

Jefferson County Committee for Economic Opportunity

Financial Statements
December 31, 2018

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Independent Auditor's Report

To the Board of Directors
Jefferson County Committee for Economic Opportunity

Report on the Financial Statements

We have audited the accompanying financial statements of Jefferson County Committee for Economic Opportunity, which comprise the statements of financial position as of December 31, 2018 and 2017, the related statements of activities, functional expenses and cash flows for the years 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 audits. We conducted our audits 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 General 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 Jefferson County Committee for Economic Opportunity as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 7, 2019, on our consideration of Jefferson County Committee for Economic Opportunity's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Jefferson County Committee for Economic Opportunity'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 Jefferson County Committee for Economic Opportunity's internal control over financial reporting and compliance.

Emphasis of Matter

As disclosed in Note 1 to the financial statements, Jefferson County Committee for Economic Opportunity adopted the Financial Accounting Standards Board issued Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The adoption of this standard resulted in additional disclosures over the liquidity and changes to the classification of net assets. Our opinion is not modified with respect to this matter.

RSM US LLP

Birmingham, Alabama
August 7, 2019

Jefferson County Committee for Economic Opportunity

Statements of Financial Position
December 31, 2018 and 2017

| | 2018 | 2017 |
|--|----------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash | \$ 465,030 | \$ 500,394 |
| Cash – restricted | 147,619 | 163,496 |
| Grants and contracts receivable | 1,270,584 | 1,543,039 |
| Prepaid expenses and other assets | 57,233 | 269,064 |
| Total current assets | 1,940,466 | 2,475,993 |
| Unconditional promises to give use of facilities | 4,651,651 | 6,424,417 |
| Investments – restricted | 185,191 | 184,264 |
| Property and equipment, net | 4,416,027 | 4,638,895 |
| Total assets | \$ 11,193,335 | \$ 13,723,569 |
| Liabilities and Net Assets | | |
| Current liabilities: | | |
| Accounts payable | \$ 561,476 | \$ 515,496 |
| Accrued compensation | 871,807 | 750,707 |
| Current portion of long-term debt | 130,466 | 122,390 |
| Total current liabilities | 1,563,749 | 1,388,593 |
| Long-term debt, less current portion | 941,313 | 1,071,619 |
| Total liabilities | 2,505,062 | 2,460,212 |
| Contingencies | | |
| Net assets: | | |
| Without donor restrictions | 3,703,812 | 4,491,180 |
| With donor restrictions | 4,984,461 | 6,772,177 |
| Total net assets | 8,688,273 | 11,263,357 |
| Total liabilities and net assets | \$ 11,193,335 | \$ 13,723,569 |

See notes to financial statements.

Jefferson County Committee for Economic Opportunity

Statement of Activities

Year Ended December 31, 2018

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|-------------------------------|----------------------------|---------------------|
| Support and revenue: | | | |
| Government grants and contracts | \$ 27,030,904 | \$ - | \$ 27,030,904 |
| Contributions | 2,015,778 | 186,351 | 2,202,129 |
| Program service fees | 54,640 | - | 54,640 |
| Realized and unrealized gain on investments | 927 | - | 927 |
| Interest income | 139 | - | 139 |
| Other revenue | 241,697 | - | 241,697 |
| | <u>29,344,085</u> | <u>186,351</u> | <u>29,530,436</u> |
| Net assets released from restrictions | 1,974,067 | (1,974,067) | - |
| | <u>31,318,152</u> | <u>(1,787,716)</u> | <u>29,530,436</u> |
| Expenses: | | | |
| Program services: | | | |
| Head start | 19,860,177 | - | 19,860,177 |
| Community service | 1,471,054 | - | 1,471,054 |
| Energy assistance | 4,290,246 | - | 4,290,246 |
| Child feeding and nutrition | 1,488,046 | - | 1,488,046 |
| Home weatherization | 503,182 | - | 503,182 |
| Other | 2,905,102 | - | 2,905,102 |
| | <u>30,517,807</u> | <u>-</u> | <u>30,517,807</u> |
| Support services: | | | |
| General and administrative | 1,587,713 | - | 1,587,713 |
| | <u>32,105,520</u> | <u>-</u> | <u>32,105,520</u> |
| Change in net assets | (787,368) | (1,787,716) | (2,575,084) |
| Net assets at beginning of year | <u>4,491,180</u> | <u>6,772,177</u> | <u>11,263,357</u> |
| Net assets at end of year | <u>\$ 3,703,812</u> | <u>\$ 4,984,461</u> | <u>\$ 8,688,273</u> |

See notes to financial statements.

Jefferson County Committee for Economic Opportunity

Statement of Activities

Year Ended December 31, 2017

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|-------------------------------|----------------------------|----------------------|
| Support and revenue: | | | |
| Government grants and contracts | \$ 26,021,140 | \$ - | \$ 26,021,140 |
| Contributions | 2,043,510 | 247,093 | 2,290,603 |
| Program service fees | 43,263 | - | 43,263 |
| Realized and unrealized gain on investments | 1,242 | - | 1,242 |
| Interest income | 251 | - | 251 |
| Other revenue | 138,435 | - | 138,435 |
| | <u>28,247,841</u> | <u>247,093</u> | <u>28,494,934</u> |
| Net assets released from restrictions | 1,960,118 | (1,960,118) | - |
| | <u>30,207,959</u> | <u>(1,713,025)</u> | <u>28,494,934</u> |
| Expenses: | | | |
| Program services: | | | |
| Head start | 19,296,218 | - | 19,296,218 |
| Community service | 1,205,601 | - | 1,205,601 |
| Energy assistance | 3,844,808 | - | 3,844,808 |
| Child feeding and nutrition | 1,463,557 | - | 1,463,557 |
| Home weatherization | 451,765 | - | 451,765 |
| Other | 2,975,337 | - | 2,975,337 |
| | <u>29,237,286</u> | <u>-</u> | <u>29,237,286</u> |
| Support services: | | | |
| General and administrative | 1,347,568 | - | 1,347,568 |
| | <u>30,584,854</u> | <u>-</u> | <u>30,584,854</u> |
| Change in net assets | (376,895) | (1,713,025) | (2,089,920) |
| Net assets at beginning of year | <u>4,868,075</u> | <u>8,485,202</u> | <u>13,353,277</u> |
| Net assets at end of year | <u>\$ 4,491,180</u> | <u>\$ 6,772,177</u> | <u>\$ 11,263,357</u> |

See notes to financial statements.

Jefferson County Committee for Economic Opportunity

Statement of Functional Expenses
Year Ended December 31, 2018

| | Program Services | | | | | | Total Program Services | Support Services | Total |
|-----------------------------------|------------------|----------------------|----------------------|---------------------------------|------------------------|--------------|------------------------------|----------------------------------|---------------|
| | Head Start | Community Service | Energy Assistance | Child Feeding & Nutrition | Home Weatherization | Other | | General and Administrative | |
| Salaries and employee benefits | \$ 12,477,119 | \$ 1,126,162 | \$ 135,080 | \$ - | \$ 32,631 | \$ 1,834,609 | \$ 15,605,601 | \$ 1,276,119 | \$ 16,881,720 |
| Program activities and services | 707,086 | 92,336 | 4,021,295 | 1,292,756 | 456,613 | 532,517 | 7,102,603 | 39,346 | 7,141,949 |
| Consultants | 153,938 | 11,784 | 20,805 | - | 121 | 62,812 | 249,460 | 35,232 | 284,692 |
| Depreciation | 363,579 | 28,537 | - | 1,116 | - | 72,384 | 465,616 | - | 465,616 |
| In-kind services | 3,868,947 | - | - | - | - | - | 3,868,947 | - | 3,868,947 |
| Insurance | 105,431 | 18,244 | 19,417 | - | 768 | 23,372 | 167,232 | 81,849 | 249,081 |
| Interest | 54,378 | 12 | - | - | - | 6,190 | 60,580 | - | 60,580 |
| Occupancy | 715,552 | 47,063 | 23,398 | - | - | 52,026 | 838,039 | 16,026 | 854,065 |
| Office expenses | 100,393 | 9,003 | 20,798 | - | 2,888 | 26,627 | 159,709 | 34,889 | 194,598 |
| Other | 228,037 | 48,464 | 8,116 | - | 9,990 | 85,374 | 379,981 | 28,263 | 408,244 |
| Repairs and maintenance | 632,441 | 47,248 | 18,088 | - | 104 | 100,833 | 798,714 | 25,080 | 823,794 |
| Supplies | 149,248 | 4,006 | (172) | 194,174 | 40 | 53,246 | 400,542 | 3,070 | 403,612 |
| Telephone | 230,866 | 21,680 | 21,134 | - | 27 | 44,169 | 317,876 | 28,952 | 346,828 |
| Travel | 73,162 | 16,515 | 2,287 | - | - | 10,943 | 102,907 | 18,887 | 121,794 |
| Total expenses before allocations | 19,860,177 | 1,471,054 | 4,290,246 | 1,488,046 | 503,182 | 2,905,102 | 30,517,807 | 1,587,713 | 32,105,520 |
| Allocations of indirect costs | 1,100,950 | - | - | - | 2,195 | - | 1,103,145 | (1,103,145) | - |
| Total expenses after allocations | \$ 20,961,127 | \$ 1,471,054 | \$ 4,290,246 | \$ 1,488,046 | \$ 505,377 | \$ 2,905,102 | \$ 31,620,952 | \$ 484,568 | \$ 32,105,520 |

See notes to financial statements.

Jefferson County Committee for Economic Opportunity

Statement of Functional Expenses
Year Ended December 31, 2017

| | Program Services | | | | | | Total Program Services | Support Services | Total |
|-----------------------------------|------------------|----------------------|----------------------|---------------------------------|------------------------|--------------|------------------------------|----------------------------------|---------------|
| | Head Start | Community Service | Energy Assistance | Child Feeding & Nutrition | Home Weatherization | Other | | General and Administrative | |
| Salaries and employee benefits | \$ 11,630,684 | \$ 893,744 | \$ 147,310 | \$ - | \$ 84,671 | \$2,169,919 | \$ 14,926,328 | \$ 977,562 | \$ 15,903,890 |
| Program activities and services | 751,070 | 53,166 | 3,621,885 | 1,288,853 | 360,495 | 445,871 | 6,521,340 | 40,273 | 6,561,613 |
| Consultants | 142,237 | 20,868 | 10,080 | - | - | 13,116 | 186,301 | 116,054 | 302,355 |
| Depreciation | 345,619 | 95 | - | 744 | - | 68,823 | 415,281 | - | 415,281 |
| In-kind services | 3,977,818 | - | - | - | - | - | 3,977,818 | - | 3,977,818 |
| Insurance | 184,354 | 36,895 | - | - | - | 1,664 | 222,913 | 20,378 | 243,291 |
| Interest | 45,411 | 1,557 | 3,489 | - | - | - | 50,457 | - | 50,457 |
| Occupancy | 673,405 | 19,933 | 22,714 | - | - | 20,146 | 736,198 | 24,863 | 761,061 |
| Office expenses | 77,244 | 17,375 | 7,991 | - | 1,415 | 8,439 | 112,464 | 27,044 | 139,508 |
| Other | 233,867 | 52,001 | 1,195 | - | 3,960 | 77,761 | 368,784 | 22,930 | 391,714 |
| Repairs and maintenance | 691,671 | 36,104 | 14,431 | 985 | 191 | 104,646 | 848,028 | 42,885 | 890,913 |
| Supplies | 194,709 | 11,743 | 9,209 | 172,975 | - | 21,456 | 410,092 | 14,156 | 424,248 |
| Telephone | 293,233 | 43,468 | 3,316 | - | 349 | 25,383 | 365,749 | 43,677 | 409,426 |
| Travel | 54,896 | 18,652 | 3,188 | - | 684 | 18,113 | 95,533 | 17,746 | 113,279 |
| Total expenses before allocations | 19,296,218 | 1,205,601 | 3,844,808 | 1,463,557 | 451,765 | 2,975,337 | 29,237,286 | 1,347,568 | 30,584,854 |
| Allocations of indirect costs | 1,293,213 | - | - | - | - | - | 1,293,213 | (1,293,213) | - |
| Total expenses after allocations | \$ 20,589,431 | \$ 1,205,601 | \$ 3,844,808 | \$ 1,463,557 | \$ 451,765 | \$ 2,975,337 | \$ 30,530,499 | \$ 54,355 | \$ 30,584,854 |

See notes to financial statements.

Jefferson County Committee for Economic Opportunity

Statements of Cash Flows
Years Ended December 31, 2018 and 2017

| | 2018 | 2017 |
|---|------------------|--------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ (2,575,084) | \$ (2,089,920) |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Donated facilities | (1,909,830) | (2,024,700) |
| Depreciation | 465,616 | 415,281 |
| In-kind services | 3,868,947 | 3,977,818 |
| Amortization of discount on unconditional promises to give | (186,351) | (247,093) |
| Realized and unrealized gain on investments | (927) | (1,242) |
| (Gain) loss on sale of property and equipment | (8,350) | 52,107 |
| Changes in assets and liabilities: | | |
| Grants and contracts receivable | 272,455 | (187,504) |
| Prepaid expenses and other assets | 211,831 | (180,427) |
| Accounts payable | 45,980 | (81,605) |
| Accrued compensation | 121,100 | 43,341 |
| Deferred revenue | - | (458,325) |
| Net cash provided by (used in) operating activities | 305,387 | (782,269) |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (242,748) | (264,587) |
| Proceeds from sale of property of equipment | 8,350 | 2,879 |
| Net cash used in investing activities | (234,398) | (261,708) |
| Cash flows from financing activities: | | |
| Payments of long-term debt | (122,230) | (151,795) |
| Net cash used in financing activities | (122,230) | (151,795) |
| Net decrease in cash | (51,241) | (1,195,772) |
| Cash: | | |
| Beginning of year | 663,890 | 1,859,662 |
| End of year | \$ 612,649 | \$ 663,890 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during year for interest | \$ 60,580 | \$ 50,457 |

See notes to financial statements.

Jefferson County Committee for Economic Opportunity

Notes to Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies

Nature of organization: Jefferson County Committee for Economic Opportunity (the Agency) was organized and incorporated on January 15, 1965, under the Alabama Non-Profit Corporation Act of the State of Alabama in order to formulate a Community Action Program under the terms of the Economic Opportunity Act of 1964 and to help economically disadvantaged persons in urban and rural communities within Jefferson County, Alabama. The Agency administers several federal and state funded grant programs for this purpose.

Basis of accounting: The financial statements of the Agency have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The Agency follows the standards of accounting and financial reporting for voluntary health and welfare organizations developed by the National Health Council, National Voluntary Health, and Social Welfare Organizations.

Basis of presentation: For financial statement presentation, the Agency has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, Not-for-Profit Entities: Presentation of Financial Statements. Under FASB ASC 958-205, the Agency is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. In addition, the Agency is required to present a statement of cash flows. As permitted by FASB ASC 958-205, the Agency does not use fund accounting.

Revenue and recognition of donor restrictions: The Agency receives support from government grants and contracts, contributions and program service fees.

The Agency recognizes grant revenue as the expenses stipulated in the grant agreement have been incurred. Grant revenue on cost-reimbursement grants is recognized after the program expenditures have been incurred. As such, the Agency recognizes revenue and records a receivable for the reimbursement amount from the granting agency. Grant revenue received in advance of expenses incurred is recorded as deferred revenue. Such grant programs are subject to independent audit under the Office of Management and Budget Uniform Guidance and review by grantor agencies. Such review could result in disallowance of expenditures under the terms of the grant or reductions of future grant funds. Based on prior experience, the Agency's management believes the costs ultimately disallowed, if any, would not materially affect the financial statements.

The Agency also receives contributions or promises to give. A promise to give is a written or oral agreement to contribute cash or other assets to another entity. The Agency recognizes contributions or unconditional promises to give when received.

Program service fees are recognized when the services are performed by the Agency.

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, net assets with donor restrictions are reclassified to net assets without donor restrictions. All other net assets, including board designated, are legally unrestricted, and are reported as part of the without donor restrictions class.

Contributions of donated non-cash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

Jefferson County Committee for Economic Opportunity

Notes to Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Use of estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents: For purposes of the statements of cash flows, the Agency considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. The Agency had no cash equivalents at December 31, 2018 and 2017.

Grants and contracts receivable: Grants and contracts receivable consist of amounts due to the Agency under federal, state and local grant and contract agreements. Management determines the allowance for doubtful grants and contracts receivable by regularly evaluating individual grants and contracts receivable and considering the history and likelihood of collection. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. Management believes that all receivable amounts are expected to be collected.

Unconditional promises to give use of facilities: In accordance with FASB ASC 958-605, Not-for-Profit Entities: Revenue Recognition, if the free use of facilities is promised for several years, the Agency recognizes the contribution at fair value. The contribution is calculated at the net present value of the fair rental value of space occupied under similar conditions and is recorded as an increase in net assets with donor restrictions. The present value is reported as an asset that is amortized over the term of the promise. Each period, the value of using the space for the period is reported as an expense in the net assets without donor restrictions class along with a reclassification of net assets from net assets with donor restrictions. FASB ASC 958-605-55-24 notes that a contribution recorded for the free use of facilities cannot exceed the fair value of the asset being used.

Investments – restricted: In accordance with FASB ASC 958-320, Not-for-Profit Entities: Investments—Debt and Equity Securities, investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair market value in the accompanying statements of financial position. The unrealized gains are included in the change in net assets without donor restrictions in the accompanying statements of activities.

Property and equipment: Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support 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 support. 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.

All acquisitions of property and equipment in excess of \$5,000 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are stated at cost and are depreciated using the straight-line method. Depreciation expense for the years ended December 31, 2018 and 2017, was \$465,616 and \$415,281, respectively.

Jefferson County Committee for Economic Opportunity

Notes to Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

The average lives used in computing depreciation are as follows:

| | <u>Years</u> |
|------------------------|--------------|
| Buildings | 30 |
| Leasehold improvements | 10-30 |
| Vehicles | 5 |
| Equipment | 5-10 |

In accordance with FASB ASC 360-10-35, Impairment or Disposal of Long-Lived Assets, the Agency records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. If impairment exists, the amount of such impairment is calculated based on the estimated fair value of the asset. The Agency continually evaluates its investment in long-lived assets used in operations for impairment. Based on this evaluation, there was no impairment at December 31, 2018 or 2017.

Functional expenses: The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and in the statements of functional expenses. Accordingly, certain costs have been allocated among the program services and supporting services benefited based on a percentage method on the following bases: 1) depreciation and interest is allocated based on square-footage used by each program and 2) salaries and benefits are allocated based on estimates of time and effort.

Income taxes: The Agency is exempt from income taxes under Section 501(a) of the Internal Revenue Code (Code) as an organization described in 501(c)(3) and is not classified as a private agency. The Agency pays income taxes on gross income from any unrelated trade or business income less direct expenses. There was no income tax paid on such unrelated trade or business income for the years ended December 31, 2018 and 2017.

The Agency files a tax return in the United States (U.S.) federal jurisdiction. The Board of Directors evaluated the Agency's tax position and concluded that the Agency has not entered into any events or transactions that would disqualify its tax-exempt status or has not taken any uncertain tax positions that would cause the Agency to incur income taxes or penalties at the entity level. With few exceptions, the Agency is no longer subject to U.S. federal tax examinations by tax authorities for years before 2015.

Recently adopted accounting pronouncements: In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU make improvements to the information provided in the financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance, and cash flows. This guidance became effective for the Agency's financial statements for the year ending December 31, 2018. This adoption of ASU 2016-14 did not have a significant impact on the Agency's consolidated financial position or changes in net assets.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*, which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 will be effective for the Agency beginning on January 1, 2019. The Agency has already been applying the amendments included in ASU 2016-18 to its financial statements for the years ended December 31, 2018 and 2017, and there were no changes to previously issued financial statements.

Jefferson County Committee for Economic Opportunity

Notes to Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Recent accounting pronouncements: In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The Agency is currently evaluating the effect that the standard will have on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Agency is currently evaluating the future impact of this accounting update on the financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 provides guidance on how certain cash receipts and cash payments should be presented and classified in the statement of cash flows with the objective of reducing existing diversity in practice with respect to these items. ASU 2016-15 will be effective for the Agency on January 1, 2019. Early adoption is permitted. ASU 2016-15 requires a retrospective transition method. However, if it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The Agency is currently evaluating the impact the adoption of this guidance will have on its statement of cash flows.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies and improves the scope and the accounting guidance for contributions received and contributions made. The amendments in this update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. While the guidance is effective for recipients for fiscal years beginning after December 15, 2018, early adoption is allowed. The Agency is currently evaluating the effect the guidance will have on the financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which removes, modifies and adds certain disclosure requirements with respect to the fair value measurement disclosures within the scope of Topic 820, Fair Value Measurement. ASU 2018-13 is effective for all entities for fiscal years beginning after December 15, 2019, and early adoption is allowed. The Agency is currently evaluating the effect the guidance will have on the financial statements.

Subsequent events: Subsequent events have been evaluated through August 7, 2019, which is the date the financial statements were available for issuance.

Jefferson County Committee for Economic Opportunity

Notes to Financial Statements

Note 2. Liquidity

As of December 31, 2018, the Agency had financial assets available within one year of the statement of financial position date for general expenditure as follows:

| | | |
|--|----|------------------|
| Cash | \$ | 465,030 |
| Cash – restricted | | 147,619 |
| Grants and contracts receivable | | 1,270,584 |
| Investments – restricted | | 185,191 |
| | | <hr/> |
| | | 2,068,424 |
| Less those unavailable for general expenditures within one year, due to: | | |
| Donor-imposed restrictions | | (332,810) |
| | | <hr/> |
| | \$ | <u>1,735,614</u> |

The Agency has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, operating revenue generated throughout the year is budgeted to cover general operating expenditures.

Note 3. Fair Value Measurement

The Agency reports its fair value measures using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy, established by GAAP, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs used to measure fair value are as follows:

Level 1: Quoted prices for identical assets or liabilities in active markets to which the Agency has access at the measurement date.

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include:

- Quoted prices for similar assets or liabilities in active markets
- Quoted prices for identical or similar assets in markets that are not active
- Observable inputs other than quoted prices for the asset or liability (for example, interest rates and yield curves)
- Inputs derived principally from, or corroborated by, observable market data by correlation

Level 3: Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure the fair value to the extent that observable inputs are not available.

When available, the Agency measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

The primary uses of fair value measures in the Agency's financial statements are recurring measurements of investments (Note 5).

Assets and liabilities measured at fair value are based on one or more of the three valuation techniques noted in the guidance. The three techniques are as follows:

Jefferson County Committee for Economic Opportunity

Notes to Financial Statements

Note 3. Fair Value Measurement (Continued)

Market approach: Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

Cost approach: Amount that would be required to replace the service capacity of an asset (i.e., replacement cost).

Income approach: Techniques to convert future amounts to a single present amount based on market expectations utilizing present value techniques.

On a recurring basis, the Agency is required to measure its money market funds and U.S. Government securities at fair value.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the valuation methodologies used during the years ended December 31, 2018 and 2017.

Money market funds: Valued at the carrying value as this amount approximates fair value due to the immediate or short-term maturity of the investment.

U.S. Government securities: Valued at the closing price reported on the active market on which the individual securities are traded.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Agency believes its valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables set forth by level, within the fair value hierarchy, the Agency's assets that are measured at fair value on a recurring basis as of December 31:

| | 2018 | | | |
|----------------------------|-------------------|-------------------|------------------|-------------|
| | Total | Level 1 | Level 2 | Level 3 |
| Money market funds | \$ 123,128 | \$ 123,128 | \$ - | \$ - |
| U.S. Government securities | 62,063 | - | 62,063 | - |
| | <u>\$ 185,191</u> | <u>\$ 123,128</u> | <u>\$ 62,063</u> | <u>\$ -</u> |

| | 2017 | | | |
|----------------------------|-------------------|------------------|------------------|-------------|
| | Total | Level 1 | Level 2 | Level 3 |
| Money market funds | \$ 93,169 | \$ 93,169 | \$ - | \$ - |
| U.S. Government securities | 91,095 | - | 91,095 | - |
| | <u>\$ 184,264</u> | <u>\$ 93,169</u> | <u>\$ 91,095</u> | <u>\$ -</u> |

To assess the appropriate classification of investments within the fair value hierarchy, the availability of market data is monitored. Changes in economic conditions or valuation techniques may require the transfer of investments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. There were no transfers between levels during the years ended December 31, 2018 and 2017.

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Notes to Financial Statements

Note 4. Unconditional Promises to Give Use of Facilities and Donated Facilities

The Agency has unconditional promises to give use of facilities for its Fairmont, Kingston, Sherman Heights, West Center Street, St. Joseph School, St. Francis Center, Festival Center and Erwin Head Start programs over a period of 10 to 25 years.

At December 31, 2018 and 2017, the estimated fair market value of these unconditional promises to give is as follows:

| | 2018 | 2017 |
|--|---------------------|---------------------|
| Promises to give with donor restrictions | \$ 5,062,410 | \$ 7,014,028 |
| Less discounts to present value (discounted at 4%) | (410,759) | (589,611) |
| | <u>\$ 4,651,651</u> | <u>\$ 6,424,417</u> |

Contribution revenue recognized related to the long-term promises to give use of facilities was \$186,351 and \$247,093 for the years ended December 31, 2018 and 2017, respectively. The Agency also receives donated facilities on a month-to-month basis in carrying out its Head Start programs, which are recorded at their fair market value. Contribution revenue recognized related to month-to-month donated facilities was \$1,909,830 and \$2,024,700 for the years ended December 31, 2018 and 2017, respectively. The estimated fair market value of the donated facilities under long-term promises to give use of facilities and month-to-month donated facilities were \$3,868,947 and \$3,977,818 for the years ended December 31, 2018 and 2017, respectively, and are included in in-kind services in the accompanying statements of functional expenses.

Note 5. Investments – Restricted

The Agency's investments are restricted for the use of the Agency's scholarship fund, as further described in Note 7. At December 31, 2018 and 2017, the Agency's investments consisted of the following:

| | 2018 | 2017 |
|----------------------------|-------------------|-------------------|
| Money market funds | \$ 123,128 | \$ 93,169 |
| U.S. Government securities | 62,063 | 91,095 |
| | <u>\$ 185,191</u> | <u>\$ 184,264</u> |

Note 6. Property and Equipment

Property and equipment consist of the following:

| | 2018 | 2017 |
|-------------------------------|---------------------|---------------------|
| Buildings | \$ 677,590 | \$ 677,590 |
| Leasehold improvements | 7,839,127 | 7,755,572 |
| Vehicles | 1,755,547 | 1,665,920 |
| Equipment | 796,343 | 779,835 |
| Less accumulated depreciation | (6,652,580) | (6,240,022) |
| | <u>\$ 4,416,027</u> | <u>\$ 4,638,895</u> |

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Notes to Financial Statements

Note 7. Long-Term Debt

During December 2015, the Agency completed a loan refinancing transaction, which consolidated multiple mortgages under one loan agreement. This note is collateralized by certain property. In November 2017, the Agency modified certain terms of this note. Prior to the modification, the note bore interest at a variable rate of LIBOR plus 3.0%, which was 3.65% at December 31, 2016, monthly payments, including interest and principal, were \$18,117, and the maturity date of this note was December 9, 2023. After the modification, the note bears interest at a fixed rate of 5.1%, monthly payments, including interest and principal, are \$15,234, and the maturity date of this note is December 9, 2025.

The loan contains a financial covenant requiring a minimum fixed charge coverage ratio. As of December 31, 2018, the Agency was in compliance with this covenant. As of December 31, 2017, the Agency was not in compliance with this covenant, and the bank waived such noncompliance.

Long-term debt consists of the following as of December 31, 2018 and 2017:

| | 2018 | 2017 |
|--------------------------------------|-------------------|---------------------|
| Note payable | \$ 1,071,779 | \$ 1,194,009 |
| Less current portion | (130,466) | (122,390) |
| Long-term debt, less current portion | <u>\$ 941,313</u> | <u>\$ 1,071,619</u> |

Maturities of long-term debt for years ending December 31, are as follows:

| | | |
|---------------------------|--|---------------------|
| Years ending December 31: | | |
| 2019 | | \$ 130,466 |
| 2020 | | 137,239 |
| 2021 | | 144,642 |
| 2022 | | 152,301 |
| 2023 | | 160,365 |
| Thereafter | | 346,766 |
| | | <u>\$ 1,071,779</u> |

Note 8. Net assets with Donor Restrictions

The Agency has established a scholarship fund for JCCEO Head Start-Early Head Start graduates. Beginning with the Head Start class of 1995, scholarships are available on a competitive basis when students who have graduated from JCCEO Head Start-Early Head Start complete high school and are accepted into college. Also included in net assets with donor restrictions is the fair market value of the unconditional promises to give use of facilities as described in Note 4.

Net assets with donor restrictions consist of the following as of December 31, 2018 and 2017:

| | 2018 | 2017 |
|--|---------------------|---------------------|
| Scholarships | \$ 332,810 | \$ 347,760 |
| Unconditional promises to give use of facilities | 4,651,651 | 6,424,417 |
| | <u>\$ 4,984,461</u> | <u>\$ 6,772,177</u> |

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Notes to Financial Statements

Note 8. Net assets with Donor Restrictions (Continued)

Net assets were released from restrictions during the years ended December 31, 2018 and 2017, as follows:

| | 2018 | 2017 |
|-------------------------------|---------------------|---------------------|
| Scholarships awarded | \$ 14,950 | \$ 7,000 |
| Use of the donated facilities | 1,959,117 | 1,953,118 |
| | <u>\$ 1,974,067</u> | <u>\$ 1,960,118</u> |

Note 9. Matching of Federal Funds

Under certain federal programs, the Agency is required to match federal contributions with local funds, or service fee revenue. For the years ended December 31, 2018 and 2017, the Agency met all matching requirements and received matching resources in the following amounts:

| | | |
|---|-------------|--------------|
| 2018 Head Start/Head Start Center of Excellence | 04CH4788-04 | \$ 4,316,225 |
| 2017 Head Start/Head Start Center of Excellence | 04CH4788-03 | \$ 4,288,560 |

Note 10. Retirement Plan

The Agency's employees participate in a 401(k) defined contribution retirement plan with an insurance company. The plan is available for all full-time employees after the completion of one year of continuous service. Employee contributions to the plan are matched by the Agency up to a maximum of 4% of their salary. The Agency's matching portion for the years ended December 31, 2018 and 2017, was \$270,060 and \$190,598, respectively.

Note 11. Lease Agreements

The Agency maintains equipment and occupies office space under long-term operating leases. Future minimum rental payments required under operating leases that have an initial or remaining noncancellable lease term in excess of one year, as of December 31, 2018, are as follows:

| | |
|------------|---------------------|
| 2019 | \$ 251,486 |
| 2020 | 203,610 |
| 2021 | 168,235 |
| 2022 | 167,838 |
| 2023 | 167,838 |
| Thereafter | 450,004 |
| | <u>\$ 1,409,011</u> |

Rental expense associated with equipment and office space leases was \$303,281 and \$318,730 for the years ended December 31, 2018 and 2017, respectively, and is included in occupancy expenses on the statements of functional expenses.

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Notes to Financial Statements

Note 12. Risks and Uncertainties

The Agency maintains cash in bank accounts at high credit quality financial institutions. During 2018 and 2017, the Agency had cash on deposit with financial institutions in excess of depository insurance limits. The Agency has not experienced and does not anticipate any credit losses on the deposits.

The Agency invests in a professionally managed portfolio that contains U.S. Government securities and money market funds. Such investments are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with such investments, and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and amounts reported in the financial statements.

Note 13. Contingencies

The Agency is a defendant in various legal actions arising from the normal course of its operations. While it is not possible to predict accurately or determine the eventual outcome of such actions, management believes that the outcome of these proceedings will not have a material adverse effect on the Agency's financial position, changes in net assets or cash flows.