

Combined Financial Statements and
Independent Auditor's Report

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

June 30, 2017

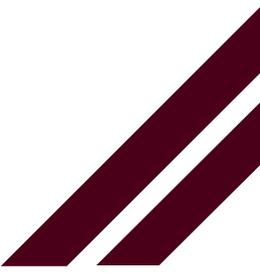


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Logan, Thomas & Johnson, LLC

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, 2017, 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 \$779,262, as of June 30, 2017, and total revenues and support of \$161,619 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, 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.

Report on Summarized Comparative Information

We have previously audited the Center's 2016 combined financial statements, and our report dated August 28, 2017, 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, 2016, is consistent, in all material respects, with the audited combined financial statements from which it has been derived.

Logan, Thomas + Johnson, LLC

Broomfield, Colorado
September 13, 2022

Southern Colorado Developmental Disabilities Services, Inc. and
Las Animas County Rehabilitation Center, Inc.
COMBINED STATEMENT OF FINANCIAL POSITION
June 30, 2017
(With summarized financial information for June 30, 2016)

	2017	2016
ASSETS		
Current assets		
Cash and cash equivalents		
Checking	\$ 2,271,835	\$ 2,253,834
Savings	38,601	38,524
Certificates of deposit	615,687	611,377
Receivables		
Fees and grants from governmental agencies	500,274	372,148
Other, net of allowance for uncollectible receivables of \$0	42,583	90,335
Prepaid expenses and other	53,082	41,017
Total current assets	3,522,062	3,407,235
Restricted reserve accounts	282,584	271,742
Investments	412,639	369,254
Market-linked certificates of deposit	165,000	165,000
Land, buildings and equipment, net	1,854,011	1,951,483
Deposits	7,389	7,288
	\$ 6,243,685	\$ 6,172,002
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 270,181	\$ 185,033
Accrued expenses	486,424	481,052
Note payable	20,766	18,938
Deferred revenue	54,055	-
Total current liabilities	831,426	685,023
Long-term liabilities, net of current portion		
Note payable	183,717	204,483
Total liabilities	1,015,143	889,506
Net assets		
Unrestricted		
Net investment in land, building and equipment	1,649,528	1,728,062
Reserved for HUD regulation compliance	282,584	271,742
Undesignated	3,296,430	3,282,692
Total unrestricted net assets	5,228,542	5,282,496
	\$ 6,243,685	\$ 6,172,002

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, 2017

(With summarized financial information for the year ended June 30, 2016)

	Total unrestricted	
	2017	2016
Revenues and support		
Fees and grants from governmental agencies		
Fees for services		
State of Colorado		
State General Fund		
Comprehensive	\$ 17,008	\$ 7,198
Adult supported living	121,341	108,180
Children and families	84,579	77,894
Medicaid		
Comprehensive	3,041,247	3,021,934
Adult supported living	507,427	534,195
Children's extensive support	6,982	47,717
Elderly, blind or disabled	625,973	656,725
Grants and other		
Part C	6,951	9,292
Department of Housing and Urban Development	83,457	82,195
Other	63,205	8,064
Total fees and grants from governmental agencies	4,558,170	4,553,394
Public support - donations	170	3,453
In-kind contributions	14,093	16,532
Residential room and board	234,169	252,815
Day care	164,974	169,363
Other revenue	143,645	101,468
Total revenues and support	5,115,221	5,097,025
Expenses		
Program services		
Medicaid comprehensive	2,786,101	2,830,881
State adult supported living	106,509	114,004
Medicaid adult supported living	806,029	812,622
Elderly, blind or disabled	579,317	626,628
Children's extensive support	7,941	30,384
Early intervention	46,192	25,311
Family support	43,589	55,582
Case management	272,617	267,373
Day care	172,230	174,373
Total program services	4,820,525	4,937,158
Supporting services		
Management and general	348,650	306,816
Total expenses	5,169,175	5,243,974
CHANGE IN NET ASSETS	(53,954)	(146,949)
Net assets, beginning of year, as previously reported	5,282,496	5,429,445
Net assets, end of year	\$ 5,228,542	\$ 5,282,496

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, 2017

(With summarized financial information for the year ended June 30, 2016)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Change in net assets	\$ (53,954)	\$ (146,949)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	185,648	175,430
Gain on disposal of land, building and equipment	-	(4,377)
Net realized and unrealized (gain) loss on investments	(28,565)	34,508
Interest income reinvested in certificates of deposit	(4,310)	(5,116)
Change in assets and liabilities		
(Increase) decrease in accounts receivable	(80,374)	25,242
(Increase) decrease in prepaid expenses and other	(12,065)	(9,429)
Increase (decrease) in accounts payable and accrued expenses	90,520	(141,393)
Increase (decrease) in deferred revenue	<u>54,055</u>	<u>(3,956)</u>
Net cash provided by (used in) operating activities	150,955	(76,040)
Cash flows from investing activities		
Purchase of land, building and equipment	(88,176)	(105,255)
Proceeds from sale of land, building and equipment	-	4,377
(Increase) decrease in deposits	(101)	7
Net (increase) decrease in restricted reserves	(10,842)	20,558
Purchase of investments	(106,246)	(128,054)
Proceeds from sales of investments	<u>91,426</u>	<u>109,537</u>
Net cash used in investing activities	(113,939)	(98,830)
Cash flows from financing activities		
Capital lease payments	-	(1,888)
Payments on note payable	<u>(18,938)</u>	<u>(17,271)</u>
Net cash used in financing activities	<u>(18,938)</u>	<u>(19,159)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	18,078	(194,029)
Cash and cash equivalents, beginning of year	<u>2,292,358</u>	<u>2,486,387</u>
Cash and cash equivalents, end of year	<u>\$ 2,310,436</u>	<u>\$ 2,292,358</u>
Supplemental data		
Cash paid for interest	\$ 19,877	\$ 21,579

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, 2017

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
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NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2017

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, 2017

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 September 13, 2022, 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, except for what is noted in Note I.

Southern Colorado Developmental Disabilities Services, Inc. and
Las Animas County Rehabilitation Center, Inc.
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2017

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, 2017

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:

	<u>Years</u>
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, 2017

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, 2017. 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, 2014.

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.

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.

Southern Colorado Developmental Disabilities Services, Inc. and
Las Animas County Rehabilitation Center, Inc.
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2017

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

15. *Fair Value Measurements (Continued)*

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, 2016, from which the summarized information was derived.

17. *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 generally accepted accounting principles in the United States of America (US 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 Center has not yet selected a transition method and is currently evaluating the effect that the standard will have on the financial statements.

Southern Colorado Developmental Disabilities Services, Inc. and
Las Animas County Rehabilitation Center, Inc.
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2017

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

17. *Recent Accounting Pronouncements (Continued)*

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The most significant change for lessees is the requirement under the new guidance to recognize right-of-use assets and lease liabilities for all leases not considered short-term leases. Changes to the lessor accounting model include: (a) synchronizing key aspects of the model with the new revenue recognition guidance, such as basing whether a lease is similar to a sale or whether control of the underlying asset has transferred to the lessee and (b) prospectively eliminating the specialized accounting for leveraged leases. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The ASU will be effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The Center is in the process of evaluating the impact of this new guidance.

In August 2016, the FASB issued ASU No. 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 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 organization's liquidity, financial performance and cash flows. The ASU will be effective for fiscal years beginning after December 15, 2017. Earlier adoption is permitted. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied. The Center is in the process of evaluating the impact of this new guidance.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. The amendments in this update clarify the guidance regarding the classification of operating, investing and financing activities for certain types of cash receipts and payments. The amendments in this update are effective for the annual periods, and the interim periods within those years, beginning after December 15, 2018, and should be applied using a retrospective transition method to each period presented. Early adoption is permitted. The Center is evaluating the impact of adoption, if any, to the financial statements.

Southern Colorado Developmental Disabilities Services, Inc. and
 Las Animas County Rehabilitation Center, Inc.
 NOTES TO COMBINED FINANCIAL STATEMENTS
 June 30, 2017

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

17. *Recent Accounting Pronouncements (Continued)*

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The amendments in this ASU require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The ASU will be effective for fiscal years beginning after December 15, 2018. Earlier adoption is permitted. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied. The Center is in the process of evaluating the impact of this new guidance.

NOTE B – INVESTMENTS

The Center's investments of \$412,639 as of June 30, 2017, 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, 2017:

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial assets – mutual funds:				
Growth & income	\$ 107,637	\$ 107,637	\$ -	\$ -
Income	119,426	119,426	-	-
Equities	105,851	105,851	-	-
Aggressive	7,514	7,514	-	-
Growth	34,672	34,672	-	-
Fixed income	<u>37,539</u>	<u>37,539</u>	-	-
	<u>\$ 412,639</u>	<u>\$ 412,639</u>	<u>\$ -</u>	<u>\$ -</u>

Investment return earned on mutual funds for the year ended June 30, 2017, consists of the following:

Dividend income	\$ 16,399
Net realized gain on investments reported at fair value	3,099
Net unrealized gain on investments reported at fair value	<u>25,466</u>
	<u>\$ 44,964</u>

Southern Colorado Developmental Disabilities Services, Inc. and
Las Animas County Rehabilitation Center, Inc.
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2017

NOTE C – LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consist of the following at June 30, 2017:

Buildings and improvements	\$	2,849,191
Leasehold improvements		83,906
Administrative and program equipment		<u>1,243,110</u>
		4,176,207
Less accumulated depreciation and amortization		<u>2,522,824</u>
		1,653,383
Land		<u>200,628</u>
	\$	<u>1,854,011</u>

Depreciation expense was \$185,648 for the year ended June 30, 2017.

NOTE D – DEFERRED REVENUE

Deferred revenue of \$54,055 at June 30, 2017 consists of \$45,118 of unearned revenue from the State of Colorado Supported Living funds and \$8,937 from the SPCC grant. The revenue is recognized when services are performed.

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, 2017 is as follows:

	Residual receipts	Replacement reserve	Other reserves
Beginning balance	\$ 178,165	\$ 87,501	\$ 6,076
Interest earned	69	8	1
Deposits	9,602	6,726	-
Withdrawals	<u>(5,323)</u>	<u>(241)</u>	<u>-</u>
Ending balance	\$ <u>182,513</u>	\$ <u>93,994</u>	\$ <u>6,077</u>

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NOTE E – NOTES PAYABLE

Notes payable consist of the following at June 30, 2017:

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	\$ 204,483
Less current portion	<u>20,766</u>
	\$ <u>183,717</u>

Interest expense for the year ended June 30, 2017 was \$19,731.

Future maturities of notes payable at June 30, 2017 are as follows:

Year ending June 30,	
2018	\$ 20,766
2019	22,770
2020	24,968
2021	27,378
2022	30,021
Thereafter	<u>78,580</u>
	\$ <u>204,483</u>

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, 2017, the Center made the safe-harbor matching contribution of up to 6% of the participants' compensation. For the year ended June 30, 2017, the Center contributed \$37,146 to the Plan.

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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 \$500,006. The Center has deferred revenue from the State as noted in Note D. The Center has a payable to the State of Colorado in the amount of \$68,420 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 \$147,410 which accounts for 15% 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, 2017.

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%.

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NOTE I – SUBSEQUENT EVENTS

In May 2020, the Center obtained an unsecured loan of \$760,600 through the Paycheck Protection Program (PPP) from a financial institution with a fixed rate of 1.00%. Under the CARES Act, if the Organization submits a Loan Forgiveness Application and meets various criteria as defined in the Paycheck Protection Flexibility Act, the loan could potentially be forgiven. In June 2021, the \$760,600 loan was forgiven.

In September 2018, the Center sold a building and furnishing in the building for \$41,701.