



Financial Statements and Report of
Independent Certified Public Accountants

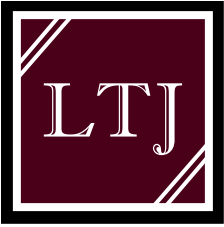
Community Options, Inc.

June 30, 2010



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Logan, Thomas & Johnson, LLC
Certified Public Accountants

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Audit/Finance Committee
Community Options, Inc.

We have audited the accompanying statement of financial position of Community Options, Inc. (the Center) as of June 30, 2010, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Center's 2009 financial statements, and in our report dated January 14, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board of the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Options, Inc. as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Logan, Thomas & Johnson, LLC

Broomfield, Colorado
February 2, 2011

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Financial Statements

Community Options, Inc.
STATEMENT OF FINANCIAL POSITION
June 30, 2010
(With summarized financial information for June 30, 2009)

	2010	2009
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,339,873	\$ 1,051,712
Accounts receivable		
Fees and grants from governmental agencies, net of allowance for doubtful accounts of \$2,404	754,535	709,380
Workshop trade accounts, net of allowance for doubtful accounts of \$11,774	6,538	2,605
Other	44,445	17,583
Prepaid expenses and other	9,249	10,179
Total current assets	2,154,640	1,791,459
Investments	-	26,245
Bond issuance costs, net of amortization of \$3,168	20,591	21,779
Assets held for sale	128,069	-
Land, buildings and equipment, net	1,997,630	2,224,910
	\$ 4,300,930	\$ 4,064,393
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 836,023	\$ 863,156
Current portion of notes payable	23,563	10,312
Current portion of bonds payable	17,680	16,720
Total current liabilities	877,266	890,188
Obligation under interest rate swap	79,711	61,296
Long-term debt		
Note payable, net of current portion	201,615	194,220
Bond payable, net of current portion	489,760	507,440
Total liabilities	1,648,352	1,653,144
Net assets		
Unrestricted		
Net investment in land, buildings and equipment	1,265,012	1,496,218
Undesignated	1,369,069	896,753
Total unrestricted	2,634,081	2,392,971
Temporarily restricted	18,497	18,278
	2,652,578	2,411,249
	\$ 4,300,930	\$ 4,064,393

The accompanying notes are an integral part of this statement.

Community Options, Inc.
STATEMENT OF ACTIVITIES
Year ended June 30, 2010
(With summarized financial information for the year ended June 30, 2009)

	Unrestricted	Temporarily restricted	Total	
			2010	2009
Fees and grants from governmental agencies				
Fees for services				
State of Colorado				
State General Fund				
Comprehensive	\$ 19,098	\$ -	\$ 19,098	\$ 12,612
Adult supported living	302,553	-	302,553	310,184
Children and families	381,113	-	381,113	355,827
Medicaid				
Comprehensive	6,325,794	-	6,325,794	5,853,602
Adult supported living	838,115	-	838,115	1,183,309
Children's extensive support	132,947	-	132,947	142,800
Part C	96,180	-	96,180	102,657
ARRA	68,814	-	68,814	-
Counties and cities	15,675	-	15,675	20,750
Grants and other				
Colorado Department of Education - Vocational Rehabilitation	19,613	-	19,613	14,705
Department of Housing and Urban Development	6,511	-	6,511	7,816
Other	2,003	-	2,003	-
Total fees and grants from governmental agencies	8,208,416	-	8,208,416	8,004,262
Public support - donations	6,570	12,089	18,659	14,276
In-kind donations	5,134	-	5,134	3,546
Residential room and board	708,366	-	708,366	682,089
Gain on sale of assets	387	-	387	5,532
Other revenue	156,827	-	156,827	134,390
Net assets released from restrictions				
Satisfaction of program restrictions	11,870	(11,870)	-	-
Total support and revenue	9,097,570	219	9,097,789	8,844,095

(Continued)

The accompanying notes are an integral part of this statement.

Community Options, Inc.
STATEMENT OF ACTIVITIES (CONTINUED)
Year ended June 30, 2010
(With summarized financial information for the year ended June 30, 2009)

	Unrestricted	Temporarily restricted	Total	
			2010	2009
Expenses				
Program services				
Medicaid comprehensive	\$ 5,879,576	\$ -	\$ 5,879,576	\$ 5,820,415
State adult supported living	235,570	-	235,570	228,815
Medicaid adult supported living	888,294	-	888,294	1,148,911
Children's extensive support	110,379	-	110,379	108,121
Early intervention	328,842	-	328,842	275,736
Family support	160,191	-	160,191	157,495
Case management	533,874	-	533,874	549,885
Total program services	8,136,726	-	8,136,726	8,289,378
Supporting services				
Management and general	719,734	-	719,734	686,263
Total expenses	8,856,460	-	8,856,460	8,975,641
CHANGE IN NET ASSETS	241,110	219	241,329	(131,546)
Net assets, beginning of year	2,392,971	18,278	2,411,249	2,542,795
Net assets, end of year	\$ 2,634,081	\$ 18,497	\$ 2,652,578	\$ 2,411,249

The accompanying notes are an integral part of this statement.

Community Options, Inc.
STATEMENT OF CASH FLOWS
Year ended June 30, 2010
(With summarized financial information for the year ended June 30, 2009)

	2010	2009
Cash flows from operating activities		
Change in net assets	\$ 241,329	\$ (131,546)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	236,456	246,332
Gain on sale of assets	(387)	(5,532)
Realized and unrealized (gain) loss on investments	(678)	98
Change in assets and liabilities		
Increase in accounts receivable	(75,950)	(81,353)
Decrease in prepaid expenses and other	930	97,464
Increase (decrease) in accounts payable and accrued expenses	(27,133)	112,581
Decrease in deferred revenue	-	(8,279)
Net cash provided by operating activities	374,567	229,765
Cash flows from investing activities		
Purchase of land, building and equipment	(136,057)	(358,487)
Proceeds from sale of assets	387	5,818
Proceeds from sale of investments	26,923	-
Net cash used in investing activities	(108,747)	(352,669)
Cash flows from financing activities		
Advances on notes payable	40,393	206,250
Change in obligation under interest rate swap	18,415	27,323
Payments on bonds payable	(16,720)	(17,020)
Payments on note payable	(19,747)	(1,718)
Net cash provided by financing activities	22,341	214,835
NET INCREASE IN CASH AND CASH EQUIVALENTS	288,161	91,931
Cash and cash equivalents, beginning of year	1,051,712	959,781
Cash and cash equivalents, end of year	\$ 1,339,873	\$ 1,051,712
Supplemental data		
Cash paid for interest	\$ 35,011	\$ 24,945

The accompanying notes are an integral part of this statement.

Community Options, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Community Options, Inc. (the Center) is presented to assist in understanding the Center's financial statements.

1. *Summary of Business Activities*

Community Options, Inc. was incorporated under the laws of the State of Colorado in 1972 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 Delta, Montrose, Gunnison, San Miguel, Ouray and Hinsdale Counties. The Center's revenue comes primarily from the State of Colorado for services provided.

2. *Description of Services Provided*

The major program services or supports and functional activities directly provided or purchased by the Center are:

Program Services or Supports

Comprehensive (Medicaid) refers to residential services, adult day services or supports and transportation activities as specified in the Individualized Plan. Included are a number of different types of residential settings, which provide an array of training, learning, experiential and support activities provided in residential living alternatives designed to meet individual needs. Additionally, adult day services provide opportunities for individuals to experience and actively participate in valued roles in the community. These services and supports enable individuals to access and participate in typical community activities such as work, recreation, and senior citizen activities. Finally, transportation activities refer to "Home to Day Program transportation" services relevant to an individual's work schedule as specified in the Individualized Plan. For these purposes, "work schedule" is defined broadly to include adult and retirement activities such as education, training, community integration and employment.

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

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.

Community Options, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. *Description of Services Provided (Continued)*

Program Services or Supports (Continued)

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 that is unwanted by the person or the family.

Case Management is the determination of eligibility for services and supports, service and support coordination, and the monitoring of all services and supports delivered pursuant to the Individualized Plan, and the evaluation of results identified in the Individualized Plan.

Supporting Services

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

3. *Basis of Accounting*

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

4. *Use of Estimates*

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Community Options, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5. *Cash and Cash Equivalents*

For purposes of the statement of cash flows, the Center considers all cash on hand, cash on deposit, subject to immediate withdrawal, and money market funds to be cash equivalents.

The Center maintains its cash balances in financial institutions, 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.

6. *Accounts Receivable*

The majority of the Center's accounts receivable are due from the State of Colorado. Accounts receivable are due according to contractual terms and are stated at the amounts management expects to collect from outstanding balances. The Center determines its allowance by considering a number of factors, including the length of time accounts receivable are past due and the Center's previous collection history. The Center writes off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are recorded as revenue.

7. *Land, Buildings and Equipment and Assets Held for Sale*

Land, buildings and equipment and assets held for sale are reported at cost for purchased assets and estimated value, at date of receipt, for donated property. Any asset purchased for more than \$1,000 that has a life expectancy of more than one year is capitalized. Assets held for sale are not depreciated. Depreciation and amortization are provided on the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings and improvements	3–40
Administrative equipment	3–10
Program equipment	3–15
Transportation equipment	3–10

Community Options, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

8. *Derivative Financial Instruments*

The Center uses an interest rate swap agreement to manage interest rate risk associated with variable rate debt. Under the interest rate swap agreement, the Center and the counterparties agree to exchange the difference between fixed rate and variable rate interest amounts calculated by reference to specified notional amounts during the agreement period. Notional principal amounts are used to express the volume of these transactions, but the cash requirements and amounts subject to credit risk are substantially less. Amounts receivable or payable under swap agreements are accounted for as interest expense on the related debt.

9. *Revenue Recognition*

Revenues are recognized when services are performed. The Center receives certain revenue for which if it does not spend all the revenue in the current year and the Center has met certain control points, it is allowed to recognize five percent of the total original revenue and the remaining excess revenue is deferred to the next year.

10. *Temporarily Restricted Revenue*

Donor restricted revenue, whose restrictions are currently satisfied in the same fiscal year, is reported as unrestricted revenue rather than temporarily restricted. Donor restricted contributions, whose restrictions are not currently met, are reflected as an increase to temporarily restricted net assets.

11. *In-kind Donations*

Contributions of property, materials and personal services are known as in-kind donations and are recorded at estimated value at date of receipt. These donations are included as program costs to properly reflect the total cost of the particular program.

12. *Subsequent Events*

The Center has evaluated events and transactions occurring subsequent to the end of the fiscal year for potential recognition or disclosure through February 2, 2011, the date on which the financial statements were issued. Other than the transactions disclosed in Note L, the Center did not identify any events or transactions that would have a material impact on the financial statements.

Community Options, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE A – 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, 2010.

14. *Fair Value Measurements*

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. A fair value hierarchy has been established under generally accepted accounting principles, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and mutual funds that are traded in an active exchange market.

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted market prices that are traded less frequently than exchange-traded instruments. This category generally includes certain U.S. Government agency debt securities and corporate-debt securities.

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.

Community Options, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

14. *Fair Value Measurements (Continued)*

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of timing, amount of expected future cash flows, and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial asset. The disclosed fair values do not reflect any premium or discount that could result from offering for sale at one time an entire holding of a particular financial asset. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in amounts disclosed.

15. *Prior Year Summarized Information*

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Center's financial statements as of and for the year ended June 30, 2009 from which the summarized information was derived.

16. *Reclassifications*

Certain financial information as of and for the year ended June 30, 2009, has been reclassified to conform with the presentation for the current year

NOTE B – FEES AND GRANTS FROM GOVERNMENTAL AGENCIES

Amounts receivable from governmental agencies are as follows at June 30, 2010:

State of Colorado	
Medicaid, net of allowance of \$2,404	\$ 744,188
ARRA	6,759
Other	<u>3,588</u>
	<u>\$ 754,535</u>

Community Options, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE C – LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consists of the following at June 30, 2010:

Buildings and improvements	\$ 3,108,744
Administrative equipment	349,988
Program equipment	193,405
Transportation equipment	<u>1,014,486</u>
	4,666,623
Less accumulated depreciation and amortization	<u>3,154,376</u>
	1,512,247
Land	<u>485,383</u>
	<u>\$ 1,997,630</u>

Depreciation expense was \$235,268 for the year ended June 30, 2010.

NOTE D – LONG-TERM DEBT

Notes payable

Notes payable consist of the following at June 30, 2010:

On April 13, 2009, the Center borrowed \$206,250 from a financial institution with a variable interest rate equal to the Wall Street Journal prime rate index plus 1.75% (prime rate was 3.25% at June 30, 2010) with a floor rate of 5.0%, which is due on April 15, 2014. The monthly principal and interest installments at June 30, 2010 were \$859. The note is collateralized by the land and property purchased with the proceeds. The outstanding balance at June 30, 2010 is \$194,219.

On September 9, 2009, the Center borrowed \$40,393 from a financial institution with a fixed interest rate of 5.95% maturing September 8, 2012. The monthly principal and interest installments at June 30, 2010 were \$1,228. The note is collateralized by the transportation equipment purchased with the proceeds. The outstanding balance at June 30, 2010 is \$30,959.

Community Options, Inc.
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2010

NOTE D – LONG-TERM DEBT (CONTINUED)

Notes payable (continued)

Future maturities under the notes payable are as follows:

Year ending June 30,	
2011	\$ 23,563
2012	24,373
2013	13,961
2014	<u>163,281</u>
	225,178
Less current portion	<u>23,563</u>
	\$ <u>201,615</u>

Bonds

In October 2007, Montrose County, Colorado issued \$550,000 of Tax-Exempt Variable Rate Demand Revenue Bonds (2007 Bonds) which were used for the refinancing of existing debt and the purchase and improvements of an additional new group home. With the issuance of the bonds, the Center entered into a loan agreement with Montrose County, Colorado in the amount of \$550,000. Principal and interest payments are made monthly through October 15, 2027. The variable interest rate is computed as .6649 times 1-month LIBOR plus .6649 times 2.00% and the interest rate was approximately 1.56% as of June 30, 2010. The 2007 Bonds are collateralized by a Deed of Trust on the Center's administrative building.

The Center's deferred loan costs associated with the issuance of the 2007 Bonds totaled \$23,759 and are being amortized over the life of the bonds. Deferred loan costs at June 30, 2010, net of accumulated amortization, are \$20,591. Amortization to interest expense on the deferred loan costs for the year ended June 30, 2010 was \$1,188.

Interest expense for the year ended June 30, 2010 was \$54,614.

Future maturities under the 2007 Bonds are as follows:

Year ending June 30,	
2011	\$ 17,680
2012	18,720
2013	19,800
2014	20,960
2015	22,160
Thereafter	<u>408,120</u>
	507,440
Less current portion	<u>17,680</u>
	\$ <u>489,760</u>

Community Options, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE E – INTEREST RATE SWAP AGREEMENT

The Center has entered into an interest rate swap agreement to reduce the impact of changes in interest rates on its variable rate bonds. At June 30, 2010, the Center has outstanding one interest rate swap agreement with a commercial bank having a total notional amount of \$507,440. The agreement effectively changes the Center's interest rate exposure on its outstanding bonds to a fixed rate of 5.13%. The interest rate swap agreement expires on October 15, 2027. The Center is exposed to a credit loss in the event of nonperformance by the other parties to the interest rate swap agreement. However, the Center does not anticipate nonperformance by the counterparties. The fair value of the interest rate swap agreement as of June 30, 2010 was an obligation of \$79,711.

NOTE F – LINES OF CREDIT

The Center maintains an unsecured line of credit with a financial institution which allows for advances up to \$150,000 bearing interest at a rate of 1.00 percentage point over the financial institution's Prime Rate (prime was 3.25% at June 30, 2010), which totals a rate of 4.25%. There was no balance outstanding on the line of credit as of June 30, 2010.

The Center maintains an uncollateralized line of credit with a financial institution that allows for advances up to \$20,000 bearing interest at the bank's base rate (rate was 5.75% at June 30, 2010). There was no balance outstanding on the line of credit as of June 30, 2010.

NOTE G – LEASES

The Center conducts a portion of its operations from a leased facility. The Center leases housing under operating leases that expire at various dates through fiscal year 2011. Future minimum rental payments for all noncancelable operating leases are \$8,584 for the year ending June 30, 2011. Total rent expense, including facility and equipment lease expense for fiscal year ended June 30, 2010 totaled \$180,726.

NOTE H – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following purpose-restricted amounts at June 30, 2010:

Medicaid comprehensive	\$ 18,223
Case management	258
Early intervention	<u>16</u>
	\$ <u>18,497</u>

Community Options, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE I – RETIREMENT PLAN

The Center has adopted a 403(b) retirement plan for employees working 1,000 or more hours per year of service. Eligible participants who have completed 2 years of service and have reached age 18 can make contributions to the plan. Contributions by the Center to the plan are at the discretion of the Board. In the current year, the Center matched all individual employee monthly contributions up to 1.375% of gross salary and made a 1.375% discretionary contribution to all eligible employees. In addition, the Center made an additional 1.375% matching contribution and a 1.375% discretionary contribution to employees who have obtained the maximum salary for their classification within the Center's salary scale. The contribution for the year ended June 30, 2010 was \$51,865.

NOTE J – RELATED PARTY TRANSACTIONS

The Center receives a substantial amount of revenue from the State of Colorado. The amount of receivable the Center has from the State of Colorado is disclosed in Note B and the Center has a payable at June 30, 2010, to the State of Colorado in the amount of \$40,880 which is recorded in accounts payable and accrued expenses. These transactions are considered to be transactions with a related party by virtue of the significant management influence exercised by the State of Colorado through contract provisions.

The Center purchases services from another entity who is economically dependent on the Center for revenue and over which the Center exercises significant management influence through contract provisions. Total expenses incurred by the Center to this organization for the year ended June 30, 2010, were approximately \$315,000. At June 30, 2010, \$19,419 was receivable for an advance and \$30,573 was payable to this organization for fiscal year 2010 services.

One of the Center's Board members is an attorney who handles the legal issues of the Center. The Center paid the attorney's firm \$161 during the year ended June 30, 2010.

NOTE K – FAIR VALUE MEASUREMENTS

The following table presents the Center's fair value hierarchy for those assets and liabilities measured at fair value as of June 30, 2010:

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial liability:				
Interest rate swap	\$ 79,711	\$ -	\$ -	\$ 79,711

Community Options, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE K – FAIR VALUE MEASUREMENTS (CONTINUED)

Interest rate swap agreement - The fair value for the swap is considered a Level 3 liability and has been estimated by management based on both observable and unobservable inputs obtained from the counterparty to the swap. Future cash flows are determined as the difference between the estimated 1 month LIBOR forward interest rates and the 5.13% fixed rate of the swap agreement and are discounted at a present value factor approximating 3.5%. The valuation is a fair value estimate based on discounted cash flows derived from the proprietary model of the counterparty based upon financial principles and reasonable estimates about relevant future market conditions. The valuation methodology is believed to be consistent with accepted practice in the market for interest rate swaps.

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

Balance, July 1, 2009	\$ 61,296
Unrealized loss	<u>18,415</u>
Balance, June 30, 2010	\$ <u>79,711</u>

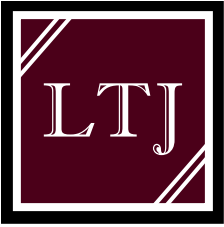
NOTE L – SUBSEQUENT EVENTS

The Center sold an asset held for sale of \$7,000 at June 30, 2010, on August 12, 2010 for \$35,000.

The Center sold a building on December 9, 2010 for \$130,000. This property was included in land, buildings and equipment in the amount of \$6,765 as of June 30, 2010. The Center entered into a promissory note with the buyer to finance the sale of the property. The promissory note was issued in the amount of \$120,000 with an interest rate of 5.0% and monthly payments of \$644. The balance is due on December 9, 2015. The note is secured by a Deed of Trust on the property.

The Center sold a building on January 27, 2011 for \$100,000. This property was included in assets held for sale in the amount of \$37,415 as of June 30, 2010. The Center entered into a promissory note with the buyer to finance a portion of the sale of the property. The buyer paid cash for the portion that was not financed. The promissory note was issued in the amount of \$35,000 with an interest rate of 6.0% and monthly payments of \$295. The balance is due on January 27, 2016. The note is secured by a Deed of Trust on the property.

Supplementary Information



Logan, Thomas & Johnson, LLC
Certified Public Accountants

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ON SUPPLEMENTARY INFORMATION

Audit/Finance Committee
Community Options, Inc.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole of Community Options, Inc. as of and for the year ended June 30, 2010, which are presented in the preceding section of this report. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The statistical data shown on pages 26 through 29 and the schedule of room and board and other unallowable expenses on pages 30 and 31 have been summarized from the Center's records and were not subjected to the audit procedures applied in the audit of the basic financial statements. Accordingly, we do not express an opinion on such information. Such information, except for that portion marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Logan, Thomas & Johnson, LLC

Broomfield, Colorado
February 2, 2011

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Community Options, Inc.
SUMMARY OF REVENUE AND EXPENSES BY PROGRAM
Year ended June 30, 2010
(With summarized financial information for the year ended June 30, 2009)

	Program Services			
	Non specified	Medicaid comprehen- sive	State adult supported living	Medicaid adult supported living
Fees and grants from governmental agencies				
Fees for services				
State of Colorado				
State General Fund				
Comprehensive	\$ -	\$ -	\$ -	\$ -
Adult supported living	-	-	232,155	-
Children and families	-	-	-	-
Medicaid				
Comprehensive	-	5,851,286	-	-
Adult supported living	-	-	-	838,115
Children's extensive support	-	-	-	-
Part C	-	-	-	-
ARRA	-	-	-	-
Counties and cities	15,675	-	-	-
Grants and other				
Colorado Department of Education - Vocational Rehabilitation	-	19,613	-	-
Department of Housing and Urban Development	-	6,511	-	-
Other	-	2,003	-	-
Total fees and grants from governmental agencies	<u>15,675</u>	<u>5,879,413</u>	<u>232,155</u>	<u>838,115</u>
Public support - donations	6,745	4,033	-	600
In-kind donations	-	-	-	-
Residential room and board	-	708,366	-	-
Gain on sale of assets	-	387	-	-
Other revenue	6,587	97,670	-	-
Total support and revenue	<u>\$ 29,007</u>	<u>\$ 6,689,869</u>	<u>\$ 232,155</u>	<u>\$ 838,715</u>
Expenses				
Salaries				
Direct care	\$ -	\$ 1,978,126	\$ 46,391	\$ 262,467
Other	-	929,343	28,568	108,778
Payroll taxes	-	397,636	11,003	52,854
Employee benefits	-	542,974	12,833	70,743
Total personal services	-	3,848,079	98,795	494,842

Program Services

Children's extensive support	Early interven- tion	Family support	Case manage- ment	Management and general	Total	
					2010	2009
\$ -	\$ -	\$ -	\$ 6,485	\$ 12,613	\$ 19,098	\$ 12,612
-	-	-	29,430	40,968	302,553	310,184
-	154,260	126,050	51,402	49,401	381,113	355,827
-	-	-	421,777	52,731	6,325,794	5,853,602
-	-	-	-	-	838,115	1,183,309
132,947	-	-	-	-	132,947	142,800
-	68,560	-	15,521	12,099	96,180	102,657
-	59,301	-	1,197	8,316	68,814	-
-	-	-	-	-	15,675	20,750
-	-	-	-	-	19,613	14,705
-	-	-	-	-	6,511	7,816
-	-	-	-	-	2,003	-
<u>132,947</u>	<u>282,121</u>	<u>126,050</u>	<u>525,812</u>	<u>176,128</u>	<u>8,208,416</u>	<u>8,004,262</u>
-	-	6,481	100	700	18,659	14,276
-	-	4,979	-	155	5,134	3,546
-	-	-	-	-	708,366	682,089
-	-	-	-	-	387	5,532
-	51,524	-	1,046	-	156,827	134,390
<u>\$ 132,947</u>	<u>\$ 333,645</u>	<u>\$ 137,510</u>	<u>\$ 526,958</u>	<u>\$ 176,983</u>	<u>\$ 9,097,789</u>	<u>\$ 8,844,095</u>
\$ 26,964	\$ 136,254	\$ 44,272	\$ 380,485	\$ -	\$ 2,874,959	\$ 2,886,131
-	-	-	-	439,902	1,506,591	1,393,800
2,929	10,852	3,846	31,904	35,627	546,651	619,496
1,334	26,472	14,710	62,441	64,298	795,805	789,994
<u>31,227</u>	<u>173,578</u>	<u>62,828</u>	<u>474,830</u>	<u>539,827</u>	<u>5,724,006</u>	<u>5,689,421</u>

(Continued)

Community Options, Inc.
SUMMARY OF REVENUE AND EXPENSES BY PROGRAM (CONTINUED)
Year ended June 30, 2010
(With summarized financial information for the year ended June 30, 2009)

	Program Services			
	Non specified	Medicaid comprehen- sive	State adult supported living	Medicaid adult supported living
Medical professional services				
Physicians	\$ -	\$ 97	\$ -	\$ -
Other	-	71,502	21,010	57,765
Other professional services	-	496,336	32,916	113,185
Staff development	-	7,821	402	2,146
Staff travel	-	7,898	4,264	52,508
Vehicles				
Fuel and oil	-	50,238	790	17,334
Maintenance	-	33,615	528	11,598
Leases	-	-	-	-
Occupancy				
Rent and taxes	-	171,072	862	6,836
Maintenance	-	54,845	631	4,372
Utilities	-	157,477	1,706	12,266
Equipment				
Leases	-	-	-	-
Maintenance	-	22,730	300	1,943
Supplies				
Medical and client care supplies	-	33,890	429	94
Pharmacy	-	12,439	203	18
Production materials	-	-	-	-
Other	-	65,448	853	6,576
Telephone	-	45,435	541	6,690
Dues and subscriptions	-	6,760	70	1,372
Food	-	234,877	103	780
Insurance	-	74,143	1,581	19,659
Interest	-	39,494	514	3,117
Other	-	47,618	3,145	15,670
In-kind donations	-	-	-	-
Total direct program expenses	-	5,481,814	169,643	828,771
Purchased services	-	216,534	63,519	34,976
Expenses before depreciation and amortization	-	5,698,348	233,162	863,747
Depreciation and amortization	-	181,228	2,408	24,547
Total expenses	\$ -	\$ 5,879,576	\$ 235,570	\$ 888,294

Program Services

Children's extensive support	Early interven- tion	Family support	Case manage- ment	Management and general	Total	
					2010	2009
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 97	\$ 1,467
300	71,074	10,734	-	-	232,385	217,920
66,206	13,774	14,431	2,131	28,065	767,044	848,902
111	10,173	391	455	9,348	30,847	27,054
205	8,146	947	7,158	7,523	88,649	119,683
52	2,894	2,418	2,120	4,084	79,930	84,605
35	1,937	-	1,418	2,732	51,863	46,948
-	-	-	-	-	-	-
-	-	-	-	339	179,109	179,834
57	2,750	70	2,538	2,769	68,032	107,034
-	3,148	155	6,127	4,303	185,182	185,590
-	-	-	-	1,617	1,617	1,695
7,009	435	58	3,134	6,946	42,555	37,715
-	-	6,304	-	-	40,717	33,705
-	-	-	-	-	12,660	9,730
-	-	-	-	-	-	-
136	7,430	1,671	10,388	16,835	109,337	102,193
30	2,844	30	3,502	13,547	72,619	71,921
1,156	976	54	329	36,554	47,271	44,104
-	138	-	684	2,453	239,035	240,357
145	3,785	224	4,818	5,797	110,152	100,016
86	246	106	2,491	8,560	54,614	55,258
3,376	21,876	54,532	518	16,573	163,308	166,964
-	-	4,979	-	155	5,134	3,546
110,131	325,204	159,932	522,641	708,027	8,306,163	8,375,662
-	-	-	-	-	315,029	354,835
110,131	325,204	159,932	522,641	708,027	8,621,192	8,730,497
248	3,638	259	11,233	11,707	235,268	245,144
<u>\$ 110,379</u>	<u>\$ 328,842</u>	<u>\$ 160,191</u>	<u>\$ 533,874</u>	<u>\$ 719,734</u>	<u>\$ 8,856,460</u>	<u>\$ 8,975,641</u>

(Continued)

Community Options, Inc.
SUMMARY OF REVENUE AND EXPENSES BY PROGRAM (CONTINUED)
Year ended June 30, 2010
(With summarized financial information for the year ended June 30, 2009)

	Program Services			
	Non specified	Medicaid comprehen- sive	State adult supported living	Medicaid adult supported living
Total expenses	\$ -	\$ 5,879,576	\$ 235,570	\$ 888,294
Less unallowable expenses	-	796,407	2,858	8,128
Total allowable expenses	-	5,083,169	232,712	880,166
Net allocated management and general (note A)	-	380,401	15,241	57,471
Adjusted total expenses	\$ -	\$ 5,463,570	\$ 247,953	\$ 937,637

Statistical Data (Unaudited)

1. Total days in residential used - State, Medicaid, private pay, etc.	36,659		
2. Total days in residential used - State and Medicaid only	36,659		
3. Unduplicated number of individuals	105	33	77

Cost per unit of service

Adjusted total expense/item 2	\$ 149		
Adjusted total expense/item 3		\$ 7,514	\$ 12,177

Note A:

Net management and general costs are allocated to program services based on the individual program's expense as a percentage to total program expenses.

Program Services

Children's extensive support	Early interven- tion	Family support	Case manage- ment	Management and general	Total	
					2010	2009
\$ 110,379	\$ 328,842	\$ 160,191	\$ 533,874	\$ 719,734	\$ 8,856,460	\$ 8,975,641
7	-	-	296	16,316	824,012	827,796
110,372	328,842	160,191	533,578	703,418	8,032,448	8,147,845
7,141	21,276	10,364	34,541	(526,435)	-	-
<u>\$ 117,513</u>	<u>\$ 350,118</u>	<u>\$ 170,555</u>	<u>\$ 568,119</u>	<u>\$ 176,983</u>	<u>\$ 8,032,448</u>	<u>\$ 8,147,845</u>

8 146 77 543

\$ 14,689 \$ 2,398 \$ 2,215 \$ 1,046

Community Options, Inc.
SCHEDULE OF CASE MANAGEMENT SERVICES
Year ended June 30, 2010

	Targeted case manage- ment	Other case manage- ment	Total
Fees and grants from governmental agencies			
Fees for services			
State of Colorado			
State General Fund			
Comprehensive	\$ -	\$ 6,485	\$ 6,485
Adult supported living	-	29,430	29,430
Children and families	-	51,402	51,402
Medicaid			
Comprehensive	421,777	-	421,777
Part C	-	15,521	15,521
ARRA	-	1,197	1,197
Total fees and grants from governmental agencies	421,777	104,035	525,812
Public support - donations	-	100	100
Other revenue	-	1,046	1,046
Total support and revenue	<u>\$ 421,777</u>	<u>\$ 105,181</u>	<u>\$ 526,958</u>
Expenses			
Salaries			
Direct care	\$ 303,010	\$ 77,475	\$ 380,485
Other	-	-	-
Payroll taxes	25,408	6,496	31,904
Employee benefits	49,727	12,714	62,441
Total personal services	378,145	96,685	474,830
Medical professional services			
Physicians	-	-	-
Other	-	-	-
Other professional services	1,697	434	2,131
Staff development	362	93	455
Staff travel	5,701	1,457	7,158
Vehicles			
Fuel and oil	1,688	432	2,120
Maintenance	1,129	289	1,418
Leases	-	-	-
Occupancy			
Rent	-	-	-
Maintenance	2,021	517	2,538
Utilities	4,879	1,248	6,127

(Continued)

Community Options, Inc.
SCHEDULE OF CASE MANAGEMENT SERVICES (CONTINUED)
Year ended June 30, 2010

	Targeted case manage- ment	Other case manage- ment	Total
	<u> </u>	<u> </u>	<u> </u>
Equipment			
Leases	\$ -	\$ -	\$ -
Maintenance	2,496	638	3,134
Supplies			
Medical and client care supplies	-	-	-
Pharmacy	-	-	-
Production materials	-	-	-
Other	8,273	2,115	10,388
Telephone	2,789	713	3,502
Dues and subscriptions	262	67	329
Food	545	139	684
Insurance	3,837	981	4,818
Interest	1,984	507	2,491
Other	412	106	518
In-kind donations	-	-	-
Total direct program expenses	<u>416,220</u>	<u>106,421</u>	<u>522,641</u>
Purchased services	-	-	-
Expenses before depreciation and amortization	<u>416,220</u>	<u>106,421</u>	<u>522,641</u>
Depreciation and amortization	8,946	2,287	11,233
Total expenses	<u>\$ 425,166</u>	<u>\$ 108,708</u>	<u>\$ 533,874</u>

Statistical Data (Unaudited)

Unduplicated number of individuals	285	258
Full-time equivalents	6.89	1.76

Community Options, Inc.
SCHEDULE OF ROOM AND BOARD AND OTHER UNALLOWABLE EXPENSES
Year ended June 30, 2010
(Unaudited)

	Program Services			
	Non specified	Medicaid compre- hensive	State adult supported living	Medicaid adult supported living
Salaries				
Direct care	\$ -	\$ -	\$ -	\$ -
Other	-	19,294	-	-
Payroll taxes	-	3,879	-	-
Employee benefits	-	1,659	-	-
Total personal services	-	24,832	-	-
Medical professional services				
Physicians	-	97	-	-
Other	-	-	-	-
Other professional services	-	4,532	-	-
Staff development	-	22	-	-
Staff travel	-	-	-	-
Vehicles				
Fuel and oil	-	1,265	-	-
Maintenance	-	847	-	-
Leases	-	-	-	-
Occupancy				
Rent	-	152,790	-	-
Maintenance	-	42,515	-	-
Utilities	-	124,207	-	-
Equipment				
Leases	-	-	-	-
Maintenance	-	10,260	-	-
Supplies				
Medical and client care supplies	-	-	-	-
Pharmacy	-	12,439	203	19
Production materials	-	-	-	-
Other	-	29,766	-	-
Telephone	-	444	-	-
Dues and subscriptions	-	103	-	-
Food	-	232,557	-	-
Insurance	-	7,599	-	-
Interest	-	14,549	-	-
Other	-	33,280	2,655	8,109
In-kind donations	-	-	-	-
Total direct program expenses	-	692,104	2,858	8,128
Purchased services	-	-	-	-
Expenses before depreciation and amortization	-	692,104	2,858	8,128
Depreciation and amortization	-	104,303	-	-
Total expenses	\$ -	\$ 796,407	\$ 2,858	\$ 8,128

Program Services

Children's extensive support	Early interven- tion	Family support	Case manage- ment	Management and general	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	19,294
-	-	-	-	-	3,879
-	-	-	-	-	1,659
-	-	-	-	-	24,832
-	-	-	-	-	97
-	-	-	-	-	-
-	-	-	-	1,470	6,002
-	-	-	-	-	22
-	-	-	-	-	-
-	-	-	-	-	1,265
-	-	-	-	-	847
-	-	-	-	-	-
-	-	-	-	597	153,387
-	-	-	-	-	42,515
-	-	-	-	-	124,207
-	-	-	-	-	-
-	-	-	-	-	10,260
-	-	-	-	-	-
-	-	-	-	-	12,661
-	-	-	-	-	-
-	-	-	-	-	29,766
-	-	-	-	-	444
-	-	-	-	-	103
-	-	-	-	-	232,557
-	-	-	-	-	7,599
-	-	-	-	-	14,549
7	-	-	296	14,249	58,596
-	-	-	-	-	-
7	-	-	296	16,316	719,709
-	-	-	-	-	-
7	-	-	296	16,316	719,709
-	-	-	-	-	104,303
<u>\$ 7</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 296</u>	<u>\$ 16,316</u>	<u>\$ 824,012</u>

Community Options, Inc.
 SCHEDULE OF ACCOUNTS RECEIVABLE - FEES AND GRANTS
 FROM GOVERNMENTAL AGENCIES
 June 30, 2010

State of Colorado		
Medicaid		
Comprehensive	\$	515,572
Adult supported living		129,687
Targeted case management		58,764
Children's extensive support		29,760
Quality assurance		8,847
Utilization review		2,325
Autism waiver		75
Other		1,562
Allowance for doubtful accounts		(2,404)
ARRA		6,759
Other		3,588
		<hr/>
	\$	<u>754,535</u>