



Financial Statements and Report of Independent  
Certified Public Accountants

**The Resource Exchange, Inc.**

June 30, 2011



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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, 2011, 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 2010 financial statements, and in our report dated December 17, 2010, 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, 2011, 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.

*Logan, Thomas & Johnson, LLC*

Broomfield, Colorado  
October 18, 2011

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5023 W. 120<sup>th</sup> Ave., #165, Broomfield, CO 80020-5606

Calvin Logan  
Phone 303 532 1000  
Fax 303 532 1080

Jan Thomas  
Phone 303 569 6030  
Fax 303 569 6031

Pauline Davis  
Phone 719 640 1188  
Fax 719 937 4271

## *Financial Statements*

The Resource Exchange, Inc.  
STATEMENT OF FINANCIAL POSITION  
June 30, 2011  
(With summarized financial information for June 30, 2010)

|  | 2011         | 2010         |
|--|--------------|--------------|
| ASSETS   |              |              |
| Current assets   |              |              |
| Cash and cash equivalents  | \$ 532,805   | \$ 1,159,580 |
| Investments  | 2,096,887    | 916,687      |
| Accounts receivable  |              |              |
| Fees and grants from governmental agencies                         | 910,723      | 1,507,280    |
| Other, net of allowance of \$1,771                                 | 201,211      | 82,873       |
| Prepaid expenses and other assets, net of amortization of \$39,583 | 72,821       | 98,430       |
| Total current assets   | 3,814,447    | 3,764,850    |
| Land, building and equipment, net                                  | 1,115,030    | 1,127,668    |
|  | \$ 4,929,477 | \$ 4,892,518 |
| LIABILITIES AND NET ASSETS   |              |              |
| Current liabilities  |              |              |
| Accounts payable   | \$ 1,175,672 | \$ 1,280,708 |
| Accrued expenses   | 298,616      | 393,135      |
| Deferred revenue   | 87,042       | 52,941       |
| Total current liabilities  | 1,561,330    | 1,726,784    |
| Commitments and contingencies                                      | -            | -            |
| Net assets   |              |              |
| Unrestricted   |              |              |
| Net investment in land, building and equipment                     | 1,115,030    | 1,127,668    |
| Undesignated   | 2,253,117    | 2,038,066    |
| Total net assets   | 3,368,147    | 3,165,734    |
|  | \$ 4,929,477 | \$ 4,892,518 |

The accompanying notes are an integral part of this statement.

The Resource Exchange, Inc.  
STATEMENT OF ACTIVITIES

Year ended June 30, 2011

(With summarized financial information for the year ended June 30, 2010)

|  | <u>Total unrestricted</u> |                     |
|--|---------------------------|---------------------|
|  | <u>2011</u>               | <u>2010</u>         |
| Fees and grants from governmental agencies       |                           |                     |
| Fees for services                                |                           |                     |
| State of Colorado                                |                           |                     |
| State General Fund                               |                           |                     |
| Comprehensive                                    | \$ 172,267                | \$ 310,968          |
| Adult supported living                           | 647,257                   | 619,374             |
| Children and families                            | 1,926,010                 | 2,188,957           |
| Medicaid   |                           |                     |
| Comprehensive                                    | 3,773,931                 | 3,390,912           |
| Adult supported living                           | 1,266,782                 | 1,544,656           |
| Children's extensive support                     | 519,697                   | 636,283             |
| Part C   | 792,628                   | 601,809             |
| ARRA   | -                         | 640,505             |
| Total fees and grants from governmental agencies | <u>9,098,572</u>          | <u>9,933,464</u>    |
| Public support - contributions                   | 215,918                   | 138,449             |
| Fees for services                                | 902,476                   | 462,392             |
| Other revenue                                    | 223,756                   | 70,063              |
| Total support and revenue                        | <u>10,440,722</u>         | <u>10,604,368</u>   |
| Expenses   |                           |                     |
| Program services                                 |                           |                     |
| State comprehensive                              | 39,690                    | 171,686             |
| Medicaid comprehensive                           | 669,362                   | 611,141             |
| State adult supported living                     | 430,455                   | 397,934             |
| Medicaid adult supported living                  | 1,259,435                 | 1,549,416           |
| Children's extensive support                     | 525,692                   | 634,758             |
| Early intervention                               | 2,711,535                 | 2,906,688           |
| Family support                                   | 299,969                   | 720,474             |
| Case management                                  | 2,984,953                 | 2,232,285           |
| Total program services                           | <u>8,921,091</u>          | <u>9,224,382</u>    |
| Supporting services                              |                           |                     |
| Management and general                           | 1,317,218                 | 1,225,372           |
| Total expenses                                   | <u>10,238,309</u>         | <u>10,449,754</u>   |
| CHANGE IN NET ASSETS                             | 202,413                   | 154,614             |
| Net assets, beginning of year                    | <u>3,165,734</u>          | <u>3,011,120</u>    |
| Net assets, end of year                          | <u>\$ 3,368,147</u>       | <u>\$ 3,165,734</u> |

The accompanying notes are an integral part of this statement.

The Resource Exchange, Inc.  
STATEMENT OF CASH FLOWS  
Year ended June 30, 2011

(With summarized financial information for the year ended June 30, 2010)

|   | <u>2011</u>        | <u>2010</u>         |
|---|--------------------|---------------------|
| Cash flows from operating activities  |                    |                     |
| Change in net assets  | \$ 202,413         | \$ 154,614          |
| Adjustments to reconcile change in net assets to<br>net cash provided by operating activities |                    |                     |
| Depreciation and amortization   | 154,854            | 119,719             |
| Gain on dispositions of land, building and equipment  | (1,900)            | (2,900)             |
| Realized/unrealized gain on investments   | (114,787)          | (10,831)            |
| Change in assets and liabilities  |                    |                     |
| (Increase) decrease in accounts receivable  | 478,219            | (199,852)           |
| (Increase) decrease in prepaid expenses and other   | 609                | (60,384)            |
| Increase (decrease) in accounts payable and accrued expenses                                  | (199,555)          | 423,714             |
| Increase (decrease) in deferred revenue   | 34,101             | (72,882)            |
| Net cash provided by operating activities   | <u>553,954</u>     | <u>351,198</u>      |
| Cash flows from investing activities  |                    |                     |
| Purchase of land, building and equipment  | (117,216)          | (111,094)           |
| Proceeds from sale of land, building and equipment  | 1,900              | 2,900               |
| Purchases of marketable securities  | (1,598,230)        | (763,065)           |
| Proceeds from sale of marketable securities   | 532,817            | 41,545              |
| Net cash used in investing activities   | <u>(1,180,729)</u> | <u>(829,714)</u>    |
| NET DECREASE IN CASH AND<br>CASH EQUIVALENTS  | (626,775)          | (478,516)           |
| Cash and cash equivalents, beginning of year  | <u>1,159,580</u>   | <u>1,638,096</u>    |
| Cash and cash equivalents, end of year  | <u>\$ 532,805</u>  | <u>\$ 1,159,580</u> |

The accompanying notes are an integral part of this statement.

The Resource Exchange, Inc.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011

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 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, 2011, there were no financial transactions and, in March 2011, Red Earth was voluntarily dissolved.

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.

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

The Resource Exchange, Inc.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. *Description of Services Provided (Continued)*

**Program Services or Supports (Continued)**

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.

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.

The Resource Exchange, Inc.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 October 18, 2011, the date on which the financial statements were issued. Other than the transaction described in Note D, the Center 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. *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.

The Resource Exchange, Inc.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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.

9. *Other Assets*

In December 2009, the Center assumed medical billing services contracts of another organization for consideration of \$50,000, which is included in prepaid expenses and other assets on the statement of financial position as of June 30, 2011. The asset is being amortized over the life of the contracts, which is two years. Amortization expense for the year ended June 30, 2011 was \$25,000.

10. *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        |
| Buildings                | 25           |

11. *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.

The Resource Exchange, Inc.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

12. *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, 2011.

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. 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, 2011.

14. *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. 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.

The Resource Exchange, Inc.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

14. *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.

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, 2010, from which the summarized information was derived.

16. *Reclassifications*

Certain financial information as of and for the year ended June 30, 2010 has been reclassified to conform with the presentation for the current year.

The Resource Exchange, Inc.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011

NOTE B – INVESTMENTS

The Center’s common stocks, exchange traded funds, government obligations and corporate bonds are based on quoted market prices in an active market. The following table presents the Center’s fair value hierarchy for those assets measured at fair value as of June 30, 2011:

|                                 | <u>Fair value</u>   | <u>Level 1</u>      | <u>Level 2</u> | <u>Level 3</u> |
|---------------------------------|---------------------|---------------------|----------------|----------------|
| Financial assets:               |                     |                     |                |                |
| Common stocks                   | \$ 288,675          | \$ 288,675          | \$ -           | \$ -           |
| Exchanged traded funds - equity | 324,233             | 324,233             | -              | -              |
| Exchanged traded funds - fixed  | 40,748              | 40,748              | -              | -              |
| Exchanged traded funds - other  | 95,244              | 95,244              | -              | -              |
| Mutual funds - equity           | 206,299             | 206,299             | -              | -              |
| Mutual funds - fixed            | 136,437             | 136,437             | -              | -              |
| Certificates of deposit         | 400,000             | 400,000             | -              | -              |
| Government obligations          | 493,726             | 493,726             | -              | -              |
| Corporate bonds                 | <u>111,525</u>      | <u>111,525</u>      | <u>-</u>       | <u>-</u>       |
|                                 | <u>\$ 2,096,887</u> | <u>\$ 2,096,887</u> | <u>\$ -</u>    | <u>\$ -</u>    |

Investment return earned on cash and cash equivalents and marketable securities for the year ended June 30, 2011 consists of the following:

|                                |                   |
|--------------------------------|-------------------|
| Interest income                | \$ 25,296         |
| Dividend income                | 25,313            |
| Realized gain on investments   | 13,893            |
| Unrealized gain on investments | <u>100,894</u>    |
|                                | <u>\$ 165,396</u> |

NOTE C – LAND, BUILDING AND EQUIPMENT

Land, building and equipment consist of the following at June 30, 2011:

|  |                     |
|--|---------------------|
| Building                                       | \$ 1,570,735        |
| Administrative equipment                       | 1,001,020           |
| Program equipment                              | <u>182,781</u>      |
|  | 2,754,536           |
| Less accumulated depreciation and amortization | <u>1,734,506</u>    |
|  | 1,020,030           |
| Land   | <u>95,000</u>       |
|  | <u>\$ 1,115,030</u> |

Depreciation expense was \$129,854 for the year ended June 30, 2011.

The Resource Exchange, Inc.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011

NOTE D – LINE OF CREDIT

On August 12, 2011, 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, 2011. The interest rate to be charged on utilization of this line will be the Wall Street Journal Prime with a floor of 5.00% adjusting daily (Prime was 3.25% at June 30, 2011). Interest is due monthly. All unpaid principal and interest is due on the maturity date of August 9, 2012. The line of credit is collateralized by real property.

NOTE E – LEASES

The Center currently leases office space and equipment under operating leases. The leases expire at various dates through September 2014. Future minimum rental payments for all noncancelable operating leases at June 30, 2011, are as follows:

| Year ending June 30, |                   |
|----------------------|-------------------|
| 2012                 | \$ 123,018        |
| 2013                 | 39,996            |
| 2014                 | 41,196            |
| 2015                 | <u>5,066</u>      |
|                      | \$ <u>209,276</u> |

Rental expense under these operating leases was \$139,044 for the year ended June 30, 2011.

NOTE F – 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, 2011 was \$39,467.

NOTE G – RELATED PARTY TRANSACTIONS

The Center receives a substantial amount of revenue from the State of Colorado. As of June 30, 2011, the amount of receivables the Center has from the State of Colorado is \$910,723, deferred state SLS revenue of \$51,442, and the Center has a payable to the State of Colorado in the amount of \$696,706, 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.