

## **Cascade Connections**

Financial Statements with  
Independent Auditor's Report

Years Ended December 31, 2017 and 2016

Larson Gross 

## Cascade Connections

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## Independent Auditor's Report

To the Board of Directors  
Cascade Connections  
Ferndale, Washington

We have audited the accompanying financial statements of Cascade Connections (the Organization), which comprise the statement of financial position as of December 31, 2017, 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 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 Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matter***Prior Period Financial Statements*

The financial statements of Cascade Connections as of and for the year ended December 31, 2016, were audited by other auditors whose report, dated August 9, 2017, expressed an unmodified opinion on those statements.

*Larson Gross PLLC*

Bellingham, Washington  
August 7, 2018

Cascade Connections

**Statements of Financial Position**

December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 638,862	\$ 696,003
Certificates of deposit	559,232	511,724
Accounts receivable	719,012	589,547
Prepaid expenses	48,031	25,968
Other current assets	<u>-</u>	<u>18,915</u>
Total current assets	1,965,137	1,842,157
<b>Deposits</b>	5,050	5,790
<b>Property and equipment, net</b>	<u>351,550</u>	<u>599,506</u>
<b>Total assets</b>	<u><u>\$ 2,321,737</u></u>	<u><u>\$ 2,447,453</u></u>
<b>Liabilities and Net Assets</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 43,613	\$ 63,810
Accrued liabilities	<u>453,230</u>	<u>626,739</u>
Total current liabilities	496,843	690,549
<b>Net assets</b>		
Unrestricted		
Undesignated	1,453,344	1,157,398
Net investment in property and equipment	<u>351,550</u>	<u>599,506</u>
Total unrestricted	1,804,894	1,756,904
Temporarily restricted	<u>20,000</u>	<u>-</u>
Total net assets	<u>1,824,894</u>	<u>1,756,904</u>
<b>Total liabilities and net assets</b>	<u><u>\$ 2,321,737</u></u>	<u><u>\$ 2,447,453</u></u>

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Statements of Activities

Years Ended December 31, 2017 and 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Support and revenue</b>						
Contracts with government agencies						
State	\$ 4,688,341	\$ -	\$ 4,688,341	\$ 4,004,655	\$ -	\$ 4,004,655
Federal	984,229	-	984,229	939,411	-	939,411
County	954,505	-	954,505	823,432	-	823,432
	6,627,075	-	6,627,075	5,767,498	-	5,767,498
Client participation	410,393	-	410,393	352,629	-	352,629
Commercial service contracts	160,429	-	160,429	139,730	-	139,730
Gain on sale of property and equipment	97,807	-	97,807	520	-	520
Contributions	46,319	20,000	66,319	185,695	-	185,695
Special events, net of related expenses of \$10,034 and \$14,866, respectively	29,528	-	29,528	(2,846)	-	(2,846)
Training and other	24,759	-	24,759	28,004	-	28,004
<b>Total support and revenue</b>	7,396,310	20,000	7,416,310	6,471,230	-	6,471,230
<b>Expenses</b>						
Program services	6,797,879	-	6,797,879	5,997,704	-	5,997,704
Management and general	543,816	-	543,816	496,510	-	496,510
Fundraising	6,625	-	6,625	3,198	-	3,198
<b>Total expenses</b>	7,348,320	-	7,348,320	6,497,412	-	6,497,412
Change in net assets	47,990	20,000	67,990	(26,182)	-	(26,182)
Net assets - beginning of year	1,756,904	-	1,756,904	1,783,086	-	1,783,086
<b>Net assets - end of year</b>	<u>\$ 1,804,894</u>	<u>\$ 20,000</u>	<u>\$ 1,824,894</u>	<u>\$ 1,756,904</u>	<u>\$ -</u>	<u>\$ 1,756,904</u>

Cascade Connections

**Statements of Functional Expenses**

Years Ended December 31, 2017 and 2016

	2017			
	Program Services	Management and General	Fundraising	Total
Salaries, benefits and payroll taxes	\$ 5,820,842	\$ 349,223	\$ 6,625	\$ 6,176,690
Professional fees	108,180	120,420	-	228,600
Property and equipment rent and maintenance	169,377	39,834	-	209,211
Supplies	154,875	-	-	154,875
Utilities	107,370	3,845	-	111,215
Vehicle fuel and maintenance	82,318	3,676	-	85,994
Depreciation	80,894	-	-	80,894
Training	70,800	3,388	-	74,188
Insurance	63,419	1,906	-	65,325
Office	40,378	17,960	-	58,338
Advertising	28,647	-	-	28,647
Parking and mileage	35,639	191	-	35,830
Dues and subscriptions	15,689	2,644	-	18,333
Property and business taxes	18,294	-	-	18,294
Miscellaneous	1,157	729	-	1,886
	<u>\$ 6,797,879</u>	<u>\$ 543,816</u>	<u>\$ 6,625</u>	<u>\$ 7,348,320</u>

	2016			
	Program Services	Management and General	Fundraising	Total
Salaries, benefits and payroll taxes	\$ 5,088,179	\$ 320,512	\$ 3,198	\$ 5,411,889
Professional fees	79,032	93,857	-	172,889
Property and equipment rent and maintenance	154,752	47,033	-	201,785
Supplies	177,307	-	-	177,307
Utilities	91,697	3,989	-	95,686
Vehicle fuel and maintenance	68,745	3,396	-	72,141
Depreciation	76,135	-	-	76,135
Training	69,750	2,140	-	71,890
Insurance	64,945	2,896	-	67,841
Office	32,314	13,883	-	46,197
Advertising	35,841	-	-	35,841
Parking and mileage	28,248	819	-	29,067
Dues and subscriptions	13,048	1,200	-	14,248
Property and business taxes	16,670	-	-	16,670
Miscellaneous	1,041	6,785	-	7,826
	<u>\$ 5,997,704</u>	<u>\$ 496,510</u>	<u>\$ 3,198</u>	<u>\$ 6,497,412</u>

Cascade Connections

**Statements of Cash Flows**

Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 67,990	\$ (26,182)
Adjustments to reconcile change in net assets to cash provided (used) by operating activities		
Depreciation	80,894	76,135
Gain on sale of property and equipment	(97,807)	(520)
(Increase) decrease in assets		
Accounts receivable	(129,465)	(13,161)
Prepaid expenses	(22,063)	(11,618)
Other current assets	18,915	(13,555)
Deposits	740	(5,790)
Increase (decrease) in current liabilities		
Accounts payable	(20,197)	6,481
Accrued liabilities	(173,509)	63,631
<b>Net cash provided (used) by operating activities</b>	(274,502)	75,421
<b>Cash flows from investing activities</b>		
Net change in certificates of deposit	(47,508)	102,331
Proceeds from sale of property and equipment	362,958	520
Purchases of property and equipment	(98,089)	(34,180)
<b>Net cash provided by investing activities</b>	217,361	68,671
Net increase (decrease) in cash and cash equivalents	(57,141)	144,092
Cash and cash equivalents - beginning of year	696,003	551,911
<b>Cash and cash equivalents - end of year</b>	<u>\$ 638,862</u>	<u>\$ 696,003</u>



**Notes to Financial Statements**

December 31, 2017 and 2016

**Note 1 – Summary of Significant Accounting Policies**

**Nature of activities** – Cascade Connections (the Organization) is a non-profit agency that is committed to the well-being of the disabled population in Western Washington, specifically serving individuals with disabilities in Whatcom County. The Organization provides community-based residential and individualized vocational services to people with disabilities. The different programs of the Organization include the following: Cascade Christian Home, Cascade Vocational Services, Cascade Supported Living, Cascade Home Care, and Pine Street Home (discontinued during 2017).

**Basis of accounting** – The Organization prepares its financial statements in accordance with accounting principles generally accepted in the United States of America, which 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** – Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

**Unrestricted net assets** – Net assets that are not subject to donor-imposed restrictions and over which the Board of Directors has discretionary control is classified as unrestricted.

**Temporarily restricted net assets** – Net assets subject to donor-imposed stipulations that will be met either by actions of the Organization or the passage of time.

**Permanently restricted net assets** – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. The Organization had no permanently restricted net assets as of December 31, 2017 and 2016.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor stipulated purpose has been fulfilled or the stipulated time period has lapsed) are reported as reclassifications between the applicable classes of net assets.

**Cash and cash equivalents** – The Organization considers all highly liquid investments with an initial maturity date of three months or less to be cash equivalents. Cash and cash equivalents consists of cash and money markets in the bank and petty cash for statements of cash flows purposes. The Organization maintains its cash in bank accounts that may exceed federally insured limits at times during the year. The Organization has not experienced any losses in these accounts, and management does not believe it is exposed to any significant credit risk.

**Certificates of deposit** – The Organization holds certificates of deposit with maturity dates through February 20, 2019, valued at cost plus accrued interest.

**Notes to Financial Statements**

December 31, 2017 and 2016

**Note 1 – Summary of Significant Accounting Policies – (Continued)**

**Accounts receivable** – Receivables are recorded at their net realizable value. Net realizable value is equal to the gross amount of receivables less an estimated allowance for doubtful accounts. Management bases its estimate of doubtful accounts on several factors. These factors include the Organization's prior experience collecting receivables, the age of the receivables at year end, the debtor's ability to repay the amount owed, and management's appraisal of current economic conditions. The Organization does not require collateral for its receivables and does not assess finance charges on delinquent accounts.

As of December 31, 2017 and 2016, management believes all accounts to be fully collectible, therefore, an allowance for doubtful accounts has not been made.

**Property and equipment** – Property and equipment consists of land, buildings and improvements, furniture and fixtures, and vehicles and equipment which are stated at cost and are depreciated using the straight-line method over their estimated useful lives ranging from 3 to 40 years. The Organization capitalizes expenditures for property and equipment in excess of \$2,000 with an estimated useful life of 1 year or more. Expenditures for repair and maintenance not exceeding \$2,000 and which do not extend the useful life of an underlying asset are expensed as incurred.

**Contracts with government agencies** – The Organization receives support and revenue through contracts with various federal, state, and local government agencies to provide residential and vocational services to individuals with disabilities. The Organization administers these funds in accordance with contract requirements. Contract revenue under cost reimbursement arrangements is recognized as expenses are incurred. Amounts incurred but not yet reimbursed are reported as accounts receivable.

**Contributions** – Contribution revenue is recognized in the period received or when an unconditional promise to give is made, whichever is earlier. Contributions received with donor stipulations are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a time restriction ends, or purpose restriction is accomplished, temporarily restricted net assets are reclassified and reported as an increase in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Contributions from one and two donors made up 19% and 71% of total contribution revenue for the years ended December 31, 2017 and 2016, respectively.

**Donated goods and services** – Donations of supplies, equipment and other goods are recorded at fair value on the date of receipt. Donated services are recognized if services received (a) create or enhance nonfinancial assets or (b) require specialized skills and are provided by individuals possessing those skills and would typically need to be purchased if not donated. Many volunteers have donated significant amounts of time to the Organization's activities. The services of these volunteers are not recorded in the accompanying financial statements as they do not meet the criteria for recognition.

**Functional allocation of expenses** – Expenses directly identifiable with specific program or support functions are charged to the related programs or supporting services. Expenses related to more than one function are allocated among the programs and supporting services benefited.

**Notes to Financial Statements**

December 31, 2017 and 2016

**Note 1 – Summary of Significant Accounting Policies – (Continued)**

**Advertising** – Advertising costs are expense as incurred and totaled \$28,647 and \$35,841 for the years ended December 31, 2017 and 2016, respectively.

**Federal income tax** – The Organization is a non-profit entity exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income tax is necessary. The tax returns for the prior three fiscal years remain subject to examination by major tax jurisdictions.

**Use of estimates** – The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. Such estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Reclassifications** – Certain reclassifications have been made to the prior year's financial statements to conform to the current year's presentation.

**Subsequent events** – In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through August 7, 2018, the date the financial statements were available to be issued.

**Note 2 – Property and Equipment**

Property and equipment consists of the following at December 31:

	2017	2016
Buildings	\$ 745,141	\$ 1,117,686
Equipment and vehicles	462,761	391,274
Land and land improvements	56,474	96,474
Furniture and fixtures	5,347	11,528
	<u>1,269,723</u>	<u>1,616,962</u>
Less accumulated depreciation	<u>(918,173)</u>	<u>(1,017,456)</u>
	<u><u>\$ 351,550</u></u>	<u><u>\$ 599,506</u></u>

Depreciation expense totaled \$80,894 and \$76,135 for the years ended December 31, 2017 and 2016, respectively.

**Notes to Financial Statements**

December 31, 2017 and 2016

**Note 3 – Contracts with Government Agencies**

Contracts with government agencies consist of the following for the year ended December 31:

	2017	2016
Washington State Department of Social and Human Services	\$ 4,688,341	\$ 4,004,655
Whatcom County	954,505	823,432
General Services Administration	686,899	654,997
Department of Homeland Security	297,330	284,414
	<u>\$ 6,627,075</u>	<u>\$ 5,767,498</u>

Accounts receivable from one agency made up 60% and 67% of total accounts receivable in the statements of financial position at December 31, 2017 and 2016, respectively.

**Note 4 – Temporarily Restricted Net Assets**

Temporarily restricted net assets consisted of the following program and project restrictions as of December 31:

	2017	2016
Interviewing skills workshop	<u>\$ 20,000</u>	<u>\$ -</u>

**Note 5 – Operating Leases**

The Organization entered into various non-cancelable and month-to-month leases for office space and equipment with terms of up to five years. The following is a schedule of future minimum payments under the operating leases at December 31:

2018	\$ 171,700
2019	152,000
2020	102,000
2021	94,800
2022	39,500
	<u>\$ 560,000</u>

Rent and maintenance expense for office space and equipment under operating leases totaled \$209,211 and \$201,785 for the years ended December 31, 2017 and 2016, respectively.

**Notes to Financial Statements**

December 31, 2017 and 2016

**Note 6 – Retirement Plan**

The Organization sponsors a profit sharing plan, qualified under Section 401(a) of the Internal Revenue Code, for all eligible employees. Employees become eligible to participate after completion of one year of service or 1,000 hours of service. The plan allows the Organization to make discretionary contributions to the plan, which are determined on an annual basis. Discretionary contributions totaled \$56,420 and \$50,489 during December 31, 2017 and 2016, respectively.

**Note 7 – Agency Workers Health Insurance**

A portion of state funds received to provide home care from the state of Washington are designated for use in a qualified health insurance plan for employees who work directly with home care. Every active home care employee receives the Health Benefit Plan EAP through Peace Health Services at time of hire. In addition, home care employees who work an average of 30 hours per week or 1,560 hours per year are eligible for group insurance. If funds do not go to the approved health insurance plan, it is required to be paid back to the state. The Organization incurred \$37,951 and \$23,928 of health benefit costs for home care employees during December 31, 2017 and 2016, respectively. The Organization accrued \$12,605 and \$70,828 included in accounts payable in the statements of financial position for amounts owed to the state for funds received but not spent on qualified health benefits for the years ended December 31, 2017 and 2016, respectively.

**Note 8 – Recent Accounting Pronouncement**

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, “Revenue from Contracts with Customers”, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 and subsequent amendments outline a five-step process for revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards, and also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. Major provisions include determining which goods and services are distinct and represent separate performance obligations, how variable consideration (which may include change orders and claims) is recognized, whether revenue should be recognized at a point in time or over time and ensuring the time value of money is considered in the transaction price. This guidance may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. Application is required for annual periods beginning after December 15, 2018. The Organization continues to evaluate the impact of the new accounting guidance on its financial statements.