**COMMUNITY LINC, INC.**

**FINANCIAL STATEMENTS**

Year Ended December 31, 2019

MHM

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# INDEPENDENT AUDITORS' REPORT

To the Board of Directors

**COMMUNITY LINC, INC.**

We have audited the accompanying financial statements of Community LINC, Inc. (the "Organization"), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

## Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider internal control relevant to the Organization'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 Organization'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.

### *Adoption of New Accounting Standards*

As discussed in Note 1 to the financial statements, on January 1, 2019, Community LINC, Inc. adopted the amendments to the Accounting Standards Update ("ASU") No. 2018-08, Topic 958, *Not-for-Profit Entities*, ASU 2016-18, Topic 230, *Statement of Cash Flows*, and Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customer*s. Our opinion is not modified with respect to these matters.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community LINC, Inc. as of December 31, 2019, and the changes in net assets and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Mayer Hoffman McCann P.C.

Kansas City, Missouri
August 28, 2020

**COMMUNITY LINC, INC.**

**STATEMENT OF FINANCIAL POSITION**

December 31, 2019

## ASSETS

| | | |
|---|---|---|
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ | 849,387 |
| Certificates of deposit | | 451,194 |
| Grants and contracts receivable | | 693,695 |
| Pledges receivable, current portion | | 115,510 |
| TOTAL CURRENT ASSETS | | 2,109,786 |
| PROPERTY AND EQUIPMENT | | |
| Land | | 60,460 |
| Buildings and improvements | | 2,148,974 |
| Furniture and office equipment | | 335,733 |
| Property at equipment at cost | | 2,545,167 |
| Accumulated depreciation | | (1,228,828) |
| NET PROPERTY AND EQUIPMENT | | 1,316,339 |
| PLEDGES RECEIVABLE, less current portion, net of allowance for doubtful accounts and unamortized discount | | 140,482 |
| TOTAL ASSETS | $ | 3,566,607 |

## LIABILITIES

| | | |
|---|---|---|
| CURRENT LIABILITIES | | |
| Accounts payable | $ | 7,123 |
| Accrued liabilities | | 41,559 |
| Client deposits | | 2,870 |
| Long-term debt, current portion | | 12,390 |
| TOTAL CURRENT LIABILITIES | | 63,942 |
| LONG-TERM DEBT, less current portion above | | 35,194 |
| TOTAL LIABILITIES | | 99,136 |

## NET ASSETS

| | | |
|---|---|---|
| NET ASSETS WITHOUT DONOR RESTRICTIONS | | |
| Undesignated | | 1,473,154 |
| Board designated | | 518,690 |
| TOTAL NET ASSETS WITHOUT DONOR RESTRICTIONS | | 1,991,844 |
| NET ASSETS WITH DONOR RESTRICTIONS | | 1,475,627 |
| TOTAL NET ASSETS | | 3,467,471 |
| TOTAL LIABILITIES AND NET ASSETS | $ | 3,566,607 |

**COMMUNITY LINC, INC.**

**STATEMENT OF ACTIVITIES**

Year Ended December 31, 2019

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| SUPPORT AND REVENUE | | | |
| Contracts | $ 457,946 | $ 55,630 | $ 513,576 |
| Grants | 199,060 | 1,053,000 | 1,252,060 |
| Contributions | 38,729 | 227,968 | 266,697 |
| Special events | 707,833 | - | 707,833 |
| Less: Costs of direct benefits to donors | (138,810) | - | (138,810) |
| United Way support | - | 27,860 | 27,860 |
| Other income | 1,979 | - | 1,979 |
| In-kind contributions | 131,975 | - | 131,975 |
| Net assets released from restrictions | 729,337 | (729,337) | - |
| TOTAL SUPPORT AND REVENUE | 2,128,049 | 635,121 | 2,763,170 |
| EXPENSES | | | |
| Program | 1,520,024 | - | 1,520,024 |
| Management and general | 276,204 | - | 276,204 |
| Fundraising | 195,388 | - | 195,388 |
| TOTAL EXPENSES | 1,991,616 | - | 1,991,616 |
| CHANGE IN NET ASSETS | 136,433 | 635,121 | 771,554 |
| NET ASSETS, BEGINNING OF YEAR | 1,855,411 | 840,506 | 2,695,917 |
| NET ASSETS, END OF YEAR | $ 1,991,844 | $ 1,475,627 | $ 3,467,471 |

**COMMUNITY LINC, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**

Year Ended December 31, 2019

| | Program | Management and General | Fundraising | Total |
|---|---|---|---|---|
| Salaries and wages | $ 661,932 | $ 141,208 | $ 79,434 | $ 882,574 |
| Payroll taxes | 53,109 | 11,329 | 6,371 | 70,809 |
| Employee benefits | 102,551 | 21,872 | 12,308 | 136,731 |
| | | | | - |
| TOTAL PERSONNEL EXPENSES | 817,592 | 174,409 | 98,113 | 1,090,114 |
| Contracted labor | 33,863 | 57,799 | 9,550 | 101,212 |
| Volunteer program | 303 | - | - | 303 |
| Client costs | 189,204 | - | - | 189,204 |
| Advertising and promotion | 16,533 | - | 9,104 | 25,637 |
| Building and grounds maintenance | 74,306 | 1,012 | 1,879 | 77,197 |
| Utilities | 87,879 | 1,081 | 2,171 | 91,131 |
| Telephone | 6,249 | 938 | 916 | 8,103 |
| Office supplies and postage | 12,123 | 810 | 1,187 | 14,120 |
| Dues and subscriptions | 6,623 | - | - | 6,623 |
| Printing | 20,723 | 485 | 1,069 | 22,277 |
| Insurance | 43,844 | 541 | 1,082 | 45,467 |
| Travel and entertainment | 7,696 | 314 | 10,834 | 18,844 |
| Professional fees | - | 17,523 | 31,587 | 49,110 |
| IT services | 17,324 | 13,849 | 7,593 | 38,766 |
| Interest expense | 2,877 | - | - | 2,877 |
| Depreciation | 126,516 | 1,561 | 3,123 | 131,200 |
| Donated household goods | 40,020 | - | - | 40,020 |
| Miscellaneous | 9,672 | 4,457 | 16,380 | 30,509 |
| Lease expense | 6,677 | 1,425 | 800 | 8,902 |
| TOTAL EXPENSES | $ 1,520,024 | $ 276,204 | $ 195,388 | $ 1,991,616 |
| % OF FUNCTIONAL EXPENSES | 76.32% | 13.87% | 9.81% | 100.00% |

**COMMUNITY LINC, INC.**

**STATEMENT OF CASH FLOWS**

Year Ended December 31, 2019

| | | |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Change in net assets | $ | 771,554 |
| Adjustments to reconcile changes in net assets to net cash flows from operating activities | | |
| Depreciation | | 131,200 |
| Decrease (increase) in operating assets | | |
| Grants and contracts receivable | | (633,170) |
| Pledges receivable | | 404,097 |
| Prepaid expenses | | 16,926 |
| Increase (decrease) in operating liabilities | | |
| Accounts payable | | (2,761) |
| Accrued liabilities | | 6,462 |
| Client deposits | | (190) |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | | 694,118 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchases of certificates of deposit | | (1,337) |
| Purchases of property and equipment | | (246,848) |
| NET CASH FLOWS FROM INVESTING ACTIVITIES | | (248,185) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Repayment of long-term debt | | (11,755) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | | 434,178 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | | 415,209 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | $ | 849,387 |
| UNRESTRICTED | $ | 216,982 |
| RESTRICTED | | 632,405 |
| **CASH AND RESTRICTED CASH, END OF YEAR** | $ | 849,387 |

## NOTES TO FINANCIAL STATEMENTS

### (1) Summary of significant accounting policies

**Organization** – Community LINC, Inc. (the "Organization"), is a Missouri not-for-profit corporation that provides transitional housing programs for homeless families in Kansas City, Missouri and is dedicated to ending homelessness, impacting poverty, and removing barriers to self-sufficiency for the families they serve.

**Basis of accounting** – The Organization's financial statements are prepared on the accrual basis of accounting.

**Basis of presentation** – In accordance with the limitations, designations, and restrictions placed on the use of resources available to the Organization, the following classifications are utilized according to the nature and purpose of the resources:

- Net assets without donor restrictions: Net assets that are not subject to donor-imposed stipulations. The Board has designated net assets to be used as an operating reserve, or for future programs, investment, contingencies, purchase or construction of fixed asset, or other uses on an as-needed basis with Board approval.

- Net assets with donor restrictions: Net assets whose use by the Organization is subject to donor-imposed or legal stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire by the passage of time. Amounts received that are restricted for future periods or restricted by the donor for specific purposes are reported as net assets with donor restrictions. Net assets with donor restrictions are released from restriction when the expenses are incurred for their stated purpose or when the time restriction has expired.

**Revenue Recognition** – Contribution, grant, and special event revenue is recognized in accordance with Accounting Standards Update ("ASU") Topic 958, *Not-for-Profit Entities, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made,* which was adopted on January 1, 2019. Under this guidance revenue is considered available for the Organization's general programs unless specifically restricted by the donor. Amounts received that are restricted for future periods or restricted by the donor are reported as restricted contributions and increase net assets with donor restrictions. The Organization records special events revenue equal to the fair value of direct benefits to donors, and contribution income for the excess received when the event takes place.

Revenue from contracts is recognized in accordance with Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers*, which was adopted on January 1, 2019 using the modified retrospective transition method. Revenue recognition is based on the five-step model: (i) identify the contract with the customer; (ii) identify the performance obligation in the contract; (iii) determine the contract price; (iv) allocate the transaction price; and (v) recognize revenue (or as) each performance obligation is satisfied. If it is determined that a contract with an enforceable right and obligation does not exist, revenues are deferred until all criteria for an enforceable contract are met.

Contract revenues are typically project-based services rendered on a stated per-unit rate per service performed. These contracts exist for a period of typically twelve months or less. The Organization applies the right to invoice practical expedient to contract revenue, and recognizes revenue as invoiced, since the Organization's right to payment is for an amount that corresponds directly with the value provided to customers based on the Organization's performance to-date.

**(1) Summary of significant accounting policies (continued)**

**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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and cash equivalents** – Cash and cash equivalents consist of available cash balances on deposit at financial institutions. The Organization considers cash equivalents to be short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less. At times, the Organization maintains deposits in financial institutions in excess of federally insured limits. At December 31, 2019, the Organization's uninsured balances of cash, cash equivalents and certificates of deposit totaled $817,104. The Organization has not experienced any losses in such accounts and management believes the risk of loss is negligible.

**Certificates of deposit** – Certificates of deposit are maintained at cost-basis plus accrued interest, which approximates fair value, with interest being paid out on a varying schedule through the year. The certificates earn interest at rates between 0.30% and 0.60% with maturity dates ranging from to March 2020 to September 2020. As described above, at December 31, 2019 the Organization's deposit balances were in excess of federally insured limits.

**Grants, contracts and pledges receivable** – Grants, contracts and pledges receivable are reported at the present value of the amount management expects to collect on balances outstanding at year end. Management estimates the allowance for doubtful accounts based on history of collections and knowledge acquired about specific items. Adjustments to the allowance are charged to bad debt expense. Uncollectible accounts are written off against the reserve. An account is considered uncollectible when all efforts to collect the account have been exhausted. The allowance for doubtful accounts was $13,837 at December 31, 2019.

**Property and equipment** – Property and equipment are stated at cost or the fair value at date of gift for donated assets, less accumulated depreciation. If a donor stipulates how long the assets must be used, the contribution is recorded as restricted support. In the absence of such stipulation, a contribution of property and equipment is recorded as unrestricted support. Maintenance and repairs are charged to expense as incurred. When items of property and equipment are sold or retired, the related cost is removed from the accounts and any gain or loss is included in the results of operations. The Organization generally capitalizes fixed asset additions with a cost exceeding $1,000. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

| Assets | Estimated Useful Lives |
|---|---|
| Building and improvements | 5 - 27.5 Years |
| Furniture and office equipment | 5 - 15 Years |

**Income taxes** – The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code as a not-for-profit organization. In addition, the Organization has been classified as a publicly-supported organization which is not a private foundation within the meaning of Section 509(a)(1) of the Code. Accordingly, no provision has been made for Federal income tax.

## (1) Summary of significant accounting policies (continued)

The Organization's present accounting policy for the evaluation of uncertain tax positions is to review those positions on an annual basis. A liability would be recorded in the financial statements during the period which, based on all available evidence, management believes it is more likely than not that the tax position would not be sustained upon examination by taxing authorities and the liability would be incurred by the Organization. No accrual has been recorded at December 31, 2019 as management does not believe any material uncertainties exist.

**Functional expenses** – The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Expenses that can be identified with a specific program, general and administrative function, or fundraising effort are allocated directly to those functional categories. Other expenses that are common to several functions are allocated by management's estimate of resources devoted to the programs or support services using allocations. Personnel expenses are allocated based upon estimated time. Building and grounds maintenance, utilities, insurance, and depreciation are allocated based upon estimated square feet. During the year ended December 31, 2019 management allocated personnel expenses based upon estimated time according to employees and an analysis of job description forms.

**Recent accounting pronouncements** – On January 1, 2019 the Organization adopted the amendment to ASC Topic 958 in ASU 2018-08, *Not-for-Profit Entities* ("*ASC Topic 958"),* ASC Topic 230 in ASU 2016-48, *Statement of Cash Flows,* and the ASC Topic 606 *Revenue from Contracts with Customers,* and related amendments *("ASC Topic 606")*. The adoption of the amendments and the ASC did not have a material impact on the Organization's financial position, statement of activities or cash flows. As such the Organization did not make any adjustments to its financial position upon adoption there are no differences in 2019 as reported under ASC Topics 606 and 958 and prior guidance.

## (2) Pledges receivable

Pledges receivable that are expected to be collected within one year are recorded at net realizable value and are not discounted. Pledges receivable that are expected to be collected in more than one year are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using interest rates applicable to the years in which the promises are received. The discount rate used in valuing pledges receivable was 1%. Amortization of the discounts are included in contribution revenue.

| | | |
|---|---|---|
| Due in less than one year | $ | 115,510 |
| Due in one to five years | | 161,238 |
| | | 276,748 |
| Allowance for doubtful accounts | | (13,837) |
| Discount to present value | | (6,919) |
| Total pledges receivable | $ | 255,992 |

## (3) Line of credit

During the year ended December 31, 2019 the Organization had a $150,000 line of credit with a bank with an interest rate of prime plus .5% but not less than 5.0%. The line of credit matures July 2023 and is collateralized by property and all business assets. The balance on the line of credit was $0 at December 31, 2019.

**(4) Long-term debt**

The Organization's long-term debt consists of the following:

| | | |
|---|---|---|
| Note payable, collateralized by property, payable in monthly payments of $1,219, including interest at 5.25% due July 2023. | $ | 47,584 |
| Less current portion | | (12,390) |
| Non-current debt | $ | 35,194 |

Maturities for notes payable are as follows:

| Years ending December 31, | | |
|---|---|---|
| 2020 | $ | 12,390 |
| 2021 | | 13,073 |
| 2022 | | 13,786 |
| 2023 | | 8,335 |
| Total | $ | 47,584 |

**(5) Operating lease**

The Organization leases office equipment under an operating leases that expires October 2021. The future minimum rental payments required under the leases are as follows:

| Years ending December 31, | | |
|---|---|---|
| 2020 | $ | 7,076 |
| 2021 | | 5,897 |
| Total | $ | 12,973 |

**(6) Net assets with donor restrictions**

Net assets with donor restrictions consist of funds held for the following purposes:

| | | |
|---|---|---|
| Net assets with donor restrictions: | | |
| Purpose restricted | | |
| Interim/immediate housing | $ | 56,741 |
| Children's program | | 18,000 |
| Other shelter | | 20,086 |
| Capacity building | | 13,870 |
| Facilities | | 1,105,938 |
| Other | | 5,000 |
| Total purpose restricted | | 1,219,635 |
| Time restricted | | 255,992 |
| Total net assets with donor restrictions | $ | 1,475,627 |

**(6) Net assets with donor restrictions (continued)**

The sources of releases from net assets with donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of events specified by the donors were as follows:

| | |
|---|---|
| Purpose restricted | |
| Interim/immediate housing | $ 114,968 |
| Children's program | 1,378 |
| Other shelter | 98,521 |
| Direct client assistance | 70,895 |
| Coordinated entry | 50,000 |
| Facilities | 89,591 |
| Operations | 94,439 |
| Total purpose restricted | 519,792 |
| Time restricted | 209,545 |
| Total releases from net assets with donor restrictions | $ 729,337 |

**(7) Retirement plan**

The Organization sponsors a defined contribution plan for the benefit of all eligible employees. Participants may defer a portion of their salary up to the maximum allowed by law as a contribution to the plan. The Organization may also elect to contribute a discretionary amount, up to 3% of employee compensation. Contributions to the plan were $10,599 for the year ended December 31, 2019.

**(8) Concentrations**

Approximately 74% of the Organization’s grants and contracts receivable is due from four entities at December 31, 2019. Approximately 64% of the Organization’s pledges receivable was due from four donors at December 31, 2019.

**(9) Recent accounting pronouncements**

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which is intended to improve financial reporting about leasing transactions. The ASU affects all companies and other organizations that lease assets such as real estate, office equipment, and vehicles. Under the current accounting model, an organization applies a classification test to determine the accounting for the lease arrangement as an operating or capital lease. The new guidance will require organizations that lease assets to recognize on the statements of financial position the assets and liabilities for the rights and obligations created by those leases. A lessee will be required to recognize assets and liabilities for leases with terms of more than twelve months. Consistent with U.S. GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease primarily will depend on its classification as a capital or operating lease. However, unlike current U.S. GAAP, the new ASU will require both types of leases to be recognized on the statements of financial position.

This update is effective for the Organization’s December 31, 2022 financial statements and early adoption is permitted. The Organization is currently evaluating the effect that the updated standard will have on the financial statements and related disclosures.

## (10) Liquidity disclosure

The Organization has various sources of liquidity at its disposal, including cash and cash equivalents, certificates of deposit, grants and contracts receivable, and pledges receivable. For purposes of analyzing resources available over a 12-month period, the Organization considers all expenditures related to its ongoing activities to be general expenditures. Additionally, the Organization monitors its budget and anticipates sufficient revenue to cover general expenditures over the next 12 months. Refer to the statements of cash flows which identifies the sources and uses of the Organization's cash. As of December 31, 2019 the following financial assets could be made available within one year of the balance sheet date to meet general obligations:

| | |
|---|---|
| Cash and cash equivalents | $ 849,387 |
| Certificates of deposit | 451,194 |
| Grants and contracts receivable | 693,695 |
| Pledges receivable, current portion | 115,510 |
| | 2,109,786 |
| Less: Amounts subject to donor imposed restrictions | 1,335,145 |
| Financial assets available for general expenditures | $ 774,641 |

## (11) Subsequent events

The Organization has evaluated subsequent events through August 28, 2020, which is the date the financial statements were available to be issued. The following significant matters were identified for disclosure during this evaluation**.**

On March 11, 2020 the World Health Organization declared the outbreak of a coronavirus (COVID-19) a pandemic. The operations of the Organization may be significantly impacted by the pandemic and could result in material changes in the Organization's operations.

Additionally, the Small Business Administration (SBA) approved the Organization for a $195,000 Paycheck Protection Program (PPP) Loan. If these PPP funds are used for certain items stated within the agreement, the PPP loan will be forgiven by the SBA. If the funds are used for other items not specified within the agreement, the loan accrues interest at 1% and is due five years from receipt of the funds.