



Cape Abilities Inc.

Financial Statements

June 30, 2017



Kevin P. Martin & Associates, P.C.

Cape Abilities Inc.

Index

June 30, 2017

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Independent Auditors' Report

To the Board of Directors of
Cape Abilities Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Cape Abilities Inc. (a nonprofit organization), (the Agency), which comprise the statement of financial position as of June 30, 2017, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller 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 the Agency as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1(u) to the financial statements, the Agency has adopted ASU No. 2015-03, *Interest - Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs*. Our opinion is not modified with respect to that matter.

Report on Summarized Comparative Information

We have previously audited the Agency's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 10, 2016. The prior year summarized comparative information is not intended to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, except as described in the above emphasis of matter paragraph, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2017, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.



November 9, 2017



Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

To the Board of Directors of
Cape Abilities Inc.

We have audited, in accordance with the 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, the financial statements of Cape Abilities Inc. (a nonprofit organization), (the Agency), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 9, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect, and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Nunir P. Mantua & Associates, P.C.

November 9, 2017

Cape Abilities Inc.

Statement of Financial Position

As of June 30, 2017

With Comparative Totals as of June 30, 2016

	<u>2017</u>	<u>2016</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 857,879	\$ 930,168
Accounts receivable, net of allowance	1,834,443	1,555,216
Contributions receivable	10,000	10,025
Prepaid expenses	145,618	121,555
Inventory	<u>213,438</u>	<u>144,622</u>
Total Current Assets	<u>3,061,378</u>	<u>2,761,586</u>
Fixed Assets, net	<u>7,451,641</u>	<u>8,017,666</u>
Other Assets		
Deposits	30,904	30,304
Investments, board restricted	1,509,700	1,360,641
Other assets	<u>20,226</u>	<u>7,252</u>
Total Other Assets	<u>1,560,830</u>	<u>1,398,197</u>
Total Assets	<u>\$ 12,073,849</u>	<u>\$ 12,177,449</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 426,788	\$ 467,148
Accrued expenses	1,113,519	1,290,617
Capital lease obligations, current portion	132,890	89,317
Long-term debt, current portion	167,416	169,989
Deferred income	<u>7,310</u>	<u>11,524</u>
Total Current Liabilities	<u>1,847,923</u>	<u>2,028,595</u>
Long-Term Liabilities		
Long-term debt, net of current portion	2,697,691	2,866,476
Less: unamortized deferred financing fees	<u>(65,000)</u>	<u>(67,500)</u>
Total long-term debt, net	2,632,691	2,798,976
Capital lease obligations, net of current portion	336,577	273,195
Other liabilities	<u>59,325</u>	<u>80,842</u>
Total Long-Term Liabilities	3,028,593	3,153,013
Total Liabilities	<u>4,876,516</u>	<u>5,181,608</u>
Net Assets		
Unrestricted	5,535,230	5,359,725
Board restricted	1,509,700	1,360,641
Temporarily restricted	<u>152,403</u>	<u>275,475</u>
Total Net Assets	<u>7,197,333</u>	<u>6,995,841</u>
Total Liabilities and Net Assets	<u>\$ 12,073,849</u>	<u>\$ 12,177,449</u>

The accompanying notes are an integral part of these financial statements.

Cape Abilities Inc.

Statement of Activities

For the Year Ended June 30, 2017

With Comparative Totals for the Year Ended June 30, 2016

	Unrestricted Operating	Board Restricted	Temporarily Restricted	Total 2017	Total 2016
Revenue and Support					
Program service fees	\$ 15,530,409	\$ -	\$ -	\$ 15,530,409	\$ 14,566,769
Grants and contributions	561,657	-	33,884	595,541	807,005
Commercial products and services	2,004,880	-	-	2,004,880	1,935,455
Special events and activities, net	148,696	-	-	148,696	135,477
Other income	61,114	-	-	61,114	30,658
	18,306,756	-	33,884	18,340,640	17,475,364
Net assets released from restrictions	156,956	-	(156,956)	-	-
Total Revenue and Support	18,463,712	-	(123,072)	18,340,640	17,475,364
Expenses					
Program services	16,163,480	-	-	16,163,480	15,264,786
Management and general	1,809,425	-	-	1,809,425	1,888,767
Fundraising	328,851	-	-	328,851	340,887
Total Expenses	18,301,756	-	-	18,301,756	17,494,440
Change in Net Assets From Operations	161,956	-	(123,072)	38,884	(19,076)
Non-operating Revenue and Expenses					
Write-down of real estate asset (Note 12)	-	-	-	-	(574,891)
Investment income	13,549	149,059	-	162,608	50,035
Total Non-operating Revenue and Expenses	13,549	149,059	-	162,608	(524,856)
Change in Net Assets	175,505	149,059	(123,072)	201,492	(543,932)
Net Assets at Beginning of Year	5,359,725	1,360,641	275,475	6,995,841	7,539,773
Net Assets at End of Year	\$ 5,535,230	\$ 1,509,700	\$ 152,403	\$ 7,197,333	\$ 6,995,841

The accompanying notes are an integral part of these financial statements.

Cape Abilities Inc.

Statement of Cash Flows

For the Year Ended June 30, 2017

With Comparative Totals for the Year Ended June 30, 2016

	2017	2016
Cash Flows From Operating Activities		
Change in net assets	\$ 201,492	\$ (543,932)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	441,896	418,081
Amortization of financing fees	2,500	2,500
(Gain) loss on disposal of fixed assets	(5,560)	2,000
Unrealized gain on investments	(131,841)	(21,414)
Write-down of long-lived asset	-	574,891
Changes in operating assets and liabilities		
(Increase) decrease in:		
Accounts receivable	(279,227)	10,782
Contributions receivable	25	(10,025)
Prepaid expenses	(24,063)	86,885
Inventory	(68,816)	(41,055)
Deposits	(600)	(7,576)
Increase (decrease) in:		
Accounts payable	(40,360)	197,070
Accrued expenses	(177,098)	73,336
Deferred income	(4,214)	(27,046)
Other liabilities	(21,517)	54,297
Net cash (used in) provided by operating activities	<u>(107,383)</u>	<u>768,794</u>
Cash Flows From Investing Activities		
Purchase of fixed assets	(209,251)	(706,194)
Purchase of investments	(30,192)	(218,881)
Proceeds from sale of fixed assets	567,763	-
Net cash provided by (used in) investing activities	<u>328,320</u>	<u>(925,075)</u>
Cash Flows From Financing Activities		
Payments on capital lease liability	(121,868)	(74,033)
Payments on long-term debt	(721,358)	(776,313)
Advances of long-term debt	550,000	1,012,583
Net cash (used in) provided by financing activities	<u>(293,226)</u>	<u>162,237</u>
(Decrease) Increase in Cash and Cash Equivalents	<u>(72,289)</u>	<u>5,956</u>
Cash and Cash Equivalents, Beginning of Year	<u>930,168</u>	<u>924,212</u>
Cash and Cash Equivalents, End of Year	<u>\$ 857,879</u>	<u>\$ 930,168</u>
Supplemental Schedule of Cash Flow Information		
Cash paid during the year for interest	<u>\$ 94,245</u>	<u>\$ 81,458</u>
Supplemental Schedule of Non-cash Investing and Financing Activities		
Write-down of long-lived asset	<u>\$ -</u>	<u>\$ 574,891</u>
Purchases of fixed assets financed with new debt	<u>\$ 228,823</u>	<u>\$ 329,631</u>
Disposal of fixed assets	<u>\$ (180,412)</u>	<u>\$ (82,361)</u>

The accompanying notes are an integral part of these financial statements.

Cape Abilities Inc.

Statement of Functional Expenses

For the Year Ended June 30, 2017

With Comparative Totals for the Year Ended June 30, 2016

	<u>Program Services</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>Total 2017</u>	<u>Total 2016</u>
Functional Expenses:					
Employee compensation and related expenses	\$ 10,242,898	\$ 1,239,246	\$ 233,091	\$ 11,715,235	\$ 11,115,667
Stipends	1,721,141	-	-	1,721,141	1,621,486
Occupancy	1,144,038	22,927	11,466	1,178,431	1,195,704
Direct client wages	552,218	-	-	552,218	587,003
Other program and operating expenses	549,120	153,329	20,571	723,020	629,227
Vehicle expenses	459,795	4,209	3,692	467,696	447,661
Depreciation	402,044	39,852	-	441,896	418,081
Meals	183,145	1,682	-	184,827	146,224
Other professional fees and admin expenses	185,877	341,175	59,875	586,927	570,523
Commercial products and services	672,396	-	-	672,396	712,870
Staff mileage and travel	50,808	7,005	156	57,969	49,994
Total Functional Expenses	<u>\$ 16,163,480</u>	<u>\$ 1,809,425</u>	<u>\$ 328,851</u>	<u>\$ 18,301,756</u>	<u>\$ 17,494,440</u>

The accompanying notes are an integral part of these financial statements.

Cape Abilities Inc.

Notes to Financial Statements

June 30, 2017

(1) Summary of Significant Accounting Policies

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The significant accounting policies followed by Cape Abilities Inc. (the Agency) are described below to enhance the usefulness of the financial statements to the reader.

(a) Nature of Activities

The Agency is a Massachusetts nonprofit corporation, created to serve individuals with disabilities on Cape Cod, Massachusetts (Cape Cod) by educating, counseling and providing residential, social, therapeutic, and employment supports.

The majority of the Agency's services are provided to Cape Cod residents. The following program divisions are listed in order of relative importance based upon total program expenditures:

Residential Program - The Residential Program is a satellite residential program for disabled adults in locations across Cape Cod. The program strives to maximize an individual's integration into the community and promote less restrictive living by improving social recreation and independent and supervised living skills. The program accounted for 56% of total program expenditures.

Employment and Training Program - The Employment and Training Program prepares individuals for more integrated employment utilizing enclaves and independent competitive settings throughout the community. Service elements include paid work, vocational counseling, supported employment and training. It also provides for intensive levels of support to individuals to prepare them to function in a less restrictive environment and increase their self-sufficiency through use of modern techniques and equipment including work samples, paid work, community integration and other activities. The program accounted for 27% of total program expenditures.

Other Programs - Day Habilitation and Transportation Programs accounted for 17% of total program expenditures. Day Habilitation is offered in both the Hyannis and Eastham centers, this program provides therapeutic based activities to enhance wellness and independence for individuals who need more structure in order to succeed. Participants in our day and employment programs are provided with transportation to and from their daily program.

(b) Basis of Presentation

The statement of activities reports all changes in net assets, including changes in unrestricted net assets from operating and non-operating activities. Operating revenues consist of those monies received and other contributions attributable to the Agency's ongoing efforts.

Cape Abilities Inc.

Notes to Financial Statements

June 30, 2017

(1) Summary of Significant Accounting Policies - continued

(c) Revenue Recognition

The Agency earns revenue as follows:

Program Service Fees - Program service fee revenue is earned and recognized by the Agency when units are provided and billed under various agreements funded primarily by governmental agencies. Unit-rate contracts provide that revenue is to be earned and recognized at a negotiated or class rate for each unit-of-service that is provided under the terms of the contract. Billings on the contracts are subject to final approval by the governmental agency.

Contributions and Grants - Contributions and grants are recorded upon receipt or pledge as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. All contributions and grants are considered to be available for unrestricted use unless specifically restricted by the donor.

Donated Property, Equipment and Goods - Donations of property, equipment and goods are recorded as contributions at fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Agency reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Agency reclassifies temporarily restricted net assets to unrestricted net assets at that time. For the year ended June 30, 2017, donated goods totaling \$25,048 has been recognized as income and the corresponding expenses have been included with program service and administration expenses on the accompanying financial statements.

Donated Services - Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by individuals with those skills, and would otherwise be purchased by the Agency. Volunteers also provided fund-raising services throughout the year that are not recognized as contributions in the financial statements.

Commercial Products and Services - Commercial products and services are recognized as services are rendered at rates established by parties under contractual arrangements.

Special Events - Special event revenue is primarily derived from contributions collected and fees charged for admission at various sponsored events. Special events revenue is recognized when earned and is shown net of related direct expenses in the accompanying statement of activities. The majority of special event revenue is derived from a benefit walk, a golf tournament and a road race.

Cape Abilities Inc.

Notes to Financial Statements

June 30, 2017

(1) Summary of Significant Accounting Policies - continued

(c) Revenue Recognition - continued

Deferred revenue represents program service fee income received prior to year-end. These amounts are deferred and recognized over the periods to which the fees relate.

Substantially all of the Agency's revenue is derived from its activities in Massachusetts. During the year ended June 30, 2017, the Agency derived approximately 84% of its total revenue from governmental agencies and 16% from clients and other sources. All revenue is recorded at the estimated net realizable amounts.

(d) Accounts Receivable

The Agency carries its accounts receivable at an amount equal to uncollected but earned revenue less an allowance for doubtful accounts. On a periodic basis, the Agency evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on a history of past write-offs and collections and current credit conditions. As of June 30, 2017, the allowance for doubtful accounts totaled \$81,804.

The Agency does not have a policy to accrue interest on account receivables. The Agency has no policies requiring collateral or other security to secure the accounts receivable. As of June 30, 2017, 86% of the Agency's accounts receivable is due from governmental agencies and the remaining 14% is due from clients and other sources.

(e) Promises to Give

Conditional promises to give are not recognized in the financial statements until the conditions are substantially met. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in more than one year are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. In the absence of donor stipulations to the contrary, promises with payments due in future periods are restricted to use after the due date.

Unconditional promises to give are periodically reviewed to estimate an allowance for doubtful accounts. Management estimates the allowance by review of historical experience and a specific review of collections trends that differ from scheduled collections on individual promises. As of June 30, 2017, management has determined any allowance would be immaterial.

Cape Abilities Inc.

Notes to Financial Statements

June 30, 2017

(1) Summary of Significant Accounting Policies - continued

(f) Standards of Accounting and Reporting

The Agency's net assets (excess of its assets over liabilities) and its revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

The statement of financial position presents three classes of net assets (permanently restricted, temporarily restricted and unrestricted) and the statement of activities displays the change in each class of net assets. The classes of net assets applicable to the Agency are presented as follows:

Unrestricted - Net assets that are not subject to donor imposed restrictions. Unrestricted net assets consist of assets and contributions available for the support of operations. Unrestricted net assets may be designated for specific purposes by management or the Board of Directors. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or law.

Temporarily Restricted - Net assets that are subject to donor-imposed restrictions that may or will be met, either by actions of the Agency and/or passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions, gains and investment income that are restricted by the donor are reported as increases in unrestricted net assets if the restriction expires in the reporting period in which the contributions are recognized.

(g) Use of Estimates

In preparing the Agency's financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(h) Income Taxes

The Agency qualifies as an organization formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC) and is generally not subject to income tax. However, income from certain activities not directly related to the Agency's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Agency is not a private foundation under Section 509(a)(1).

(i) Fundraising

Fundraising relates to the activities of raising general and specific contributions to the Agency and promoting special events. Fundraising expenses as a percentage of total contribution and special event revenue was 44% for the year ended June 30, 2017. The ratio of expenses to amounts raised is computed using actual expenses and related revenue on an accrual basis.

Cape Abilities Inc.

Notes to Financial Statements

June 30, 2017

(1) Summary of Significant Accounting Policies - continued

(j) Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are allocated to programs and supporting services. Administration expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Agency.

Payroll and associated costs are allocated to functions based upon estimated time spent. Occupancy costs are allocated based upon square footage.

(k) Cash and Cash Equivalents

The Agency considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

The Agency maintains its cash balances at several financial institutions located in Massachusetts. The cash balances are insured by the Federal Deposit Insurance Corporation. At times these balances may exceed the federal insurance limits; however, the Agency has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these cash balances at June 30, 2017.

(l) Investments

The Agency carries investments at fair value. Interest and dividends are recorded when earned. Gains and losses are recognized as incurred or based on fair value changes during the period. Investments are exposed to risks such as interest rate, credit and overall market volatility.

(m) Fixed Assets

Fixed assets are recorded at cost or if donated, fair value on the date of receipt. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives. Improvements, including planned major maintenance activities are capitalized, while expenditures for routine maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the statement of activities.

Fixed assets acquired with resources provided under capital budget contracts with the Commonwealth of Massachusetts are included in land, buildings and equipment in the custodian fund on the statement of financial position. The assets must be used for the purposes designated in the related contract.

Cape Abilities Inc.

Notes to Financial Statements

June 30, 2017

(1) Summary of Significant Accounting Policies - continued

(m) Fixed Assets - continued

The Agency computes depreciation using the straight-line method over the following estimated lives:

	<u>Years</u>
Buildings and improvements	5-40
Leasehold improvements	10-20
Equipment, furniture and fixtures	3-10
Motor vehicles	3-5

Property and equipment are reviewed for impairment if the use of the asset significantly changes or another indicator or possible impairment is noted. If the carrying amount for the asset is not recoverable, the value is written down to the asset's fair value.

(n) Inventory

Inventories consist primarily of goods from the farms, thrift store, and vending machines operated by the Agency that are stated at the lower of cost or market determined by the first-in, first-out method. Inventory is included in other current assets on the statement of financial position.

(o) Amortization

Debt issuance costs relating to the long-term debt are amortized over the term of the related loan using the straight-line method, which approximates the effective yield method. Unamortized debt issuance costs are presented as a deduction from the carrying value of the bond payable, (see Note 5(b)). Amortization expense on deferred debt issuance costs has been included in interest expense which is included in occupancy expense on the statement of functional expenses.

(p) Designation of Unrestricted Net Assets

It is the policy of the Board of Directors of the Agency to review its plans for future property improvements and acquisitions from time to time and to designate appropriate sums of unrestricted net assets to assure adequate financing of such improvements and acquisitions.

(q) Summarized Financial Information for 2016

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Also, there is no presentation of statement of cash flows or statement of functional expenses for the year ended June 30, 2016. In addition, the financial statements do not include full financial statement disclosures for the prior year. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Agency's financial statements for the year ended June 30, 2016, from which the summarized information is derived. Certain amounts in the prior year have been reclassified to conform to the current year presentation of deferred debt issuance costs, (see Note 1(u)).

Cape Abilities Inc.

Notes to Financial Statements

June 30, 2017

(1) Summary of Significant Accounting Policies - continued

(r) Fair Value Measurements

GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Additionally, the inputs used to measure fair value are prioritized based on a three-level hierarchy. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels used to measure fair value are as follows:

Level 1: Quoted prices for identical instruments traded in active markets.

Level 2: Observable inputs other than quoted prices included in Level 1. Assets and liabilities included in this level are valued using quoted prices for similar assets and liabilities in active markets or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant inputs to the valuation model are unobservable.

Recurring Measurements

In accordance with GAAP, certain assets and liabilities are required to be recorded at fair value on a recurring basis. The Agency's assets that are adjusted to fair value on a recurring basis are investments in equity and debt securities classified as trading. The Agency currently has no liabilities that are adjusted to fair value on a recurring basis with the exception of \$20,226 relating to the deferred compensation plan (see Note 9(c)).

The following table summarizes assets measured at fair value on a recurring basis as of June 30, 2017.

Fair Value Measurements on a Recurring Basis

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments	\$ <u>1,529,926</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,529,926</u>
	\$ <u>1,529,926</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,529,926</u>

The fair values of investments in trading securities using quoted market prices from daily exchange traded markets were based on the closing price as of the balance sheet date and were classified as Level 1. Refer to Note 2 for additional information related to the composition of investments.

The Agency's policy is to recognize transfers into and out of levels as of the date an event or change in circumstances causes the transfer. There were no transfers between levels during the year ended June 30, 2017.

Cape Abilities Inc.

Notes to Financial Statements

June 30, 2017

(1) Summary of Significant Accounting Policies - continued

(r) Fair Value Measurements - continued

Non-recurring Measurements

In addition to assets and liabilities that are recorded at fair value on a recurring basis, the Agency records assets and liabilities at fair value on a non-recurring basis as required by GAAP. The Agency had no assets or liabilities measured at fair value on a non-recurring basis as of June 30, 2017.

(s) Construction in Progress

Construction in progress costs include construction costs the Agency intends on using in its programs. Construction in progress costs are recorded at cost. The property is located in Cape Cod. Construction in progress is included in land, buildings and equipment and will be depreciated upon its placed-in-service date (see Note 3).

(t) Recent Accounting Standard Adopted

In April 2015, the Financial Accounting Standards Board issued ASU 2015-03, *Interest - Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs*. ASU 2015-03 requires the presentation of debt issuance costs as a direct deduction from the carrying value of the related debt liability and amortization is required to be included with interest expense in the statement of activities. ASU 2015-03 is effective for fiscal years beginning after December 15, 2015. As a result, as of June 30, 2016, \$67,500 of unamortized debt issuance costs related to the Agency's bond payable were reclassified in the statement of financial position from other assets to long-term notes and mortgage payable and for the year ended June 30, 2016 \$2,500 of amortization expense related to such deferred debt issuance costs was reclassified to interest expense which is included in occupancy expense on the statement of functional expenses. In the statement of activities, with no effect on previously reported change in net assets. Other than this reclassification, the adoption of ASU 2015-03 did not have a material impact on the Agency's financial position, results of activities or cash flows.

(2) Investments

Investments are comprised of the following as of June 30, 2017:

	<u>Fair Value</u>
Debt securities:	
Corporate fixed income	\$ 434,694
Long-term money market annuities	110,845
Mutual Funds	20,226
Equity securities	<u>964,161</u>
Total	<u>\$ 1,529,926</u>

Cape Abilities Inc.

Notes to Financial Statements

June 30, 2017

(2) Investments - continued

Investment return consisted of the following for the year ended June 30, 2017:

Interest and dividends	\$	30,767
Realized and unrealized gains		<u>131,841</u>
Total gain on investments	\$	<u>162,608</u>

Corporate Fixed Income consist primarily of U.S. Corporate Bonds. Equity securities consist primarily of common stock of companies traded on the New York Stock Exchange and Exchange traded funds consisting of index funds investing primarily in stocks and bonds. Mutual funds consist primarily of a diversified portfolio of established domestic mutual funds investing relatively conservative debt and equity securities.

(3) Fixed Assets

Fixed assets consist of the following as of June 30, 2017:

	Agency Owned	State Owned	Total
Land	\$ 2,836,301	\$ -	\$ 2,836,301
Buildings and improvements	6,014,004	51,000	6,065,004
Leasehold improvements	38,492	-	38,492
Equipment	560,827	96,848	657,675
Furniture and fixtures	73,683	67,794	141,477
Motor vehicles	1,879,910	50,000	1,929,910
Construction in progress	<u>161,629</u>	<u>-</u>	<u>161,629</u>
	\$ <u>11,564,846</u>	\$ <u>265,642</u>	\$ <u>11,830,488</u>
Accumulated depreciation	<u>(4,130,703)</u>	<u>(248,144)</u>	<u>(4,378,847)</u>
Fixed assets, net	\$ <u>7,434,143</u>	\$ <u>17,498</u>	\$ <u>7,451,641</u>

During the year ended June 30, 2017, the Agency sold a property in an open market transaction. The property was appraised at \$592,490 and sold for \$575,000 resulting in a write-down of \$574,891, which was recognized in the prior year.

Depreciation amounted to \$441,896 for the year ended June 30, 2017.

(4) Special Events

The Agency held several special events during the year. Total special events revenue for the year ended June 30, 2017 amounted to \$190,438. Costs related to special events amounted to \$41,742. Revenue is shown net of related expenses on the statement of activities.

Cape Abilities Inc.

Notes to Financial Statements

June 30, 2017

(5) Debt

(a) Line of Credit

The Agency has a line of credit with TD Bank that allows for short-term borrowing. Effective April 27, 2017, the TD Bank Line of Credit was increased from \$750,000 to \$1,000,000. Interest is payable monthly in arrears at the Wall Street Journal Prime Rate (currently 4.25%). The line is secured by specific Agency owned property. The outstanding balance on the line of credit was zero as of June 30, 2017.

(b) Bond Payable

The Agency entered into a loan agreement with TD Bank and MDFA in the original amount of \$2,600,000 financed by MDFA Series 2014 Revenue Bonds. Proceeds were used to satisfy existing debt and pay fees with the remaining portion held in an escrow to fund certain construction projects. The loan is secured by specific Agency owned property and required monthly payments of only interest until March, 2015. Beginning in April, 2015, the loan requires monthly payments of principal and interest of \$14,836 through maturity in March 2034. The interest rate is equal to the tax-exempt rate in effect at closing (2.85%) and shall adjust on the tenth anniversary to the tax-exempt rate then in effect. In accordance with the loan agreement, the Agency must comply with certain reporting and financial covenants. The outstanding balance was \$2,361,451 as of June 30, 2017.

As discussed in Note 1(u), as a result of the adoption of ASU No. 2015-03, *Interest - Imputation Of Interest: Simplifying the Presentation of Debt Issuance Costs*, debt issuance costs were reclassified in the statement of financial position from other assets to long-term notes and mortgage payable. As of June 30, 2017, the outstanding principal balance of the bond payable less unamortized debt issuance costs was \$2,296,451. As of June 30, 2017, unamortized debt issuance costs of \$65,000 consist of debt issuance costs of \$75,000 less accumulated amortization of \$10,000. The effective interest rate is approximately 2.94% over the life of the loan. During the year ended June 30, 2017, amortization expense incurred was \$2,500, and was included in interest expense which is included in occupancy expense on the statement of functional expenses.

(c) Auto Loans

The Agency has entered into various notes payable arrangements with Rockland Trust Company. The notes, collateralized by the motor vehicles, are due in 36-60 monthly installments of principal and interest aggregating approximately \$15,473. Interest rates range from 4.11% to 5%. The total of the outstanding balances on the notes was 97,911 as of June 30, 2017.

Cape Abilities Inc.

Notes to Financial Statements

June 30, 2017

(5) Debt - continued

(d) Mortgage Payable

The Agency has a first mortgage note payable to Massachusetts Development Finance Agency in the original amount of \$463,500, of which, \$45,000 was held back by the lender. The note required interest-only payments through January 1, 2017. Thereafter, the note is due in monthly installments of \$2,490. The note bears interest at 4% and is secured by real estate in Barnstable, MA. The final payment on the note is due in July 2026. In accordance with the loan agreement, the Agency must comply with certain reporting and financial covenants. The outstanding balance was \$405,745 as of June 30, 2017.

(e) Debt Maturities and Interest

Aggregate maturities of long-term debt are as follows:

2018	\$ 167,416
2019	160,836
2020	148,838
2021	138,918
2022	139,578
Thereafter	2,109,521

Interest expense on all debt amounted to \$96,745 for the year ended June 30, 2017.

(6) Capital Lease Obligations

The Agency leases certain assets under capital lease arrangements. The economic substance of the leases is that the Agency is financing the acquisition of assets through the leases and, accordingly, their value is recorded on the statement of financial position. Capital leases are recorded at the lower of fair market value or the present value of future lease payments using interest rates appropriate at the inception of each lease.

The Agency's monthly aggregate capital lease payments approximate \$12,999. Interest rates on these obligations range between 2.9% and 4.9%.

The following is an analysis of the assets under capital leases included in land, building and equipment in the accompanying statement of financial position as of June 30, 2017:

Vehicles and equipment	\$ 652,461
Accumulated depreciation	<u>(153,804)</u>
	<u>\$ 498,657</u>

Depreciation expense on assets under capital leases amounted to \$110,243 for the year ended June 30, 2017.

Cape Abilities Inc.

Notes to Financial Statements

June 30, 2017

(6) Capital Lease Obligations - continued

The minimum lease payments for assets under capital leases are as follows:

2018	\$ 147,588
2019	134,128
2020	134,128
2021	59,101
2022	21,236
Total minimum obligations	\$ 502,735
Less: interest amount	(<u>33,268</u>)
Present value of obligations	469,467
Less: current portion	(132,890)
Long-term obligation	\$ <u>336,577</u>

Maturities of capital lease obligations are as follows:

2018	\$ 132,890
2019	123,875
2020	128,261
2021	56,771
2022	20,618

Interest expense on all capital lease obligations amounted to \$15,109 for the year ended June 30, 2017.

(7) Operating Lease Commitments

The Agency leases housing units located in various Cape Cod towns used in its programs under agreements with terms ranging from tenant-at-will to five years as well as equipment under agreements with terms ranging from three to four years. All of the leases are accounted for as operating leases. The required monthly payments under these leases range from \$65 to \$7,861. Rent expense on these leases amounted to \$326,834.

Cape Abilities Inc.

Notes to Financial Statements

June 30, 2017

(7) Operating Lease Commitments - continued

The minimum annual operating non-cancelable lease commitments on property for the Agency are as follows:

2018	\$ 212,785
2019	181,142
2020	156,038
2021	58,586

(8) Employee Benefits

(a) Defined Contribution Plan

The Agency has a defined contribution pension plan that qualifies as a tax-sheltered account under Section 403(b) of the IRC for the benefit of eligible employees. All employees are eligible to participate in the plan upon hire. Under the plan, benefit eligible employees can invest pre-tax dollars. The employees are not taxed on contributions or earnings until they receive distributions from the account.

(b) Section 125 Plan

The Agency has a plan that qualifies as a "Cafeteria Plan" under Section 125 of the IRC. The plan allows the Agency's employees to pay for medical and dental insurance and daycare on a pre-tax basis. All employees whose customary employment is at least 30 hours per week are eligible to participate in the plan.

(c) Deferred Compensation Plan

During the year ended June 30, 2015, the Agency established a non-qualified deferred compensation plan for a key employee of the Agency. The Agency may, but is not required to, contribute for each plan year that the key employee is employed. The market value of the plan assets as of June 30, 2017 is \$20,226.

The Agency's total contributions and expenses to these plans consist of the following:

Defined contribution plan	\$ 138,161
Deferred compensation plan	<u>20,226</u>
Total	\$ <u>158,387</u>

Cape Abilities Inc.

Notes to Financial Statements

June 30, 2017

(9) Restricted Net Assets

(a) Temporarily Restricted Net Assets

Temporarily restricted net assets consist of resources available to meet future obligations, but only in compliance with the restrictions specified by donors. As of June 30, 2017, temporarily restricted net assets are restricted for the following purposes:

<u>Nature of Restriction</u>	<u>Amount</u>
Support for employment and vocational skills training	\$ 12,500
Support for the ASD Communication Support Project	15,000
Support for CBDS Falmouth	1,716
Support for training/tuition reimbursements	4,418
Support for the Boylan Art Room	13,381
Time restriction on contribution	<u>105,388</u>
Total	\$ <u>152,403</u>

(b) Board Restricted Net Assets

The Board of Directors has designated \$1,509,700 of unrestricted net assets to be held in perpetuity to provide a continuous source of income, of which \$149,059 was designated during the year ended June 30, 2017. As of June 30, 2017, board restricted assets are classified as long term investments on the statement of financial position.

(10) Commitments and Contingencies

The Agency receives a portion of its funding from government agencies under unit service contracts. These contracts are subject to audit by the appropriate governmental agencies and could result in the recapture by the agencies of revenue previously reported by the Agency. In the opinion of management, the results of such audits, if any, will not have a material effect on the financial position of the Agency as of June 30, 2017 or on its results of operations for the year then ended.

The Agency's operations are concentrated in the social service provider field. As such, the Agency operates in a heavily regulated environment. The operations of the Agency are subject to administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to the following:

Massachusetts Department of Development Services
Massachusetts Executive Office of Health and Human Services
Massachusetts Operational Services Division

Cape Abilities Inc.

Notes to Financial Statements

June 30, 2017

(10) Commitments and Contingencies - continued

Such administrative directives, rules and regulations are subject to change by an act of Congress, act of the state and local legislature or an administrative change mandated by, the Commonwealth of Massachusetts departments listed above. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change. Additionally, contractual funding may decrease or be withdrawn with little notice.

In a prior fiscal period, the Agency received a contribution of \$39,000 from a federally funded block grant for the purchase of the Agency's Captain Lothrop Road residence. Repayment will be required only in the event that affordable housing restrictions, as defined in the agreement, are not met. As of June 30, 2017, in accordance with the agreement, the amount to be repaid if the affordable housing restrictions are not met is \$19,500. As of June 30, 2017, management believes it is unlikely that these restrictions will not be met.

The Agency is involved in legal actions arising in the normal course of business. In the opinion of management, such matters will not have material effect upon the financial position of the Agency.

(11) Subsequent Events

The Agency has performed an evaluation of subsequent events through November 9, 2017, which is the date the Agency's financial statements were available to be issued. No material subsequent events have occurred, other than the items disclosed below, since June 30, 2017 that required recognition or disclosure in these financial statements.

Cape Abilities Inc.

Schedule of Findings and Responses

June 30, 2017

(1) Current Year Findings

No significant deficiencies or material weaknesses reported.

(2) Status of Prior Year Findings

No significant deficiencies or material weaknesses reported.