Consolidated Financial Statements and
Independent Auditor's Report

The Resource Exchange, Inc. and Affiliate

June 30, 2020

TABLE OF CONTENTS

LTJ LLC
Certified Public Accountants

email: info@ltjcpa.com
web: ltjcpa.com
main phone/fax: 303-663-1400
toll-free phone/fax: 888-959-9640

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, 2020, and the related consolidated statements of activities, functional expenses, 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. 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.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Resource Exchange, Inc. and Affiliate as of June 30, 2020, 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 2019 consolidated financial statements, and our report dated February 3, 2020, expressed an unmodified opinion on those audited consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Logan, Thomas & Johnson, LLC

Broomfield, Colorado
December 24, 2020

Consolidated Financial Statements

The Resource Exchange, Inc. and Affiliate
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2020
(With summarized financial information as of June 30, 2019)

	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	$ 5,840,688	$ 923,310
Investments	558,262	508,629
Accounts receivable		
Fees and grants from governmental agencies, net of allowance for uncollectible receivables of $20,000	2,806,402	2,407,031
Other, net of allowance for uncollectible receivables of $50,000	325,497	310,121
Pledges receivable, current portion	10,000	11,250
Prepaid expenses and other assets	43,231	44,999
Total current assets	9,584,080	4,205,340
Pledges receivable, net of discount of $120	9,880	19,328
Land, building and equipment, net	9,560,770	10,051,987
Total assets	$ 19,154,730	$ 14,276,655
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$ 921,147	$ 969,859
Accrued expenses	2,052,096	1,467,119
Line of credit	-	131,147
Current portion of long-term debt		
Capital lease obligation	1,010	16,279
Notes payable	142,263	134,690
Total current liabilities	3,116,516	2,719,094
Long-term debt, net of current portion		
Capital lease obligation	-	1,449
Notes payable	9,137,109	5,548,992
Total liabilities	12,253,625	8,269,535
Net assets		
Without donor restrictions		
Net investment in land, building and equipment	4,011,088	4,350,577
Undesignated	2,587,833	1,480,794
Total without donor restrictions	6,598,921	5,831,371
With donor restrictions	302,184	175,749
Total net assets	6,901,105	6,007,120
Total liabilities and net assets	$ 19,154,730	$ 14,276,655

The accompanying notes are an integral part of this statement.

The Resource Exchange, Inc. and Affiliate
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended June 30, 2020
(With summarized financial information for the year ended June 30, 2019)

	The Resource Exchange Without Donor Restrictions	6385 Corporate Drive, LLC Without Donor Restrictions	The Resource Exchange With Donor Restrictions	Total 2020	Total 2019
Revenues and support					
Fees and grants from governmental agencies					
Fees for services					
State of Colorado					
State General Fund	$ 8,630,102	$ -	$ -	$ 8,630,102	$ 8,159,217
Medicaid	13,816,200	-	-	13,816,200	9,933,185
Counties	55,001	-	-	55,001	52,197
Grants					
Part C	836,764	-	-	836,764	771,623
Total fees and grants from governmental agencies	23,338,067	-	-	23,338,067	18,916,222
Public support - contributions & grants	567,758	-	395,000	962,758	595,825
Fees for services	1,797,611	-	-	1,797,611	1,952,755
Rental revenue	-	791,517	-	791,517	971,395
Investment return, net	34,768	-	-	34,768	(12,922)
Other revenue	268,999	3,325	-	272,324	336,893
Net assets released from restrictions					
Satisfaction of purpose restrictions	257,868	-	(257,868)	-	-
Satisfaction of time restrictions	10,697	-	(10,697)	-	-
Total revenues and support	26,275,768	794,842	126,435	27,197,045	22,760,168
Expenses					
Program services					
Medicaid comprehensive	254,006	-	-	254,006	293,406
State adult supported living	906,362	-	-	906,362	721,377
Medicaid adult supported living	180,520	-	-	180,520	304,847
Children's extensive support	375,203	-	-	375,203	450,953
Early intervention	7,623,797	-	-	7,623,797	7,098,540
Family support	972,388	-	-	972,388	887,583
Case management	13,097,305	-	-	13,097,305	8,835,343
Total program services	23,409,581	-	-	23,409,581	18,592,049
Supporting services					
Management and general	1,959,545	-	-	1,959,545	2,636,423
Property management	-	933,934	-	933,934	1,039,099
Total expenses	25,369,126	933,934	-	26,303,060	22,267,571
CHANGE IN NET ASSETS	906,642	(139,092)	126,435	893,985	492,597
Net assets, beginning of year	3,019,212	2,812,159	175,749	6,007,120	5,514,523
Net assets, end of year	$ 3,925,854	$ 2,673,067	$ 302,184	$ 6,901,105	$ 6,007,120

The accompanying notes are an integral part of this statement.

The Resource Exchange, Inc. and Affiliate
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2020
(With summarized financial information for the year ended June 30, 2019)

	Program Services			
	Medicaid comprehen-sive	State adult supported living	Medicaid adult supported living	Children's extensive support
Expenses				
Salaries, benefits and taxes	$ -	$ -	$ -	$ -
Professional services	253,950	906,362	180,520	375,203
Staff development and travel	-	-	-	-
Occupancy and utilities	-	-	-	-
Supplies, equipment, dues and subscriptions	-	-	-	-
Communications	-	-	-	-
Insurance	-	-	-	-
Interest	-	-	-	-
Other expense	-	-	-	-
Depreciation	56	-	-	-
Total expenses	$ 254,006	$ 906,362	$ 180,520	$ 375,203

The accompanying notes are an integral part of this statement.

Program Services					Total	
Early interven-tion	Family support	Case manage-ment	Management and general	Property management	2020	2019
$ 6,858,574	$ 369,739	$11,868,202	$ 1,664,582	$ -	$ 20,761,097	$ 16,666,741
193,654	542,466	73,277	173,613	32,029	2,731,074	2,722,520
185,457	4,160	179,318	18,872	-	387,807	458,578
44,138	13,064	175,640	52,318	127,532	412,692	394,211
65,504	8,790	248,856	58,450	-	381,600	342,832
131,171	22,111	353,583	44,079	-	550,944	480,571
15,602	1,411	42,043	14,339	20,937	94,332	78,561
412	37	1,113	9,084	279,687	290,333	310,781
86,971	7,019	122,760	(79,553)	56,350	193,547	317,965
42,314	3,591	32,513	3,761	417,399	499,634	494,811
$ 7,623,797	$ 972,388	$13,097,305	$ 1,959,545	$ 933,934	$ 26,303,060	$ 22,267,571

The accompanying notes are an integral part of this statement.

The Resource Exchange, Inc. and Affiliate
CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended June 30, 2020
(With summarized financial information for the year ended June 30, 2019)

	2020	2019
Cash flows from operating activities		
Change in net assets	$ 893,985	$ 492,597
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	499,634	494,811
Realized/unrealized (gain) loss on investments	(10,500)	34,380
Change in assets and liabilities		
(Increase) decrease in accounts receivable	(414,747)	143,681
Decrease in pledges receivable	10,698	7,823
Decrease in prepaid expenses and other	1,768	13,389
Increase in accounts payable and accrued expenses	543,045	52,589
Decrease in deferred revenue	-	(11,000)
Net cash provided by operating activities	1,523,883	1,228,270
Cash flows from investing activities		
Purchase of land, building and equipment	(15,197)	(41,766)
Purchase of investments	(70,484)	-
Proceeds from sale of investments	31,351	8,268
Net cash used in investing activities	(54,330)	(33,498)
Cash flows from investing activities		
Advance on line of credit	-	1,047,000
Payment on line of credit	(131,147)	(1,303,546)
Payments on capital lease obligations	(16,718)	(13,877)
Proceeds from the issuance of notes payable	3,730,700	-
Payments on notes payable	(135,010)	(128,209)
Net cash provided by (used in) financing activities	3,447,825	(398,632)
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,917,378	796,140
Cash and cash equivalents, beginning of year	923,310	127,170
Cash and cash equivalents, end of year	$ 5,840,688	$ 923,310
Supplemental data		
Cash paid for interest	$ 282,349	$ 310,781
Cash paid for taxes	27,081	22,309
Noncash investing and financing activities		
Fixed asset additions in accounts payable	-	6,780

The accompanying notes are an integral part of this statement.

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 in 2017 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. In February 2020, Futures was dissolved. As of and for the year ended June 30, 2020, 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

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

3. *Description of Services Provided (Continued)*

Program Services or Supports (Continued)

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.

<u>Adult Supported Living</u> (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.

<u>Children's Extensive Support</u> 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.

<u>Early Intervention</u> 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.

<u>Family Support</u> 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.

<u>Case Management</u> 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 or Prior Authorization Request (PAR), and the evaluation of results identified in the IP or PAR. The Center previously provided these services to persons with developmental disabilities (CCB case management). Effective July 1, 2020, the Center contracted with the State of Colorado to also provide these services through the Single Entry Point Waivers (SEP) for other eligible individuals in the area (SEP case management).

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

3. *Description of Services Provided (Continued)*

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.

Property Management includes those activities necessary for managing operations and maintaining the corporate office.

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 24, 2020, the date on which the financial statements were issued. Except as disclosed in Notes F and G, the Center did not identify any events or transactions that would have a material impact on the financial statements.

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

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

7. *Cash and Cash Equivalents (Continued)*

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.

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:

	Years
Administrative equipment	3 – 5
Program equipment	3 – 5
Building	25

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

11. *Accounting for Contributions*

All contributions are considered to be without donor restrictions 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 increases in net assets with donor restrictions. 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 net assets with donor restrictions.

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, net assets with donor restrictions are reclassified to net assets without donor restrictions 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 recorded as increases in net assets without donor restrictions.

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 recorded an estimated tax liability of $14,000 as of June 30, 2020. 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, 2017.

13. *Functional Allocation of Expenses*

The costs of supporting various programs and other activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Certain costs have been allocated to program and management and general based on estimates of time and effort, full-time equivalents, square footage of space, and other methods.

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

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

14. *Fair Value Measurements (Continued)*

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 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.

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

15. *Prior Year Summarized Information and Reclassifications*

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, 2019, from which the summarized information was derived. Certain financial information as of and for the year ended June 30, 2019 has been reclassified to conform with the presentation for the current year.

16. *Recent Accounting Pronouncements*

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. The Center adopted this ASU during the year ended June 30, 2020 and there was no effect.

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 is effective for fiscal years beginning after December 15, 2018. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied. The Center adopted this ASU during the year ended June 30, 2020 and there was no effect.

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 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

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

16. *Recent Accounting Pronouncements (Continued)*

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 implemented ASU 2018-08 where it is a resource recipient. The Center is in the process of evaluating the impact of this new guidance related to the Center serving as a resource provider.

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. In June 2020, the FASB issued ASU 2020-05, which allows certain entities the option to delay the adoption by one year, making it effective for annual reporting periods beginning after December 15, 2019. 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 operating leases. The ASU will be effective for fiscal years beginning after December 15, 2019, with early adoption permitted. In November 2019, the FASB issued ASU 2019-10, which defers the effective date of ASU 2016-02 one year, making it effective for annual reporting periods beginning after December 15, 2020. In June 2020, the FASB issued ASU 2020-05, which allows certain entities the option to delay the adoption by one year, making it effective for annual reporting periods beginning after December 15, 2021. The Center is in the process of evaluating the impact of this new guidance.

NOTE B – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash and cash equivalents	$ 5,840,688
Investments	558,262
Accounts receivable	3,131,899
Pledges receivable	10,000
Total financial assets	9,540,849
Less financial assets held to meet donor-imposed restrictions:	
Purpose-restricted net assets (Note H)	(282,304)
Time-restricted net assets (Note H)	(10,000)
Amount available for general expenditures within one year	$ 9,248,545

As a part of the Center's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, the Center has a committed line of credit in the amount of $380,000 and the LLC has a committed line of credit in the amount of $750,000 which they could draw upon. See Note F for details on the lines of credit.

NOTE C – INVESTMENTS

The following table presents the Center's fair value hierarchy for those assets measured at fair value as of June 30, 2020:

	Fair value	Level 1	Level 2	Level 3
Financial assets:				
Mutual funds - Equity	$ 198,586	$ 198,586	$ -	$ -
Mutual funds - Fixed	269,096	269,096	-	-
ETFs - Fixed	22,318	22,318	-	-
Partnerships	68,262	-	-	68,262
	$ 558,262	$ 490,000	$ -	$ 68,262

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

Balance, July 01, 2019	$ 73,574
Sales	(1,980)
Realized and unrealized loss on investment	(3,332)
Balance, June 30, 2020	$ 68,262

NOTE D – PLEDGES RECEIVABLE

Pledges receivable are unconditional promises to give that are recognized as contributions when the promise is received and are recorded at their estimated fair value. Amounts due more than one year later are recorded at the present value of the estimated future cash flows, discounted at 1.18%, which is the 20-year treasury note rate as of June 30, 2020. Amortization of the discount is credited to contribution revenue. Pledges are deemed to be collectible. As of June 30, 2020, pledge receivables consist of the following:

Year ending June 30,	
2021	$ 10,000
2022	10,000
	20,000
Less discount	120
	$ 19,880

NOTE E – LAND, BUILDING AND EQUIPMENT

Land, building and equipment consist of the following at June 30, 2020:

Building	$ 10,074,943
Administrative equipment	231,305
Program equipment	210,118
	10,516,366
Less accumulated depreciation	1,631,286
	8,885,080
Land	675,690
	$ 9,560,770

Depreciation expense was $499,634 for the year ended June 30, 2020.

NOTE F – LINE OF CREDIT

The Center had a revolving line of credit from a financial institution with a limit of $400,000, which matured on June 26, 2020. The line of credit continued under assessment with the financial institution until a new agreement was finalized. The outstanding balance as of June 30, 2020 was $0. On July 21, 2020, a change in terms agreement was signed which changed the credit limit to $380,000 and extended the term to June 26, 2021. The interest rate to be charged on utilization of this line will be the Wall Street Journal Prime plus 1% with a floor of 5.00% adjusting daily (Prime was 3.25% at June 30, 2020). Interest is due monthly. The line of credit is collateralized by the investment account.

NOTE F – LINE OF CREDIT (CONTINUED)

The LLC has a revolving line of credit from a financial institution dated December 12, 2018 and was extended on March 12, 2020 with a limit of $750,000 and variable rate of 0.50% above the Wall Street Journal Prime Rate (Prime was 3.25% at June 30, 2020). The line of credit matures on May 29, 2021 and is collateralized by real property. The outstanding balance as of June 30, 2020 was $0.

Interest expense on the lines of credit for the year ended June 30, 2020, was $1,491.

NOTE G – NOTES PAYABLE

Notes payable consist of the following at June 30, 2020:

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 ratio covenants at June 30, 2020.	$ 5,548,672
1.00% rate note dated April 9, 2020, payments of principal plus accrued interest were due monthly beginning November 9, 2020. On October 12, 2020, the initial payment was extended to September 9, 2021 with any unforgiven balance due on or before maturity on April 9, 2022 per an amortization schedule provided at the time of forgiveness determination. The note is an unsecured loan through the Paycheck Protection Program (PPP) from a financial institution. The loan is intended to cover qualifying expenses which include qualifying payroll and occupancy costs. Under the CARES Act, the Center must submit a Loan Forgiveness Application and meet various criteria as defined in the Paycheck Protection Flexibility Act in order for the loan to potentially be forgiven. For the year ended June 30, 2020, accrued interest of $7,984 is recorded in accounts payable.	3,730,700
	9,279,372
Less current portion	142,263
	$ 9,137.109

NOTE G – NOTES PAYABLE (CONTINUED)

Interest expense for notes payable for the year ended June 30, 2020 was $286,180. Future maturities under notes payable are as follows:

Year ending June 30,	
2021	$ 142,263
2022	3,880,152
2023	157,005
2024	164,255
2025	173,239
Thereafter	4,762,458
	9,279,372
Less current portion	142,263
	$ 9,137,109

NOTE H – NET ASSETS

Net investment in land, building and equipment is comprised of land, building and equipment less notes payable and capital leases secured by land, building and equipment. The Paycheck Protection Program loan is excluded from notes payable as it is an unsecured note and the proceeds were not used to purchase land, building and equipment.

Net assets with donor time restrictions totaled $19,880 (net of discount of $120) as of June 30, 2020. Additional net assets with donor restrictions consisted of the following purpose-restricted amounts as of June 30, 2020:

Early intervention	$ 137,736
Developmental Disabilities Health Center	137,132
Breaktime	5,000
Go-Baby-Go	2,436
	$ 282,304

NOTE I – LEASES

Capital Lease Obligation

The Center leases equipment under capital leases. For financial reporting purposes, minimum lease rentals relating to the equipment have been capitalized. Future minimum lease payments under the capital lease together with the present value of the net minimum lease payments as of June 30, 2020 consist of $1,015 for the year ending June 30, 2021, less interest of $5, totals $1,010 current portion of capital lease obligation.

NOTE I – LEASES (CONTINUED)

Capital Lease Obligation (Continued)

Property recorded under the capital lease includes the following amounts at June 30, 2020:

Equipment	$ 46,020
Less accumulated amortization	26,845
	$ 19,175

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 2025. Rental expense under the operating leases was $320,880 for the year ended June 30, 2020. Future minimum rental payments for all noncancelable operating leases at June 30, 2020, are as follows:

Year ending June 30,	
2021	$ 170,555
2022	134,316
2023	60,870
2024	28,454
2025	7,177
	$ 401,372

Tenant Leases

The Center currently leases office space to various tenants under operating lease arrangements which expire at various dates through 2021. Rental income under the leases was $560,512 for the year ended June 30, 2020. For the year ended June 30, 2020, $447,546 of the total rental receipts was from one tenant. The lease for that tenant terminated March 31, 2020. Future minimum rental receipts are $245,297 for the year ending June 30, 2021.

NOTE J – FUNCTIONALIZED EXPENSES

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated included salaries and benefits, depreciation, insurance, utilities, postage, communications, rental of office space and equipment, depreciation, and interest which are allocated on the basis of usage studies, square footage and other methods.

NOTE K – 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, 2020 was $188,947.

NOTE L – RELATED PARTY TRANSACTIONS

The Center receives a substantial amount of revenue from the State of Colorado. As of June 30, 2020, the amount of receivables the Center has from the State of Colorado is $2,806,605. The Center has a payable to the State of Colorado in the amount of $431,009, 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.

NOTE M – RISKS AND UNCERTAINTIES

In March 2020, the World Health Organization declared coronavirus (COVID-19) a global pandemic. This contagious disease outbreak has adversely affected workforces, customers, economies, and financial markets globally. This outbreak could adversely affect the Center's ability to provide services, and reduce funding sources available. It is not possible for the Center to predict the duration or magnitude of the adverse results of the outbreak and its effects on the organization's activities or results of operations, financial condition, or liquidity, at this time.