



Financial Statements and Report of Independent
Certified Public Accountants

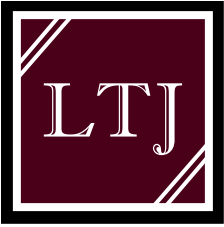
The Resource Exchange, Inc.

June 30, 2009



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Logan, Thomas & Johnson, LLC

Certified Public Accountants

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
The Resource Exchange, Inc.

We have audited the accompanying statement of financial position of The Resource Exchange, Inc. (the Center) as of June 30, 2009, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Center's 2008 financial statements, and in our report dated June 1, 2009, we expressed an unqualified opinion on those financial statements.

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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Resource Exchange, Inc. as of June 30, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Center will continue as a going concern. As discussed in Note B to the financial statements, the Center has suffered recurring losses from operations and negative cash flows from operations that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note B. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Logan, Thomas & Johnson, LLC

Broomfield, Colorado
December 2, 2009

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Financial Statements

The Resource Exchange, Inc.
STATEMENT OF FINANCIAL POSITION
June 30, 2009
(With summarized financial information for June 30, 2008)

	2009	2008
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,638,096	\$ 145,821
Investments	184,336	268,782
Accounts receivable		
Fees and grants from governmental agencies, net	1,347,132	1,662,374
Other	43,169	10,649
Prepaid expenses and other assets	52,629	76,931
Total current assets	3,265,362	2,164,557
Land, building and equipment, net	1,121,710	1,408,930
	\$ 4,387,072	\$ 3,573,487
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 1,089,818	\$ 1,499,103
Accrued expenses	160,311	188,971
Deferred revenue	125,823	213,165
Total current liabilities	1,375,952	1,901,239
Commitments and contingencies	-	-
Net assets		
Unrestricted		
Net investment in land, building and equipment	1,121,710	1,408,930
Undesignated	1,889,410	263,318
Total net assets	3,011,120	1,672,248
	\$ 4,387,072	\$ 3,573,487

The accompanying notes are an integral part of this statement.

The Resource Exchange, Inc.
STATEMENT OF ACTIVITIES
Year ended June 30, 2009

(With summarized financial information for the year ended June 30, 2008)

	Total unrestricted	
	2009	2008
Fees and grants from governmental agencies		
Fees for services		
State of Colorado		
State General Fund		
Comprehensive	\$ 370,939	\$ 377,376
Adult supported living	836,049	866,907
Children and families	2,555,912	1,917,622
Medicaid		
Comprehensive	3,186,984	7,560,639
Adult supported living	4,959,833	3,822,884
Children's extensive support	887,924	626,537
Part C	658,383	499,754
Grants and other		
Joint Budget Committee supplemental funding	726,000	363,000
Pikes Peak Rural Transportation Authority	3,917	23,500
Total fees and grants from governmental agencies	14,185,941	16,058,219
Public support - contributions	198,461	185,867
Other revenue (loss)	(80,742)	39,558
Total support and revenue	14,303,660	16,283,644
Expenses		
Program services		
State comprehensive	194,559	147,009
Medicaid comprehensive	1,048,393	5,888,167
State adult supported living	572,097	598,345
Medicaid adult supported living	4,415,639	3,853,615
Children's extensive support	833,300	713,130
Early intervention	1,934,372	1,517,587
Family support	661,740	558,804
Case management	2,185,145	2,264,325
Total program services	11,845,245	15,540,982
Supporting services		
Management and general	1,119,543	1,439,968
Total expenses	12,964,788	16,980,950
CHANGE IN NET ASSETS	1,338,872	(697,306)
Net assets, beginning of year	1,672,248	2,369,554
Net assets, end of year	\$ 3,011,120	\$ 1,672,248

The accompanying notes are an integral part of this statement.

The Resource Exchange, Inc.
STATEMENT OF CASH FLOWS
Year ended June 30, 2009

(With summarized financial information for the year ended June 30, 2008)

	2009	2008
Cash flows from operating activities		
Change in net assets	\$ 1,338,872	\$ (697,306)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	133,914	230,338
(Gain) loss on dispositions of land, building and equipment	138,653	(11,000)
Realized/unrealized loss on investments	91,167	194,249
Change in assets and liabilities		
Decrease in accounts receivable	282,722	761,799
(Increase) decrease in prepaid expenses and other	24,302	(22,691)
Decrease in accounts payable and accrued expenses	(437,945)	(1,400,508)
Increase (decrease) in deferred revenue	(87,342)	90,011
Net cash provided by (used in) operating activities	1,484,343	(855,108)
Cash flows from investing activities		
Purchase of land, building and equipment	(22,224)	(18,958)
Proceeds from sale of land, building and equipment	36,877	11,000
Purchases of marketable securities	(38,141)	(253,789)
Proceeds from sale of marketable securities	31,420	739,492
Net cash provided by investing activities	7,932	477,745
Cash flows from financing activities		
Proceeds from line of credit	-	2,035,000
Payments on line of credit	-	(2,560,000)
Net cash used in investing activities	-	(525,000)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,492,275	(902,363)
Cash and cash equivalents, beginning of year	145,821	1,048,184
Cash and cash equivalents, end of year	\$ 1,638,096	\$ 145,821
Supplemental data		
Interest paid	\$ -	\$ 36,849

The accompanying notes are an integral part of this statement.

The Resource Exchange, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of The Resource Exchange, Inc. (the Center) is presented to assist in understanding the Center’s financial statements.

1. *Summary of Business Activities*

The Resource Exchange, Inc. was incorporated under the laws of the State of Colorado in 1964 for the purpose of providing a community center board to coordinate programs through interagency cooperation and local agencies to provide services to persons with developmental disabilities in El Paso, Park and Teller counties. The Center’s revenue comes primarily from the State of Colorado for services provided.

In December 2007, Red Earth Developmental Services, Inc. (Red Earth) was established and was organized exclusively to provide residential services to persons with developmental disabilities. It is organized exclusively for the exempt charitable purposes under section 501(c)(3) of the Internal Revenue Code. Red Earth is affiliated with the Center through common management and the Center is required to consolidate the financial activity of Red Earth in the Center’s financial statements. As of June 30, 2009, there were no financial transactions for Red Earth.

2. *Description of Services Provided*

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

Program Services or Supports

Comprehensive (State and Medicaid) refers to residential services, adult day services or supports and transportation activities as specified in the Individualized Plan. 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 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 Individualized Plan. For these purposes, “work schedule” is defined broadly to include adult and retirement activities such as education, training, community integration and employment.

The Resource Exchange, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. *Description of Services Provided (Continued)*

Program Services or Supports (Continued)

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

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 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 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.

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 Individualized Plan, and the evaluation of results identified in the Individualized Plan.

Supporting Services

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

The Resource Exchange, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. *Basis of Accounting*

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

4. *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 and expenses during the reporting period. Actual results could differ from those estimates.

5. *Subsequent Events*

The Center has evaluated events and transactions occurring subsequent to the end of the fiscal year for potential recognition or disclosure through December 2, 2009, the date on which the financial statements were issued, and did not identify any events or transactions that would have a material impact on the financial statements.

6. *Cash and Cash Equivalents*

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

The Center maintains its cash balances in financial institutions located in Colorado Springs, 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.

7. *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 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 when they become uncollectible, and payments subsequently received on such receivables are recorded as revenue.

The Resource Exchange, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

8. *Investments*

The Center records its investments in equity securities with readily determinable fair values and all investments in debt securities at fair value in the statement of financial position as determined by quoted market prices. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

9. *Land, Building and Equipment*

Land, building, and equipment are reported at cost for purchased assets and at estimated value, at date of receipt, for donated property. Any asset purchase in excess of \$500 that has a life expectancy of more than one year is capitalized. Depreciation is provided on the straight-line method over the following estimated useful lives:

	<u>Years</u>
Administrative equipment	3 – 5
Program equipment	3 – 5
Transportation equipment	3 – 10
Buildings	25

10. *Revenue Recognition*

Revenues are recognized when services are performed. The Center receives certain revenue for which if it does not spend all the revenue in the current year and the Center has met certain control points, it is allowed to recognize five percent of the total original revenue and the remaining excess revenue is deferred to the next year.

11. *Temporarily Restricted Revenue*

Donor restricted revenue, whose restrictions are currently satisfied in the same fiscal year, are reported as unrestricted revenue, rather than temporarily restricted. Donor restricted contributions, whose restrictions are not currently met, are reflected as an increase to temporarily restricted net assets. The Center did not have any temporarily restricted net assets at June 30, 2009.

The Resource Exchange, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

12. *In-kind Donations*

Contributions of property, materials and personal services are known as in-kind donations and are recorded at estimated value at date of receipt. These donations (other than contributions of land, building and equipment) are included as program costs to properly reflect the total cost of the particular program.

13. *Income Taxes*

The Center is operated as a nonprofit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Effective July 1, 2008, the Center adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income tax recognized in an entity's financial statements. FIN 48 requires entities to determine whether it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recorded in the financial statements. It also provides guidance on the recognition, measurement, and classification of income tax uncertainties, along with any related interest or penalties. A tax position is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon settlement. The adoption of FIN 48 had no impact on the Center's financial statements.

14. *New Accounting Pronouncement*

Adoption of Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*

Effective July 1, 2008, the Center adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS 157). SFAS defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This pronouncement does not require any new fair value measurements. In February 2008, the FASB issued FASB Staff Position (FSP) No. FAS 157-2 (FAS 157-2), *Effective Date of FASB Statement No. 157*, which defers the effective date of SFAS 157 for one year for nonfinancial assets and nonfinancial liabilities that are not disclosed at fair value in the financial statements on a recurring basis. FAS 157-2 did not defer the recognition and disclosure requirements for financial or nonfinancial assets and liabilities that are measured at least annually. In February 2008, the Center adopted FAS 157-2. In October 2008, the FASB issued FSP No. FAS 157-3 (FAS 157-3), *Determining the Fair Value of a Financial Asset in a Market That Is Not Active*. FAS 157-3 was effective upon issuance, and applies to periods for which financial statements have

The Resource Exchange, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

14. *New Accounting Pronouncement (Continued)*

Adoption of Statement of Financial Accounting Standards No. 157, Fair Value Measurements (Continued)

not been issued. SFAS 157 guidance clarifies various application issues with respect to the objective of a fair value measurement, distressed transactions, relevance of observable data, and the use of management's assumptions. The effect of the adoption of SFAS 157, FAS 157-2 and FAS 157-3 did not have a material effect on the changes in net assets or financial position of the Center.

Fair Value Hierarchy

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. SFAS 157 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure 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. Level 2 assets and liabilities include debt securities with quoted market prices that are traded less frequently than exchange-traded instruments. 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.

The Resource Exchange, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

14. *New Accounting Pronouncement (Continued)*

Fair Value Hierarchy (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. In addition, 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.

15. *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 as of and for the year ended June 30, 2008, from which the summarized information was derived.

NOTE B – GOING CONCERN

The Center has sustained recurring losses and negative cash flows from operations over the past several years. The Center's current assets exceed their current liabilities as of June 30, 2009. The Center believes that it currently has sufficient cash and investments to meet its funding requirements over the next year. The Center is now able to generate revenue for targeted case management services provided to Medicaid eligible consumers in the Early Intervention program. In the next fiscal year, the Center will start billing the medical Medicaid State plan and private health insurance for its Early Intervention program with the acquisition of the third-party billing organization, which currently bills this for the Center. This will reduce the Center's costs that it is paying for the billing of its medical Medicaid State plan and private health insurance. Management continues to work collaboratively with the Colorado Department of Human Services to ensure adequate funding is provided for mandated requirements. Management believes these factors have and will continue to contribute toward achieving profitability. The accompanying financial statements do not include any adjustments that might be necessary if the Center is unable to continue as a going concern.

The Resource Exchange, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE C – FEES AND GRANTS FROM GOVERNMENTAL AGENCIES

Amounts receivable from governmental agencies are as follows at June 30, 2009:

State of Colorado	
General Fund	\$ 270,831
Medicaid	1,064,187
Part C	<u>44,114</u>
	1,379,132
Less allowance for doubtful accounts	<u>32,000</u>
	\$ <u>1,347,132</u>

NOTE D – INVESTMENTS

The Center's investments as of June 30, 2009, consist of equity securities in the amount of \$184,336.

The following table presents the Center's fair value hierarchy for those assets measured at fair value as of June 30, 2009:

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial assets:				
Equity income securities	\$ 184,336	\$ 184,336	\$ -	\$ -

Investment return earned on cash and cash equivalents, certificates of deposit, and marketable securities for the year ended June 30, 2009, consists of the following:

Interest income	\$ 5,788
Dividend income	8,311
Realized loss on investments	(59,787)
Unrealized loss on investments	<u>(31,380)</u>
	\$ <u>(77,068)</u>

The Resource Exchange, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE E – LAND, BUILDING AND EQUIPMENT

Land, building and equipment consist of the following at June 30, 2009:

Building	\$ 1,536,531
Administrative equipment	898,322
Program equipment	<u>136,668</u>
	2,571,521
Less accumulated depreciation and amortization	<u>1,544,811</u>
	1,026,710
Land	<u>95,000</u>
	\$ <u>1,121,710</u>

Depreciation expense was \$133,914 for the year ended June 30, 2009.

NOTE F – DEFERRED REVENUE

Deferred revenue of \$125,823 at June 30, 2009 consists of unspent State adult supported living services revenue of \$53,161 and State comprehensive services revenue of \$72,662.

NOTE G – LINE OF CREDIT

On June 1, 2009, the Center extended its revolving line of credit from a bank, originally dated June 2, 2008, with a limit of \$700,000. There was no outstanding balance as of June 30, 2009. The interest rate to be charged on utilization of this line will be the Wall Street Journal Prime rate plus 0.5% (Prime was 3.25% at June 30, 2009). Interest is due monthly. All unpaid principal and interest is due on the maturity date of June 2, 2010. The line of credit is collateralized by real property.

NOTE H – LEASES

The Center currently leases office space and equipment under operating leases. The leases expire at various dates through June 2011. Rent expense for the year ended June 30, 2009, was \$137,954. Future minimum payments for the noncancelable portions of operating leases are as follows:

Year ending June 30,	
2010	\$ 54,077
2011	<u>34,221</u>
	\$ <u>88,298</u>

The Resource Exchange, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE I – RETIREMENT PLAN

In March 1999, the Board of Directors adopted a 401(k) retirement plan covering all employees who are 21 years of age or older and have three months of service with the Center. The amount of cost recognized for the plan for the year ended June 30, 2009 was \$35,256.

NOTE J – RELATED PARTY TRANSACTIONS

The Center receives a substantial amount of revenue from the State of Colorado. The amount of receivable the Center has from the State of Colorado is disclosed in Note C, deferred revenue is disclosed in Note F, and the Center has a payable to the State of Colorado in the amount of \$227,001, which is recorded in accounts payable. These transactions are considered to be transactions with a related party by virtue of significant management influence exercised by the State of Colorado through contract provisions.

The Center purchases services from six other entities which are economically dependent on the Center for revenue and over which the Center exercises significant management influence through contract provisions. Total expenses incurred by the Center to those organizations for the year ended June 30, 2009, were approximately \$1,528,000. At June 30, 2009, the balance owed to those organizations was approximately \$165,000.