

Journey Found, Inc.

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

June 30, 2018 and 2017

COHN  REZNICK
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Journey Found, Inc.

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Independent Auditor's Report

To the Board of Directors
Journey Found, Inc.

Report on the 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, 2018 and 2017, 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, 2018 and 2017, 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 15 and 16 is presented for purposes of additional analysis 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 January 7, 2019 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 solely 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 the effectiveness of Journey Found, Inc.'s 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.



Hartford, Connecticut
January 7, 2019

Journey Found, Inc.

**Statements of Financial Position
June 30, 2018 and 2017**

Assets

	2018	2017
Current assets		
Cash	\$ 805,594	\$ 538,145
Accounts receivable	372,243	813,632
Prepaid expenses	43,903	25,765
Total current assets	1,221,740	1,377,542
Property and equipment, at cost		
Buildings and improvements	1,516,665	1,272,235
Vehicles	684,046	1,189,618
Furniture, fixtures and equipment	154,344	157,189
	2,355,055	2,619,042
Less accumulated depreciation and amortization	569,690	863,745
	1,785,365	1,755,297
Land	413,469	363,469
Total property and equipment	2,198,834	2,118,766
Other assets		
Security deposits	88,127	60,958
Total assets	\$ 3,508,701	\$ 3,557,266

Liabilities and Net Assets

Current liabilities		
Accrued expenses	\$ 353,130	\$ 335,428
Accounts payable	63,859	49,889
Current portion of long-term debt	60,768	56,774
Current portion of capital lease obligations	196,626	172,888
Total current liabilities	674,383	614,979
Long-term liabilities		
Long-term debt, less current portion	959,261	1,020,028
Capital lease obligations, less current portion	227,830	378,096
DDS cash advances	526,457	526,457
Total long-term liabilities	1,713,548	1,924,581
Total liabilities	2,387,931	2,539,560
Commitments		
Net assets		
Unrestricted	1,110,979	967,241
Temporarily restricted	9,791	50,465
Total net assets	1,120,770	1,017,706
Total liabilities and net assets	\$ 3,508,701	\$ 3,557,266

See Notes to Financial Statements.

Journey Found, Inc.

**Statements of Activities
Years Ended June 30, 2018 and 2017**

	2018	2017
Changes in unrestricted net assets		
Program revenue	\$ 12,694,249	\$ 12,289,162
Expenses		
Program expenses	11,369,667	10,693,254
Supporting services expenses	1,611,388	1,633,340
Total expenses	12,981,055	12,326,594
Change in unrestricted net assets before other income	(286,806)	(37,432)
Other income		
Contributions and fundraising	326,472	58,072
Net assets released from restriction	40,674	49,535
Other	55,525	24,542
Grants	7,873	3,900
Total other income	430,544	136,049
Change in unrestricted net assets	143,738	98,617
Changes in temporarily restricted net assets		
Net assets released from restriction	(40,674)	(49,535)
Change in temporarily restricted net assets	(40,674)	(49,535)
Change in net assets	103,064	49,082
Net assets, beginning	1,017,706	968,624
Net assets, end	\$ 1,120,770	\$ 1,017,706

See Notes to Financial Statements.

Journey Found, Inc.

**Statements of Cash Flows
Years Ended June 30, 2018 and 2017**

	2018	2017
Cash flows from operating activities		
Change in net assets	\$ 103,064	\$ 49,082
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Bad debts	10,372	13,788
Depreciation and amortization	261,801	229,163
Contribution of property	(220,000)	-
Loss on disposal of property and equipment	9,766	285
Changes in operating assets and liabilities		
Accounts receivable	431,017	209,772
Prepaid expenses	(18,138)	111,174
Security deposits	(27,169)	(11,923)
Accrued expenses	17,702	87,158
Accounts payable	13,970	(5,673)
DDS cash advances	-	41,517
	<u>582,385</u>	<u>724,343</u>
Cash flows from investing activities		
Purchases of property and equipment	(78,051)	(21,100)
	<u>(78,051)</u>	<u>(21,100)</u>
Cash flows from financing activities		
(Payments on) proceeds from lines of credit, net	-	(100,000)
Repayments of long-term debt	(56,773)	(53,038)
Repayments of capital lease obligations	(180,112)	(170,828)
	<u>(236,885)</u>	<u>(323,866)</u>
Net increase in cash	267,449	379,377
Cash, beginning	<u>538,145</u>	<u>158,768</u>
Cash, end	<u>\$ 805,594</u>	<u>\$ 538,145</u>
Supplemental disclosures of cash flow data		
Interest paid	<u>\$ 91,099</u>	<u>\$ 86,572</u>
Supplemental disclosures of noncash investing and financing activities		
Acquisition of property, equipment and improvements	\$ 351,635	\$ 535,230
Assets acquired through capital lease obligations	(53,584)	(514,130)
Contribution of property	(220,000)	-
Purchases of property and equipment with cash	<u>\$ 78,051</u>	<u>\$ 21,100</u>

See Notes to Financial Statements.

Journey Found, Inc.

Notes to Financial Statements June 30, 2018 and 2017

Note 1 - Organization and summary of significant accounting policies

Organization

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

At June 30, 2018 and 2017, 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's federal and state information returns prior to fiscal year 2015 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings. Management has concluded there are no tax contingencies required to be recorded as of June 30, 2018 and 2017.

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 statements 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, 2018 and 2017.

Journey Found, Inc.

Notes to Financial Statements June 30, 2018 and 2017

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 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, 2018 and 2017.

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 are carried at cost less accumulated depreciation. Donated property and equipment are carried at the approximate fair value at the date of donation. Depreciation and amortization of property and equipment are 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>Assets</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.

Expense allocation

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

Journey Found, Inc.

Notes to Financial Statements June 30, 2018 and 2017

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, continuous residential supports, and in-home supports are billed through a fiscal intermediary and/or reimbursed through a direct contract 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 statements 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 January 7, 2019, which is the date the financial statements were available to be issued (see Note 11).

Note 2 - Concentrations

Funding source

The Organization's program revenue is primarily derived from contracts with DDS. Total revenue received from DDS in fiscal years 2018 and 2017 was \$10,587,217 or 83% of program revenue and was \$9,826,508 or 79% of program revenue, respectively. At June 30, 2018 and 2017, \$272,872 and \$540,659, 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. At June 30, 2018, amounts were exceeded by approximately \$621,000.

Collective bargaining agreement

The Organization has an agreement with the New England Health Care Employees Union. The collective bargaining agreement pertains to approximately 82% and 83% of the Organization's employees for the years ended June 30, 2018 and 2017, respectively. The agreement expired March 31, 2017 and is currently in negotiation.

Journey Found, Inc.

**Notes to Financial Statements
June 30, 2018 and 2017**

Note 3 - Accounts receivable

Accounts receivable consists of the following at June 30, 2018 and 2017:

	2018	2017
DDS receivable	\$ 1,149,419	\$ 540,659
Less DDS bridge funding	(876,547)	-
Net DDS receivable	272,872	540,659
Other receivables	99,371	272,973
	\$ 372,243	\$ 813,632

Note 4 - Long-term debt

Long-term debt consists of the following at June 30, 2018 and 2017:

	2018	2017
6.00% note payable to DDS, collateralized by real estate. Monthly principal and interest payments of \$2,350 are payable through September 2037.	\$ 321,514	\$ 330,140
6.63% mortgage loan payable to Connecticut Housing Finance Authority ("CHFA"), collateralized by real estate. Monthly principal and interest payments of \$2,311 are payable through October 2030.	206,430	216,914
6.93% mortgage loan payable to CHFA, collateralized by real estate. Monthly principal and interest payments of \$2,627 are payable through August 2027.	189,566	203,881
6.93% mortgage loan payable to CHFA, collateralized by real estate. Monthly principal and interest payments of \$2,159 are payable through February 2028.	161,744	173,106
6.93% mortgage loan payable to CHFA, collateralized by real estate. Monthly principal and interest payments of \$2,129 are payable through September 2026.	140,775	152,761
Less current portion	1,020,029 (60,768)	1,076,802 (56,744)
Total	\$ 959,261	\$ 1,020,058

Journey Found, Inc.

Notes to Financial Statements June 30, 2018 and 2017

Future maturities of long-term debt for each of the five years subsequent to 2018 and thereafter are as follows:

2019	\$	60,768
2020		65,852
2021		70,429
2022		75,324
2023		80,562
Thereafter		<u>667,094</u>
Total	\$	<u><u>1,020,029</u></u>

Related interest expense for the years ended June 30, 2018 and 2017 was \$69,777 and \$73,509, respectively.

Note 5 - 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% (6.00% in total at June 30, 2018) and are collateralized by the assets of the Organization. There was no outstanding balance as of June 30, 2018 and 2017. Interest expense related to the lines of credit for the years ended June 30, 2018 and 2017 was \$355 and \$3,714, respectively.

Note 6 - Capital lease obligations

The Organization leases vehicles that expire at various times through April 18, 2023. 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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Vehicles	\$ 684,046	\$ 1,189,618
Less accumulated amortization	<u>(257,651)</u>	<u>(621,017)</u>
Total	<u><u>\$ 426,395</u></u>	<u><u>\$ 568,601</u></u>

Related interest expense for the years ended June 30, 2018 and 2017 was \$20,967 and \$9,349, respectively. Amortization expense relating to the capital lease obligations for the years ended June 30, 2018 and 2017 was \$190,072 and \$179,681, respectively.

Journey Found, Inc.

Notes to Financial Statements June 30, 2018 and 2017

At June 30, 2018, future minimum lease payments due under the capital leases are as follows:

	2019	\$	199,528
	2020		156,447
	2021		107,084
	2022		4,382
	2023		<u>3,652</u>
Total future minimum lease payments			471,093
Less amount representing interest			<u>(46,637)</u>
Present value of net minimum lease payments			424,456
Less current portion			<u>(196,626)</u>
Long-term portion		\$	<u><u>227,830</u></u>

Note 7 - Commitments

Real estate

The Organization is leasing 23 facilities as of June 30, 2018, expiring at various times through June 2024. The Organization leases administrative office space through February 2024. Monthly payments for the leased facilities and office space range between \$1,075 and \$7,061. The Organization is responsible for utilities, maintenance and insurance. Related rent expense for the years ended June 30, 2018 and 2017 was \$453,039 and \$476,357, respectively.

Furniture and equipment

The Organization also leases office equipment ranging from \$35 to \$345 per month through September 2020. Equipment lease expense for the years ended June 30, 2018 and 2017 was \$27,676 and \$27,126, respectively.

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

	2019	\$	243,617
	2020		126,864
	2021		112,208
	2022		111,372
	2023		27,000
	Thereafter		<u>18,160</u>
Total		\$	<u><u>639,221</u></u>

Note 8 - DDS cash advances

When a Community Living Arrangement program 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 cash advances received by the Organization amounted to \$526,457 for both years ended June 30, 2018 and 2017.

Journey Found, Inc.

**Notes to Financial Statements
June 30, 2018 and 2017**

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 \$50,000 for the years ended June 30, 2018 and 2017, respectively.

Note 10 - Temporarily restricted net assets

Temporarily restricted net assets of \$9,791 and \$50,465 at June 30, 2018 and 2017, respectively, are available for payroll expense.

Note 11 - Subsequent events

During September 2018, the Organization purchased two homes it previously rented for \$430,000 and obtained financing from DDS of approximately \$504,000 for the purchase of the buildings and renovations. Monthly payments of principal and interest of \$3,045 will be due over a 30-year period at an interest rate of 6%.

Supplementary Information

Journey Found, Inc.

**Program Expenses
Years Ended June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Salaries	\$ 7,631,950	\$ 7,197,361
Employee benefits and taxes	1,886,297	1,658,231
Rent and occupancy	628,584	656,823
Program supplies and equipment	301,010	361,069
Depreciation and amortization	246,321	208,345
Transportation	179,669	181,028
Consulting	71,623	100,601
Interest	90,744	82,858
Employee travel	62,467	76,947
Repairs and maintenance	89,694	70,705
Insurance	47,971	37,679
Recruitment	21,057	21,939
Training	20,090	20,420
Office supplies and equipment	42,163	11,902
Miscellaneous	50,027	7,346
	<u> </u>	<u> </u>
Total	<u>\$ 11,369,667</u>	<u>\$ 10,693,254</u>

See Independent Auditor's Report.

Journey Found, Inc.

Supporting Services Expenses
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Salaries	\$ 790,917	\$ 873,189
Employee benefits	274,976	282,871
Rent and occupancy	118,828	106,232
Consulting	139,067	99,343
Office supplies	44,248	62,585
Accounting and legal	66,398	41,150
Fundraising	40,456	30,586
Transportation	35,690	26,587
Training	36,388	23,481
Dues, subscriptions and memberships	22,970	23,434
Equipment leases	11,381	21,044
Depreciation and amortization	15,480	20,818
Insurance	14,234	14,113
Miscellaneous	-	4,193
Interest	355	3,714
	<u> </u>	<u> </u>
Total	<u>\$ 1,611,388</u>	<u>\$ 1,633,340</u>

See Independent Auditor's Report.

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