

CAPABILITY HEALTH & HUMAN SERVICES

FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

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

**TABLE OF CONTENTS
DECEMBER 31, 2020 AND 2019**

CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1-2
STATEMENTS OF FINANCIAL POSITION	3
STATEMENTS OF ACTIVITIES	4-5
STATEMENT OF FUNCTIONAL EXPENSES	6-8
STATEMENTS OF CASH FLOWS	9-10
NOTES TO FINANCIAL STATEMENTS	11-21

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, 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 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, 2020, 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' 2019 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated June 11, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019, 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 17, 2021

CAPABILITY HEALTH & HUMAN SERVICES

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,130,687	\$ 1,327,565
Certificate of deposit	315,647	313,141
Accounts receivable, net of allowance	546,633	664,941
Grants receivable	-	42,000
Other receivables	13,500	-
Prepaid expenses	56,011	208,412
	<u>4,062,478</u>	<u>2,556,059</u>
Property and equipment, net	<u>240,452</u>	<u>351,194</u>
Other noncurrent assets:		
Deposits	<u>21,958</u>	<u>21,958</u>
	<u>\$ 4,324,888</u>	<u>\$ 2,929,211</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 120,463	\$ 122,121
Accrued expenses	348,987	429,958
Refundable advances	198,340	273,216
Capital lease obligation	-	30,173
Line of credit	-	475,000
Note payable	1,276,000	-
	<u>1,943,790</u>	<u>1,330,468</u>
Net assets:		
Without donor restrictions	<u>2,381,098</u>	<u>1,598,743</u>
	<u>\$ 4,324,888</u>	<u>\$ 2,929,211</u>

See accompanying notes to financial statements

CAPABILITY HEALTH & HUMAN SERVICES

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Changes in net assets without donor restrictions		
Revenues, gains and support:		
Grants	\$ 471,523	\$ 1,407,765
Contributions	312,139	519,698
In-kind contributions	43,989	45,428
Special events revenue, net of \$0 and \$42,365 of direct expenses, respectively	-	33,273
Community worksites	72,279	184,816
Fees for service	7,591,545	9,231,751
Investment return, net	2,903	3,100
Other income	7,316	62,213
Net assets released from restrictions	-	194,925
	<u>8,501,694</u>	<u>11,682,969</u>
Expenses:		
Program services:		
Early Intervention	3,141,349	3,175,150
Children's Therapy Clinics	265,922	394,385
Adult Enrichment Services	890,657	2,146,155
Capability and Career Exploration Center	831,244	1,406,283
Capability Enhancement for Independent Living	445,672	1,451,752
Support services:		
Management and general	1,715,368	1,639,724
Fundraising	419,744	289,299
	<u>7,709,956</u>	<u>10,502,748</u>
Bad debt expense	7,098	84,842
Loss on disposal of assets	2,285	-
Unallocated payments to affiliates	-	47,259
	<u>7,719,339</u>	<u>10,634,849</u>
Increase in net assets without donor restrictions	<u>782,355</u>	<u>1,048,120</u>

See accompanying notes to financial statements

CAPABILITY HEALTH & HUMAN SERVICES

STATEMENTS OF ACTIVITIES (CONTINUED)

YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Changes in net assets with donor restrictions		
Net assets released from restrictions	<u>-</u>	<u>(194,925)</u>
Decrease in net assets with donor restrictions	-	(194,925)
NET CHANGE IN NET ASSETS	782,355	853,195
Net assets, beginning of year	<u>1,598,743</u>	<u>745,548</u>
Net assets, end of year	<u>\$ 2,381,098</u>	<u>\$ 1,598,743</u>

See accompanying notes to financial statements

CAPABILITY HEALTH & HUMAN SERVICES

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2020

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2019)

	Program Services			
	Early Intervention	Children's Therapy Clinics	Adult Enrichment Services	Capability and Career Exploration Center
Salaries and related	\$ 2,407,540	\$ 68,629	\$ 560,511	\$ 549,690
Professional fees and contracts	473,892	78,470	15,241	4,842
Advertising	-	-	-	-
Supplies	4,744	2,987	8,516	4,726
Telecommunications	67,837	11,539	17,020	11,530
Occupancy	35,930	82,853	205,250	113,493
Equipment, rent and maintenance	36,633	1,738	6,387	6,102
Travel and transportation	16,196	-	1,142	-
Dues and memberships	793	29	110	116
Specific assistance	1,264	9,524	9,269	105,141
Insurance	59,886	1,732	12,636	10,847
Interest	-	-	-	-
Staff training and development	728	69	544	325
Miscellaneous	3,998	722	1,688	3,308
Depreciation and amortization	31,908	7,630	52,343	21,124
Total expenses	\$ 3,141,349	\$ 265,922	\$ 890,657	\$ 831,244

See accompanying notes to financial statements

CAPABILITY HEALTH & HUMAN SERVICES

STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)

YEAR ENDED DECEMBER 31, 2020

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2019)

	<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	\$ 87,001	\$ 3,673,371	\$ 1,078,594	\$ 298,416
Professional fees and contracts	1,602	574,047	226,180	5,668
Advertising	-	-	55,348	-
Supplies	-	20,973	8,813	8,704
Telecommunications	815	108,741	22,406	16,202
Occupancy	5,742	443,268	166,487	5,649
Equipment, rent and maintenance	-	50,860	14,992	6,187
Travel and transportation	888	18,226	21,594	18,579
Dues and memberships	-	1,048	16,560	3,539
Specific assistance	348,276	473,474	112	-
Insurance	-	85,101	26,462	7,444
Interest	-	-	29,397	-
Staff training and development	-	1,666	26,974	577
Miscellaneous	-	9,716	3,255	44,511
Depreciation and amortization	1,348	114,353	18,194	4,268
Total expenses	\$ 445,672	\$ 5,574,844	\$ 1,715,368	\$ 419,744

See accompanying notes to financial statements

CAPABILITY HEALTH & HUMAN SERVICES

STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)

YEAR ENDED DECEMBER 31, 2020

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2019)

	2020	2019
	Totals	Totals
Salaries and related	\$ 5,050,381	\$ 6,436,778
Professional fees and contracts	805,895	1,543,412
Advertising	55,348	-
Supplies	38,490	130,242
Telecommunications	147,349	140,448
Occupancy	615,404	636,645
Equipment, rent and maintenance	72,039	61,778
Travel and transportation	58,399	140,415
Dues and memberships	21,147	22,486
Specific assistance	473,586	1,122,292
Insurance	119,007	96,491
Interest	29,397	27,798
Staff training and development	29,217	17,860
Miscellaneous	57,482	26,818
Depreciation and amortization	136,815	141,650
Total expenses	7,709,956	10,545,113
Less: Direct benefits to donors	-	(42,365)
	\$ 7,709,956	\$ 10,502,748

See accompanying notes to financial statements

CAPABILITY HEALTH & HUMAN SERVICES

**STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ 782,355	\$ 853,195
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	136,815	141,650
Provision for bad debt	(5,557)	54,243
Loss on disposal of assets	2,285	-
(Increase) decrease in operating assets:		
Accounts receivable	123,865	130,296
Grants receivable	42,000	40,402
Other receivables	(13,500)	-
Prepaid expenses	152,401	(141,514)
Gift annuities	-	69,200
Increase (decrease) in operating liabilities:		
Accounts payable	(1,658)	(26,429)
Accrued expenses	(80,971)	(71,323)
Refundable advances	(74,876)	(93,835)
Net cash provided by operating activities	1,063,159	955,885
Cash flows from investing activities:		
Reinvestment in certificate of deposit	(2,506)	(3,101)
Purchase of property and equipment	(28,358)	(8,167)
Net cash used in investing activities	(30,864)	(11,268)
Cash flows from financing activities:		
Payments on capital lease obligations	(30,173)	(31,666)
Net proceeds on line of credit	-	225,000
Payments on line of credit	(475,000)	-
Proceeds from notes payable	1,276,000	-
Net cash provided by financing activities	770,827	193,334
Net increase in cash and cash equivalents	1,803,122	1,137,951
Cash and cash equivalents, beginning of year	1,327,565	189,614
Cash and cash equivalents, end of year	\$ 3,130,687	\$ 1,327,565

See accompanying notes to financial statements

CAPABILITY HEALTH & HUMAN SERVICES

STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Supplemental disclosures:		
Interest paid	\$ 21,356	\$ 27,798

See accompanying notes to financial statements

CAPABILITY HEALTH & HUMAN SERVICES

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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 dedicated to providing transformational and life-enhancing services to all individuals facing a physical, intellectual, or mental limitation. The Organization serves families and children who have been diagnosed with developmental delays and adults with physical and intellectual limitations. Our goal is to enhance the capabilities and enrich the lives of the clients we serve by providing urgently needed 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, 2020 AND 2019

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

Reclassifications

Certain reclassifications have been made to the 2019 financial statements to conform to the 2020 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 \$175,406 and \$180,963 as of December 31, 2020 and 2019, 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, 2020 or 2019 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, 2020 AND 2019

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, 2020 or 2019.

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. 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, equipment, rent and maintenance, travel and transportation, 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, 2020 AND 2019

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

Impairment of Long-Lived Assets (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, 2020 or 2019.

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, 2019, from which the summarized information was derived.

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>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 3,130,687	\$ 1,327,565
Accounts receivable, net	546,633	664,941
Grants receivable	-	42,000
Other receivables	13,500	-
Refundable advances	<u>(198,340)</u>	<u>(273,216)</u>
	<u>\$ 3,492,480</u>	<u>\$ 1,761,290</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 and a \$10,000 overdraft line of credit, as discussed in Note 9.

CAPABILITY HEALTH & HUMAN SERVICES

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2020 AND 2019

3. Description of Program Services

The Organization offers a wide variety of 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 educational service in the home and telehealth, including assistive technology devices and services, audiological services, family training and service coordination, diagnostic and evaluation, 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.

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 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.

CAPABILITY HEALTH & HUMAN SERVICES

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2020 AND 2019

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, 2020 and 2019.

5. Property and Equipment

Property and equipment consist of the following at December 31:

	<u>2020</u>	<u>2019</u>
Furniture and equipment	\$ 558,114	\$ 561,952
Buildings and improvements	1,711,243	1,714,145
Transportation equipment	253,379	253,379
Construction in progress	<u>28,358</u>	<u>-</u>
	2,551,094	2,529,476
Less accumulated depreciation	<u>(2,310,642)</u>	<u>(2,178,282)</u>
	<u>\$ 240,452</u>	<u>\$ 351,194</u>

The Organization recorded \$105,856 and \$110,691 in depreciation expense for the years ended December 31, 2020 and 2019, respectively.

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, 2020 or 2019.

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, 2020, the Organization's uninsured balance totaled \$3,208,320.

A single grantor provided 100% of total grant revenue for the years ended December 31, 2020 and 2019. Two agencies accounted for 77% and 69% of the total accounts receivable for the years ended December 31, 2020 and 2019, respectively. Three donors provided 50% of total contributions for the year ended December 31, 2020. There were no contribution concentrations during the year ended December 31, 2019.

CAPABILITY HEALTH & HUMAN SERVICES

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2020 AND 2019

7. 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:

2021	\$	506,516
2022		409,551
2023		157,899
2024		160,472
2025		<u>40,280</u>
	\$	<u>1,274,718</u>

Total rent expense, including common area maintenance charges, under these operating leases is \$565,732 and \$575,417 for the years ended December 31, 2020 and 2019, respectively, and is included in “occupancy” and “equipment, rent and maintenance” in the statement of functional expenses.

8. Investments and Fair Value Measurements

Investments consist of the following at December 31:

	<u>2020</u>	<u>2019</u>
Certificate of deposit	<u>\$ 315,647</u>	<u>\$ 313,141</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 measures its certificate of deposit at fair value on a recurring 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.

CAPABILITY HEALTH & HUMAN SERVICES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020 AND 2019

8. 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, 2020.

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Certificate of deposit	<u>\$ 315,647</u>	<u>\$ 315,647</u>	<u>\$ -</u>	<u>\$ -</u>

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>

9. 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 \$0 and \$475,000 at December 31, 2020 and 2019, respectively. The line of credit matures October 26, 2021.

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%. There was no outstanding balance on this line of credit as of December 31, 2020 or 2019. The line of credit matures November 4, 2021.

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, 2020 or 2019. The line of credit matures January 15, 2046.

10. 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>2020</u>	<u>2019</u>
Office equipment	\$ 123,836	\$ 123,836
Less accumulated amortization	<u>(123,836)</u>	<u>(92,877)</u>
	<u>\$ -</u>	<u>\$ 30,959</u>

CAPABILITY HEALTH & HUMAN SERVICES

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2020 AND 2019

10. Capital Lease (continued)

Total amortization expense for the asset under capital lease for the years ended December 31, 2020 and 2019 was \$30,959 and \$30,959, respectively.

11. 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, 2020 and 2019 was \$0 and \$47,259, respectively. During the year ended December 31, 2019, the Organization terminated its membership agreement and is no longer affiliated with Easter Seals, Inc.

12. Net Assets with Donor Restrictions

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:

Satisfaction of purpose restrictions:	<u>2020</u>	<u>2019</u>
Assistive Technology	\$ -	\$ 40,000
Camp and recreation	-	32,407
Children's Therapy Clinic	-	<u>53,318</u>
	-	125,725
Expiration of time restrictions:		
Gift annuities	-	<u>69,200</u>
	<u>\$ -</u>	<u>\$ 194,925</u>

There were no net assets with donor restrictions at December 31, 2020 and 2019.

13. Risks and Uncertainties

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.

CAPABILITY HEALTH & HUMAN SERVICES

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2020 AND 2019

14. Paycheck Protection Program Loan

On May 13, 2020, the Organization (the Borrower) qualified for and received a loan pursuant to the Paycheck Protection Program, a program implemented by the U.S. Small Business Administration (SBA) under the Coronavirus Aid, Relief, and Economic Security Act, from a qualified lender (the PPP Lender), for an aggregate principal amount of \$1,276,000 (the PPP Loan). The PPP Loan bears interest at a fixed rate of 1.0% per annum, has a term of two years, and is unsecured and guaranteed by the U.S. Small Business Administration. The principal and accrued interest of the PPP Loan is subject to forgiveness under the Paycheck Protection Program upon the Organization's request to the extent that the PPP Loan proceeds are used to pay expenses permitted by the Paycheck Protection Program, including payroll costs, covered rent and mortgage obligations, and covered utility payments incurred by the Organization. The Organization intends to apply for forgiveness of the PPP Loan with respect to these covered expenses. To the extent that all or part of the PPP Loan is not forgiven, the Organization will be required to pay interest on the PPP Loan at a rate of 1.0% per annum, and commencing the earlier of (1) the date that SBA remits the Borrower's loan forgiveness amount to the Lender or (2) 10 months after the end of the Borrower's loan forgiveness covered period of 24-weeks, principal and interest payments will be required through the maturity date in May 2022. The terms of the PPP Loan provide for customary events of default including, among other things, payment defaults, breach of representations and warranties, and insolvency events. The PPP Loan may be accelerated upon the occurrence of an event of default.

The Organization has accounted for the PPP loan as a financial liability in accordance with FASB ASC 470 and accrued interest in accordance with the interest method under FASB ASC 835-30. The loan will be recognized as revenue when loan forgiveness is provided by the SBA.

15. 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. The severance agreement was paid in full during the year ended December 31, 2019.

16. Related Party Transactions

During the year ended December 31, 2020, the Organization paid a total of \$30,375 to one board member owned company for professional services. 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.

CAPABILITY HEALTH & HUMAN SERVICES

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2020 AND 2019

17. 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 \$0 and \$54,698 was received during the years ended December 31, 2020 and 2019, respectively. Rental income is included in other income on the statements of activities. The sublease agreement was terminated during the year ended December 31, 2020.

18. Subsequent Events

The PPP loan balance of \$1,276,000 was fully forgiven as of March 10, 2021.

On March 5, 2021, the Organization qualified for and received a second loan pursuant to the Paycheck Protection Program, for an aggregate principal amount of \$1,120,143. The PPP Loan bears interest at a fixed rate of 1.0% per annum, has a term of five years, and is unsecured and guaranteed by the U.S. Small Business Administration. The principal and accrued interest of the PPP Loan is subject to forgiveness under the Paycheck Protection Program upon the Organization's request to the extent that the PPP Loan proceeds are used to pay expenses permitted by the Paycheck Protection Program, including payroll costs, covered rent and mortgage obligations, and covered utility payments incurred by the Organization. The Organization intends to apply for forgiveness of the PPP Loan with respect to these covered expenses. To the extent that all or part of the PPP Loan is not forgiven, the Organization will be required to pay interest on the PPP Loan at a rate of 1.0% per annum, and commencing the earlier of (1) the date that SBA remits the Borrower's loan forgiveness amount to the Lender or (2) 10 months after the end of the Borrower's loan forgiveness covered period of 24-weeks, principal and interest payments will be required through the maturity date in March 2026. The terms of the PPP Loan provide for customary events of default including, among other things, payment defaults, breach of representations and warranties, and insolvency events. The PPP Loan may be accelerated upon the occurrence of an event of default.

On January 1, 2021, the Organization entered into a separation agreement due to the resignation of a key employee. The agreement stipulates that seven days after the signing of the agreement a total of \$274,308 in severance will be paid.

Subsequent events were evaluated through June 17, 2021, which is the date the financial statements were available to be issued.