



Cape Abilities Inc.

Financial Statements

June 30, 2019



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Kevin P. Martin & Associates, P.C.

**Cape Abilities Inc.**

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June 30, 2019

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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, 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 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, 2019, 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(t) to the financial statements, the Agency has adopted ASU No. 2016-14, Not-for-Profit Entities (Topic 958) - *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

## **Report on Summarized Comparative Information**

We have previously audited the Agency's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 13, 2018. 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, 2018, 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 14, 2019, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.



Braintree, Massachusetts  
November 14, 2019



**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, 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, and have issued our report thereon dated November 14, 2019.

**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.



Nimir P. Martini & Associates, P.C.

Braintree, Massachusetts  
November 14, 2019

**Cape Abilities Inc.**

Statement of Financial Position

As of June 30, 2019

With Comparative Totals as of June 30, 2018

	<b>2019</b>	<b>2018</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 328,224	\$ 550,210
Accounts receivable, net of allowance	2,042,866	1,881,882
Contributions receivable, current portion	42,668	63,446
Prepaid expenses	108,904	221,654
Inventory	215,358	201,924
Total Current Assets	2,738,020	2,919,116
<b>Fixed Assets, net</b>	8,615,256	8,498,209
<b>Other Assets</b>		
Deposits	29,704	29,704
Contributions receivable, net of current portion	47,856	89,024
Investments, board restricted	1,266,790	1,364,798
Other assets	17	28,916
Total Other Assets	1,344,367	1,512,442
<b>Total Assets</b>	\$ 12,697,643	\$ 12,929,767
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 325,225	\$ 321,201
Construction payable	363,214	390,221
Accrued expenses	932,385	865,424
Capital lease obligations, current portion	178,290	171,698
Line of credit	-	340,000
Long-term debt, current portion	165,375	160,793
Deferred income	28,400	8,720
Total Current Liabilities	1,992,889	2,258,057
<b>Long-Term Liabilities</b>		
Long-term debt, net of current portion	2,462,204	2,535,648
Less: unamortized deferred financing fees	(60,000)	(62,500)
Total long-term debt, net	2,402,204	2,473,148
Capital lease obligations, net of current portion	199,273	377,297
Other liabilities	95,115	95,115
Total Long-Term Liabilities	2,696,592	2,945,560
<b>Total Liabilities</b>	4,689,481	5,203,617
<b>Net Assets</b>		
Net assets without donor restrictions	7,922,618	7,616,591
Net assets with donor restrictions	85,544	109,559
Total Net Assets	8,008,162	7,726,150
<b>Total Liabilities and Net Assets</b>	\$ 12,697,643	\$ 12,929,767

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

**Cape Abilities Inc.**

Statement of Activities

For the Year Ended June 30, 2019  
With Comparative Totals for the Year Ended June 30, 2018

	<b>Net assets Without Donor Restrictions</b>	<b>Net Assets With Donor Restrictions</b>	<b>Total 2019</b>	<b>Total 2018</b>
<b>Revenue and Support</b>				
Program service fees	\$ 16,818,560	\$ -	\$ 16,818,560	\$ 15,702,066
Grants and contributions	645,537	10,000	655,537	884,891
Commercial products and services	2,515,965	-	2,515,965	2,178,814
Special events and activities, net	158,585	-	158,585	171,775
Other income	91,659	-	91,659	75,342
	20,230,306	10,000	20,240,306	19,012,888
Net assets released from restrictions	34,015	(34,015)	-	-
<b>Total Revenue and Support</b>	<b>20,264,321</b>	<b>(24,015)</b>	<b>20,240,306</b>	<b>19,012,888</b>
<b>Expenses</b>				
<b>Program Services</b>				
Program services	17,910,227	-	17,910,227	17,042,288
Management and general	1,845,612	-	1,845,612	1,785,222
Fundraising	280,961	-	280,961	381,580
<b>Total Expenses</b>	<b>20,036,800</b>	<b>-</b>	<b>20,036,800</b>	<b>19,209,090</b>
<b>Change in Net Assets From Operations</b>	227,521	(24,015)	203,506	(196,202)
<b>Non-operating Revenue and Expenses</b>				
Gain on sale of property	-	-	-	589,606
Investment income, net	78,506	-	78,506	135,413
<b>Total Non-operating Revenue and Expenses</b>	<b>78,506</b>	<b>-</b>	<b>78,506</b>	<b>725,019</b>
<b>Change in Net Assets</b>	306,027	(24,015)	282,012	528,817
<b>Net Assets at Beginning of Year</b>	<b>7,616,591</b>	<b>109,559</b>	<b>7,726,150</b>	<b>7,197,333</b>
<b>Net Assets at End of Year</b>	<b>\$ 7,922,618</b>	<b>\$ 85,544</b>	<b>\$ 8,008,162</b>	<b>\$ 7,726,150</b>

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

**Cape Abilities Inc.**

Statement of Cash Flows

For the Year Ended June 30, 2019  
With Comparative Totals for the Year Ended June 30, 2018

	<b>2019</b>	<b>2018</b>
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ 282,012	\$ 528,817
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	484,733	461,353
Amortization of financing fees	2,500	2,500
(Gain) loss on sale of property	-	(589,606)
Realized gain on investments	(61,583)	(55,331)
Unrealized gain on investments	956	(47,334)
Capital campaign receipts used for fixed asset additions	(68,000)	(64,100)
Changes in operating assets and liabilities		
(Increase) decrease in:		
Accounts receivable	(160,984)	(47,439)
Contributions receivable	61,946	(142,470)
Prepaid expenses	112,750	(76,036)
Inventory	(13,434)	11,514
Deposits	-	1,200
Increase (decrease) in:		
Accounts payable	4,024	(105,587)
Accrued expenses	66,961	(248,095)
Deferred income	19,680	1,410
Other liabilities	-	35,790
Net Cash Provided by (Used in) Operating Activities	<u>731,561</u>	<u>(333,414)</u>
<b>Cash Flows From Investing Activities</b>		
Purchase of fixed assets	(529,200)	(1,231,977)
Purchase of investments	(23,202)	(27,123)
Proceeds from sale of investments	210,736	266,000
Proceeds from sale of fixed assets	-	956,227
Net Cash Used in Investing Activities	<u>(341,666)</u>	<u>(36,873)</u>
<b>Cash Flows From Financing Activities</b>		
Capital campaign contributions	68,000	64,100
Repayments on line of credit	(1,690,000)	(1,296,673)
Advances on line of credit	1,350,000	1,636,673
Payments on capital lease liability	(171,432)	(172,816)
Payments on long-term debt	(168,449)	(198,549)
Advances of long-term debt	-	29,883
Net Cash (Used in) Provided by Financing Activities	<u>(611,881)</u>	<u>62,618</u>
<b>Decrease in Cash and Cash Equivalents</b>	<u>(221,986)</u>	<u>(307,669)</u>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>550,210</u>	<u>857,879</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 328,224</u>	<u>\$ 550,210</u>
<b>Supplemental Schedule of Cash Flow Information</b>		
Cash paid during the year for interest	<u>\$ 102,747</u>	<u>\$ 105,449</u>
<b>Supplemental Schedule of Non-cash Investing and Financing Activities</b>		
Purchases of fixed assets financed with new debt	<u>\$ 99,587</u>	<u>\$ 252,344</u>
Disposal of fixed assets	<u>\$ -</u>	<u>\$ (375,431)</u>
Fixed asset additions included in construction accounts payable	<u>\$ 27,007</u>	<u>\$ 390,221</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, 2019

With Comparative Totals for the Year Ended June 30, 2018

	<u>Program Services</u>	<u>Management &amp; General</u>	<u>Fundraising</u>	<u>Total 2019</u>	<u>Total 2018</u>
<b>Functional Expenses:</b>					
Employee compensation and related expenses	\$ 11,203,565	\$ 1,243,540	\$ 159,720	\$ 12,606,825	\$ 12,373,020
Stipends	1,732,159	-	-	1,732,159	1,613,999
Occupancy	1,163,281	57,454	14,167	1,234,902	1,149,787
Direct client wages	453,268	-	-	453,268	450,174
Other program and operating expenses	861,972	110,944	28,315	1,001,231	940,219
Vehicle expenses	594,844	215	-	595,059	536,519
Depreciation	426,847	55,018	2,868	484,733	461,354
Meals	190,996	-	-	190,996	166,299
Other professional fees and admin expenses	215,699	372,362	75,792	663,853	644,578
Commercial products and services	980,073	-	-	980,073	793,191
Staff mileage and travel	87,523	6,079	99	93,701	79,950
	<u>17,910,227</u>	<u>1,845,612</u>	<u>280,961</u>	<u>20,036,800</u>	<u>19,209,090</u>
<b>Total Functional Expenses</b>	<b>\$ 17,910,227</b>	<b>\$ 1,845,612</b>	<b>\$ 280,961</b>	<b>\$ 20,036,800</b>	<b>\$ 19,209,090</b>

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

# Cape Abilities Inc.

## Notes to Financial Statements

June 30, 2019

### **(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 58% 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 24% of total program expenditures.

Other Programs - 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. Day Habilitation and Transportation Programs accounted for 18% of total program expenditures.

#### ***(b) Basis of Presentation***

The statement of activities reports all changes in net assets, including changes in net assets without donor restriction from operating and non-operating activities. Operating revenues consist of those monies received and other contributions attributable to the Agency's ongoing efforts. Non-operating revenues consist of gain on sale of property and investment revenue.

## Cape Abilities Inc.

### Notes to Financial Statements

June 30, 2019

#### **(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 net assets without donor restrictions or net assets with donor restrictions 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 net assets without donor restrictions 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 net assets with donor restrictions to net assets without donor restrictions at that time.

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, 2019

#### **(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, 2019, the Agency derived approximately 83% of its total revenue from governmental agencies and 17% 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, 2019, 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, 2019, 84% of the Agency's accounts receivable is due from governmental agencies and the remaining 16% 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, 2019, management has determined any allowance would be immaterial. As of June 30, 2019, there were no promises to give over five years.

# Cape Abilities Inc.

## Notes to Financial Statements

June 30, 2019

### **(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 two classes of net assets (net assets without donor restrictions and net assets with donor restrictions) 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:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed restrictions. Net assets without donor restrictions consist of assets and contributions available for the support of operations. These 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 net assets without donor restrictions unless their use is restricted by explicit donor stipulations or law.

Net Assets With Donor Restrictions - 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, net assets with donor restrictions are reclassified to net assets without donor restrictions 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 net assets without donor restrictions 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) of the IRC.

#### ***(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 38% for the year ended June 30, 2019. 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, 2019

#### **(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, which are neither held for nor restricted by donors for long-term purposes to be cash equivalents. Cash and highly liquid financial instruments restricted to building projects, endowments that are perpetual in nature, or other long-term purposes are excluded from this definition.

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, 2019.

##### ***(l) Investments***

The Agency records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statement of financial position. Interest and dividends are recorded when earned. Gains and losses are recognized as incurred or based on fair value changes during the period. Net investment return/(loss) is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct investment expenses. Investments are exposed to risks such as interest rate, credit and overall market volatility.

# Cape Abilities Inc.

## Notes to Financial Statements

June 30, 2019

### (1) Summary of Significant Accounting Policies - continued

#### *(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.

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) 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).

#### *(o) 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.

#### *(p) Amortization*

Debt issuance costs relating to the bond payable 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.

# Cape Abilities Inc.

## Notes to Financial Statements

June 30, 2019

### (1) Summary of Significant Accounting Policies - continued

#### *(g) 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.

#### *(r) Summarized Financial Information for 2018*

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, 2018. 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, 2018, from which the summarized information is derived.

#### *(s) 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 described below. The Agency currently has no liabilities that are adjusted to fair value on a recurring basis.

**Investments in Debt and Equity Securities:** Quoted market prices, a Level 1 input, are used to determine the fair value of investment securities (See Note 2).

# Cape Abilities Inc.

## Notes to Financial Statements

June 30, 2019

### (1) Summary of Significant Accounting Policies - continued

#### (s) Fair Value Measurements - continued

The following table summarizes assets measured at fair value on a recurring basis as of June 30, 2019.

#### Fair Value Measurements on a Recurring Basis

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments	\$ <u>1,266,807</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,266,807</u>
	\$ <u>1,266,807</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,266,807</u>

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, 2019.

#### 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, 2019.

#### (t) Recent Accounting Standard Adopted

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. As a result, the investment expenses are netted against investment return on the statements of activities. In addition, the Agency changed its presentation of its net asset classes and expanded the footnote disclosures as required by the ASU, with no effect on previously reported change in net assets. Other than these reclassifications, the adoption of ASU 2016-14 did not have a material impact on the Agency's financial position, results of activities or cash flows.

## Cape Abilities Inc.

### Notes to Financial Statements

June 30, 2019

#### (2) Investments

Investments are valued at fair value using Level 1 inputs and are comprised of the following as of June 30, 2019:

	<u>Fair Value</u>
Debt securities:	
Corporate fixed income	\$ 352,513
Long-term money market annuities	24,308
Equity securities	<u>889,986</u>
Total	<u>\$ 1,266,807</u>

Investment return consisted of the following for the year ended June 30, 2019:

Interest and dividends	\$ 30,666
Realized gains	61,583
Unrealized loss	(956)
Investment expenses	<u>(12,787)</u>
Total gain on investments	<u>\$ 78,506</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.

#### (3) Fixed Assets

Fixed assets consist of the following as of June 30, 2019:

	<u>Agency Owned</u>	<u>State Owned</u>	<u>Total</u>
Land	\$ 2,551,303	\$ -	\$ 2,551,303
Buildings and improvements	7,243,953	51,000	7,294,953
Leasehold improvements	38,492	-	38,492
Equipment	611,886	96,848	708,734
Furniture and fixtures	96,862	67,794	164,656
Motor vehicles	2,231,841	50,000	2,281,841
Construction in progress	<u>524,779</u>	<u>-</u>	<u>524,779</u>
	<u>\$ 13,299,116</u>	<u>\$ 265,642</u>	<u>\$ 13,564,758</u>
Accumulated depreciation	<u>(4,698,213)</u>	<u>(251,289)</u>	<u>(4,949,502)</u>
Fixed assets, net	<u>\$ 8,600,903</u>	<u>\$ 14,353</u>	<u>\$ 8,615,256</u>

Depreciation amounted to \$484,733 for the year ended June 30, 2019.

## Cape Abilities Inc.

### Notes to Financial Statements

June 30, 2019

#### (4) Special Events

The Agency held several special events during the year. Total special events revenue for the year ended June 30, 2019 amounted to \$206,058. Costs related to special events amounted to \$47,473. Revenue is shown net of related expenses on the statement of activities.

#### (5) Debt

##### (a) *Line of Credit*

The Agency had a line of credit with TD Bank that allowed for short-term borrowing up to a maximum of \$1,000,000. Interest was payable monthly in arrears at the Wall Street Journal Prime Rate (currently 5.5%). The line was secured by specific Agency owned property. During the year ended June 30, 2019, the line of credit was closed.

The Agency has a second line of credit with Cape Cod Five Cents Savings Bank (Cape Cod Five) that allowed for short-term borrowing up to a maximum of \$500,000. During the year ended June 30, 2019, the line of credit was increased to \$750,000. Interest is payable monthly in arrears at the Wall Street Journal Prime Rate (currently 5.5%). The line is secured by Agency's investments. The outstanding balance on the line of credit was zero as of June 30, 2019.

##### (b) *Bond Payable*

The Agency entered into a loan agreement with TD Bank and the Massachusetts Development Finance Agency (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 \$2,135,678 as of June 30, 2019.

As of June 30, 2019, the outstanding principal balance of the bond payable less unamortized debt issuance costs was \$2,075,678. As of June 30, 2019, unamortized debt issuance costs of \$60,000 consist of debt issuance costs of \$75,000 less accumulated amortization of \$15,000. The effective interest rate is approximately 2.94% over the life of the loan. During the year ended June 30, 2019, amortization expense incurred was \$2,500, and was included in interest expense which is included in occupancy expense on the statement of functional expenses.

Total outstanding balance on bonds payable as of June 30, 2019	\$ 2,135,678
Less: current portion	117,709
Bonds payable, net of current portion	<u>\$ 2,017,969</u>

## Cape Abilities Inc.

### Notes to Financial Statements

June 30, 2019

#### (5) Debt - continued

##### (c) Auto Loans

The Agency has entered into various notes payable arrangements with Rockland Trust Company and Cape Cod Five. The notes, collateralized by the motor vehicles, are due in 36-60 monthly installments of principal and interest aggregating approximately \$4,983. Interest rates range from 4.43% to 4.9%.

Total outstanding balance on auto loans as of June 30, 2019	\$113,277
Less: current portion	<u>32,929</u>
Auto loans, net of current portion	<u>\$ 80,348</u>

##### (d) Mortgage Payable

The Agency has a first mortgage note payable to MDFA 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.

Total outstanding balance on mortgage payable as of June 30, 2019	\$ 378,624
Less: current portion	<u>14,737</u>
Mortgage payable, net of current portion	<u>\$ 363,887</u>

##### (e) Debt Maturities and Interest

Aggregate maturities of long-term debt are as follows:

2020	\$ 165,375
2021	159,266
2022	160,959
2023	166,308
2024	163,363

Interest expense on all debt amounted to \$101,787 for the year ended June 30, 2019.

## Cape Abilities Inc.

### Notes to Financial Statements

June 30, 2019

#### (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 \$19,279. Interest rates on these obligations range between 2.9% and 5.28%.

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, 2019:

Vehicles and equipment	\$ 904,805
Accumulated depreciation	<u>(315,990)</u>
	\$ <u>588,815</u>

Depreciation expense on assets under capital leases amounted to \$176,652 for the year ended June 30, 2019.

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

2020	\$ 190,610
2021	115,584
2022	77,719
2023	<u>15,077</u>
Total minimum obligations	\$ 398,990
Less: interest amount	(21,427)
Present value of obligations	377,563
Less: current portion	<u>(190,610)</u>
Long-term obligation	\$ <u>186,953</u>

Maturities of capital lease obligations are as follows:

2020	\$ 178,290
2021	109,109
2022	75,373
2023	14,790

Interest expense on all capital lease obligations amounted to \$18,913 for the year ended June 30, 2019.

## Cape Abilities Inc.

### Notes to Financial Statements

June 30, 2019

#### **(7) Related Party Transactions**

A board member is an officer at an insurance agency in which the Agency uses as its sole insurance agent.

#### **(8) Operating Lease Commitments**

The Agency leases housing units day program spaces and office spaces 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 \$10,828. Rent expense on these leases amounted to \$392,168.

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

2020	\$ 386,346
2021	72,370
2022	4,667

#### **(9) 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. During the year ended June 30, 2019, payments of 29,964 were made to the employee. The market value of the plan assets as of June 30, 2019 is \$17.

**Cape Abilities Inc.**

Notes to Financial Statements

June 30, 2019

**(9) Employee Benefits - continued**

***(c) Deferred Compensation Plan - continued***

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

Defined contribution plan	\$ 63,077
Deferred compensation plan	<u>3,879</u>
	<u>\$ 66,956</u>

**(10) Net Assets**

***(a) Net Assets With Donor Restrictions***

Net assets with donor restrictions consist of resources available to meet future obligations, but only in compliance with the restrictions specified by donors. As of June 30, 2019, net assets with donor restrictions are restricted for the following purposes or periods:

Subject to expenditure for a specified purpose:	
Employment and vocational skills	\$ 10,000
Subject to the passage of time:	
For periods after June 30, 2019	<u>75,544</u>
Total net assets with donor restrictions	<u>\$ 85,544</u>

***(b) Net Assets Without Donor Restrictions***

The Agency's net assets without donor restrictions is comprised of undesignated and Board designated amounts for the following purposes as of June 30, 2019:

Undesignated	\$ 6,655,828
Board designated for Quasi-Endowment	<u>1,266,790</u>
Total	<u>\$ 7,922,618</u>

***Board Designated for Quasi-Endowment***

The Agency's Board has designated funds to be set aside to establish and maintain a quasi-endowment for the purpose of securing the Agency's long-term financial viability and continuing to meet the needs of the Agency.

## **Cape Abilities Inc.**

### Notes to Financial Statements

June 30, 2019

#### **(11) 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, 2019 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

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, 2018, 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, 2019, 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.

## Cape Abilities Inc.

### Notes to Financial Statements

June 30, 2019

#### (12) Liquidity and Availability of Resources

The following reflects the Agency'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 from the statement of financial position date. Amounts not available include amounts set aside for long-term investing in the quasi-endowment that could be drawn upon if the Board approves that action.

Financial assets at year end	
Cash and cash equivalents	\$ 328,224
Accounts receivable, net	2,042,866
Contributions receivable, current portion	42,668
Long term investments	<u>1,266,807</u>
Total	<u>\$ 3,680,565</u>
Less amounts unavailable for general expenditures within one year, due to:	
Restricted by donors for specific purposes	<u>85,544</u>
Total	<u>85,544</u>
Less amounts unavailable to management without Board approval:	
Board designated for Quasi-Endowment	<u>1,266,807</u>
Total	<u>1,266,807</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,328,214</u>

The Agency is supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Agency must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of the Agency's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Occasionally, the Board designates a portion of any operating surplus to its operating reserve (Quasi-Endowment). There is a fund established by the Board that may be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities. In the event of an unanticipated liquidity need, the Agency also could draw upon \$750,000 of an available line of credit (as further discussed in Note 5(a)).

#### (13) Subsequent Events

The Agency has performed an evaluation of subsequent events through November 14, 2019, which is the date the Agency's financial statements were available to be issued. No material subsequent events have occurred since June 30, 2019 that required recognition or disclosure in these financial statements.

**Cape Abilities Inc.**

Schedule of Findings and Responses

June 30, 2019

**(1) Current Year Findings**

No significant deficiencies or material weaknesses reported.

**(2) Status of Prior Year Findings**

No significant deficiencies or material weaknesses reported.