
The Adoption Exchange, Inc.

Consolidated Financial Report
June 30, 2019

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Independent Auditor's Report

To the Board of Directors
The Adoption Exchange, Inc.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of The Adoption Exchange, Inc. (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2019 and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and in accordance with *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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Adoption Exchange, Inc. as of June 30, 2019 and the change in net assets, functional expenses, and 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 The Adoption Exchange, Inc.'s consolidated financial statements as of and for the year ended June 30, 2018, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated November 15, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

To the Board of Directors
The Adoption Exchange, Inc.

Emphasis of Matter

As described in Note 2 to the consolidated financial statements, the Organization adopted the provisions under Financial Accounting Standards Board Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, as of July 1, 2018 and applied retrospectively to all years presented. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2019 on our consideration of The Adoption Exchange, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 The Adoption Exchange, Inc.'s internal control over financial reporting and compliance.

Plante & Moran, PLLC

October 31, 2019

The Adoption Exchange, Inc.

Consolidated Statement of Financial Position

June 30, 2019
(with comparative totals for 2018)

	<u>2019</u>	<u>2018</u>
Assets		
Current Assets		
Cash	\$ 1,387,631	\$ 720,835
Current portion of receivables - Net	1,160,592	785,827
Prepaid expenses and other assets	<u>20,469</u>	<u>36,309</u>
Total current assets	2,568,692	1,542,971
Investments	760,523	719,225
Interest in Net Assets of Community First Foundation	46,180	46,445
Long-term Receivables - Net	430,963	405,270
Property and Equipment - Net	<u>267,173</u>	<u>642,200</u>
Total noncurrent assets	<u>1,504,839</u>	<u>1,813,140</u>
Total assets	<u>\$ 4,073,531</u>	<u>\$ 3,356,111</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 33,262	\$ 235,277
Accrued liabilities	269,847	177,679
Deferred revenue	246,015	214,450
Current portion of note payable	<u>-</u>	<u>6,754</u>
Total current liabilities	549,124	634,160
Note Payable - Net of current portion	<u>-</u>	<u>142,167</u>
Total liabilities	549,124	776,327
Net Assets		
Without donor restrictions	2,060,298	1,324,590
With donor restrictions	<u>1,464,109</u>	<u>1,255,194</u>
Total net assets	<u>3,524,407</u>	<u>2,579,784</u>
Total liabilities and net assets	<u>\$ 4,073,531</u>	<u>\$ 3,356,111</u>

The Adoption Exchange, Inc.

Consolidated Statement of Activities and Changes in Net Assets

Year Ended June 30, 2019
(with comparative totals for 2018)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Revenue, Gains, and Other Support				
Foundations	\$ 2,264,856	\$ 610,000	\$ 2,874,856	\$ 882,807
Corporations and individuals	204,567	180,100	384,667	1,382,356
In-kind donations	390,266	-	390,266	475,741
Government support	2,080,722	-	2,080,722	1,513,285
Special events - Net	982,588	-	982,588	810,018
Investment income - Net	19,437	22,894	42,331	24,005
Gain on sale of property and equipment	183,576	-	183,576	-
Other income	72,238	-	72,238	31,692
Total revenue, gains, and other support	6,198,250	812,994	7,011,244	5,119,904
Net Assets Released from Restrictions	604,079	(604,079)	-	-
Total revenue, gains, other support, and net assets released from restrictions	6,802,329	208,915	7,011,244	5,119,904
Expenses				
Program services:				
Media-based recruitment services	913,095	-	913,095	900,987
Intensive recruitment services	1,982,545	-	1,982,545	976,645
Mentoring program	188,164	-	188,164	183,733
Family support program	1,199,547	-	1,199,547	830,450
National systems change	422,721	-	422,721	403,095
Total program services	4,706,072	-	4,706,072	3,294,910
Support services:				
General and administration	630,669	-	630,669	458,427
Funds development	729,880	-	729,880	636,709
Total support services	1,360,549	-	1,360,549	1,095,136
Total expenses	6,066,621	-	6,066,621	4,390,046
Increase in Net Assets	735,708	208,915	944,623	729,858
Net Assets - Beginning of year	1,324,590	1,255,194	2,579,784	1,849,926
Net Assets - End of year	\$ 2,060,298	\$ 1,464,109	\$ 3,524,407	\$ 2,579,784

Consolidated Statement of Functional Expenses

Year Ended June 30, 2019
(with comparative totals for 2018)

	Program Services					Support Services			Total		
	Media-based Recruitment Services	Intensive Recruitment Services	Mentoring Program	Family Support Program	National Systems Change	Total	General and Administration	Funds Development	Total	2019	2018
Compensation	\$ 388,601	\$ 1,490,370	\$ 146,038	\$ 861,402	\$ 245,723	\$ 3,132,134	\$ 483,738	\$ 585,423	\$ 1,069,161	\$ 4,201,295	\$ 2,784,556
Professional services	4,413	15,339	7,710	42,579	99,494	169,535	57,378	41,411	98,789	268,324	240,813
Direct program costs	35,422	63,496	9,354	27,075	2,416	137,763	-	-	-	137,763	110,924
Travel	14,553	159,681	2,321	67,384	26,943	270,882	5,632	13,375	19,007	289,889	128,760
Conferences and meetings	2,888	3,284	1,036	17,730	1,080	26,018	3,029	4,774	7,803	33,821	35,594
Printing, publications, and postage	47,812	1,536	348	22,677	18,632	91,005	1,153	38,610	39,763	130,768	51,664
Information technology	52,775	109,758	7,297	42,617	10,766	223,213	29,478	40,533	70,011	293,224	160,138
Office expenses	7,937	25,179	2,668	14,281	13,830	63,895	13,207	9,526	22,733	86,628	82,771
Occupancy	14,157	53,467	3,582	22,544	282	94,032	9,450	13,366	22,816	116,848	86,473
Insurance	4,670	15,858	1,437	7,255	1,757	30,977	3,871	5,133	9,004	39,981	49,304
Miscellaneous	4,692	11,565	2,043	6,136	1,647	26,083	11,044	25,014	36,058	62,141	50,090
Interest	-	-	-	-	-	-	7,637	-	7,637	7,637	7,392
Depreciation	7,568	28,583	1,915	12,052	151	50,269	5,052	7,145	12,197	62,466	58,750
Bad debt	-	-	-	-	-	-	-	(54,430)	(54,430)	(54,430)	67,076
In-kind expenses	327,607	4,429	2,415	55,815	-	390,266	-	-	-	390,266	475,741
Total	913,095	1,982,545	188,164	1,199,547	422,721	4,706,072	630,669	729,880	1,360,549	6,066,621	4,390,046
Special event expenses netted against revenue	-	-	-	-	-	-	-	254,293	254,293	254,293	234,637
Total expenses	\$ 913,095	\$ 1,982,545	\$ 188,164	\$ 1,199,547	\$ 422,721	\$ 4,706,072	\$ 630,669	\$ 984,173	\$ 1,614,842	\$ 6,320,914	\$ 4,624,683

Consolidated Statement of Cash Flows

Years Ended June 30, 2019
(with comparative totals for 2018)

	2019	2018
Cash Flows from Operating Activities		
Increase in net assets	\$ 944,623	\$ 729,858
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation expense	62,466	58,750
Gain on disposal of property and equipment	(183,576)	-
(Reversal) provision for doubtful accounts	(55,100)	55,100
Net realized and unrealized gains on investments	(35,616)	(23,102)
Donation of stock	-	(288,967)
Contributions restricted for endowments	(5,100)	(5,300)
Changes in operating assets and liabilities that (used) provided cash:		
Receivables	(345,358)	(415,373)
Prepaid expenses and other assets	15,840	(14,485)
Accounts payable	(202,015)	78,010
Accrued liabilities	92,168	(10,560)
Deferred revenue	31,565	37,450
Net cash provided by operating activities	319,897	201,381
Cash Flows from Investing Activities		
Net purchases of investments	(7,619)	(902)
Distributions received from Community First Foundation	2,202	2,189
Purchases of property and equipment	(1,832)	(24,752)
Proceeds from sale of property and equipment	497,969	-
Net cash provided by (used in) investing activities	490,720	(23,465)
Cash Flows from Financing Activities		
Payments on note payable	(148,921)	(6,679)
Contributions restricted for endowments	5,100	5,300
Net cash used in financing activities	(143,821)	(1,379)
Net Increase in Cash	666,796	176,537
Cash - Beginning of year	720,835	544,298
Cash - End of year	\$ 1,387,631	\$ 720,835
Supplemental Cash Flow Information - Cash paid for interest	\$ 7,637	\$ 7,392

Note 1 - Nature of Organization

The Adoption Exchange, Inc. (the "Organization") was created to ensure all children have a family today and for the rest of their lives. The Organization is a nonprofit corporation incorporated in the state of Colorado and is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. The Organization is headquartered in Aurora, Colorado and maintains regional offices in Utah and Nevada.

Through June 30, 2018, the Organization controlled Wednesday's Child Foundation, Inc. (WCF), a Colorado nonprofit corporation, for the purpose of raising, investing, and managing funds for the enhancement of the Organization's current and future programs. As of July 1, 2018, WCF was merged with the Organization and no longer exists as a separate entity.

Program Services

The Organization assists thousands of youth in foster care each year and supports hundreds of families across the United States. The Organization offers resources to assist families before, during, and after adoption to ensure permanency for the child. Since inception, the Organization has helped connect over 9,500 children with permanent families.

Ultimately, the Organization measures success in terms of the number of children and youth who are connected with a permanent, loving family. During the year ended June 30, 2019, the Organization served 1,545 children waiting in foster care, including 346 children placed in loving adoptive homes and an additional 233 children who achieved legal permanency through adoption, guardianship, or other means. The children served by the Organization:

- Are older - 86 percent were aged nine or older
- Are ethnically diverse - 50 percent belonged to a minority ethnicity
- Have special needs - almost all had at least one special need

The Organization employs a strategic approach to achieve the goal of emptying the foster care system. Using an integrated permanency model, the Organization works to reduce the time youth spend in foster care, find a permanent connection for every youth in foster care before they leave the system, and to make sure that relationship lasts.

The Organization's program services are as follows:

Media-based Recruitment Services

The Organization identifies and cultivates potential adoptive families for waiting children using child-centric recruitment methods and tools. Recruitment activities used to identify potential families include hosting adoption networking events, partnering with local news stations to broadcast WCF profiles, featuring registered children in the Children's Gallery on the Organization's website, conducting monthly adoption orientation and information classes, and using print and electronic media to create awareness of and support for the adoption of waiting children.

Additionally, the Organization works to help prospective adoptive families across the country understand the adoption process, connect with county human services agencies and child placement agencies to begin the adoption process, gain access to resources and professionals, and respond to questions and inquiries on specific children.

One of the most popular ways families learn more about waiting youth is through the Heart Gallery. The Heart Gallery is a collaborative photographic exhibit designed to increase the number of adoptive families for children needing homes in Colorado, Missouri, Nevada, and Utah. The Heart Gallery helps waiting youth find loving families and permanency through images that bring the children's personality and beauty into focus.

Note 1 - Nature of Organization (Continued)

In addition, small matching events are held, which allow prospective families and waiting children to interact in small, facilitated events that include activities fun for all. During the year ended June 30, 2019, 120 Colorado, Nevada, and Utah youth were featured at matching events; 29 of these children have found loving adoptive families.

Intensive Recruitment Services

Intensive recruitment services build positive, healthy relationships with youth to understand their strengths, interests, needs, and family preferences, which inevitably enhances the ability of the youth to find strength and feel empowered through the process. The program follows an evidence-based model that increases the likelihood of finding that parental resource by as much as three times. The model has been shown to be a net cost savings to the community, as the program reduces congregate care and foster care costs.

Mentoring Program

The signature mentoring program is CHOICE (Community, Happenings, Ownership by Youth, Involvement, Compassion, and Engagement). CHOICE is a hosting and mentorship program for youth in foster care between the ages of 12 and 18 that connects youth and host adults from the Colorado community to create lifelong relationships. This program builds on and replicates an evidence-informed recruitment, permanency, and family visit model. In this past year, 213 families and community members have expressed interest in the program. In total, 69 youth have been referred to the program from Adams, Denver, and Jefferson counties, and 26 families and youth have been matched into an active hosting relationship.

Family Support Program

Family preparation and support begins before a family has ever adopted. The family support program is geared toward education, support, and coaching. Hands-on, individualized, tailored, and supportive services are offered to families throughout their entire adoption journey. By developing relationships with families early, family commitment to adoption is maintained and adoption disruptions are often minimized.

Classes and training opportunities are offered to families and professionals and are geared toward providing information, support, and guidance in creating healthy and stable adoptive relationships. All children have entered the foster care system as a result of trauma, abuse, or neglect. The goal of many trainings is to help parents understand how these events may impact children and to recognize behaviors as symptoms of those experiences. The ultimate outcome for many of the training courses is for families to have the knowledge and tools they need to help their children become securely attached, successful, and healthy adults. Nearly 1,962 families and professionals benefited from over 11,211 hours of training and support through classes, webinars, and conferences that were offered during the year ended June 30, 2019. Other postadoption resources, including helpful articles and videos, were offered to adoptive families via bimonthly e-newsletters.

National Recruitment Capacity Building

The Organization works at a national level as a partner in the AdoptUSKids collaboration, helping states, tribes, and territories - and their private agency partners - build their capacity to recruit, engage, develop, and support foster, adoptive, and kinship families. The Organization provides free webinars, trainings, workshops, publications, peer learning opportunities, and tailored capacity-building services on a variety of topics for child welfare professionals. In the year ended June 30, 2019, 50 states; Washington, D.C.; Canada; Guam; Puerto Rico; armed forces families in both Europe and the Pacific; and nine tribes participated in system-specific, capacity-building services delivered by the Organization.

Note 2 - Significant Accounting Policies

Adoption of New Accounting Pronouncement

As of July 1, 2018 and applied retrospectively to all periods presented, the Organization adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This standard requires net assets to be classified in two categories, net assets without donor restrictions and net assets with donor restrictions, rather than the three previous classifications. In addition, the underwater portion of donor-restricted endowments is now reported as net assets with donor restrictions. This standard also requires changes in the way certain information is aggregated and reported by the Organization, including disclosures of quantitative and qualitative information about the liquidity and availability of resources and the presentation of expenses by both functional and natural classification. The standard also clarifies the definition of management and general and prohibits certain expenses from being allocated out of management and general. As a result of the adoption of this standard, the financial information for the year ended June 30, 2018 has been restated as follows: net assets of \$847,811 previously reported as temporarily restricted net assets and net assets of \$407,383 previously reported as permanently restricted net assets have been combined into net assets with donor restrictions.

Basis of Presentation

The consolidated financial statements of the Organization have been prepared on the basis of generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual results could differ from those estimates.

Summarized Comparative Information

The financial information presented for comparative purposes as of and for the year ended June 30, 2018 is not intended to be a complete financial statement presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's 2018 consolidated financial statements, from which the summarized information was derived.

Principles of Consolidation

The consolidated financial statements include the accounts of the Organization and WCF (collectively referred to as the "Organization"). As discussed in Note 1, WCF was merged with The Adoption Exchange, Inc. as of July 1, 2018 and no longer exists as a separate entity. All material intercompany accounts and transactions have been eliminated in consolidation.

Cash

The Organization considers all investments with an original maturity of three months or less when purchased to be cash equivalents. Excluded from cash is cash held for reinvestment as part of the investment portfolio.

Financial instruments, which potentially subject the Organization to concentrations of credit risk, consist of cash accounts that may, during the year, exceed the federally insured limit set by the FDIC. At June 30, 2019 and at various points throughout the year, the Organization had deposits in excess of federally insured limits. The Organization reduces credit risk by placing its cash and temporary investments with creditworthy, high-quality financial institutions.

Note 2 - Significant Accounting Policies (Continued)

Contributions and Contributions Receivable

Unconditional promises to give cash and other assets to the Organization are reported at fair value on the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value on the date the gift becomes unconditional or is received. The gifts are reported as contributions with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions in the accompanying financial statements.

The Organization provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The Organization's estimate is based on historical collection experience and a review of the current status of receivables. It is reasonably possible that the Organization's estimate of the allowance for doubtful accounts will change and that losses ultimately incurred could differ materially from the amounts estimated in determining the allowance. As of June 30, 2019, the Organization has determined that no allowance for contributions receivable was necessary.

Concentration of Receivables and Revenue

Revenue is predominately from foundations, individuals, corporations, and governmental agencies located principally in the United States. Two donors and governmental agencies accounted for 36 percent of total receivables as of June 30, 2019. One governmental agency accounted for approximately 15 percent of total revenue for the year ended June 30, 2019. One foundation accounted for approximately 24 percent of total revenue for the year ended June 30, 2019.

Investments

The Organization reports investments in equity securities with readily determinable fair values and all investments in debt securities at their fair values with unrealized gains and losses, dividends, interest, and investment management fees, which are included in investment income on the consolidated statement of activities and changes in net assets.

Property and Equipment

Property and equipment are recorded at cost. The Organization capitalizes all property and equipment with a cost or contributed fair value of \$5,000 or greater. The straight-line method is used for computing depreciation. Assets are depreciated over their estimated useful lives, ranging from 5 to 30 years. Costs of maintenance and repairs are charged to expense when incurred.

Deferred Revenue

Revenue from the funds received for events that will take place in a future period and annual membership dues paid in advance of services performed is deferred and recognized as income over the period of the membership (usually one year) or when the event occurs.

Classification of Net Assets

Net assets of the Organization are classified based on the presence or absence of donor-imposed restrictions.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions or for which the donor-imposed restrictions have expired or been fulfilled. Net assets in this category may be expended for any purpose in performing the primary objectives of the Organization.

Notes to Consolidated Financial Statements

June 30, 2019

Note 2 - Significant Accounting Policies (Continued)

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Earnings, gains, and losses on donor-restricted net assets are classified as net assets without donor restrictions unless specifically restricted by the donor or by applicable state law.

Revenue Recognition

Revenue from government grants, contracts, and fundraising events is recognized when in the period in which the related services are rendered and expenses are incurred. Accounts receivable consist primarily of amounts due under government contracts and other miscellaneous receivables.

In-kind Goods and Services

Certain donated services are recognized as support in the consolidated statement of activities and changes in net assets. The value of these services is determined based on estimated fair value.

A number of volunteers have donated time to the Organization. During the year ended June 30, 2019, the Organization had 116 volunteers who provided approximately 3,012 hours of donated service; however, the value of these services is not reflected in the consolidated financial statements because the services are not recognizable under accounting principles generally accepted in the United States of America.

Functional Allocation of Expenses

Costs of providing the program and support services have been reported on a functional basis in the consolidated statement of functional expenses. The consolidated financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses required allocation on a reasonable basis that is consistently applied. Such allocations are determined by management on an equitable basis using such methods as estimated usage, square footage, or periodic time and expense studies. Costs have been allocated between the various programs and support services based on estimates, as determined by management. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Income Taxes

The Organization is a not-for-profit corporation and is exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3). Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by the Organization and has concluded that, as of June 30, 2019, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the consolidated financial statements. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Note 2 - Significant Accounting Policies (Continued)

Upcoming Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Organization's year ending June 30, 2020. The ASU permits application of the new revenue recognition guidance using one of two retrospective application methods. The Organization plans to use the modified retrospective method. The Organization is continuing to evaluate the provisions of this new guidance and the impact this standard may have on its financial statements.

The FASB issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-to-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Organization's year ending June 30, 2022 and will be applied using a modified retrospective transition method to either the beginning of the earliest period presented or the beginning of the year of adoption. The Organization is still evaluating which method it will apply. The new lease standard is expected to have a significant effect on the Organization's consolidated financial statements as a result of the Organization's operating leases, as disclosed in Note 14, that will be reported on the consolidated statement of financial position at adoption. Upon adoption, the Organization will recognize a lease liability and corresponding right-to-use asset based on the present value of the minimum lease payments. The effects on the results of operations are not expected to be significant, as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The accounting guidance will result in more governmental contracts being accounted for as contributions and may delay revenue recognition for certain grants and contributions that no longer meet the definition of unconditional. The new guidance will be effective for the Organization's year ending June 30, 2020 and will be applied on a modified prospective basis. The Organization does not expect the standard to have a significant impact on the timing of revenue recognition for government grants and contracts but has not yet determined the impact on the timing of recognition of foundation and individual grants and contributions.

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including October 31, 2019, which is the date the consolidated financial statements were available to be issued.

Notes to Consolidated Financial Statements

June 30, 2019

Note 3 - Liquidity and Availability of Resources

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

Cash	\$ 1,387,631
Receivables - Net	1,591,555
Investments	760,523
Interest in net assets of the Community First Foundation	<u>46,180</u>
Financial assets - At June 30, 2019	3,785,889
Less those unavailable for general expenditures within one year due to:	
Contractual or donor-imposed restrictions:	
Restricted by donor with purpose restrictions	165,974
Contributions expected to be collected in greater than one year	430,963
Investments of endowed assets	458,136
Management designated for long-term use - Long-term investments	<u>348,567</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,382,249</u>

The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Organization's board of directors (the "Board") meets regularly to adjust policies regarding liquidity as needed.

The Organization's finance committee makes decisions concerning the use, investment strategy, and allocation of the Organization's financial assets and monitors investment performance in compliance with the board-approved Investment Policy Statement.

The Organization has a committed line of credit in the amount of \$200,000 at June 30, 2019, which it could draw upon if needed, as further described in Note 10.

Note 4 - Receivables

The following is the detail of receivables as of June 30, 2019:

Accounts receivable	\$ 527,342
Contributions receivable	1,078,250
Less discount on contributions receivable	<u>14,037</u>
Total	<u>\$ 1,591,555</u>

Note 5 - Contributions Receivable

Included in contributions receivable are several multiyear unconditional promises to give. They are included as follows:

Gross promises to give before unamortized discount	\$ 1,078,250
Less allowance for net present value discount	<u>(14,037)</u>
Net contributions receivable	<u>\$ 1,064,213</u>
Amounts due in:	
Less than one year	\$ 633,250
One to five years	<u>445,000</u>
Total	<u>\$ 1,078,250</u>

Notes to Consolidated Financial Statements

June 30, 2019

Note 6 - Investments

The details of the Organization's investments at June 30, 2019 are as follows:

Mutual funds	\$	411,741
Government money market funds		<u>348,782</u>
Total	\$	<u><u>760,523</u></u>

Net investment income consists of the following for the year ended June 30, 2019:

Dividends and interest	\$	7,182
Net realized loss		(334)
Net unrealized gain		35,950
Investment management service fees		<u>(467)</u>
Total	\$	<u><u>42,331</u></u>

Note 7 - Interest in Net Assets of Community First Foundation

The Organization participated in the nonprofit Preservation Challenge Grant Program established by the Community First Foundation (CFF). The purpose of this program is to assist charitable organizations with the formation of perpetual endowment funds. Under the terms and conditions of the grant award, the Organization made irrevocable transfers of donor-restricted funds to CFF, and CFF matched contributions received by the Organization.

CFF made distributions to the Organization of \$2,202 during the year ended June 30, 2019. Funds held by CFF for the benefit of the Organization are recorded as interest in net assets of CFF on the consolidated statement of financial position. The Organization's interest in CFF, including contributions transferred, matching contributions, and investment earnings, totaled \$46,180 as of June 30, 2019.

Note 8 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Organization has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. The Organization's Level 3 investments are composed of funds held by the Community First Foundation. Values are reported to the Organization by CFF and corroborated by management using CFF's audited financial statements. The main input is the fair value of the underlying investments held at the CFF and includes Level 1, 2, and 3 classifications; however, the Organization's share of the pooled investments is not quoted in active markets and is, therefore, classified within Level 3 in the fair value hierarchy.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Organization's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Notes to Consolidated Financial Statements

June 30, 2019

Note 8 - Fair Value Measurements (Continued)

The following table presents information about the Organization's assets measured at fair value on a recurring basis at June 30, 2019 and the valuation techniques used by the Organization to determine those fair values:

	Assets Measured at Fair Value on a Recurring Basis at June 30, 2019			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2019
Mutual funds	\$ 411,741	\$ -	\$ -	\$ 411,741
Interest in net assets of CFF	-	-	46,180	46,180
Total assets	\$ 411,741	\$ -	\$ 46,180	\$ 457,921

Money market funds in the amount of \$348,782 are not subject to fair value disclosures and, therefore, are not included in the above table.

Changes in Level 3 assets measured at fair value on a recurring basis for the year ended June 30, 2019 are as follows:

Balance at July 1, 2018	\$ 46,445
Investment earnings reinvested	1,094
Total realized losses	(334)
Total unrealized gains	1,630
Distributions	(2,202)
Investment management service fees	(453)
Balance at June 30, 2019	\$ 46,180

Both observable and unobservable inputs may be used to determine the fair value of positions classified as Level 3 assets. As a result, the unrealized gains and losses for these assets presented in the tables above may include changes in fair value that were attributable to both observable and unobservable inputs.

Note 9 - Property and Equipment

Property and equipment are summarized as follows:

Land	\$ 56,175
Buildings and improvements	604,177
Furniture and equipment	59,448
Software and website	135,456
Total cost	855,256
Accumulated depreciation	588,083
Net property and equipment	\$ 267,173

Depreciation expense for 2019 was \$62,466.

Notes to Consolidated Financial Statements

June 30, 2019

Note 10 - Line of Credit

On July 9, 2018, the Organization entered into a line of credit agreement with a bank that provides available borrowings of \$200,000. The line of credit is secured by all assets of the Organization and matures on January 31, 2020. Interest is payable on outstanding borrowings at 1 percent above the prime rate (6.50 percent at June 30, 2019) with a floor of 6 percent. No amounts were outstanding under this line of credit at June 30, 2019.

Subsequent to June 30, 2019, the Organization amended the line of credit agreement with the bank to increase available borrowings to \$400,000.

Note 11 - Accrued Liabilities

The following is the detail of accrued liabilities:

Accrued vacation	\$	172,974
Accrued payroll		81,173
Other accrued liabilities		15,700
Total	\$	<u>269,847</u>

Note 12 - Net Assets

Net assets with donor restrictions as of June 30, 2019 are available for the following purposes:

Subject to expenditures for a specified programmatic purpose	\$	165,974
Subject to the passage of time:		
Multiyear contributions receivable without donor purpose restrictions		539,999
Contributions receivable with a specified programmatic purpose		<u>300,000</u>
Total subject to the passage of time		839,999
Endowment assets:		
Accumulated endowment earnings		47,856
Net assets to be held in perpetuity		<u>410,280</u>
Total endowment assets		<u>458,136</u>
Total	\$	<u>1,464,109</u>

Note 13 - Donor-restricted Endowments

The Organization's endowments consist of two donor-restricted funds established for long-term support of the Organization. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The State of Colorado has adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) effective September 1, 2008. Accordingly, the Organization follows FASB Staff Position, Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds.

Notes to Consolidated Financial Statements

June 30, 2019

Note 13 - Donor-restricted Endowments (Continued)

The Organization is subject to UPMIFA and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the Board appropriates such amounts for expenditures. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The board of directors of the Organization had interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Organization considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Organization has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of the Organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization

Invested Endowment Asset Composition by Type of Fund

The Organization's endowment net assets are composed of the following funds as of June 30, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Net assets subject to time or purpose restrictions	\$ -	\$ 47,856	\$ 47,856
Net assets to be held in perpetuity	-	410,280	410,280
Total	\$ -	\$ 458,136	\$ 458,136

Notes to Consolidated Financial Statements

June 30, 2019

Note 13 - Donor-restricted Endowments (Continued)

Changes in Invested Endowment Assets

Changes in endowment net assets for the year ended June 30, 2019 are composed of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - Beginning of year	\$ -	\$ 452,344	\$ 452,344
Investment return:			
Investment income	-	742	742
Net appreciation (realized and unrealized)	-	22,152	22,152
Total investment return	-	22,894	22,894
Contributions	-	5,100	5,100
Appropriation of endowment assets for expenditure	-	(22,202)	(22,202)
Endowment net assets - End of year	<u>\$ -</u>	<u>\$ 458,136</u>	<u>\$ 458,136</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature would be reported in net assets with donor restrictions. There were no such deficiencies at June 30, 2019.

Investment Strategy and Return Objectives

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce a long-term rate of return that is, net of spending, greater than the rate of inflation.

Certain endowment assets are kept at CFF. CFF has discretion in selecting the asset mix and managers for the endowments of the Organization. The target asset allocation is as follows: (a) 5 percent in money markets, (b) 45 percent in fixed income, and (c) 50 percent in equities. The remaining endowment assets are allocated based on the board-approved investment policy to satisfy its long-term rate-of-return objectives. That policy's target allocation is (a) 40 percent in equities and (b) 60 percent in fixed income.

Spending Policy

The Organization has a policy of appropriating for distribution each year no more than 5 percent of its endowment fund's monthly average fair value in any given year. In establishing this policy, the Organization considered the long-term expected rate of return on its endowment.

Note 14 - Operating Leases

The Organization is obligated under operating leases primarily for facilities and equipment, expiring at various dates through February 2022. The leases require the Organization to pay taxes, insurance, utilities, and maintenance costs. Total rent expense under these leases was \$89,727 for the year ended June 30, 2019. Subsequent to June 30, 2019, the Organization entered into a lease for office space, expiring in March 2027. Additionally, as described in Note 16, the Organization entered into an agreement to leaseback certain office space through March 2020. Amounts due under these leases are included in the table below.

Notes to Consolidated Financial Statements

June 30, 2019

Note 14 - Operating Leases (Continued)

Future minimum annual commitments under these operating leases are as follows:

Years Ending June 30	Amount
2020	\$ 162,441
2021	248,556
2022	253,008
2023	258,468
2024	264,180
Thereafter	<u>755,412</u>
Total	<u>\$ 1,942,065</u>

Note 15 - Retirement Plan

The Organization sponsors a 401(k) plan for eligible employees. The plan provides for the Organization to make a discretionary matching contribution. There were no employer contributions made during the year ended June 30, 2019.

Note 16 - Subsequent Events

Subsequent to June 30, 2019, the Organization entered into an agreement to sell its headquarters building for approximately \$710,000. The Organization intends to use these proceeds for future activities. As part of this agreement, the Organization entered into an agreement to lease back a portion of the office space through March 2020. Upon completion of that term, the Organization plans to move to a new location at 1325 S. Colorado Blvd.