



Consolidated Financial Statements and
Independent Auditor's Report

The Resource Exchange, Inc. and Affiliate

June 30, 2018



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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 consolidated financial statements of The Resource Exchange, Inc. and Affiliate (the Center), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

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

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

5023 W. 120th 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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Resource Exchange, Inc. and Affiliate as of June 30, 2018 and the changes in its consolidated net assets and its consolidated 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 2017 financial statements, and our report dated April 17, 2018, 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, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Logan, Thomas + Johnson, LLC

Broomfield, Colorado
December 27, 2018

Consolidated Financial Statements

The Resource Exchange, Inc.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2018
(With summarized financial information as of June 30, 2017)

	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	\$ 127,170	\$ 1,922,545
Certificates of deposit	-	104,741
Investments	551,277	257,161
Accounts receivable		
Fees and grants from governmental agencies, net of allowance for uncollectible receivables of \$216,000	2,290,633	2,260,998
Other, net of allowance for uncollectible receivables of \$34,000	608,601	399,763
Prepaid expenses and other assets	58,388	162,004
Total current assets	3,636,069	5,107,212
Land, building and equipment, net	10,498,252	782,762
Total assets	\$ 14,134,321	\$ 5,889,974
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 1,012,371	\$ 1,502,547
Accrued expenses	1,365,238	1,134,282
Deferred revenue	11,000	135,150
Line of credit	387,693	-
Current portion of long-term debt		
Capital lease obligation	15,658	-
Notes payable	128,941	-
Total current liabilities	2,920,901	2,771,979
Long-term debt, net of current portion		
Capital lease obligation	15,947	-
Notes payable	5,682,950	-
Total liabilities	8,619,798	2,771,979
Net assets		
Unrestricted		
Net investment in land, building and equipment	4,654,756	782,762
Undesignated	659,767	2,335,233
Total unrestricted net assets	5,314,523	3,117,995
Temporarily restricted	200,000	-
Total net assets	5,514,523	3,117,995
Total liabilities and net assets	\$ 14,134,321	\$ 5,889,974

The accompanying notes are an integral part of this statement.

The Resource Exchange, Inc.
CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2018

(With summarized financial information for the year ended June 30, 2017)

	The Resource Exchange	6385 Corporate Drive, LLC	The Resource Exchange	Total	
	Unrestricted	Unrestricted	Temporarily restricted	2018	2017
Revenues and support					
Fees and grants from					
governmental agencies					
Fees for services					
State of Colorado					
State General Fund	\$ 6,798,276	\$ -	\$ -	\$ 6,798,276	\$ 5,948,126
Medicaid	10,081,011	-	-	10,081,011	9,119,449
Counties	51,393	-	-	51,393	54,219
Grants					
Part C	951,253	-	-	951,253	749,205
Other	-	-	-	-	191,558
Total fees and grants from governmental agencies	17,881,933	-	-	17,881,933	16,062,557
Public support - contributions	461,304	2,937,500	200,000	3,598,804	237,396
Fees for services	2,194,633	-	-	2,194,633	2,340,105
Rental revenue	-	874,564	-	874,564	-
Other revenue	740,634	2,713	-	743,347	610,278
Total revenues and support	21,278,504	3,814,777	200,000	25,293,281	19,250,336
Expenses					
Program services					
Medicaid comprehensive	789,191	-	-	789,191	887,141
State adult supported living	731,581	-	-	731,581	697,530
Medicaid adult supported living	1,080,017	-	-	1,080,017	1,420,127
Children's extensive support	1,791,781	-	-	1,791,781	1,633,533
Early intervention	6,112,978	-	-	6,112,978	5,348,613
Pediatric intervention	217,101	-	-	217,101	-
Family support	979,542	-	-	979,542	915,080
Case management	7,701,666	-	-	7,701,666	6,626,973
Total program services	19,403,857	-	-	19,403,857	17,528,997
Supporting services					
Management and general	2,557,981	-	-	2,557,981	2,052,678
Property management	-	934,915	-	934,915	-
Total expenses	21,961,838	934,915	-	22,896,753	19,581,675
CHANGE IN NET ASSETS	(683,334)	2,879,862	200,000	2,396,528	(331,339)
Net assets, beginning of year	3,117,995	-	-	3,117,995	3,449,334
Net assets, end of year	\$ 2,434,661	\$ 2,879,862	\$ 200,000	\$ 5,514,523	\$ 3,117,995

The accompanying notes are an integral part of this statement.

The Resource Exchange, Inc.
CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended June 30, 2018

(With summarized financial information for the year ended June 30, 2017)

	2018	2017
Cash flows from operating activities		
Change in net assets	\$ 2,396,528	\$ (331,339)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	520,333	146,930
Realized/unrealized (gain)/loss on investments	122,611	(85,120)
Gain on sale of assets	(386,669)	-
In-kind contributions of land and building	(2,937,500)	-
Change in assets and liabilities		
(Increase) decrease in certificates of deposit	104,741	(781)
Increase in accounts receivable	(238,473)	(205,446)
(Increase) decrease in prepaid expenses and other	103,616	(89,628)
Increase (decrease) in accounts payable and accrued expenses	(259,220)	400,633
Increase (decrease) in deferred revenue	(124,150)	127,650
Net cash used in operating activities	(698,183)	(37,101)
Cash flows from investing activities		
Purchase of land, building and equipment	(10,917,330)	(75,475)
Contributions restricted for purchase of long-term capital assets	2,937,500	-
Proceeds on sale of assets	1,114,196	-
Purchase of investments	(452,826)	(181,117)
Proceeds from sale of investments	36,099	1,580,625
Net cash (used in) provided by investing activities	(7,282,361)	1,324,033
Cash flows from financing activities		
Advance on line of credit	602,693	400,000
Payment on line of credit	(215,000)	(400,000)
Payments on capital lease obligations	(14,415)	-
Proceeds from the issuance of notes payable	5,925,000	-
Payments on notes payable	(113,109)	-
Net cash provided by financing activities	6,185,169	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,795,375)	1,286,932
Cash and cash equivalents, beginning of year	1,922,545	635,613
Cash and cash equivalents, end of year	\$ 127,170	\$ 1,922,545
Supplemental data		
Cash paid for interest	\$ 283,763	\$ 3,573
Noncash investing and financing activities		
Fixed asset additions from contributions	2,937,500	-
Fixed asset additions acquired through capital lease arrangements	46,020	-

The accompanying notes are an integral part of this statement.

The Resource Exchange, Inc. and Affiliate
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018

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

This description of The Resource Exchange, Inc.'s and Affiliate (the Center) nature of activities and summary of significant accounting policies is presented to assist in understanding the Center's consolidated 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. 6385 Corporate Drive, LLC (the LLC) was formed to manage property.

In March 2018, the Center established Futures, LLC (Futures), a charitable organization established to raise the social and economic awareness of the community around people of different abilities by furthering education, facilitating intentional employment and cultivating an ecosystem of enrichment. The Center is the sole member of Futures. As of and for the year ended June 30, 2018, there were no financial transactions for Futures.

2. *Principles of Consolidation*

The consolidated financial statements of the Center include its affiliate, 6385 Corporate Drive, LLC, a Colorado for-profit corporation. The LLC is an affiliate of the Center due to the fact that the Center is the sole member of the LLC. All material intercompany accounts and 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:

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

The Resource Exchange, Inc. and Affiliate
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018

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

3. *Description of Services Provided (Continued)*

Program Services or Supports (Continued)

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.

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.

Pediatric Intervention includes specialized physical, occupational, speech, social-emotional and behavior services for children with challenges with their gross and fine motor, speech, language and communication skills, feeding and activities of daily living, and/or behavior that impacts their development. The Pediatric program is designed to offer family-focused one-on-one patient treatment sessions that targets routines, daily function, and independence for children from 3-8 years of age. The purpose is to provide high-quality intervention in natural settings conducive to each child’s progress. The Resource Exchange uses a multidisciplinary approach to include family input and strong relationships with healthcare providers, schools and the community. Services are provided in the natural environment with a strong focus on coaching and supporting parents and caregivers.

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

The Resource Exchange, Inc. and Affiliate
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018

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

3. *Description of Services Provided (Continued)*

Program Services or Supports (Continued)

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.

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 December 27, 2018, the date on which the financial statements were issued. Except as disclosed in Note E and K, the Center did not identify any events or transactions that would have a material impact on the financial statements.

The Resource Exchange, Inc. and Affiliate
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018

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

7. *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.

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 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.

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 valuation methodologies are believed to be consistent with accepted practice in the market for partnership investments. 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.

The Resource Exchange, Inc. and Affiliate
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018

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

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 \$2,499 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.

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, 2018. The Center is subject to routine audits by taxing jurisdictions; however, there are

The Resource Exchange, Inc. and Affiliate
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018

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

12. *Income Taxes (Continued)*

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, 2015.

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.

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

The Resource Exchange, Inc. and Affiliate
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018

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

13. *Fair Value Measurements (Continued)*

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, 2017, from which the summarized information was derived.

15. *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.

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

The Resource Exchange, Inc. and Affiliate
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018

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

15. *Recent Accounting Pronouncements (Continued)*

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.

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.

In June 2018, the FASB issued ASU No. 2018-08 *Not-for Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU clarify and improve the scope and the accounting

The Resource Exchange, Inc. and Affiliate
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018

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

15. *Recent Accounting Pronouncements (Continued)*

guidance for contributions received and contributions made. The ASU will be effective for all entities that have issued, or is a conduit bond obligor for, securities that are traded, listed or quoted on an exchange or an over-the-counter market services as a resource recipient, for fiscal years beginning after December 15, 2018. The ASU will be effective for all entities that have not issued or is a conduit bond obligor for securities that are traded, listed or quoted on an exchange or an over-the-counter market services as a resource provider, for fiscal years beginning after December 15, 2019. The Center is in the process of evaluating the impact of this new guidance.

NOTE B – INVESTMENTS

The following table presents the Center’s fair value hierarchy for those assets measured at fair value as of June 30, 2018:

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial assets:				
Mutual funds - Equity	\$ 172,165	\$ 172,165	\$ -	\$ -
Mutual funds - Fixed	233,855	233,855	-	-
ETFs - Fixed	21,087	21,087	-	-
Partnerships	<u>124,170</u>	<u>-</u>	<u>-</u>	<u>124,170</u>
	<u>\$ 551,277</u>	<u>\$ 427,107</u>	<u>\$ -</u>	<u>\$ 124,170</u>

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

Balance, July 01, 2017	\$ 257,161
Sales	(12,509)
Unrealized gain on investment	<u>(120,482)</u>
Balance, June 30, 2018	<u>\$ 124,170</u>

Investment return earned on cash and cash equivalents and investments for the year ended June 30, 2018 consists of the following:

Interest income	\$ 8,114
Dividend income	48,849
Realized and unrealized gain on investments	<u>(122,611)</u>
	<u>\$ (65,648)</u>

Investment expense for the year ended June 30, 2018 was \$7,480.

The Resource Exchange, Inc. and Affiliate
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018

NOTE C – LAND, BUILDING AND EQUIPMENT

Land, building and equipment consist of the following at June 30, 2018:

Building	\$ 10,039,889
Administrative equipment	232,154
Program equipment	<u>187,361</u>
	10,459,404
Less accumulated depreciation	<u>636,842</u>
	9,822,562
Land	<u>675,690</u>
	\$ <u>10,498,252</u>

Depreciation expense was \$520,333 for the year ended June 30, 2018.

NOTE D – DEFERRED REVENUE

Deferred revenue of \$11,000 consists of a sponsorship grant for a fundraising event.

NOTE E – LINE OF CREDIT

The Center has a revolving line of credit from a financial institution with a limit of \$671,250. The outstanding balance as of June 30, 2018 was \$50,809. 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 5.00% at June 30, 2018). Interest is due monthly. The line of credit is collateralized by real property. The line of credit matured on June 26, 2018 and the maturity date was extended on August 8, 2018 to June 26, 2019.

The LLC has a revolving line of credit from a financial institution dated August 15, 2017 with a limit of \$750,000 and variable rate of 0.50% above the Wall Street Journal Prime Rate (Prime was 5.0% at June 30, 2018). The outstanding balance June 30, 2018 was \$336,884. Interest is due monthly. The line of credit is collateralized by real property. The line of credit matured on August 15, 2018. On September 13, 2018 the maturity date was extended to November 15, 2018 and on December 12, 2018 the maturity date was extended to December 12, 2019. The line of credit must rest at a zero balance for 30 consecutive days to be eligible for renewal.

The Resource Exchange, Inc. and Affiliate
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018

NOTE F – NOTES PAYABLE

Notes payable consist of the following at June 30, 2018:

4.94% rate note dated July 21, 2017, payments of principal and interest of \$34,434 are due monthly plus a balloon payment at maturity on July 21, 2027. Collateralized by the land and property held by the LLC and related rents. The note agreement contains covenants that require a minimum debt service coverage ratio annually of no less than 1.0 to 1.0 and audited financial statements to be issued not later than 180 days after year-end. The Center met the covenants at June 30, 2018.	\$ <u>5,811,891</u>
	5,811,891
Less current portion	<u>128,941</u>
	\$ <u>5,682,950</u>

Interest expense for notes payable for the year ended June 30, 2018 was \$280,713. Future maturities under the notes payable are as follows:

Year ending June 30,	
2019	\$ 128,941
2020	134,690
2021	142,263
2022	149,452
2023	157,005
Thereafter	<u>5,099,540</u>
	5,811,891
Less current portion	<u>128,941</u>
	\$ <u>5,682,950</u>

NOTE G – NET ASSETS

Net investment in land, building and equipment is comprised of land, building and equipment less notes payable and capital leases.

Temporarily restricted net assets as of June 30, 2018 was \$200,000 for the Early intervention program.

The Resource Exchange, Inc. and Affiliate
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2018

NOTE H – LEASES

Capital Lease Obligation

The Center leases equipment under capital leases. For financial reporting purposes, minimum lease rentals relating to the equipment has been capitalized. The following is a schedule, by years, of future minimum lease payments under the capital lease together with the present value of the net minimum lease payments as of June 30, 2018:

Year ending June 30,	
2019	\$ 16,719
2020	<u>16,330</u>
	33,049
Less amount representing interest	<u>1,444</u>
	31,605
Less current portion	<u>15,658</u>
	\$ <u>15,947</u>

Property recorded under the capital lease includes the following amounts at June 30, 2018:

Equipment	\$ 46,020
Less accumulated amortization	<u>8,437</u>
	\$ <u>37,583</u>

Amortization expense related to property recorded under the capital lease is combined with depreciation expense.

Operating Leases

The Center currently leases office space and equipment under operating lease arrangements which expire at various dates through 2023. Rental expense under the operation leases was \$244,657 for the year ended June 30, 2018. Future minimum rental payments for all noncancelable operating leases at June 30, 2018, are as follows:

Year ending June 30,	
2019	\$ 79,317
2020	32,958
2021	26,390
2022	15,854
2023	<u>14,534</u>
	\$ <u>169,053</u>

The Resource Exchange, Inc. and Affiliate
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June 30, 2018

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, 2018 was \$145,705.

NOTE J – RELATED PARTY TRANSACTIONS

The Center receives a substantial amount of revenue from the State of Colorado. As of June 30, 2018, the amount of receivables the Center has from the State of Colorado is \$2,494,973. The Center has a payable to the State of Colorado in the amount of \$394,400, 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 some of the Center's deposits, all of the Center's 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.

NOTE K – SUBSEQUENT EVENTS

On July 15, 2018, the Center entered into an operating lease for office space. Future minimum rental payments are as follows:

Year ending June 30,	
2019	\$ 20,700
2020	22,800
2021	24,000
2022	24,000
2023	<u>24,000</u>
	\$ <u>115,500</u>