



Combined Financial Statements and
Independent Auditor's Report

**Southern Colorado Developmental
Disabilities Services, Inc. and Las Animas County
Rehabilitation Center, Inc.**

June 30, 2016



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Logan, Thomas & Johnson, LLC
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors

Southern Colorado Developmental Disabilities Services, Inc.

We have audited the accompanying combined financial statements of Southern Colorado Developmental Disabilities Services, Inc. and Las Animas County Rehabilitation Center, Inc. (jointly, the Center), which comprise the combined statement of financial position as of June 30, 2016, and the related combined statements of activities and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined financial statements based on our audit. We did not audit the financial statements of Las Animas County Rehabilitation Center, Inc.'s three wholly-owned subsidiaries, which statements reflect total assets of \$788,494, as of June 30, 2016, and total revenues and support of \$164,175 for the year then ended. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Las Animas County Rehabilitation Center, Inc.'s three wholly-owned subsidiaries, is based solely upon the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board of the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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

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and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined 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, based on our audit and the reports of the other auditors, the combined financial statements referred to above present fairly, in all material respects, the financial position of Southern Colorado Developmental Disabilities Services, Inc. and Las Animas County Rehabilitation Center, Inc. as of June 30, 2016, 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 the Center's 2015 combined financial statements, and our report dated February 1, 2016, expressed an unmodified opinion on those audited combined financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited combined financial statements from which it has been derived.

Emphasis of Matter

As discussed in Note I to the financial statements, the 2015 combined financial statements have been restated to correct misstatements. Our opinion is not modified with respect to this matter.

Logan, Thomas & Johnson, LLC

Broomfield, Colorado

August 28, 2017

Southern Colorado Developmental Disabilities Services, Inc. and
Las Animas County Rehabilitation Center, Inc.
COMBINED STATEMENT OF FINANCIAL POSITION
June 30, 2016
(With summarized financial information for June 30, 2015)

	<u>2016</u>	<u>2015</u> (as restated)
ASSETS		
Current assets		
Cash and cash equivalents		
Checking	\$ 2,253,834	\$ 2,447,940
Savings	38,524	38,447
Certificates of deposit	611,377	606,261
Receivables		
Fees and grants from governmental agencies	372,148	401,083
Other, net of allowance for uncollectible receivables of \$9,807	90,335	86,642
Prepaid expenses and other	41,017	31,588
Total current assets	<u>3,407,235</u>	<u>3,611,961</u>
Restricted reserve accounts	271,742	292,300
Investments	369,254	385,245
Market-linked certificates of deposit	165,000	165,000
Land, buildings and equipment, net	1,951,483	1,891,137
Land, buildings and equipment, not in use	-	130,521
Deposits	7,288	7,295
	<u>\$ 6,172,002</u>	<u>\$ 6,483,459</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 185,033	\$ 272,302
Accrued expenses	481,052	535,176
Capital lease obligation	-	1,888
Note payable	18,938	17,271
Deferred revenue	-	3,956
Total current liabilities	<u>685,023</u>	<u>830,593</u>
Long-term liabilities, net of current portion		
Note payable	204,483	223,421
Total liabilities	<u>889,506</u>	<u>1,054,014</u>
Net assets		
Unrestricted		
Net investment in land, building and equipment	1,728,062	1,780,966
Reserved for HUD regulation compliance	271,742	292,300
Undesignated	3,282,692	3,317,617
Total unrestricted	<u>5,282,496</u>	<u>5,390,883</u>
Temporarily restricted	-	38,562
Total net assets	<u>\$ 5,282,496</u>	<u>\$ 5,429,445</u>
	<u>\$ 6,172,002</u>	<u>\$ 6,483,459</u>

The accompanying notes are an integral part of this statement.

Southern Colorado Developmental Disabilities Services, Inc. and
Las Animas County Rehabilitation Center, Inc.
COMBINED STATEMENT OF ACTIVITIES
Year ended June 30, 2016
(With summarized financial information for the year ended June 30, 2015)

	Unrestricted	Temporarily Restricted	Total	
			2016	2015 (as restated)
Revenues and support				
Fees and grants from governmental agencies				
Fees for services				
State of Colorado				
State General Fund				
Comprehensive	\$ 7,198	\$ -	\$ 7,198	\$ 41,630
Adult supported living	108,180	-	108,180	134,425
Children and families	77,894	-	77,894	71,220
Medicaid				
Comprehensive	3,021,934	-	3,021,934	2,991,858
Adult supported living	534,195	-	534,195	566,447
Children's extensive support	47,717	-	47,717	52,005
Elderly, blind or disabled	656,725	-	656,725	623,147
Grants and other				
Part C	9,292	-	9,292	3,245
Department of Housing and Urban Development	82,195	-	82,195	69,606
Other	8,064	-	8,064	1,205
Total fees and grants from governmental agencies	4,553,394	-	4,553,394	4,554,788
Public support - donations	2,103	1,350	3,453	154,732
In-kind contributions	16,532	-	16,532	17,944
Residential room and board	252,815	-	252,815	255,004
Day care	169,363	-	169,363	99,209
Other revenue	101,468	-	101,468	234,018
Net assets released from restrictions				
Satisfaction of program restrictions	39,912	(39,912)	-	-
Total revenues and support	5,135,587	(38,562)	5,097,025	5,315,695
Expenses				
Program services				
Medicaid comprehensive	2,830,881	-	2,830,881	2,773,543
State adult supported living	114,004	-	114,004	113,789
Medicaid adult supported living	812,622	-	812,622	820,837
Elderly, blind or disabled	626,628	-	626,628	605,573
Children's extensive support	30,384	-	30,384	26,591
Early intervention	25,311	-	25,311	20,889
Family support	55,582	-	55,582	46,586
Case management	267,373	-	267,373	259,744
Day care	174,373	-	174,373	168,965
Total program services	4,937,158	-	4,937,158	4,836,517
Supporting services				
Management and general	306,816	-	306,816	356,214
Total expenses	5,243,974	-	5,243,974	5,192,731
CHANGE IN NET ASSETS	(108,387)	(38,562)	(146,949)	122,964
Net assets, beginning of year, as previously reported	5,390,883	38,562	5,429,445	5,134,774
Prior period adjustment	-	-	-	171,707
Net assets, beginning of year, as adjusted	5,390,883	38,562	5,429,445	5,306,481
Net assets, end of year	\$ 5,282,496	\$ -	\$ 5,282,496	\$ 5,429,445

The accompanying notes are an integral part of this statement.

Southern Colorado Developmental Disabilities Services, Inc. and
Las Animas County Rehabilitation Center, Inc.
COMBINED STATEMENT OF CASH FLOWS
Year ended June 30, 2016
(With summarized financial information for the year ended June 30, 2015)

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Change in net assets	\$ (146,949)	\$ 122,964
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	175,430	185,893
Gain on disposal of land, building and equipment	(4,377)	(63,551)
Net realized and unrealized loss on investments	34,508	16,681
Interest income reinvested in certificates of deposit	(5,116)	(4,268)
Change in assets and liabilities		
Decrease in accounts receivable	25,242	2,865
(Increase) decrease in prepaid expenses and other	(9,429)	1,709
Increase (decrease) in accounts payable and accrued expenses	(141,393)	85,044
Increase (decrease) in deferred revenue	(3,956)	3,956
Net cash provided by (used in) operating activities	<u>(76,040)</u>	<u>351,293</u>
Cash flows from investing activities		
Purchase of land, building and equipment	(105,255)	(87,129)
Proceeds from sale of land, building and equipment	4,377	112,893
Decrease in deposits	7	114
Net (increase) decrease in restricted reserves	20,558	(9,228)
Purchase of investments	(128,054)	(27,563)
Proceeds from sales of investments	<u>109,537</u>	<u>8,690</u>
Net cash used in investing activities	<u>(98,830)</u>	<u>(2,223)</u>
Cash flows from financing activities		
Capital lease payments	(1,888)	(2,185)
Payments on note payable	<u>(17,271)</u>	<u>(15,751)</u>
Net cash used in financing activities	<u>(19,159)</u>	<u>(17,936)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(194,029)</u>	<u>331,134</u>
Cash and cash equivalents, beginning of year	<u>2,486,387</u>	<u>2,155,253</u>
Cash and cash equivalents, end of year	<u>\$ 2,292,358</u>	<u>\$ 2,486,387</u>
Supplemental data		
Cash paid for interest	\$ 21,579	\$ 23,188

The accompanying notes are an integral part of this statement.

Southern Colorado Developmental Disabilities Services, Inc. and
Las Animas County Rehabilitation Center, Inc.
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2016

NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This description of Southern Colorado Developmental Disabilities Services, Inc.'s and Las Animas County Rehabilitation Center, Inc.'s (jointly, the Center) nature of activities and summary of significant accounting policies is presented to assist in understanding the Center's combined financial statements.

1. *Summary of Business Activities*

Southern Colorado Developmental Disabilities Services, Inc. (SCDDS), a Colorado nonprofit corporation, was incorporated under the laws of the State of Colorado in 1987 for the purpose of providing a community centered board to coordinate programs through interagency cooperation and local agencies to provide services to persons with developmental disabilities in Las Animas and Huerfano Counties. SCDDS is the successor to and result of the combination of Las Animas County Center for the Developmentally Disabled, Inc. and Huerfano County Board for the Developmentally Disabled, Inc. Las Animas County Rehabilitation Center, Inc. (LACRC), a Colorado nonprofit corporation, is a community-based program providing similar services benefiting individuals with disabilities in Las Animas and Huerfano Counties. The Center's revenue comes primarily from the State of Colorado for services provided.

2. *Principles of Combination*

The combined financial statements of SCDDS include its affiliate, LACRC, and its wholly-owned subsidiaries, Casa Alegre, Vista Alegre and Vista Del Rae. Casa Alegre, Vista Alegre and Vista Del Rae each own residential facilities which receive tenant rent assistance from the U.S. Department of Housing and Urban Development (HUD). LACRC is combined with SCDDS due to the fact that SCDDS and LACRC have the same board of directors. Significant intercompany transactions have been eliminated.

3. *Description of Services Provided*

The major program services or supports and functional activities directly provided or purchased by the Center are the following:

Program Services or Supports

Comprehensive (Medicaid) refers to residential services, adult day services or supports and transportation activities as specified in the Individualized Plan (IP). Included are a number of different types of residential settings, which provide an array of training, learning, experiential and support activities provided in residential living alternatives

Southern Colorado Developmental Disabilities Services, Inc. and
Las Animas County Rehabilitation Center, Inc.
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2016

NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. *Description of Services Provided (Continued)*

Program Services or Supports (Continued)

designed to meet individual needs. Additionally, adult day services provide opportunities for individuals to experience and actively participate in valued roles in the community. These services and supports enable individuals to access and participate in typical community activities such as work, recreation, and senior citizen activities. Finally, transportation activities refer to “Home to Day Program transportation” services relevant to an individual’s work schedule as specified in the IP. For these purposes, “work schedule” is defined broadly to include adult and retirement activities such as education, training, community integration and employment.

Adult Supported Living (State and Medicaid) provides individualized living services for persons who are responsible for their own living arrangements in the community.

Elderly, Blind or Disabled is a Medicaid funded program that provides personal care, homemaker services and adult day services to the elderly, blind, or disabled.

Children’s Extensive Support is a deeming waiver (only the child’s income is considered in determining eligibility) intended to provide needed services and supports to eligible children under the age of eighteen years in order for the children to remain in or return to the family home. Waiver services are targeted to children having extensive support needs, which require constant line-of-sight supervision due to significantly challenging behaviors and/or coexisting medical conditions. Available services include personal assistance, household modification, specialized medical equipment and supplies, professional services, and community connection services.

Early Intervention is support for children from birth through age two which offer infants and toddlers and their families services and supports to enhance child development in the areas of cognition, speech, communication, physical, motor, vision, hearing, social-emotional development, and self help skills; parent-child or family interaction; and early identification, screening and assessment services.

Family Support provides an array of supportive services to the person with a developmental disability and his/her family when the person remains within the family home, thereby preventing or delaying the need for out-of-home placement, which is unwanted by the person or the family.

Southern Colorado Developmental Disabilities Services, Inc. and
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NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2016

NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. *Description of Services Provided (Continued)*

Program Services or Supports (Continued)

Case Management is the determination of eligibility for services and supports, service and support coordination, and the monitoring of all services and supports delivered pursuant to the IP, and the evaluation of results identified in the IP.

Day Care provides private pay day care that is operated in Walsenburg. The day care is licensed to serve twenty-eight children ages 1 thru 5 years of age.

Supporting Services

Management and General includes those activities necessary for planning, coordination and overall direction of the Center, financial administration, general board activities and other related activities indispensable to the Center's corporate existence.

4. *Basis of Accounting*

Financial statements of the Center have been prepared on the accrual basis, whereby revenues are recorded when services are performed and expenses are recognized when incurred.

5. *Use of Estimates*

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues, support and expenses during the reporting period. Actual results could differ from those estimates.

6. *Subsequent Events*

The Center has evaluated events and transactions occurring subsequent to the end of the fiscal year for potential recognition or disclosure through August 28, 2017, the date on which the financial statements were issued. The Center did not identify any events or transactions that would have a material impact on the financial statements.

Southern Colorado Developmental Disabilities Services, Inc. and
Las Animas County Rehabilitation Center, Inc.
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2016

NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

7. *Cash and Cash Equivalents*

The Center maintains some of its cash balances in financial institutions located in Trinidad, Colorado, which at times, may exceed federally insured limits. The Center has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

For purposes of the statement of cash flows, the Center considers cash to be cash on hand and cash on deposit, subject to immediate withdrawal and considers cash equivalents to be certificates of deposit with an original maturity of three months or less.

8. *Accounts Receivable*

The majority of the Center's accounts receivable are due from the State of Colorado. Accounts receivable are due according to contractual terms and are stated at the amounts management expects to collect from outstanding balances. The Center determines its allowance for uncollectible receivables by considering a number of factors, including the length of time accounts receivable are past due and the Center's previous collection history. The Center writes off accounts receivable to bad debt expense after reasonable collection efforts have been made. Payments subsequently received on such receivables, if any, are recorded as other revenue.

9. *Investments*

The Center records its investments in mutual funds in the statement of financial position at fair value based on quoted market prices. Investments are held for long-term purposes.

10. *Market-Linked Certificates of Deposit*

The Center has invested in four market-linked certificates of deposits (CD) for a total of \$165,000 with maturity dates between November 28, 2018 and December 17, 2019. Each CD provides minimum annual interest payments and the ability to participate in any average appreciation of the reference shares, subject to a cap, over the term of the CDs. The minimum annual interest payment is based upon the greater of a minimum annual interest rate and arithmetic average of the capped returns on the reference shares. The Center will receive a full return of their deposits at maturity. These certificates of deposits qualify for federal deposit insurance; however, total deposits in the bank generally exceed those limits.

Southern Colorado Developmental Disabilities Services, Inc. and
 Las Animas County Rehabilitation Center, Inc.
 NOTES TO COMBINED FINANCIAL STATEMENTS
 June 30, 2016

NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

11. *Land, Buildings, and Equipment*

Land, buildings, and equipment are reported at cost for purchased assets and estimated fair value, at date of receipt, for donated property. Depreciation and amortization are provided on the straight-line method over the following estimated useful lives:

	Years
Buildings and improvements	10–50
Leasehold improvements	3–10
Administrative and program equipment	2–10

12. *Accounting for Contributions*

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods, or are restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. Unconditional promises to give, which do not state a due date, are presumed to be time-restricted by the donor until received and are reported as temporarily restricted net assets.

A donor restriction expires when a stipulated time restriction ends, when an unconditional promise with an implied time restriction is collected, or when a purpose restriction is accomplished. Upon expiration, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions. Permanently restricted net assets include the principal amount of contributions accepted with the stipulation from the donor that the principal be maintained in perpetuity, and only the income from investment thereof be expended for either general purposes or a purpose specified by the donor.

13. *In-kind Contributions*

Contributions of property, materials and personal services are known as in-kind contributions and are recorded at estimated fair value at the date of receipt. The amount recorded for these contributions (other than contributions of land, buildings and equipment) is also included as program costs to properly reflect the total cost of the particular program.

Southern Colorado Developmental Disabilities Services, Inc. and
Las Animas County Rehabilitation Center, Inc.
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2016

NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

14. *Income Taxes*

SCDDS and LACRC are operated as nonprofit organizations exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Center recognizes tax liabilities when, despite the Center's belief that its tax return positions are supportable, the Center believes that certain positions may not be fully sustained upon review by tax authorities. Benefits from tax positions are measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon settlement. The Center has concluded there is no tax liability or benefit required to be recorded as of June 30, 2016. The Center is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any tax periods. The Center believes it is no longer subject to income tax examinations for the years prior to the year ended June 30, 2013.

15. *Fair Value Measurements*

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. A fair value hierarchy has been established under generally accepted accounting principles, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and mutual funds that are traded in an active exchange market.

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. This category generally includes certain U.S. Government agency debt securities and corporate-debt securities.

Southern Colorado Developmental Disabilities Services, Inc. and
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NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2016

NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

15. *Fair Value Measurements (Continued)*

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of timing, amount of expected future cash flows, and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial asset. The disclosed fair values do not reflect any premium or discount that could result from offering for sale at one time an entire holding of a particular financial asset. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in amounts disclosed.

16. *Prior Year Summarized Information*

The financial statements include certain prior year summarized comparative information in total but not by net asset class. 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 Center's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

NOTE B – INVESTMENTS

The Center's investments of \$369,254 as of June 30, 2016, consist of mutual funds.

The following table presents the Center's fair value hierarchy for those assets measured at fair value as of June 30, 2016:

Southern Colorado Developmental Disabilities Services, Inc. and
 Las Animas County Rehabilitation Center, Inc.
 NOTES TO COMBINED FINANCIAL STATEMENTS
 June 30, 2016

NOTE B – INVESTMENTS (CONTINUED)

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial assets – mutual funds:				
Growth & income	\$ 88,412	\$ 88,412	\$ -	\$ -
Income	108,770	108,770	-	-
Conservative	53,376	53,376	-	-
Aggressive	11,677	11,677	-	-
Growth	28,291	28,291	-	-
Equities	49,278	49,278	-	-
Fixed income	<u>29,450</u>	<u>29,450</u>	-	-
	\$ <u>369,254</u>	\$ <u>369,254</u>	\$ -	\$ -

Investment return earned on mutual funds for the year ended June 30, 2016, consists of the following:

Dividend income	\$ 18,517
Net realized loss on investments reported at fair value	(5,846)
Net unrealized loss on investments reported at fair value	<u>(28,662)</u>
	\$ <u>(15,991)</u>

NOTE C – LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consist of the following at June 30, 2016:

Buildings and improvements	\$ 2,849,191
Leasehold improvements	34,189
Administrative and program equipment	<u>1,156,301</u>
	4,039,681
Less accumulated depreciation and amortization	<u>2,338,543</u>
	1,701,138
Construction in progress	49,717
Land	<u>200,628</u>
	\$ <u>1,951,483</u>

Depreciation expense was \$175,430 for the year ended June 30, 2016.

Southern Colorado Developmental Disabilities Services, Inc. and
 Las Animas County Rehabilitation Center, Inc.
 NOTES TO COMBINED FINANCIAL STATEMENTS
 June 30, 2016

NOTE D – RESTRICTED RESERVE ACCOUNTS

In accordance with the U.S. Department of Housing and Urban Development (HUD) regulations, certain reserve accounts are required to be maintained for properties financed by HUD. The replacement reserve is restricted to the replacement and/or repair of property and equipment with approval from HUD. Distributions from the residual receipts reserve require written approval from HUD. Other reserves are held for capital, insurance and offsite work purposes and also require HUD approval for release. Activity in these reserves for the year ended June 30, 2016 is as follows:

	Residual receipts	Replacement reserve	Other reserves
Beginning balance	\$ 177,814	\$ 108,411	\$ 6,075
Interest earned	71	9	1
Deposits	5,557	6,654	-
Withdrawals	<u>(5,277)</u>	<u>(27,573)</u>	<u>-</u>
Ending balance	\$ <u>178,165</u>	\$ <u>87,501</u>	\$ <u>6,076</u>

NOTE E – NOTES PAYABLE

Notes payable consist of the following at June 30, 2016:

9.25% mortgage note payable to HUD, payable in monthly installments of \$3,235 including principal and interest, maturing September 1, 2024, collateralized by two residential facilities	\$ 223,421
Less current portion	<u>18,938</u>
	\$ <u>204,483</u>

Interest expense for the year ended June 30, 2016 was \$21,446.

Future maturities of notes payable at June 30, 2016 are as follows:

Year ending June 30,	
2017	\$ 18,938
2018	20,767
2019	22,771
2020	24,968
2021	27,378
Thereafter	<u>108,599</u>
	\$ <u>223,421</u>

Southern Colorado Developmental Disabilities Services, Inc. and
Las Animas County Rehabilitation Center, Inc.
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2016

NOTE F – RETIREMENT PLAN

Employees who are eligible for the Plan must have completed one year of service and be at least 21 years of age. Participants may contribute up to 100 percent of their annual wages to the Plan, not to exceed IRS limits. The Center will make safe-harbor matching contributions and can make a matching and a non-matching discretionary contribution to all participants who have completed 1,000 hours of service and are employed at the Plan's year end. The participants are immediately 100% vested in the safe harbor contributions and will vest 100 percent after three years for matching and non-matching discretionary contributions. For the year ended June 30, 2016, the Center made the safe-harbor matching contribution of up to 6% of the participants' compensation. For the year ended June 30, 2016, the Center contributed \$47,593 to the Plan.

NOTE G – RELATED PARTY TRANSACTIONS

The Center receives a substantial amount of revenue from the State of Colorado. The amount of receivables the Center has from the State of Colorado is \$371,615. The Center has a payable to the State of Colorado in the amount of \$1,250 which is recorded in accounts payable. These transactions are considered to be transactions with a related party by virtue of the significant management influence exercised by the State of Colorado through contract provisions.

The Center has payables to management employees in the amount of \$138,227 which accounts for 16% of total liabilities.

NOTE H – COMMITMENTS AND CONTINGENCIES

1972 Board of County Commissioners of Las Animas, Colorado

In 1972, the Center entered into an agreement with the Board of County Commissioners of Las Animas County, Colorado for the use of property. The agreement provides that as long as the Center uses the property in connection with its programs and related fields it is able to have and to hold the property. In the event that the property is not used as intended, the property will revert back to the Board of County Commissioners of Las Animas, Colorado. The carrying value of the property is \$41,186 as of June 30, 2016.

Southern Colorado Developmental Disabilities Services, Inc. and
Las Animas County Rehabilitation Center, Inc.
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2016

NOTE H – COMMITMENTS AND CONTINGENCIES (CONTINUED)

1995 U.S. Department of Housing and Urban Development Capital Advance

On September 21, 1995, the Center received approval for a capital advance from HUD in the amount of \$235,000. This capital advance was awarded for the purpose of acquiring and constructing specific residential facilities. Provided that these facilities remain available for occupancy by very low income people with disabilities through March 15, 2035, the capital advance will not become payable, and will be discharged on that date. If any default occurs, the grant becomes immediately payable in full and bears interest at 8.75%.

2001 U.S. Department of Housing and Urban Development Capital Advance

On September 28, 2001, the Center received approval for a capital advance from HUD in the amount of \$395,000. This capital advance was awarded for the purpose of acquiring and constructing specific residential facilities. Provided that these facilities remain available for occupancy by very low income people with disabilities through March 1, 2042, the capital advance will not become payable, and will be discharged on that date. If any default occurs, the grant becomes immediately payable in full and bears interest at 6%.

NOTE I – PRIOR PERIOD ADJUSTMENTS

In September 2002, a board member sold a home to the Center for \$1. It was agreed between the board member and the Center that the property would be used by the board member until the board member moved or passed away. In March of 2016, the property was able to be used by the Center without restrictions. The fair market value of the land and property should have been recognized at the time of the bargain sale in the amount of \$130,521.

In February 1972, the Center entered into an agreement with the Board of County Commissioners of Las Animas County, Colorado for the use of property. The agreement provides that as long as the Center uses the property in connection with its programs and related fields it is able to have and to hold the property. The fair market value of the land and the subsequent property built on the land should have been recognized in prior periods. A prior period adjustment in the amount of \$58,197 was recognized as a fixed asset with offsetting accumulated depreciation of \$17,011 which is for the entire portion of the building.

As a result of these transactions, total assets and net assets increased by \$171,707 as of July 1, 2014 and there was no effect on the change in net assets for the year ended June 30, 2015.