**CALMRA, INC.**

**FINANCIAL STATEMENTS**

**JUNE 30, 2019**

MULLEN SONDBERG WIMBISH & STONE, PA

CERTIFIED PUBLIC ACCOUNTANTS

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# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
CALMRA, Inc.
Laurel, Maryland

We have audited the accompanying financial statements of CALMRA, Inc. (a non-profit Organization), 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.

**Auditor's Responsibility**

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

An audit includes 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.

To the Board of Directors of
CALMRA, Inc.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CALMRA, Inc. 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.

**Report on Summarized Comparative Information**

We have previously audited CALMRA, Inc.'s 2018 financial statements, and our report dated November 8, 2018 expressed an unmodified audit opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent in all material respects with the audited financial statements from which it has been derived.

Mullen Sondberg Wimbish & Stone

MULLEN, SONDBERG, WIMBISH & STONE, P.A.

Annapolis, Maryland
December 6, 2019

CALMRA, Inc.
STATEMENT OF FINANCIAL POSITION
June 30, 2019

ASSETS

| | 2019 | 2018 |
|---|---|---|
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 84,827 | $ 147,386 |
| Investments | 402,415 | 731,658 |
| Accounts receivable - funding sources | 224,952 | 71,289 |
| Accounts receivable - other | 140,564 | 27,891 |
| Prepaid expenses | 19,892 | 35,950 |
| Total current assets | 872,650 | 1,014,174 |
| PROPERTY AND EQUIPMENT | | |
| Net of accumulated depreciation | 6,734,047 | 6,710,696 |
| OTHER ASSETS | | |
| Loan fees - mortgage escrow | 714 | 749 |
| Deposits | 14,899 | 12,777 |
| Restricted deposits - reserve for replacements | 226,467 | 230,687 |
| Total other assets | 242,080 | 244,213 |
| Total assets | $ 7,848,777 | $ 7,969,083 |

LIABILITIES AND NET ASSETS

| | 2019 | 2018 |
|---|---|---|
| CURRENT LIABILITIES | | |
| Accounts payable | $ 267,054 | $ 98,696 |
| Accrued payroll, taxes, and benefits | 339,294 | 156,774 |
| Accrued vacation | 175,625 | 163,971 |
| Due to consumers | 3,871 | 52,152 |
| Due to State of Maryland | 137,776 | 103,569 |
| Margin line of credit | 154,064 | 158,900 |
| Line of credit | 300,000 | 300,000 |
| Mortgages and notes payable - net of debt issuance costs | 648,623 | 223,241 |
| Capital lease obligations | 126,936 | 125,904 |
| Total current liabilities | 2,153,243 | 1,383,207 |
| LONG-TERM LIABILITIES | | |
| Mortgages and notes payable - net of debt issuance costs | 3,905,018 | 4,434,139 |
| Participation liability | 342,522 | 299,796 |
| Capital lease obligations | 356,932 | 373,704 |
| Total long-term liabilities | 4,604,472 | 5,107,639 |
| Total liabilities | 6,757,715 | 6,490,846 |
| NET ASSETS | | |
| Without donor restrictions - undesignated | 918,237 | 945,821 |
| Without donor restrictions - Board designated | 172,825 | 532,416 |
| Total net assets | 1,091,062 | 1,478,237 |
| Total liabilities and net assets | $ 7,848,777 | $ 7,969,083 |

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

CALMRA, Inc.
STATEMENT OF ACTIVITIES
Year Ended June 30, 2019
With Summarized Financial Information for the Year Ended June 30, 2018

| | 2019 | 2018 |
|---|---|---|
| REVENUES, GAINS AND OTHER SUPPORT WITHOUT DONOR RESTRICTIONS | | |
| Fees and grants | $ 5,534,932 | $ 5,263,317 |
| Consumer fees | 264,991 | 261,866 |
| Contributions | 65,742 | 40,767 |
| Miscellaneous | 47,131 | 26,818 |
| Interest income | 26,055 | 36,761 |
| Rental income | 24,455 | 25,379 |
| Special events, net of direct expenses | 16,564 | 13,647 |
| Food stamps | 12,745 | 11,402 |
| Gain on sale of fixed assets | 10,766 | 26,395 |
| Memberships | 5,415 | 5,440 |
| Forgiveness of debt | - | 85,560 |
| Realized/unrealized gain (loss) on investments | (5,755) | 15,638 |
| Total revenues, gains and other support | 6,003,041 | 5,812,990 |
| EXPENSES | | |
| Program services | | |
| Residential | 4,851,214 | 4,730,934 |
| Day habilitation | 740,107 | 619,647 |
| Personal supports | 70,853 | 59,042 |
| Individual support services | 24,813 | 28,226 |
| Total program services | 5,686,987 | 5,437,849 |
| Supporting services | | |
| Management and general | 700,854 | 730,303 |
| Fundraising | 2,375 | - |
| Total supporting services | 703,229 | 730,303 |
| Total expenses | 6,390,216 | 6,168,152 |
| Change in net assets | (387,175) | (355,162) |
| NET ASSETS AT BEGINNING OF YEAR WITHOUT DONOR RESTRICTIONS | 1,478,237 | 1,833,399 |
| NET ASSETS AT END OF YEAR WITHOUT DONOR RESTRICTIONS | $ 1,091,062 | $ 1,478,237 |

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

# CALMRA, Inc.
## STATEMENT OF FUNCTIONAL EXPENSES
### Year Ended June 30, 2019
### With Summarized Financial Information for the Year Ended June 30, 2018

| | Program Services | | | | Supporting Services | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Residential | Day | Personal Supports | ISS | Management and General | Fundraising | 2019 | 2018 |
| Salaries | $ 3,144,216 | $ 376,344 | $ 51,261 | $ 18,332 | $ 425,281 | $ - | $ 4,015,434 | $ 3,776,911 |
| Fringe benefits | 307,242 | 18,998 | 2,640 | 525 | 32,759 | - | 362,164 | 363,332 |
| Payroll taxes | 257,333 | 16,439 | 4,568 | 2,485 | 25,810 | - | 306,635 | 286,527 |
| Total salaries and related expenses | 3,708,791 | 411,781 | 58,469 | 21,342 | 483,850 | - | 4,684,233 | 4,426,770 |
| Depreciation | 289,092 | 97,883 | 53 | 16 | 20,381 | - | 407,425 | 378,768 |
| Interest | 123,664 | 97,209 | - | - | 29,815 | - | 250,688 | 266,787 |
| Food | 162,096 | 28,960 | - | - | - | - | 191,056 | 187,379 |
| Utilities | 119,434 | 25,491 | - | - | 9,998 | - | 154,923 | 152,892 |
| Janitorial | 94,479 | 15,162 | - | - | 11,891 | - | 121,532 | 139,756 |
| Insurance | 69,997 | 12,773 | 382 | 127 | 6,774 | - | 90,053 | 93,375 |
| Vehicle expense | 52,733 | 6,045 | - | - | 1,806 | - | 60,584 | 55,441 |
| Supplies | 40,523 | - | - | - | 118 | 12,478 | 53,119 | 42,564 |
| Consultants | 52,428 | - | - | - | 340 | - | 52,768 | 55,954 |
| Telephone | 37,083 | 9,363 | 485 | 348 | 2,825 | - | 50,104 | 47,061 |
| Office supplies | 17,684 | 15,948 | 597 | 222 | 8,006 | - | 42,457 | 38,335 |
| Professional fees | - | - | - | - | 39,011 | - | 39,011 | 48,619 |
| Purchase of services - other | - | - | - | - | 36,093 | - | 36,093 | 48,661 |
| Repairs and maintenance | 26,895 | 3,582 | 946 | 315 | 2,947 | - | 34,685 | 32,938 |
| Miscellaneous | 5,462 | 210 | 139 | - | 13,066 | - | 18,877 | 18,318 |
| Travel | 11,202 | 2,281 | 2,286 | 1,014 | 1,891 | - | 18,674 | 20,360 |
| National dues | 580 | - | - | - | 16,122 | - | 16,702 | 16,543 |
| Printing and publications | 9,778 | 3,296 | 348 | 131 | 1,712 | - | 15,265 | 13,657 |
| Training | 11,817 | 757 | 126 | 42 | 1,019 | - | 13,761 | 19,222 |
| Purchase of services - consumers | 3,275 | 1,050 | 6,971 | 1,244 | 72 | - | 12,612 | 17,061 |
| Awards and grants | - | - | - | - | 9,597 | - | 9,597 | 20,587 |
| Condo dues | - | 6,701 | - | - | - | - | 6,701 | 6,423 |
| Small equipment | 4,967 | 677 | - | - | 14 | - | 5,658 | 2,585 |
| Conferences and meetings | 3,477 | 21 | - | - | 1,156 | - | 4,654 | 3,144 |
| Licenses and permits | 3,044 | 797 | - | - | 190 | - | 4,031 | 2,973 |
| Registration fees | 1,415 | - | - | - | 1,898 | - | 3,313 | 2,367 |
| Postage and shipping | 1,298 | 120 | 51 | 12 | 212 | - | 1,693 | 3,635 |
| Advertising | - | - | - | - | 50 | - | 50 | - |
| Rent | - | - | - | - | - | - | - | 9,359 |
| Total expenses | 4,851,214 | 740,107 | 70,853 | 24,813 | 700,854 | 12,478 | 6,400,319 | 6,171,534 |
| Less: special events expense offset against revenue in the statement of activities | - | - | - | - | - | (10,103) | (10,103) | (3,382) |
| Total expenses reported in the statement of activities | $ 4,851,214 | $ 740,107 | $ 70,853 | $ 24,813 | $ 700,854 | $ 2,375 | $ 6,390,216 | $ 6,168,152 |

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

CALMRA, Inc.
STATEMENT OF CASH FLOWS
Year Ended June 30, 2019

| | 2019 | 2018 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Change in net assets | $ (387,175) | $ (355,162) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 407,425 | 378,768 |
| Amortization of debt issuance costs | 197 | 197 |
| Gain on sale of fixed assets | (10,766) | (26,395) |
| Realized/unrealized (gain) loss on investments | 5,755 | (15,638) |
| Amortization of loan discount | 14,728 | 26,186 |
| Increase (decrease) in operating assets: | | |
| Accounts receivable | (266,336) | 90,734 |
| Prepaid expenses | 16,058 | (21,805) |
| Deposits | (2,122) | (1,146) |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable and accrued expenses | 362,532 | 60,245 |
| Due to consumers | (48,281) | 20,827 |
| Due to State of Maryland | 34,207 | 9,091 |
| Net cash provided by operating activities | 126,222 | 165,902 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Purchase of investments and reinvested earnings | (243,788) | (71,597) |
| Acquisition of property and equipment | (200,680) | (107,402) |
| Proceeds from sale/redemption of investments | 567,276 | 310,013 |
| Proceeds from sale/disposal of fixed assets | 21,695 | 26,395 |
| Net cash provided by investing activities | 144,503 | 157,409 |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Change in margin line of credit | (4,836) | (10,583) |
| Change in restricted deposits - reserve for replacements | 4,220 | (7,521) |
| Proceeds from line of credit | 600,000 | 700,000 |
| Principal payments on line of credit | (600,000) | (700,000) |
| Principal payments on mortgages and notes payable | (189,182) | (269,157) |
| Principal payments on capital leases payable | (143,486) | (110,373) |
| Net cash used in financing activities | (333,284) | (397,634) |
| Net change in cash and cash equivalents | (62,559) | (74,323) |
| Cash and cash equivalents at beginning of year | 147,386 | 221,709 |
| Cash and cash equivalents at end of year | $ 84,827 | $ 147,386 |
| **SUPPLEMENTAL CASH FLOW INFORMATION:** | | |
| Cash paid during the year for interest | $ 235,762 | $ 240,404 |
| Noncash investing and financing activities: | | |
| Acquisition of property and equipment | $ 441,669 | $ 234,766 |
| Less amounts financed | (240,989) | (127,364) |
| Cash paid for property and equipment | $ 200,680 | $ 107,402 |

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

## Note 1 - Summary of Significant Accounting Policies

### Nature and Organization

CALMRA, Inc. (the Organization) was incorporated in the State of Maryland on November 27, 1984, and began operations in 1992. The Organization provides residential, individual, and community support services for adults with developmental disabilities.

### Basis of Accounting

The Organization prepares its financial statements in accordance with accounting principles generally accepted in the United States of America. This basis of accounting involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

### Basis of Presentation

The financial statements include certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

### Revenue Recognition

Contributions received are recorded as support with donor restrictions or support without donor restrictions, depending on the existence and/or nature of any donor-imposed restriction. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Unexpended grant awards are classified as refundable advances until expended for the purposes of the grants since they are considered conditional promises to give.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the statement of financial position date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## Note 1 - Summary of Significant Accounting Policies (Cont.)

### Property and Equipment

Property and equipment acquisitions are recorded at cost. Assets costing $500 or more and having a useful life of more than one year are capitalized. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. Vehicles acquired prior to June 30, 2005 are depreciated over the estimated mileage rate. Gifts of long-lived assets such as land, buildings, or equipment are recorded at their fair values and reported as support without donor restrictions, unless explicit donor stipulations specify how the donated assets must be used.

### Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents represent deposits in checking and savings accounts and certificates of deposit with maturities of ninety days or less, except cash and money market funds that are part of an investment portfolio.

The Organization manages funds for consumers in the residential program. The funds are deposited into a separate collective consumer representative payee bank account and are included with cash on the statement of financial position. The balance in the consumer representative payee account at June 30, 2019 and 2018 was $3,871 and $52,152, respectively.

### Investments

Investments in marketable equity securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position.

### Accounts Receivable

Accounts receivable from funding sources consist of amounts due from the State of Maryland Department of Health, Montgomery County, and Prince George's County for program fees and grants. Other accounts receivable consist of amounts due from consumers. All accounts receivable are considered collectible at June 30, 2019 and 2018. Accordingly, an allowance for doubtful accounts has not been established.

### Advertising

The Organization's policy is to expense advertising costs as the costs are incurred. Total advertising costs for the years ended June 30, 2019 and 2018 amounted to $50 and $-0-, respectively.

## Note 1 - Summary of Significant Accounting Policies (Cont.)

### Income Tax Status and Income Tax Position

The Organization is exempt under Section 501(c)(3) of the Internal Revenue Code and is classified as other than a private foundation. It is exempt from paying federal income tax on any income except unrelated business income. No provision has been made for income taxes as the Organization has had no significant unrelated business income.

The Organization follows the guidance of ASC 740-10, "*Accounting for Uncertainty in Income Taxes*" which clarifies the accounting for the recognition and measurement of the benefits of individual tax positions in the financial statements, including those of non-profit organizations. Tax positions must meet a recognition threshold of more-likely-than-not in order for the benefit of those tax positions to be recognized in the Organization's financial statements.

The Organization analyzes tax positions taken, including those related to the requirements set forth in IRC Sec. 501(c)(3) to qualify as a tax-exempt organization, activities performed by volunteers and Board members, the reporting of unrelated business income, and its status as a tax-exempt organization under Maryland State statute. The Organization does not know of any tax benefits arising from uncertain tax positions and there was no effect on the Organization's financial position or changes in net assets as a result of analyzing its tax positions. Fiscal years ending on or after June 30, 2016 remain subject to examination by federal and state authorities.

### Allocation of Functional Expenses

Accounting principles generally accepted in the United States of America require all not-for-profit organizations to present their expenses on a functional basis, separating program services from management and general and fundraising expenses. Functional expenses are either charged directly to program services as incurred or allocated based on usage for items such as occupancy, depreciation, and administrative salaries.

### Reclassifications of Prior Year Balances

Certain reclassifications of the prior year balances have been made to conform to current year presentation.

Note 1 - Summary of Significant Accounting Policies (Cont.)

New Accounting Pronouncement

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. The ASU is effective for fiscal years beginning after December 15, 2017, and accordingly the Organization has adjusted the presentation of these statements. *ASU 2016-14* has been applied retrospectively to all periods presented. As a result of the implementation of *ASU 2016-14*, net assets have been reclassified in the accompanying financial statements as of June 30, 2018 as follows:

| Net Asset Classification | As Originally Presensted | After Adoption of ASU 2016-14 |
|---|---|---|
| Unrestricted - undesignated | $ 870,821 | $ - |
| Reclassification of unrestricted to | - | - |
| conform with ASU 2016-14 | 75,000 | - |
| Unrestricted - Board designated | 532,416 | - |
| Temporarily restricted | 75,000 | - |
| Reclassification of temporarily restricted to | - | - |
| conform with ASU 2016-14 | (75,000) | - |
| Net assets without donor restrictions - undesignated | - | 945,821 |
| Net assets without donor restrictions - Board designated | - | 532,416 |
| | $ 1,478,237 | $ 1,478,237 |

Note 2 - Availability and Liquidity

The following represents the Organization's financial assets at June 30:

| | 2019 | 2018 |
|---|---|---|
| Financial assets at year end: | | |
| Cash and cash equivalents | $ 84,827 | $ 147,386 |
| Investments | 402,415 | 731,658 |
| Accounts receivable - funding sources | 224,952 | 71,289 |
| Accounts receivable - other | 140,564 | 27,891 |
| Total financial assets | 852,758 | 978,224 |
| Less amounts not available to be used within one year: | | |
| Consumer cash | (3,871) | (52,152) |
| Investments secured by margin line of credit | (154,064) | (158,900) |
| Financial assets available to meet general expenditures over the next twelve months before board designations | 694,823 | 767,172 |
| Less: Board designated funds | (172,825) | (532,416) |
| Financial assets available to meet general expenditures over the next twelve months | $ 521,998 | $ 234,756 |

The Organization's goal is to establish at least three months of average recurring operating costs in available liquidity (approximately $1,600,000). Monthly average recurring costs are calculated by dividing total operating expenses for the year by twelve months. In addition to calculating the actual operating reserve at year end, the target minimum reserve will be calculated each year after approval of the annual budget. As part of its liquidity plan, excess cash is invested in an investment account to be used for operations.

The Organization has a Board designated reserve fund available to meet cash flow needs if needed. The Organization also has a $300,000 line of credit available to draw upon in the event of an unanticipated liquidity need. The Organization also has equity in its properties located in Prince George's and Montgomery Counties. The Organization may choose to use any available equity after all other options have been exhausted. The Board of Directors authorizes the use of reserve funds.

Note 3 - Concentration of Cash Balances

At various times during the year, the Organization maintained cash balances in excess of the federally insured limit. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. There were no amounts held in excess of FDIC insurance coverage limits as of June 30, 2019 and 2018.

## Note 4 - Investments

Investments are recorded at fair market value. Investments consist of the following:

| | June 30, 2019 | | | June 30, 2018 | | |
|---|---|---|---|---|---|---|
| | Cost | Fair Market Value | Gross Unrealized Gain (Loss) | Cost | Fair Market Value | Gross Unrealized Gain (Loss) |
| Cash/money market | $ 11,328 | $ 11,328 | $ - | $ 1,750 | $ 1,750 | $ - |
| Mutual funds | 84,936 | 83,731 | (1,205) | 299,147 | 356,759 | 57,612 |
| Unit investment trusts | - | - | - | 15,000 | 14,285 | (715) |
| Fixed income bonds | 289,302 | 307,356 | 18,054 | 352,553 | 358,864 | 6,311 |
| | $ 385,566 | $ 402,415 | $ 16,849 | $ 668,450 | $ 731,658 | $ 63,208 |

## Note 5 - Fair Value Measurement

*ASC 820-10 Fair Value Measurements* establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under *FASB ASC820* are as described as follows:

Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.

Level 2: Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs that are unobservable and supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Note 5 - Fair Value Measurement (Cont.)

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Investments whose values are based on quoted market prices in active markets, and are, therefore classified with Level 1, include cash and money market funds held in brokerage accounts, active listed mutual funds, and unit investment trusts.

Investments whose values are based on other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active, and therefore classified with Level 2, include fixed income bonds.

The table below presents the balances of assets measured at fair value on a recurring basis by level within the hierarchy as of June 30:

| | 2019 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash/money market | $ 11,328 | $ - | $ - | $ 11,328 |
| Mutual funds | 83,731 | - | - | 83,731 |
| Fixed income bonds | - | 307,356 | - | 307,356 |
| | $ 95,059 | $ 307,356 | $ - | $ 402,415 |

| | 2018 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash/money market | $ 1,750 | $ - | $ - | $ 1,750 |
| Mutual funds | 356,759 | - | - | 356,759 |
| Unit investment trusts | 14,285 | - | - | 14,285 |
| Fixed income bonds | - | 358,864 | - | 358,864 |
| | $ 372,794 | $ 358,864 | $ - | $ 731,658 |

## Note 6 - Property and Equipment

A summary of property and equipment follows for June 30:

| | Estimated Lives | 2019 | 2018 |
|---|---|---|---|
| Land | - | $ 2,424,936 | $ 2,424,936 |
| Buildings | 10 - 30 years | 4,345,141 | 4,345,141 |
| Furniture and equipment | 5 - 10 years | 245,547 | 209,762 |
| Vehicles | 75,000 miles | 174,574 | 211,148 |
| Vehicles | 5 years | 869,221 | 767,702 |
| Capital and leasehold improvements | 5 - 30 years | 2,034,693 | 1,756,557 |
| | | 10,094,112 | 9,715,246 |
| Less accumulated depreciation | | (3,360,065) | (3,004,550) |
| Net property and equipment | | $ 6,734,047 | $ 6,710,696 |

Depreciation expense for the years ended June 30, 2019 and 2018 was $407,425 and $378,768, respectively.

## Note 7 - Restricted Deposits

The Organization is required to maintain a reserve for replacements escrow account for each residential property financed through Maryland Department of Housing and Community Development. As of June 30, 2019 and 2018, the cumulative monthly deposits required to be made into the reserve for replacements escrow accounts was $2,362 and $2,371, respectively. The Organization must request approval from the Department of Housing and Community Development to expend the funds for approved repairs and replacements. As of June 30, 2019 and 2018, the balance in the reserve for replacement accounts was $226,467 and $230,687, respectively.

## Note 8 - Mortgages and Notes Payable

To comply with *ASU 2015-3*, the Organization reports debt issuance costs as a direct deduction from the face amount of the related debt. The Organization reports amortization of debt issuance costs as interest expense. Debt at June 30, 2019 and 2018 is shown net of unamortized debt issuance cost of $3,033 and $3,230, respectively.

## Note 8 - Mortgages and Notes Payable (Cont.)

Details and balances of mortgages and notes payable are as follows for years ending June 30:

| | 2019 | 2018 |
|---|---|---|
| Mortgages payable to the Maryland Department of Housing and Community Development. The loans were obtained to acquire residential properties. Aggregate monthly payments of $14,343 include principal and interest ranging between 1% - 7.06%. The mortgages are for 30 years and mature between October 2020 and May 2042. The mortgages are secured by residential properties. | $ 1,649,475 | $ 1,753,851 |
| Mortgage payable to the State Employee Credit Union. The mortgage was obtained to acquire two commercial building units as well as refinance a residential mortgage. Monthly payments of $2,962 include principal and interest at 4.65%. The mortgage was due July 2019, but was extended to May 2020. The mortgage is secured by the two building units and one residential property. | 397,317 | 413,965 |
| Mortgage payable to the State Employee Credit Union. The mortgage was obtained to acquire one residential property. Monthly payments of $2,301 include principal and interest at 4.65% for the first 60 months. Monthly payments increase to $2,355 in October 2019 and include interest at 4.92%. A balloon payment is due for the remaining principal balance on the mortgage in September 2024. The mortgage is secured by one residential property. | 359,905 | 368,778 |
| Notes payable to Montgomery County Department of Housing and Community Affairs. The loans were obtained to assist in the purchase of various capital renovations for residential properties. The notes are non-interest bearing and are forgivable after 5 years if the Organization meets its obligations as stated in the loan agreements. The notes mature between fiscal years ending June 30, 2020 and 2024. | 191,795 | 78,552 |
| Mortgages payable to the Montgomery County Department of Housing and Community Affairs. The loans were obtained to supplement the acquisition of six group homes. The loans are non-interest bearing and aggregate monthly payments total $856. The mortgages are for 30 years and mature between March 2027 and November 2036. The mortgages are secured by residential properties. | 86,574 | 95,988 |
| Notes payable to Prince George's County Department of Housing. The loans were obtained to assist in the purchase of four residential properties. The notes are non-interest bearing for 20 years. The notes mature between fiscal years ending June 30, 2020 and 2021. | 109,000 | 109,000 |
| Mortgages payable to Prince George's County Community Development Administration. The mortgages were obtained for the acquisition of a building. Aggregate monthly payments of $12,085 include principal and interest ranging from 0% - 6.75%. The mortgages mature in May 2042. The mortgages are secured by the property. | 1,960,072 | 2,009,943 |
| Total mortgages and notes payable | 4,754,138 | 4,830,077 |
| Less discount | (197,464) | (169,467) |
| Less current maturities | (648,623) | (223,241) |
| Less debt issuance costs, net of amortization | (3,033) | (3,230) |
| Long-term portion | $ 3,905,018 | $ 4,434,139 |

Note 8 - Mortgages and Notes Payable (Cont.)

The Organization has entered into certain participation mortgage loans with Maryland Department of Housing and Community Development (DHCD). These loans totaled $1,649,475 and $1,753,851 as of June 30, 2019 and 2018, respectively. These agreements entitle DHCD to 50% of the appreciation, as defined in the agreement, upon sale, refinancing, or transfer of the related property; upon ceasing use of the related property for its stated purpose; or default or maturity of the related note. At June 30, 2019 and 2018, the Organization has recorded a participation liability of $342,522 and $299,796, respectively, and a related mortgage loan discount of $197,464 and $169,467, respectively in connection with these agreements.

The two State Employee Credit Union (SECU) mortgage agreements contains various covenants, which among other things, places restrictions on the Organization's ability to incur additional indebtedness, requires the Organization to maintain certain financial ratios, and prevents the Organization for loaning money, or selling the building or merging with another entity. During the year ended June 30, 2019, the Organization did not maintain the required debt service coverage ratios. The Organization received a waiver for the debt covenant ratio on both of the SECU mortgages for the year ended June 30, 2019. The Organization also received an extension of the maturity date from one of the SECU mortgages that was due to mature in July 2019 until May 2020.

Required principal payments are as follows for future years ending June 30:

| | |
|---|---|
| 2020 | $ 648,623 |
| 2021 | 255,574 |
| 2022 | 226,596 |
| 2023 | 190,523 |
| 2024 | 310,656 |
| Thereafter | 3,122,166 |
| | $ 4,754,138 |

For the years ended June 30, 2019 and 2018, total interest expense was $250,688 and $266,787,respectively.

Note 9 - Line of Credit

In April 2008, the Organization obtained a revolving line of credit with a bank. The borrowing limit is $300,000, with interest at the prime rate plus 1%, limited by a floor on the interest rate at a minimum of 4%. The line of credit is secured by cash, securities, and property of the Organization. As of June 30, 2019 and 2018, the balance outstanding on the line of credit was $300,000.

In March 2012, the Organization entered into a line of credit with a bank with a borrowing limit of $125,000. The line of credit is available to assist with the purchase of equipment or to finance improvements to group homes. As of June 30, 2019 and 2018, there were no amounts outstanding on the line of credit.

## Note 10 - Margin Line of Credit

The Organization has a margin line of credit available from its investment broker. The margin account is secured by the investments. The interest rate at June 30, 2019 and 2018 was 8.12% and 7.37%, respectively. The balance outstanding as of June 30, 2019 and 2018 was $154,064 and $158,900, respectively.

## Note 11 - Capital Lease Obligations

The Organization has entered into several lease arrangements for vehicles, which have been accounted for as capital leases. The terms of the leases range between 36 - 60 months. At June 30, 2019 and 2018, aggregate monthly payments of $14,429 and $12,766, respectively, include principal and interest ranging between 5.9% - 6.9%. At June 30, 2019 and 2018, the total cost of vehicles acquired was $869,221 and $767,702, respectively. The remaining book value at June 30, 2019 and 2018 was $444,830 and $481,202 respectively. Amortization of the vehicles is included in depreciation expense.

Future minimum lease payments under these leases are as follows:

| Year Ending June 30 | |
|---|---|
| 2020 | $ 154,837 |
| 2021 | 121,244 |
| 2022 | 162,736 |
| 2023 | 69,910 |
| 2024 | 43,976 |
| | 552,703 |
| Less payments representing interest | (68,835) |
| Present value of future lease payments (including current portion of $126,936) | $ 483,868 |

## Note 12 - Accrued Vacation

Employees of the Organization are entitled to paid vacation, depending on the length of service and job classification. At June 30, 2019 and 2018, there was $175,625 and $163,971, respectively, of vacation benefits due employees.

## Note 13 - Retirement Plan

The Organization has established a 403(b) tax-deferred annuity plan for all eligible employees. The Organization matches employees' voluntary contributions of up to 3% to 6% of base pay, depending on the length of employment. Pension expense for the years ended June 30, 2019 and 2018 was $65,867 and $58,495, respectively, and is included in fringe benefits in the financial statements.

Note 14 - Operating Leases

An administrative office space was leased on a monthly basis. The monthly rent as of August 2017 was $3,834. The lease was terminated as of August 2017.

A storage facility space was leased on a monthly basis. The monthly rent as of February 2018 was $388. The lease was terminated as of February 2018.

Total rent expense for the years ended June 30, 2019 and 2018 was $-0- and $9,359, respectively.

Note 15 - Net Assets Without Donor Restrictions - Board Designated

Board designated net assets represent cash and investment accounts which the Board has designated to be used for future program improvements and expansion.

Board designated net assets include the following for the years ended June 30:

| | 2019 | 2018 |
|---|---|---|
| Cash | $ 12,097 | $ 70,905 |
| Investments | 160,728 | 461,511 |
| | $ 172,825 | $ 532,416 |

Note 16 - Special Events Revenue

The direct costs of special events have been netted with special events revenue. Special events revenue and direct costs consisted of the following at June 30:

| | 2019 | 2018 |
|---|---|---|
| Revenues | $ 26,667 | $ 17,029 |
| Direct expenses | (10,103) | (3,382) |
| Total net revenues | $ 16,564 | $ 13,647 |

Note 17 - Contingent Liabilities

The Organization receives a substantial portion of its revenue from government grants and contracts, all of which are subject to audit by the government. Until such audits have been completed and final settlement reached, there exists a contingent liability to refund any amounts received in excess of allowable costs. Management of the Organization is of the opinion that no significant liability will result from audit adjustments, if any.

During the year ended June 30, 2006, the Organization received grant funds in the amount of $75,000 from the State of Maryland for residential renovations. If the property is sold or transferred within thirty years to a non-approved person, agency, or organization after the completion of the renovation project, the State is entitled to receive an amount bearing the same ratio to the then current fair market value of the property.

Note 18 - Significant Funding Source

The Organization receives a majority of its total revenues through the State of Maryland Department of Health. The Organization is highly dependent upon government funding to continue its operations.

Note 19 - Going Concern Matters

The Organization has current liabilities exceeding current assets by approximately $1,281,000 as of June 30, 2019. Included in current liabilities is an outstanding line of credit balance of $300,000 at year-end. The Organizations' ability to continue as a going concern is being reviewed by management and the Board. Plans have been developed and action has been taken to improve the Organizations' cash flow and results of operations, including assessing revenue from its primary funding sources; examining its programs and services for areas to increase revenue and decrease expenses in the upcoming fiscal year; and assessing structural changes to its programs and services to improve long term cash flow. The Organization is also in the process of selling a commercial property, refinancing the two existing SECU mortgages, and reviewing options to obtain additional loan proceeds from equity in residential properties on existing mortgages with Maryland Department of Housing and Community Development. The Organization also expects to have debt forgiven in FY 2020 for one loan from Montgomery County Department of Housing in the amount of $36,000, and two loans from Prince George's County Department of Housing totaling $34,000. The Organization is also dependent on the State providing adequate one-time bridge funding to assist with any conversions in State payment systems.

Note 20 - Subsequent Events

Subsequent events and transactions have been evaluated by the Organization for potential recognition or disclosure in the financial statements through December 6, 2019, the day the financial statements were available to be issued. Except for the following, there have been no subsequent events that require recognition or disclosure in the financial statements.

In September 2019, the Organization entered into three capital lease arrangements for vehicles. The terms of the leases are 60 months. Aggregate monthly payments of $1,748 will consist of principal and interest at 6.9%. The total cost of vehicles acquired was $117,705.

In November 2019, the Organization signed a promissory note with Montgomery County Department of Housing and Community Affairs to borrow $113,685 to assist with renovations of a residential group home. The loan is non-interest bearing and is forgivable after 10 years if the Organization meets its obligations as stated in the loan agreement.

On November 5, 2019, SECU approved an additional extension for the maturity date of the commercial building and residential mortgage from July 1, 2019 to May 1, 2020. The monthly payment and interest rate remains the same as the original mortgage agreement.