

Journey Found, Inc.

**Financial Statements
(With Supplementary Information)
and Independent Auditor's Report**

June 30, 2016 and 2015

COHN  REZNICK
ACCOUNTING • TAX • ADVISORY

Journey Found, Inc.

Index

Page

Independent Auditor's Report	2
Financial Statements	
Statements of Financial Position	4
Statements of Activities	5
Statements of Cash Flows	6
Notes to Financial Statements	7
Supplementary Information	
Program Expenses	14
Administrative Expenses	15

Independent Auditor's Report

To the Board of Directors
Journey Found, Inc.

Report on Financial Statements

We have audited the accompanying financial statements of Journey Found, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities 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.

Auditor's 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Journey Found, Inc. as of June 30, 2016 and 2015, 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.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The information included in the accompanying statements on pages 14 and 15 is presented for purposes of additional analysis of the financial statements and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2016 on our consideration of Journey Found, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Journey Found, Inc.'s internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Cohn Reznick LLP".

Hartford, Connecticut
December 9, 2016

Journey Found, Inc.

**Statements of Financial Position
June 30, 2016 and 2015**

	<u>Assets</u>	
	<u>2016</u>	<u>2015</u>
Current assets		
Cash	\$ 158,768	\$ 357,263
Accounts receivable	1,037,192	879,064
Prepaid expenses	<u>136,939</u>	<u>19,305</u>
Total current assets	<u>1,332,899</u>	<u>1,255,632</u>
Property and equipment, at cost		
Buildings and improvements	1,269,135	1,254,289
Vehicles	657,488	657,488
Furniture, fixtures and equipment	<u>164,985</u>	<u>159,557</u>
	2,091,608	2,071,334
Less accumulated depreciation and amortization	<u>642,093</u>	<u>387,553</u>
	1,449,515	1,683,781
Land	<u>363,469</u>	<u>363,469</u>
Total property and equipment	<u>1,812,984</u>	<u>2,047,250</u>
Other assets		
Security deposits	<u>49,035</u>	<u>52,567</u>
Total assets	<u>\$ 3,194,918</u>	<u>\$ 3,355,449</u>
	<u>Liabilities and Net Assets</u>	
Current liabilities		
Accrued expenses	\$ 248,270	\$ 457,131
Accounts payable	55,562	74,963
Lines of credit	100,000	-
Current portion of long-term debt	53,038	50,034
Current portion of capital lease obligations	<u>154,295</u>	<u>147,878</u>
Total current liabilities	<u>611,165</u>	<u>730,006</u>
Long-term liabilities		
Long-term debt, less current portion	1,076,802	1,129,358
Capital lease obligations, less current portion	53,387	207,679
DDS operational advances	<u>484,940</u>	<u>484,940</u>
Total long-term liabilities	<u>1,615,129</u>	<u>1,821,977</u>
Total liabilities	2,226,294	2,551,983
Commitments		
Net assets		
Unrestricted	868,624	803,466
Temporarily restricted	<u>100,000</u>	<u>-</u>
Total net assets	<u>968,624</u>	<u>803,466</u>
Total liabilities and net assets	<u>\$ 3,194,918</u>	<u>\$ 3,355,449</u>

See Notes to Financial Statements.

Journey Found, Inc.
Statements of Activities
For the Years Ended June 30, 2016 and 2015

	2016	2015
Changes in unrestricted net assets		
Program revenue	\$ 10,930,766	\$ 10,128,516
Expenses		
Program expenses	9,611,499	8,970,847
Administrative expenses	1,342,252	1,089,837
Total expenses	10,953,751	10,060,684
Change in unrestricted net assets before other income	(22,985)	67,832
Other income		
Fair value adjustments for assumption of buildings	-	(128,366)
Other	50,902	116,340
Contributions	37,241	31,434
	88,143	19,408
Change in unrestricted net assets	65,158	87,240
Changes in temporarily restricted net assets		
Grants and contributions	100,000	-
Change in net assets	165,158	87,240
Net assets, beginning	803,466	716,226
Net assets, end	\$ 968,624	\$ 803,466

See Notes to Financial Statements.

Journey Found, Inc.

**Statements of Cash Flows
For the Years Ended June 30, 2016 and 2015**

	2016	2015
Cash flows from operating activities		
Change in net assets	\$ 165,158	\$ 87,240
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Bad debts	1,640	9,939
Depreciation and amortization	254,540	231,615
Loss on disposal of property and equipment	-	58,888
Fair value adjustment for assumption of buildings	-	128,366
Changes in operating assets and liabilities		
Accounts receivable	(159,768)	(274,562)
Prepaid expenses	(117,634)	30,895
Security deposits	3,532	(6,091)
Accrued expenses	(208,861)	(39,622)
Accounts payable	(19,401)	15,910
Operational advances	-	31,992
	(80,794)	274,570
Net cash (used in) provided by operating activities		
Cash flows from investing activities		
Purchase of property and equipment improvements	(20,274)	(131,558)
	(20,274)	(131,558)
Net cash used in investing activities		
Cash flows from financing activities		
Proceeds from line of credit, net	100,000	-
Repayments of long-term debt	(49,552)	(41,538)
Repayments of capital lease obligations	(147,875)	(131,488)
	(97,427)	(173,026)
Net cash used in financing activities		
Net decrease in cash	(198,495)	(30,014)
Cash, beginning	357,263	387,277
Cash, end	\$ 158,768	\$ 357,263
Supplemental disclosures of cash flow data		
Interest paid	\$ 93,057	\$ 88,084
Supplemental disclosures of noncash investing and financing activities		
Acquisition of property, equipment and improvements	\$ 20,274	\$ 468,370
Assets acquired through capital lease obligations	-	(116,812)
Assets acquired through note payables transferred from unrelated third party	-	(220,000)
	\$ 20,274	\$ 131,558
Purchases with cash	\$ 20,274	\$ 131,558

See Notes to Financial Statements.

Journey Found, Inc.

Notes to Financial Statements June 30, 2016 and 2015

Note 1 - Organization and summary of significant accounting policies

Organization

Journey Found, Inc. (the "Organization") was founded in May 2013 and manages community day programs for individuals with special needs and residential facilities in Central and Southeastern Connecticut. The Organization also manages in-home support for individuals with special needs.

Basis of presentation

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. The financial statements report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. They are described as follows:

Unrestricted - Net assets that are not subject to explicit donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

Temporarily Restricted - Net assets whose use by the Organization is subject to explicit donor-imposed stipulations or by operation of law that can be fulfilled by actions of the Organization or that expire by the passage of time.

Permanently Restricted - Net assets subject to explicit donor-imposed stipulations that they be maintained permanently by the Organization and stipulate the use of income and/or appreciation as either unrestricted or temporarily restricted based on donor-imposed stipulations or by operations of law.

At June 30, 2016 and 2015, the Organization had no permanently restricted net assets.

Tax exempt status

The Organization is organized as a nonprofit corporation under Section 501(c)(3) of the Internal Revenue Code and, as such, is not subject to federal or state corporate income taxes.

The Organization has no unrecognized tax benefits at June 30, 2016 and 2015. All of the Organization's federal and state information returns are open for examination and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

If the Organization has unrelated business income taxes, it would recognize interest and penalties associated with any tax matters as part of the income tax provision and include accrued interest and penalties with the related tax liability in the statement of financial position.

Cash and cash equivalents

Cash and cash equivalents include all cash balances and highly liquid short-term investments with an original maturity of three months or less when acquired. There were no cash equivalents as of June 30, 2016 and 2015.

Accounts receivable

Accounts receivable principally represent monies due from Department of Developmental Services ("DDS"), Department of Social Services ("DSS") and Department of Mental Health and Addiction Services ("DMHAS"). Accounts receivable arising from regular operations are stated net of an allowance for doubtful accounts when applicable. Allowances for accounts receivable are

Journey Found, Inc.

Notes to Financial Statements June 30, 2016 and 2015

determined by management based on an assessment of their collectability. Management considers past history, current economic conditions and overall viability of the third party when considering the need for an allowance. Receivables are written off when management determines amounts will not be collected. Receivables are considered past due based on invoice date. There were no allowances for accounts receivable at June 30, 2016 and 2015.

Property, equipment and improvements

The Organization capitalizes all expenditures for property and equipment exceeding \$2,500, with a useful life greater than three years. Purchased property and equipment is carried at cost less accumulated depreciation. Donated property and equipment is carried at the approximate fair value at the date of donation. Depreciation and amortization of property and equipment is computed using the straight-line method over their estimated useful lives or life of lease where applicable. Estimated lives for financial reporting purposes are as follows:

<u>Asset</u>	<u>Estimated lives</u>
Buildings and improvements	10 - 30 years
Vehicles	2 - 5 years
Furniture, fixtures and equipment	5 - 10 years

Expenditures for repairs and maintenance are charged to expense as incurred. For assets sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in change in net assets for the period.

Gifts of long-lived assets

The Organization reports gifts of land, buildings and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

During 2015, the Organization assumed ownership of a building with an appraised value of \$220,000 and assumed the mortgage of \$348,366; a fair value adjustment of \$128,366 was recorded. The mortgage is fully funded through DSS.

Expense allocation

The cost of providing various programs and activities has been summarized on a functional basis in the accompanying statement of activities. Accordingly, certain administrative costs have been allocated among programs.

Revenue recognition

The Organization manages residential facilities, in-home support and day programs for individuals with special needs. Revenue is recognized when all fundable expenditures are incurred. The residential facilities are reimbursed according to regulations governing Community Living Arrangements. Food and lodging costs are reimbursed by DSS and other covered expenses are reimbursed by DDS. Services provided by the Organization related to day programs and supported living programs are billed through a fiscal intermediary and/or reimbursed through a direct contract

Journey Found, Inc.

Notes to Financial Statements June 30, 2016 and 2015

with DDS. Reimbursement of certain expenses is subject to maximum per diem rate limitations and annual cost settlement regulations.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets 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 temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent events

The Organization has evaluated subsequent events through December 9, 2016, which is the date the financial statements were available to be issued (see Note 10).

Note 2 - Concentrations

Funding source

The Organization's program revenue is primarily derived from contracts with DDS. Total revenue received from DDS in fiscal year 2016 and 2015 was \$8,929,679 or 82% of program revenue and 8,399,887 or 83% of program revenue, respectively. At June 30, 2016 and 2015, \$712,176 and \$720,113, respectively, was due from DDS.

Concentrations of credit risk

Financial instruments which potentially subject the Organization to concentrations of credit risks consist primarily of cash and accounts receivable. The Organization maintains its cash with high-credit quality financial institutions. At times, such amounts may exceed federally insured limits.

Collective bargaining agreement

The Organization has an agreement with the New England Health Care Employees Union. The collective bargaining agreement pertains to approximately 77% of the Organization's employees for the years ended June 30, 2016 and 2015. The agreement expires March 31, 2017.

Journey Found, Inc.

**Notes to Financial Statements
June 30, 2016 and 2015**

Note 3 - Long-term debt

Long-term debt consists of the following at June 30, 2016 and 2015:

	2016	2015
6.63% mortgage loan payable to Connecticut Housing and Financing Authority ("CHFA"), collateralized by real estate. Monthly principal and interest payments of \$2,311 are payable through October 2030.	\$ 226,728	\$ 235,914
6.93% mortgage loan payable to CHFA, collateralized by real estate. Monthly principal and interest payments of \$2,627 are payable through August 2027.	217,240	229,706
6.93% mortgage loan payable to CHFA, collateralized by real estate. Monthly principal and interest payments of \$2,159 are payable through February 2028.	183,709	193,603
6.93% mortgage loan payable to CHFA, collateralized by real estate. Monthly principal and interest payments of \$2,129 are payable through September 2026.	163,903	174,254
6.00% note payable to DDS, collateralized by real estate. Monthly principal and interest payments of \$2,350 are payable through September 2037.	338,260	345,915
	1,129,840	1,179,392
Less current portion	(53,038)	(50,034)
Total	\$ 1,076,802	\$ 1,129,358

Future maturities of long-term debt for each of the five years subsequent to 2016 and thereafter are as follows:

2017	\$	53,038
2018		57,572
2019		61,281
2020		65,852
2021		15,720
Thereafter		876,377
Total	\$	1,129,840

Related interest expense for the years ended June 30, 2016 and 2015 was \$76,995 and \$60,680, respectively.

Journey Found, Inc.

**Notes to Financial Statements
June 30, 2016 and 2015**

Note 4 - Lines of credit

The Organization has two lines of credits with limits of \$700,000 and \$500,000. Both are due on demand. The lines of credit bear interest at prime plus 1% (4.50% in total at June 30, 2016) and are collateralized by the assets of the Organization. There was an outstanding balance as of June 30, 2016 and 2015, in the amount of \$100,000 and \$0, respectively. Interest expense related to the lines of credit for the years ended June 30, 2016 and 2015 was \$3,810 and \$5,529, respectively.

Note 5 - Letter of credit

The Organization had a letter of credit with United Bank which expired on September 10, 2015 in the amount of \$55,873.

Note 6 - Capital lease obligations

The assets and related liability under the capital leases are recorded at the fair value of the assets. The assets are amortized over the shorter of their related lease terms or their estimated productive lives. The Organization entered into twenty-two vehicle leases during the year ended June 30, 2014 and seven during the year ended June 30, 2015, which expire at various times through February 2019. There were no new capital leases entered into during the year ended June 30, 2016. Amortization of the assets under the capital leases is included in depreciation expense.

Accordingly, the assets were capitalized and have the following book values at June 30, 2016 and 2015:

	2016	2015
Vehicles	\$ 657,488	\$ 657,488
Less accumulated amortization	(441,336)	(276,961)
Total	\$ 216,152	\$ 380,527

Related interest expense for the years ended June 30, 2016 and 2015 was \$12,252 and \$16,346, respectively. Amortization expense relating to the capital lease obligations for the years ended June 30, 2016 and 2015 was \$207,682 and \$176,257, respectively.

At June 30, 2016, future minimum lease payments due under the capital leases are as follows:

2017	\$ 160,133
2018	42,551
2019	12,298
Total future minimum lease payments	214,982
Less amount representing interest	(7,300)
Present value of net minimum lease payments	207,682
Less current portion	(154,295)
Long-term portion	\$ 53,387

Journey Found, Inc.

Notes to Financial Statements June 30, 2016 and 2015

Note 7 - Commitments

Real estate

The Organization is leasing 18 facilities as of June 30, 2016, expiring at various times through June 2024. The Organization leases administrative office space through February 2024. Monthly payments for the leased facilities and office range between \$1,055 and \$6,666. The Organization is responsible for utilities, maintenance and insurance. Related rent expense for the years ended June 30, 2016 and 2015 was \$358,171 and \$376,509, respectively.

Furniture and equipment

The Organization also leases office equipment ranging from \$44 to \$77 per month through December 2019. Equipment lease expense for the years ended June 30, 2016 and 2015 was \$16,124 and \$8,483, respectively.

Future minimum lease payments due under all non-cancelable operating leases are as follows:

2017	\$	288,187
2018		144,003
2019		111,905
2020		107,108
2021		106,272
Thereafter		<u>231,784</u>
Total	\$	<u>989,259</u>

Note 8 - DDS operational advances

When a facility commences operations, the Organization may receive an operational advance equal to one month service revenue based on full capacity. These operational advances are applied against the final reimbursement when a facility ceases its agency relationship with DDS. Total operational advances received by the Organization amounted to \$484,940 as of both June 30, 2016 and 2015, respectively.

Note 9 - Pension plan

The Organization maintains a 403(b) retirement plan covering all eligible employees. Annually, the Board of Directors determines the profit-sharing contribution, if any, to the plan. The Organization contributed \$30,000 and \$21,444 for the years ended June 30, 2016 and 2015, respectively.

Note 10 - Subsequent events

The Organization entered into five vehicle capital lease agreements subsequent to June 30, 2016. The total amount that will be capitalized in the statement of financial position is \$109,738. The leases will expire at various times through October 2020.

Supplementary Information

Journey Found, Inc.

**Program Expenses
For the Years Ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Salaries	\$ 6,432,212	\$ 5,931,947
Employee benefits and taxes	1,521,004	1,386,222
Rent and occupancy	529,169	532,773
Program supplies and equipment	327,380	299,529
Depreciation and amortization	235,929	206,932
Transportation	164,046	174,225
Interest	89,247	77,026
Consulting	81,343	96,524
Repairs and maintenance	64,574	59,205
Insurance	51,285	52,191
Employee travel	56,536	76,453
Office supplies and equipment	17,978	29,724
Recruitment	25,945	29,109
Training	14,581	18,987
Miscellaneous	<u>270</u>	<u>-</u>
 Total	 <u><u>\$ 9,611,499</u></u>	 <u><u>\$ 8,970,847</u></u>

See Independent Auditor's Report.

Journey Found, Inc.

**Administrative Expenses
For the Years Ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Salaries	\$ 738,570	\$ 594,925
Employee benefits	185,007	142,299
Rent and occupancy	111,476	106,111
Consulting	71,612	71,721
Accounting and legal	48,346	34,453
Training	26,613	34,207
Office supplies	48,634	29,313
Depreciation and amortization	18,611	24,683
Dues, subscriptions and memberships	18,612	20,542
Equipment leases	14,896	10,075
Transportation	14,128	8,269
Insurance	8,805	7,710
Interest	3,810	5,529
Fundraising	22,989	-
Miscellaneous	10,143	-
	<u> </u>	<u> </u>
Total	<u>\$ 1,342,252</u>	<u>\$ 1,089,837</u>

See Independent Auditor's Report.

COHN  REZNICK
ACCOUNTING • TAX • ADVISORY

Independent Member of Nexia International

cohnreznick.com