Financial Statements and
Independent Auditor's Report

**Mountain Valley Developmental Services, Inc.**

June 30, 2017

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Logan, Thomas & Johnson, LLC
Certified Public Accountants

# INDEPENDENT AUDITOR'S REPORT

Board of Directors
Mountain Valley Developmental Services, Inc.

We have audited the accompanying financial statements of Mountain Valley Developmental Services, Inc. (the Center), which comprise the statement of financial position as of June 30, 2017, 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 that 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 Mountain Valley Developmental Services, Inc. as of June 30, 2017, 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 2016 financial statements, and our report dated September 19, 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, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Logan, Thomas & Johnson, LLC

Broomfield, Colorado
September 12, 2017

*Financial Statements*

Mountain Valley Developmental Services, Inc.
STATEMENT OF FINANCIAL POSITION
June 30, 2017
(With summarized financial information as of June 30, 2016)

| | 2017 | 2016 |
|---|---|---|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | $ 2,172,329 | $ 1,803,226 |
| Accounts receivable | | |
| Fees and grants from governmental agencies | 1,246,323 | 979,773 |
| Other | 80,903 | 60,650 |
| Inventories | 31,839 | 34,108 |
| Prepaid expenses and other | 268,033 | 200,225 |
| Total current assets | 3,799,427 | 3,077,982 |
| Land, building and equipment, net of accumulated depreciation | 2,542,985 | 2,618,623 |
| Total assets | $ 6,342,412 | $ 5,696,605 |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities | | |
| Accounts payable and accrued expenses | $ 1,089,832 | $ 865,842 |
| Current portion of notes payable | 24,108 | 23,106 |
| Deferred revenue | 132,296 | 31,000 |
| Total current liabilities | 1,246,236 | 919,948 |
| Long-term liabilities | | |
| Notes payable, net of current portion | 277,218 | 301,891 |
| Total liabilities | 1,523,454 | 1,221,839 |
| Net assets | | |
| Unrestricted | | |
| Board designation for workers compensation premium | 60,000 | 60,000 |
| Net investment in land, building and equipment | 2,241,659 | 2,293,626 |
| Undesignated | 2,517,299 | 2,121,140 |
| Total unrestricted net assets | 4,818,958 | 4,474,766 |
| Total liabilities and net assets | $ 6,342,412 | $ 5,696,605 |

The accompanying notes are an integral part of this statement.

Mountain Valley Developmental Services, Inc.
STATEMENT OF ACTIVITIES
Year ended June 30, 2017
(With summarized financial information for the year ended June 30, 2016)

| | Total unrestricted | |
|---|---|---|
| | 2017 | 2016 |
| Revenues and support | | |
| Fees and grants from governmental agencies | | |
| Fees for services | | |
| State of Colorado | | |
| State General Fund | $ 930,041 | $ 895,230 |
| Medicaid | 6,959,289 | 7,088,650 |
| Counties | 132,509 | 147,462 |
| Grants and other | | |
| Part C | 127,270 | 140,337 |
| Department of Housing and Urban Development | 4,972 | 8,213 |
| Department of Social Services | 28,028 | 91,846 |
| Colorado Department of Education | 123,461 | 139,856 |
| Colorado Department of Human Services | 350,091 | 355,544 |
| Other | 292,742 | 56,327 |
| Total fees and grants from governmental agencies | 8,948,403 | 8,923,465 |
| Public support - contributions | 76,667 | 101,616 |
| Residential room and board | 607,070 | 625,771 |
| In-kind contributions | 12,953 | 35,290 |
| Production revenue | 160,533 | 171,811 |
| Other revenue | 197,570 | 192,713 |
| Total revenues and support | 10,003,196 | 10,050,666 |
| Expenses | | |
| Program services | | |
| Medicaid comprehensive | 6,082,575 | 6,308,910 |
| State adult supported living | 66,021 | 81,496 |
| Medicaid adult supported living | 436,127 | 406,135 |
| Children's extensive support | 3,902 | 1,385 |
| Early intervention | 578,727 | 557,692 |
| Family support | 160,595 | 186,160 |
| Case management | 669,976 | 672,050 |
| Rocky mountain early childhood council | 611,188 | 536,577 |
| Total program services | 8,609,111 | 8,750,405 |
| Supporting services | | |
| Management and general | 1,049,893 | 992,512 |
| Total expenses | 9,659,004 | 9,742,917 |
| CHANGE IN NET ASSETS | 344,192 | 307,749 |
| Net assets, beginning of year | 4,474,766 | 4,167,017 |
| Net assets, end of year | $ 4,818,958 | $ 4,474,766 |

The accompanying notes are an integral part of this statement.

Mountain Valley Developmental Services, Inc.
STATEMENT OF CASH FLOWS
Year ended June 30, 2017
(With summarized financial information for the year ended June 30, 2016)

| | 2017 | 2016 |
|---|---|---|
| Cash flows from operating activities | | |
| Change in net assets | $ 344,192 | $ 307,749 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation | 237,189 | 233,615 |
| (Gain) loss on sale of fixed assets | (1,400) | 508 |
| Change in assets and liabilities | | |
| Increase in accounts receivable | (286,803) | (43,709) |
| Decrease in inventories | 2,269 | 17,142 |
| Increase in prepaid expenses and other | (67,808) | (36,012) |
| Increase (decrease) in accounts payable and accrued expenses | 223,990 | (22,282) |
| Increase (decrease) in deferred revenue | 101,296 | (29,512) |
| Net cash provided by operating activities | 552,925 | 427,499 |
| Cash flows from investing activities | | |
| Purchase of land, building and equipment | (161,551) | (88,075) |
| Proceeds from sale of fixed assets | 1,400 | 3,100 |
| Net cash used in investing activities | (160,151) | (84,975) |
| Cash flows used in financing activities | | |
| Payments on notes payable | (23,671) | (22,601) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 369,103 | 319,923 |
| Cash and cash equivalents, beginning of year | 1,803,226 | 1,483,303 |
| Cash and cash equivalents, end of year | $ 2,172,329 | $ 1,803,226 |
| Supplemental data | | |
| Cash paid for interest | $ 15,415 | $ 16,924 |

The accompanying notes are an integral part of this statement.

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

This description of Mountain Valley Developmental Services, 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*

Mountain Valley Developmental Services, Inc., a Colorado nonprofit corporation, was incorporated under the laws of the State of Colorado in 1975 for the purpose of providing a community center board to coordinate programs through interagency cooperation and local agencies to provide services to persons with developmental disabilities in Garfield, Eagle, Pitkin and Lake 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**

<u>Comprehensive</u> (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.

<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.

<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

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

2. *Description of Services Provided (Continued)*

**Program Services or Supports (Continued)**

needs, which require constant line-of-sight supervision due to significantly challenging behaviors and/or co-existing 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.

Rocky Mountain Early Childhood Council promotes and supports a system of quality, accessibility, affordability of early childhood for families in the Rural Resort Region.

**Supporting Services**

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

3. *Basis of Accounting*

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

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

4. *Subsequent Events*

The Center has evaluated events and transactions occurring subsequent to the end of the fiscal year for potential recognition or disclosure through September 12, 2017, the date on which the financial statements were issued. The Center did not identify any events or transactions that would have a material impact on the financial statements.

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. *Cash and Cash Equivalents*

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

The Center maintains cash balances in financial institutions located in Glenwood 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 believes all receivables are collectible and that no allowance for doubtful accounts is necessary. The Center writes off accounts receivable to bad debt expense after reasonable collection efforts have been made. Payments subsequently received on such receivables, if any, are recorded as other revenue.

8. *Inventories*

The cost of inventories was determined principally on a first-in, first-out basis under the lower of cost or market method of accounting.

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

9. *Land, Building and Equipment*

Land, building and equipment are reported at cost for purchased assets with a cost of $5,000 or more and an estimated fair value, at date of receipt, for donated property. Depreciation is provided on the straight-line method over the following estimated useful lives:

| | Years |
|---|---|
| Buildings and improvements | 5–30 |
| Equipment | 2–10 |
| Vehicles | 3–6 |

10. *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 recorded as unrestricted revenue, rather than temporarily restricted revenue.

11. *In-kind Contributions*

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

12. *Net Assets*

From time to time, the Center's Board of Directors approves designating net assets for future use for a specific purpose.

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

13. *Income Taxes*

The Center is operated as a nonprofit organization exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code. The Center recognizes tax liabilities when, despite the Center's belief that its tax return positions are supportable, the Center believes that certain positions may not be fully sustained upon review by tax authorities. Benefits from tax positions are measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon settlement. The Center has concluded there is no tax liability or benefit required to be recorded as of June 30, 2017. 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, 2014.

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, 2016 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

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

15. *Recent Accounting Pronouncements (Continued)*

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 standard is effective on January 1, 2020, 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.

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

15. *Recent Accounting Pronouncements (Continued)*

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.

## NOTE B – LAND, BUILDING AND EQUIPMENT

Land, building and equipment consists of the following at June 30, 2017:

| | |
|---|---|
| Buildings and improvements | $ 6,063,322 |
| Equipment | 155,453 |
| Vehicles | 472,590 |
| | 6,691,365 |
| Less accumulated depreciation and amortization | 4,877,074 |
| | 1,814,291 |
| Land | 728,694 |
| | $ 2,542,985 |

Depreciation expense was $237,189 for the year ended June 30, 2017.

## NOTE C – NOTES PAYABLE

On December 20, 2013, the Center borrowed $100,000 from a financial institution with a fixed rate of 4.85%, which is due December 20, 2023, payable in monthly installments of $1,057 including interest and collateralized by a building and deposits held at the financial institution. The outstanding balance of this note at June 30, 2017 was $70,421.

On February 11, 2009, the Center borrowed $335,000 from a financial institution with a fixed rate of 6%, which is due February 25, 2029, payable in monthly installments of $2,158 including interest and collateralized by land and building. The terms of this note were changed during the year ended June 30, 2013. The rate changed in October 2015 to an annual, variable rate of prime (4.25% at June 30, 2017) plus 1.5% with a floor of 4.5% and a ceiling of 24.0%. As of June 30, 2017, the variable interest rate was 5.75% and the monthly installment was $2,188. The outstanding balance of this note at June 30, 2017 was $230,905.

## NOTE C – NOTES PAYABLE (CONTINUED)

Future maturities of notes payable at June 30, 2017, are as follows:

| | |
|---|---|
| Year ending June 30, | |
| 2018 | $ 24,108 |
| 2019 | 25,383 |
| 2020 | 26,691 |
| 2021 | 28,137 |
| 2022 | 29,625 |
| Thereafter | 167,382 |
| | 301,326 |
| Less current portion | 24,108 |
| | $ 277,218 |

Interest expense was $17,440 for the year ended June 30, 2017.

## NOTE D – DEFERRED REVENUE

Deferred revenue of $132,296 at June 30, 2017, consists of $10,000 of unspent funds from Eagle County, $21,500 of unspent funds from Garfield County, $17,500 of unspent funds from Pitkin County and $83,296 of State of Colorado Supported Living funds.

## NOTE E – LEASES

The Center leases facilities and equipment under operating lease arrangements to conduct a portion of its operations. Rental expense for the year ended June 30, 2017 was $144,949. Future minimum lease payments under noncancelable operating leases at June 30, 2017 are as follows:

| | |
|---|---|
| Year ending June 30, | |
| 2018 | $ 64,347 |
| 2019 | 17,485 |
| 2020 | 10,006 |
| 2021 | 6,219 |
| 2022 | 1,037 |
| | $ 99,094 |

## NOTE F – RETIREMENT PLANS

### Defined Contribution Plan

The Center has adopted a contributory defined contribution plan for employees. Employees are eligible to participate after one year of full time employment. The Center matched up to 8% until December 31, 2015 and on January 1, 2016 switched the plan to a safe harbor plan with a maximum match of 4%, depending on years of service, which becomes fully vested immediately. During the year ended June 30, 2017, contributions to the plan by the Center were $94,057.

### Deferred Compensation Plan

The Center has a deferred compensation plan for a select group of management and highly compensated employees. Participants contribute a certain percentage of their salary to the Plan and the Center can make contributions to the Plan. The Center will distribute the balance of the participant's account upon the 90th day after the participant separates employment with the Center, unless the participant has elected to commence distribution prior to this date. The Center maintains accounts for the participants. The total amount in these accounts was $213,880 as of June 30, 2017. The amount is recorded in prepaid expenses and other and accounts payable and accrued expenses. Deferred compensation contributions for the year ended June 30, 2017 were $24,000. No withdrawals had been made as of the year ended June 30, 2017.

## NOTE G – RELATED PARTY TRANSACTIONS

The Center receives a substantial amount of revenue from the State of Colorado. The amount of receivables and deferred revenue the Center has from the State of Colorado is $999,976 and $83,296, respectively, at June 30, 2017. The Center has a payable to the State of Colorado of $6,226 as of June 30, 2017. 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.