocated payments to affiliates	47,259	50,436
	<u>10,634,849</u>	<u>12,907,869</u>
Increase (decrease) in net assets without donor restrictions	<u>1,048,120</u>	<u>(765,599)</u>

See accompanying notes to financial statements

CAPABILITY HEALTH & HUMAN SERVICES

STATEMENTS OF ACTIVITIES (CONTINUED)

YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Changes in net assets with donor restrictions		
Contributions	-	125,725
Investment return, net	-	16,120
Net assets released from restrictions	<u>(194,925)</u>	<u>(62,007)</u>
Increase (decrease) in net assets with donor restrictions	(194,925)	79,838
INCREASE (DECREASE) IN NET ASSETS	853,195	(685,761)
Net assets, beginning of year	<u>745,548</u>	<u>1,431,309</u>
Net assets, end of year	<u>\$ 1,598,743</u>	<u>\$ 745,548</u>

See accompanying notes to financial statements

CAPABILITY HEALTH & HUMAN SERVICES

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2019

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2018)

	Program Services			
	Early Intervention	Children's Therapy Clinics	Adult Enrichment Services	Capability and Career Exploration Center
Salaries and related	\$ 1,722,451	\$ 162,086	\$ 1,730,647	\$ 1,108,691
Professional fees and contracts	1,210,178	130,469	40,848	14,412
Supplies	1,485	952	19,508	7,539
Telecommunications	51,993	12,469	26,809	15,987
Postage and handling	1,287	326	1,155	763
Occupancy	39,184	70,457	205,191	132,495
Equipment, rent and maintenance	26,305	1,711	13,329	6,275
Printing, publications and media	2,083	2	445	396
Travel and transportation	60,888	157	8,273	17,300
Conference and meetings	-	-	582	355
Dues and memberships	1,287	171	1,454	597
Specific assistance	5,775	1,632	833	59,097
Insurance	28,950	2,361	27,904	12,776
Interest	-	-	-	-
Staff training and development	838	93	4,688	2,275
Miscellaneous	751	183	114	3,489
Depreciation and amortization	21,695	11,316	64,375	23,836
Total expenses	\$ 3,175,150	\$ 394,385	\$ 2,146,155	\$ 1,406,283

See accompanying notes to financial statements

CAPABILITY HEALTH & HUMAN SERVICES

STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)

YEAR ENDED DECEMBER 31, 2019

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2018)

	<u>Program Services</u>			
	<u>Capability Enhancement for Independent Living</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>
Salaries and related	\$ 339,559	\$ 5,063,434	\$ 1,136,223	\$ 237,121
Professional fees and contracts	4,696	1,400,603	129,723	13,086
Supplies	8,478	37,962	34,900	7,617
Telecommunications	7,156	114,414	14,690	11,344
Postage and handling	1,253	4,784	819	158
Occupancy	25,882	473,209	150,433	6,003
Equipment, rent and maintenance	713	48,333	11,624	1,821
Printing, publications and media	296	3,222	1,012	656
Travel and transportation	2,748	89,366	47,293	3,756
Conference and meetings	-	937	2,608	202
Dues and memberships	312	3,821	18,063	602
Specific assistance	1,054,955	1,122,292	-	-
Insurance	1,470	73,461	19,209	3,821
Interest	-	-	27,798	-
Staff training and development	2,024	9,918	7,868	74
Miscellaneous	-	4,537	22,262	19
Depreciation and amortization	2,210	123,432	15,199	3,019
Total expenses	\$ 1,451,752	\$ 8,573,725	\$ 1,639,724	\$ 289,299

See accompanying notes to financial statements

CAPABILITY HEALTH & HUMAN SERVICES

STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)

YEAR ENDED DECEMBER 31, 2019

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2018)

	Special Event Direct Benefits	2019 Totals	2018 Totals
Salaries and related	\$ -	\$ 6,436,778	\$ 7,989,941
Professional fees and contracts	-	1,543,412	2,165,196
Supplies	35,365	115,844	179,663
Telecommunications	-	140,448	187,387
Postage and handling	-	5,761	7,227
Occupancy	7,000	636,645	583,593
Equipment, rent and maintenance	-	61,778	103,160
Printing, publications and media	-	4,890	5,949
Travel and transportation	-	140,415	147,283
Conference and meetings	-	3,747	19,934
Dues and memberships	-	22,486	10,847
Specific assistance	-	1,122,292	1,037,006
Insurance	-	96,491	84,573
Interest	-	27,798	6,964
Staff training and development	-	17,860	31,882
Miscellaneous	-	26,818	27,726
Depreciation and amortization	-	141,650	132,192
Total expenses	\$ 42,365	\$ 10,545,113	\$ 12,720,523
Less: Direct benefits to donors	(42,365)	(42,365)	(43,590)
	\$ -	\$ 10,502,748	\$ 12,676,933

See accompanying notes to financial statements

CAPABILITY HEALTH & HUMAN SERVICES

**STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019	2018
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 853,195	\$ (685,761)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Unrealized gain on gift annuities	-	7,683
Depreciation and amortization	141,650	132,192
Provision for bad debt	54,243	63,228
(Increase) decrease in operating assets:		
Accounts receivable	130,296	111,133
Grants receivable	40,402	142,406
Prepaid expenses	(141,514)	(21,481)
Deposits	-	(1,000)
Gift annuities	69,200	-
Increase (decrease) in operating liabilities:		
Accounts payable	(26,429)	20,399
Accrued expenses	(71,323)	92,637
Refundable advances	(93,835)	67,051
Net cash provided by (used in) operating activities	955,885	(71,513)
Cash flows from investing activities:		
Reinvestment in certificate of deposit	(3,101)	(927)
Purchase of property and equipment	(8,167)	(114,887)
Net cash used in investing activities	(11,268)	(115,814)
Cash flows from financing activities:		
Net proceeds on line of credit	225,000	250,000
Payments on capital lease obligations	(31,666)	(28,007)
Net cash provided by financing activities	193,334	221,993
Net increase in cash	1,137,951	34,666
Cash and cash equivalents, beginning of year	189,614	154,948
Cash and cash equivalents, end of year	\$ 1,327,565	\$ 189,614
Cash and cash equivalents	\$ 1,327,565	\$ 63,889
Cash and cash equivalents, restrictions	-	125,725
	\$ 1,327,565	\$ 189,614

See accompanying notes to financial statements

CAPABILITY HEALTH & HUMAN SERVICES

STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Supplemental disclosures:		
Interest paid	\$ 27,798	\$ 6,964

See accompanying notes to financial statements

CAPABILITY HEALTH & HUMAN SERVICES

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

1. Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities

Capability Health & Human Services (the Organization) (formerly known as Easter Seals Nevada) is a nonprofit corporation whose mission states as follows: Capability Health & Human Services is an innovative healthcare and human service non-profit that serves families and children who have been diagnosed with developmental delays and other disorders and adults with physical and intellectual limitations. Our goal is to enhance the capabilities and enrich the lives of the clients and patients we serve by providing urgently needed healthcare, human services and opportunities for social and community engagement to Nevadans with special needs. The Organization relies on Medicaid and other state and federal funding as well as commercial insurance to support its programs, services and overhead.

The following is a summary of the Organization's significant accounting policies:

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and, accordingly, reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

Capability Health & Human Services presents its financial statements in accordance with the Financial Accounting Standards Board (FASB) Codification. Under FASB Codification, Capability Health & Human Services is required to report information regarding its financial position and changes in financial position activities according to two classes of net assets: without donor restrictions and with donor restrictions.

Income Tax Status

Capability Health & Human Services is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is generally exempt from income taxes on related income pursuant to the appropriate section of the Internal Revenue Code.

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates. Significant estimates include accounts receivable allowance, allocations for the functional expense statement and estimated useful lives for fixed assets.

CAPABILITY HEALTH & HUMAN SERVICES

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2019 AND 2018

1. Nature of Activities and Summary of Significant Accounting Policies (continued)

Reclassifications

Certain reclassifications have been made to the 2018 financial statements to conform to the 2019 presentation.

Accounts Receivable

Accounts receivable result from contracts for the services of Capability Health & Human Services' clients and are carried at the net realizable value based on explicit/implicit discounts less an estimated allowance for doubtful accounts based on an annual review of all outstanding amounts. Management reviews accounts receivable balances and performs evaluations of its accounts in order to determine whether or not a provision for potential loss is necessary. Recoveries of receivables previously written off are recognized when received. The Organization does not charge interest on past due accounts. Management has analyzed all uncollectible accounts and has recorded an allowance of \$180,963 and \$126,720 as of December 31, 2019 and 2018, respectively.

Grants Receivable

Grants receivable represent unreimbursed costs on outstanding grant balances. It is Capability Health & Human Services' policy to charge off uncollectible receivables when management determines the receivables will not be collected. There is no allowance at December 31, 2019 or 2018 as all grants receivable were determined to be collectible.

Revenue Recognition

Contributions received are recorded as increases in net assets with or without restrictions, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Community worksites and fees for service revenues are recognized when services are rendered. Grant revenue is recognized when earned which is when qualifying expenses have been incurred. The Organization has several contractual agreements with third parties to reimburse program costs. These fees are included at gross amounts in "fees for service" on the statements of activities.

Refundable Advances

Grant funds received prior to expenditure are initially recorded as refundable advances. The refundable advances are subsequently recognized as revenue when related services are performed.

CAPABILITY HEALTH & HUMAN SERVICES

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2019 AND 2018

1. Nature of Activities and Summary of Significant Accounting Policies (continued)

Donated Services

Donations are recorded at their fair market value. Donated professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. There were no donated services recognized during the years ended December 31, 2019 or 2018.

Cash and Cash Equivalents

For purposes of the statement of cash flows, Capability Health & Human Services considers all highly-liquid investments with an initial maturity of three months or less to be cash equivalents.

Property and Equipment

Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Effective January 1, 2019, the Organization increased its capitalization policy from \$1,000 to \$5,000. Acquisitions of property and equipment in excess of this amount with a useful life of greater than one year are capitalized. Management believes that the effect of change in estimate in the future periods on the financial statements is not significant. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Expense Allocations

The costs of providing various programs and supporting services have been summarized on a functional basis in the statements of activities and in the statement of functional expenses. Expenses that can be directly allocated to one of the programs or supporting functions include specific assistance, interest and depreciation and amortization. Certain categories of expenses are attributed to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Such allocations are determined by management on an equitable basis. The expenses directly allocated based on time and effort include salaries and related expenses, professional fees and contracts, supplies, telecommunications, postage and handling, equipment, rent and maintenance, printing, publications and media, travel and transportation, conference and meetings, dues and membership, insurance, staff training and development, and miscellaneous. The expenses allocated based on square footage include occupancy.

Impairment of Long-Lived Assets

Capability Health & Human Services reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to future net undiscounted cash flows expected to be generated by the asset. If such assets

CAPABILITY HEALTH & HUMAN SERVICES

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2019 AND 2018

1. Nature of Activities and Summary of Significant Accounting Policies (continued)

are considered to be impaired, the impairment to be recognized is measured by the amount which the carrying amount of the assets exceeds the fair value of the assets. Management of Capability Health & Human Services believes that no adjustment for impairment was necessary at December 31, 2019 or 2018.

Comparative Financial Information

The financial statements include certain prior year summarized comparative information in total but not by functional 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 the Organization's financial statements for the year ended December 31, 2018, from which the summarized information was derived.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09 (ASU 2014-09), *Revenue from Contracts with Customers* (Topic 606), which provides a five-step analysis of contracts to determine when and how revenue is recognized and replaces most existing revenue recognition guidance in U.S. generally accepted accounting principles. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The Organization adopted this pronouncement with a date of the initial application of January 1, 2019, using the full retrospective method. Due to the nature of revenues earned by the Organization, this adoption is not expected to have a material impact on recognition of revenues or financial results.

On June 30, 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities* (Topic 958): *Clarifying the Scope and the Accounting for Contributions Made and Contributions Received*, which intends to clarify and improve the scope and accounting guidance for contributions received and made, primarily by not-for-profit organizations. The amendments in the ASU provide a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction. To accomplish this, the ASU clarifies how a not-for-profit determines whether a resource provider is participating in an exchange transaction by applying select criteria. This ASU also provides expanded guidance on how to determine whether a contribution (non-exchange) revenue is conditional or unconditional. It is expected that this ASU will reduce the diversity noted in practice. During the year ended December 31, 2019, the Organization adopted the provisions of this ASU. This adoption is not expected to have a material impact on the financial results of the Organization.

CAPABILITY HEALTH & HUMAN SERVICES

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2019 AND 2018

2. Information Regarding Liquidity and Availability

The Organization receives program and contribution revenues, and considers contributions restricted for programs which are ongoing, major, and central to its operations to be available to meet cash needs for general expenditures. The Organization manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, consist of the following as of December 31:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 1,327,565	\$ 63,889
Accounts receivable	664,941	849,480
Grants receivable	42,000	82,402
Refundable advances	<u>(273,216)</u>	<u>(367,051)</u>
	<u>\$ 1,761,290</u>	<u>\$ 628,720</u>

As part of the liquidity management plan, the Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, the Organization has two lines of credit for a total of \$750,000, which could be drawn upon, as discussed in Note 10.

3. Description of Program Services

The Organization offers a wide variety of healthcare and human services to the disabled and their families. Programs and services include the following:

Early Intervention - program encompasses a range of services that is intended to help children, ages birth to 3, reach developmental milestones and enrich their lives. The program includes both healthcare and educational service in the home, including assistive technology devices and services, audiological services, family training and service coordination, medical services for diagnostic and evaluation purposes, nutrition services, nursing services, occupational therapy, physical therapy, specialized instruction, speech therapy and language services, and vision service.

Children's Therapy Clinics (Las Vegas and Reno) - provides pediatric rehabilitation services including but not limited to occupational, physical and speech therapy and social engagement opportunities, such as play groups run by licensed therapists to children, ages 3 and up, in state of the art clinics in Las Vegas and Reno. Camp provides an overnight camp for children with special needs, ages 8-14.

Adult Enrichment Services - offers adults and seniors with physical and/or intellectual limitations the opportunity to develop social interaction and to engage in activities. The program also provides skilled nursing services to clients who require clinical services during the day.

CAPABILITY HEALTH & HUMAN SERVICES

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2019 AND 2018

3. Description of Program Services (continued)

Capability and Career Exploration Center - offers adults with physical and/or intellectual limitations, seniors and veterans the opportunity to develop the skills necessary to launch a career in the community. Program services also include vocational assessment, career counseling, assistance with preparing a resume, training on interview skills and proper work attire, assistance with obtaining work cards, job placement and job coaching.

Capability Enhancement for Independent Living - empowers children and adults to live independently by providing a range of services that are intended to help clients enrich their lives and everyday tasks with ease by using technology and modifications in the home or at work. The services include, but are not limited to technology evaluations and demonstrations, workplace accommodations, ergonomic assessments, set-up and configuration, individualized training, device demonstrations, information and referrals, assistance with selecting devices and services, home access modifications, assistive devices and equipment, including wheelchairs, vehicle adaptations to drive and/or transport clients and mobility equipment, care facility transition assistance and communication technology assistance.

Toys 4 Smiles - dedicated to creating toys from scrap materials for children in need. Toys 4 Smiles cars are also used to assist in developmental therapy for children with disabilities and used to enhance services at the Children's Therapy Clinic. This program ended December 31, 2018.

4. Employee Benefit Plan

Capability Health & Human Services participates in a 401(k)-profit sharing plan. The plan allows eligible employees to defer a portion of their compensation. The Organization, at its discretion, may match a portion of the employees' contribution. Capability Health & Human Services made no plan contributions during the years ended December 31, 2019 and 2018.

5. Property and Equipment

Property and equipment consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
Furniture and equipment	\$ 561,952	\$ 561,952
Buildings and improvements	1,714,145	1,705,978
Transportation equipment	<u>253,379</u>	<u>253,379</u>
	2,529,476	2,521,309
Less accumulated depreciation	<u>(2,178,282)</u>	<u>(2,036,632)</u>
	<u>\$ 351,194</u>	<u>\$ 484,677</u>

The Organization recorded \$110,691 and \$101,233 in depreciation expense for the years ended December 31, 2019 and 2018, respectively.

CAPABILITY HEALTH & HUMAN SERVICES

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2019 AND 2018

5. Property and Equipment (continued)

The Organization has paid \$1 for the use of a 2 ½ acre parcel of state land for a period of 30 years. The agreement for the lease of the land expired on June 30, 2013. A new agreement has not been established for the use of the land. The contribution of the use of state land has not been recognized, as management believes it does not have a significant impact on the financial results at December 31, 2019 or 2018.

6. Concentrations

The Organization's cash and certificate of deposit accounts are held at a single financial institution and at times exceed the insured limits of the Federal Deposit Insurance Corporation. As of December 31, 2019, the Organization's uninsured balance totaled \$1,640,769.

A single grantor provided 100% of total grant revenue for the years ended December 31, 2019 and 2018. Two agencies accounted for 69% of the total accounts receivable for the years ended December 31, 2019 and 2018.

7. Gift Annuities

The gift annuities consist of contracts from two individuals originally valued at various amounts. The agreements are gift annuity contracts between Easter Seals, Inc., a nonprofit corporation, (the former national affiliate) and unrelated donors. Seventy-five percent of the residuum is to be returned to Capability Health & Human Services for support services. The assets were recognized at fair value on the date of contribution and are adjusted annually for the Organization's portion of gains and losses recorded by Easter Seals, Inc. The fair value of the annuities was \$0 and \$69,200 at December 31, 2019 and 2018, respectively.

8. Operating Leases

The Organization leases office space, community worksite space and equipment under operating leases expiring through March 2025.

The future minimum payments under these operating lease agreements are as follows:

2020	\$	570,596
2021		566,492
2022		434,789
2023		157,899
2024		160,472
Thereafter		40,280
	\$	<u>1,930,528</u>

CAPABILITY HEALTH & HUMAN SERVICES

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2019 AND 2018

8. Operating Leases (continued)

Total rent expense, including common area maintenance charges, under these operating leases is \$575,417 and \$495,728 for the years ended December 31, 2019 and 2018, respectively, and is included in “Occupancy” and “Equipment, rent and maintenance” on the statement of functional expenses.

9. Investments and Fair Value Measurements

Investments consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
Certificate of deposit	\$ 313,141	\$ 310,040
Gift annuities	-	69,200
	<u>\$ 313,141</u>	<u>\$ 379,240</u>

The Organization applies the standards of the fair value measurements and disclosure of the FASB ASC 820, which provides a framework for measuring fair value under generally accepted accounting principles. These standards apply to all financial instruments that are being measured and reported on a fair value basis. The Organization reports its certificate of deposit and gift annuities on a fair value basis. Fair value measurements are categorized on three levels.

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;

Level 3: Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

The following table sets forth by level, within the fair value hierarchy, the Organization’s assets at fair value as of December 31, 2019.

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Certificate of deposit	<u>\$ 313,141</u>	<u>\$ 313,141</u>	<u>\$ -</u>	<u>\$ -</u>

CAPABILITY HEALTH & HUMAN SERVICES

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2019 AND 2018

9. Investments and Fair Value Measurements (continued)

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2018.

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Certificate of deposit	\$ 310,040	\$ 310,040	\$ -	\$ -
Gift annuities	69,200	-	69,200	-
	<u>\$ 379,240</u>	<u>\$ 310,040</u>	<u>\$ 69,200</u>	<u>\$ -</u>

10. Lines of Credit

The Organization holds a \$500,000 line of credit with a financial institution, bearing an interest rate of Prime Rate plus 1%, with a floor of 5% and secured by the certificate of deposit maintained by the Organization. The outstanding balance on this line of credit was \$475,000 and \$0 at December 31, 2019 and 2018, respectively. The line of credit matures October 26, 2020.

The Organization holds a \$250,000 unsecured line of credit with a financial institution, bearing an interest rate of Prime Rate plus 1%, with a floor of 5%. The outstanding balance on this line of credit was \$0 and \$250,000 as of December 31, 2019 and 2018, respectively. The line of credit matures November 4, 2020.

The Organization has a \$10,000 overdraft line of credit for its checking account. There was no outstanding balance on this line of credit as of December 31, 2019 or 2018. The line of credit matures January 15, 2046.

11. Capital Lease

In November 2016, the Organization entered into a new capital lease for office equipment. The capital lease is effective January 1, 2017 and expires December 31, 2020. The lease requires monthly principal and interest payments of \$2,799.

The following property included in the accompanying financial statements was leased under a capital lease as of December 31:

	<u>2019</u>	<u>2018</u>
Office equipment	\$ 123,836	\$ 123,836
Less accumulated amortization	(92,877)	(61,918)
	<u>\$ 30,959</u>	<u>\$ 61,918</u>

Total amortization expense for the asset under capital lease for the years ended December 31, 2019 and 2018 was \$30,959 and \$30,959, respectively.

CAPABILITY HEALTH & HUMAN SERVICES

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2019 AND 2018

11. Capital Lease (continued)

Future minimum capital lease payments for the year ended December 31, 2019 are as follows:

2020	\$	30,787
Less interest		(614)
Less current portion		<u>(30,173)</u>
Long-term portion	\$	<u><u>-</u></u>

12. Former National Affiliate

On September 1, 2002, Capability Health & Human Services entered into a membership agreement with Easter Seals, Inc. As a result of this membership agreement, Capability Health & Human Services is required to pay an annual membership fee. The fee for the years ending December 31, 2019 and 2018 was \$47,259 and \$50,436, respectively. During the year ended December 31, 2019, the Organization terminated its membership agreement and is no longer affiliated with Easter Seals, Inc.

13. Sublease Agreement

The Organization entered into a sublease agreement effective October 1, 2018 and expiring May 31, 2022. The lease requires minimum quarterly payments of \$14,104. Total rental income of \$54,698 and \$14,104 was received during the years ended December 31, 2019 and 2018, respectively. Rental income is included in other income on the statements of activities. As of December 31, 2019, the Organization is expected to receive future rental payments from the tenants for the remaining lease period as follows:

2020	\$	58,566
2021		59,976
2022		<u>25,238</u>
	\$	<u><u>143,780</u></u>

14. Net Assets with Donor Restrictions

Net assets with donor restrictions at December 31 are restricted for the following purposes and periods:

Subject to expenditure for a specific purpose:	<u>2019</u>	<u>2018</u>
Assistive Technology	\$ -	\$ 40,000
Camp and recreation	-	32,407
Children's Therapy Clinic	-	<u>53,318</u>
	-	125,725

CAPABILITY HEALTH & HUMAN SERVICES

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2019 AND 2018

14. Net Assets with Donor Restrictions (continued)

Subject to passage of time:

Gift annuities	-	69,200
	<u>\$ -</u>	<u>\$ 194,925</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended December 31:

	<u>2019</u>	<u>2018</u>
Satisfaction of purpose restrictions:		
Assistive Technology	\$ 40,000	\$ -
Camp and recreation	32,407	3,203
Children's Therapy Clinic	<u>53,318</u>	<u>35,001</u>
	125,725	38,204
Expiration of time restrictions:		
Gift annuities	<u>69,200</u>	<u>23,803</u>
	<u>\$ 194,925</u>	<u>\$ 62,007</u>

Net assets with donor restrictions consist of the following at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Gift annuities	\$ -	\$ 69,200
Cash and cash equivalents	-	125,725
	<u>\$ -</u>	<u>\$ 194,925</u>

15. Subsequent Events

As of June 11, 2020, the date these financial statements were able to be issued, in connection with the Coronavirus (COVID-19) pandemic, there have been significant global, federal, state and local developments. As a result of this worldwide pandemic, which is driving economic uncertainty, the Organization may experience volatility that may impact results and/or impede general operations. The Organization continues to monitor this unprecedented situation and evaluate the impact of this pandemic on our results.

On May 13, 2020, Capability Health & Human Services ("the Borrower") was granted a loan ("the Loan") from Lexicon Bank in the aggregate amount of \$1,276,000, pursuant to the Paycheck Protection Program (the "PPP") under Division A, Title I of the CARES Act, which was enacted March 27, 2020.

CAPABILITY HEALTH & HUMAN SERVICES

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2019 AND 2018

15. Subsequent Events (continued)

The Loan, which was in the form of a Note dated May 13, 2020 entered into by the Borrower, matures on May 12, 2022 and bears interest at a rate of 1% per annum, payable monthly commencing on December 13, 2020. The Note may be prepaid by the Borrower at any time prior to maturity with no prepayment penalties. Funds from the Loan may only be used for payroll costs, costs used to continue group health care benefits, mortgage payments, rent, utilities, and interest on other debt obligations incurred before February 15, 2020. The Organization intends to use the entire Loan amount for qualifying expenses. Under the terms of the PPP, certain amounts of the Loan may be forgiven if they are used for qualifying expenses as described in the CARES Act.

Subsequent events were evaluated through June 11, 2020 which is the date the financial statements were available to be issued.

16. Severance Agreement

In September 2018, the Organization entered into a separation agreement due to the resignation of a key employee. The agreement stipulates that monthly installments of \$14,733 in severance will be paid through May 2019. At December 31, 2018, the liability to the Organization as a result of this agreement was \$73,667 and is included in accrued expenses on the statements of financial position. The severance agreement was paid in full during the year ended December 31, 2019.

17. Related Party Transactions

During the year ended December 31, 2019, the Organization paid a total of \$37,977 to two board member owned companies for professional services. During the year ended December 31, 2019, board members donated a total of \$7,950 in contributions.