



Financial Statements and
Independent Auditor's Report

The Resource Exchange, Inc.

June 30, 2016



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Logan, Thomas & Johnson, LLC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
The Resource Exchange, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of The Resource Exchange, Inc. (the Center), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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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, 2016 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Center's 2015 financial statements, and our report dated March 10, 2016, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Logan, Thomas + Johnson, LLC

Broomfield, Colorado

February 15, 2017

Financial Statements

The Resource Exchange, Inc.
STATEMENT OF FINANCIAL POSITION
June 30, 2016
(With summarized financial information as of June 30, 2015)

	2016	2015
ASSETS		
Current assets		
Cash and cash equivalents	\$ 635,613	\$ 1,333,702
Investments	1,675,509	1,698,546
Accounts receivable		
Fees and grants from governmental agencies, net of allowance for uncollectible receivables of \$52,800	2,107,436	1,530,034
Other, net of allowance for uncollectible receivables of \$1,000	347,879	201,188
Contributions receivable	-	2,632
Prepaid expenses and other assets	72,376	41,684
Total current assets	4,838,813	4,807,786
Land, building and equipment, net	854,217	888,152
Total assets	\$ 5,693,030	\$ 5,695,938
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 1,313,445	\$ 1,358,853
Accrued expenses	922,751	673,674
Deferred revenue	7,500	134,645
Total current liabilities	2,243,696	2,167,172
Net assets		
Unrestricted		
Net investment in land, building and equipment	854,217	888,152
Undesignated	2,595,117	2,637,982
Total unrestricted net assets	3,449,334	3,526,134
Temporarily restricted	-	2,632
Total net assets	3,449,334	3,528,766
Total liabilities and net assets	\$ 5,693,030	\$ 5,695,938

The accompanying notes are an integral part of this statement.

The Resource Exchange, Inc.
STATEMENT OF ACTIVITIES
Year ended June 30, 2016

(With summarized financial information for the year ended June 30, 2015)

	Unrestricted	Temporarily restricted	Total	
			2016	2015
Revenues and support				
Fees and grants from governmental agencies				
Fees for services				
State of Colorado				
State General Fund	\$ 5,795,773	\$ -	\$ 5,795,773	\$ 5,049,149
Medicaid	7,904,460	-	7,904,460	7,276,505
Grants				
Part C	833,767	-	833,767	748,875
Total fees and grants from governmental agencies	14,534,000	-	14,534,000	13,074,529
Public support - contributions	307,110	-	307,110	303,428
Fees for services	2,160,358	-	2,160,358	1,730,359
Other revenue	157,973	-	157,973	87,080
Net assets released from restrictions				
Satisfaction of time restrictions	2,632	(2,632)	-	-
Total revenues and support	17,162,073	(2,632)	17,159,441	15,195,396
Expenses				
Program services				
Medicaid comprehensive	872,801	-	872,801	1,330,620
State adult supported living	754,663	-	754,663	635,102
Medicaid adult supported living	1,514,789	-	1,514,789	1,512,594
Children's extensive support	883,517	-	883,517	521,284
Early intervention	4,600,812	-	4,600,812	4,060,375
Family support	1,184,273	-	1,184,273	1,039,626
Case management	5,610,136	-	5,610,136	4,332,880
Total program services	15,420,991	-	15,420,991	13,432,481
Supporting services				
Management and general	1,817,882	-	1,817,882	1,625,862
Total expenses	17,238,873	-	17,238,873	15,058,343
CHANGE IN NET ASSETS	(76,800)	(2,632)	(79,432)	137,053
Net assets, beginning of year	3,526,134	2,632	3,528,766	3,391,713
Net assets, end of year	\$ 3,449,334	\$ -	\$ 3,449,334	\$ 3,528,766

The accompanying notes are an integral part of this statement.

The Resource Exchange, Inc.
STATEMENT OF CASH FLOWS
Year ended June 30, 2016

(With summarized financial information for the year ended June 30, 2015)

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Change in net assets	\$ (79,432)	\$ 137,053
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	160,419	160,432
Realized/unrealized loss on investments	24,241	33,600
Change in assets and liabilities		
Increase in accounts and contributions receivable	(721,461)	(125,168)
(Increase) decrease in prepaid expenses and other	(30,692)	30,889
Increase in accounts payable and accrued expenses	203,669	354,645
Decrease in deferred revenue	(127,145)	(75,337)
Net cash provided by (used in) operating activities	<u>(570,401)</u>	<u>516,114</u>
Cash flows from investing activities		
Purchase of land, building and equipment	(126,484)	(127,297)
Purchases of investments	(719,650)	(475,934)
Proceeds from sale of investments	718,446	371,425
Advance on line of credit	100,000	-
Payment on line of credit	(100,000)	-
Net cash used in investing activities	<u>(127,688)</u>	<u>(231,806)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(698,089)	284,308
Cash and cash equivalents, beginning of year	<u>1,333,702</u>	<u>1,049,394</u>
Cash and cash equivalents, end of year	<u><u>\$ 635,613</u></u>	<u><u>\$ 1,333,702</u></u>
Supplemental data		
Cash paid for interest	\$ 197	\$ -

The accompanying notes are an integral part of this statement.

The Resource Exchange, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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

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

1. *Summary of Business Activities*

The Resource Exchange, Inc., a Colorado nonprofit corporation, was incorporated under the laws of the State of Colorado in 1964 for the purpose of providing a community centered board to coordinate programs through local interagency cooperation, and 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.

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 (Medicaid) refers to residential services, adult day services or supports and transportation activities as specified in the eligible person's 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 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, or are living with family.

The Resource Exchange, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE A – NATURE OF ACTIVITIES AND 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 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 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 IP, and the evaluation of results identified in the IP.

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.

3. *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.

The Resource Exchange, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE A – NATURE OF ACTIVITIES AND 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, support 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 February 15, 2017, the date on which the financial statements were issued. Except as disclosed 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 cash to be cash on hand, cash on deposit and money market accounts, subject to immediate withdrawal, and considers cash equivalents to be certificates of deposit with an original maturity of three months or less. 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 amount 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 when they become uncollectible. Payments subsequently received on such receivables, if any, are recorded as other revenue.

8. *Contributions Receivable*

Contributions receivable that are expected to be collected within one year are recorded at net realizable value as current assets.

The Resource Exchange, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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

9. *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. Partnership investments are valued at estimated fair value based on the net asset valuation pursuant to fair market value appraisals of each underlying property on an annual basis. The carrying amounts for certificates of deposit approximate their fair values due to the short period of time until maturity. The valuation methodologies are believed to be consistent with accepted practice in the market for partnership investments and certificates of deposit. Unrealized gains and losses are reported in investment income. 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.

10. *Land, Building and Equipment*

Land, building, and equipment are reported at cost for purchased assets and at estimated fair value, at date of receipt, for donated property. Any asset valued in excess of \$500 with 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
Building	25

11. *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.

The Resource Exchange, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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

11. *Accounting for Contributions (Continued)*

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. Restricted contributions received in the same year in which the restrictions are met are reported as unrestricted revenues rather than temporarily restricted. 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.

12. *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, 2016. The Center is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any tax periods. The Center believes it is no longer subject to income tax examinations for the years prior to the year ended June 30, 2013.

13. *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 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.

The Resource Exchange, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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

13. *Fair Value Measurements (Continued)*

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, corporate-debt securities and certificates of deposit.

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. Management recognizes transfers between fair value hierarchy levels at the time of fair value measurement.

14. *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, 2015, from which the summarized information was derived.

The Resource Exchange, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE B – INVESTMENTS

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

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial assets:				
Exchanged traded funds - equity	\$ 275,252	\$ 275,252	\$ -	\$ -
Exchanged traded funds - fixed	174,315	174,315	-	-
Mutual funds - equity	234,105	234,105	-	-
Mutual funds - fixed	323,720	323,720	-	-
Certificates of deposit	103,960	-	103,960	-
Partnerships	257,161	-	-	257,161
Bonds – US Government Agency	154,954	-	154,954	-
Corporate bonds	<u>152,042</u>	<u>-</u>	<u>152,042</u>	<u>-</u>
	<u>\$ 1,675,509</u>	<u>\$ 1,007,392</u>	<u>\$ 410,956</u>	<u>\$ 257,161</u>

The reconciliation of Level 3 investments consist of the following components:

Balance, July 01, 2015	\$ 243,617
Purchases	102,905
Sales	(100,000)
Unrealized gain on investment	<u>10,639</u>
Balance, June 30, 2016	<u>\$ 257,161</u>

Investment return earned on cash and cash equivalents and investments for the year ended June 30, 2016 consists of the following:

Interest income	\$ 13,705
Dividend income	41,691
Realized loss on investments	(18,548)
Unrealized loss on investments	<u>(5,693)</u>
	<u>\$ 31,155</u>

Investment expense for the year ended June 30, 2016 was \$17,030.

The Resource Exchange, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE C – LAND, BUILDING AND EQUIPMENT

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

Building	\$ 1,642,282
Administrative equipment	899,139
Program equipment	<u>315,411</u>
	2,856,832
Less accumulated depreciation	<u>2,097,615</u>
	759,217
Land	<u>95,000</u>
	<u>\$ 854,217</u>

Depreciation expense was \$160,419 for the year ended June 30, 2016.

NOTE D – LINE OF CREDIT

The Center has a revolving line of credit from a bank with a limit of \$671,250. There was no outstanding balance as of June 30, 2016. 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 3.50% at June 30, 2016). Interest is due monthly. The line of credit is collateralized by real property. The line of credit matured on June 26, 2016 and maturity was extended on September 20, 2016 to June 26, 2017.

NOTE E – NET ASSETS

Net investment in land, building and equipment is comprised of net land, building and equipment.

NOTE F – LEASES

The Center currently leases office space and equipment under operating lease arrangements which expire at various dates through 2020. Rental expense was \$91,203 for the year ended June 30, 2016. Future minimum rental payments for all noncancelable operating leases at June 30, 2016, are as follows:

Year ending June 30,	
2017	\$ 129,541
2018	130,083
2019	70,443
2020	<u>6,568</u>
	<u>\$ 336,635</u>

The Resource Exchange, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE G – 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, 2016 was \$98,496.

NOTE H – RELATED PARTY TRANSACTIONS

The Center receives a substantial amount of revenue from the State of Colorado. As of June 30, 2016, the amount of receivables the Center has from the State of Colorado is \$2,150,519. The Center has a payable to the State of Colorado in the amount of \$719,061, 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.

One of the Center's Board members is a bank officer at a financial institution that holds all the Center's deposits and investments and issued the Center's line of credit. The Board member does not participate in any voting or decision making related to the Center's banking activities.