

Consolidated Financial Statements and
Independent Auditor's Report

Community Options, Inc.

June 30, 2019

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	3
FINANCIAL STATEMENTS	
STATEMENT OF FINANCIAL POSITION	6
STATEMENT OF ACTIVITIES	7
STATEMENT OF FUNCTIONAL EXPENSES	8
STATEMENT OF CASH FLOWS	10
NOTES TO FINANCIAL STATEMENTS	11



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Community Options, Inc.

We have audited the accompanying financial statements of Community Options, Inc. (the Center), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board of the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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, 2019, 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.

Emphasis Matter

Note B to the financial statements discusses the going concern issues identified by the Center. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Center's 2018 financial statements, and our report dated February 5, 2019, 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, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Logan, Thomas + Johnson, LLC

Broomfield, Colorado
December 15, 2019

Financial Statements

Community Options, Inc.
STATEMENT OF FINANCIAL POSITION
June 30, 2019
(With summarized financial information as of June 30, 2018)

	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,133,784	\$ 1,478,976
Accounts receivable		
Fees and grants from governmental agencies	766,541	702,964
Workshop trade accounts	4,710	4,704
Other	23,803	17,292
Current portion of notes receivable	101,875	59,750
Prepaid expenses and other	29,035	79,742
Total current assets	2,059,748	2,343,428
Notes receivable, net of current portion	46,009	147,979
Assets held for sale	1,087,471	1,087,471
Land, buildings and equipment, net	3,202,037	3,425,037
Total assets	\$ 6,395,265	\$ 7,003,915
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 782,822	\$ 1,025,978
Current portion of note payable	756,345	43,056
Current portion of bonds payable	29,560	27,920
Total current liabilities	1,568,727	1,096,954
Obligation under interest rate swap	35,444	31,277
Long-term debt, net of current portion		
Note payable	647,360	1,404,472
Bonds payable, net of unamortized bond costs	267,140	294,472
Total liabilities	2,518,671	2,827,175
Net assets		
Without donor restrictions		
Net investment in land, buildings and equipment	2,589,103	2,742,588
Undesignated	1,225,832	1,350,230
Total without donor restrictions	3,814,935	4,092,818
With donor restrictions	61,659	83,922
Total net assets	3,876,594	4,176,740
Total liabilities and net assets	\$ 6,395,265	\$ 7,003,915

The accompanying notes are an integral part of this statement.

Community Options, Inc.
STATEMENT OF ACTIVITIES
Year ended June 30, 2019

(With summarized financial information for the year ended June 30, 2018)

	Without donor restrictions	With donor restrictions	Total	
			2019	2018
Revenues and support				
Fees and grants from governmental agencies				
Fees for services				
State of Colorado				
State General Fund	\$ 788,490	\$ -	\$ 788,490	\$ 737,073
Medicaid	6,279,947	-	6,279,947	6,414,494
Counties and cities	9,000	-	9,000	12,500
Grants and other				
Colorado Department of Education - Vocational Rehabilitation	31,415	-	31,415	22,582
Department of Housing and Urban Development Part C	4,035	-	4,035	491
	-	-	-	46,697
Total fees and grants from governmental agencies	7,112,887	-	7,112,887	7,233,837
Public support - contributions	74,171	20,965	95,136	90,270
In-kind contributions	5,005	-	5,005	2,700
Residential room and board	688,177	-	688,177	687,759
Gain on sale of assets	18,850	-	18,850	40,683
Other revenue	174,375	-	174,375	165,460
Net assets released from restrictions				
Satisfaction of program restrictions	43,228	(43,228)	-	-
Total revenues and support	8,116,693	(22,263)	8,094,430	8,220,709
Expenses				
Program services				
Medicaid comprehensive	5,464,161	-	5,464,161	5,626,376
State adult supported living	185,896	-	185,896	179,120
Medicaid adult supported living	888,261	-	888,261	741,270
Children's extensive support	59,612	-	59,612	103,450
Early intervention	320,562	-	320,562	405,344
Family support	110,475	-	110,475	109,049
Case management	590,802	-	590,802	580,403
Total program services	7,619,769	-	7,619,769	7,745,012
Supporting services				
Management and general	774,807	-	774,807	886,731
Total expenses	8,394,576	-	8,394,576	8,631,743
CHANGE IN NET ASSETS	(277,883)	(22,263)	(300,146)	(411,034)
Net assets, beginning of year	4,092,818	83,922	4,176,740	4,587,774
Net assets, end of year	<u>\$ 3,814,935</u>	<u>\$ 61,659</u>	<u>\$ 3,876,594</u>	<u>\$ 4,176,740</u>

The accompanying notes are an integral part of this statement.

Community Options, Inc.
STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2019

(With summarized financial information for the year ended June 30, 2018)

	Program Services			
	Medicaid comprehen- sive	State adult supported living	Medicaid adult supported living	Children's extensive support
Expenses				
Salaries, benefits and taxes	\$ 3,676,924	\$ 89,699	\$ 656,927	\$ 47,101
Professional services	440,597	6,788	64,211	7,204
Staff development and travel	13,081	242	1,365	93
Vehicles	105,670	3,302	41,929	1,411
Occupancy	343,295	2,317	16,146	188
Supplies and equipment	128,628	5,072	6,794	406
Food	260,285	228	1,778	-
Telephone	61,127	1,148	10,056	290
Insurance	101,152	3,301	29,045	1,713
Interest	64,855	2,412	16,234	355
Other expense	34,314	919	5,485	496
In-kind contributions	-	-	-	-
Purchased services	-	66,741	-	-
Depreciation	234,233	3,727	38,291	355
Total expenses	<u>\$ 5,464,161</u>	<u>\$ 185,896</u>	<u>\$ 888,261</u>	<u>\$ 59,612</u>

The accompanying notes are an integral part of this statement.

Program Services

Early interven- tion	Family support	Case manage- ment	Management and general	Total	
				2019	2018
\$ 66,001	\$ -	\$ 534,470	\$ 566,804	\$ 5,637,926	\$ 5,535,746
229,100	69,965	3,365	79,369	900,599	964,077
2,027	-	9,206	13,207	39,221	37,735
2,358	1,091	819	7,805	164,385	123,462
4,316	-	8,115	8,063	382,440	389,956
3,957	15,803	9,234	21,675	191,569	222,155
617	-	1,816	1,398	266,122	272,033
3,348	-	4,342	3,987	84,298	85,371
5,269	-	10,227	16,843	167,550	147,146
735	-	2,456	4,717	91,764	67,590
1,353	23,616	4,520	39,274	109,977	151,398
-	-	-	5,005	5,005	2,700
-	-	-	-	66,741	347,415
1,481	-	2,232	6,660	286,979	284,959
<u>\$ 320,562</u>	<u>\$ 110,475</u>	<u>\$ 590,802</u>	<u>\$ 774,807</u>	<u>\$ 8,394,576</u>	<u>\$ 8,631,743</u>

The accompanying notes are an integral part of this statement.

Community Options, Inc.
STATEMENT OF CASH FLOWS
Year ended June 30, 2019
(With summarized financial information for the year ended June 30, 2018)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Change in net assets	\$ (300,146)	\$ (411,034)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	288,167	286,146
Gain on sale of assets	(18,850)	(40,683)
Contributions restricted for purchase of long-term capital assets	-	(80,366)
Change in assets and liabilities		
(Increase) decrease in accounts receivable	(70,094)	285,101
Decrease in pledges receivable	-	19,250
Decrease in prepaid expenses and other	50,707	17,439
Decrease in accounts payable and accrued expenses	(243,156)	(26,028)
Increase (decrease) in obligation under interest rate swap	4,167	(16,704)
Net cash provided by (used in) operating activities	<u>(289,205)</u>	<u>33,121</u>
Cash flows from investing activities		
Purchase of land, buildings and equipment	(63,979)	(420,696)
Contributions restricted for purchase of long-term capital assets	-	(80,366)
Proceeds from sale of assets	18,850	26,551
Collection on notes receivable	59,845	54,735
Net cash provided by (used in) investing activities	<u>14,716</u>	<u>(419,776)</u>
Cash flows from financing activities		
Contributions restricted for purchase of long-term capital assets	-	80,366
Payments on bonds payable	(26,880)	(28,470)
Payments on note payable	(43,823)	(42,713)
Net cash provided by (used in) financing activities	<u>(70,703)</u>	<u>9,183</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(345,192)</u>	<u>(377,472)</u>
Cash and cash equivalents, beginning of year	<u>1,478,976</u>	<u>1,856,448</u>
Cash and cash equivalents, end of year	<u>\$ 1,133,784</u>	<u>\$ 1,478,976</u>
Supplemental data		
Cash paid for interest	\$ 86,409	\$ 83,107
Cash paid for taxes	1,283	1,740
Noncash investing and financing activities		
Notes receivable issued for sale of capital assets	-	56,000

The accompanying notes are an integral part of this statement.

Community Options, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

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

This description of Community Options, 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*

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

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

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

Community Options, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

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

2. *Description of Services Provided (Continued)*

Program Services or Supports (Continued)

behaviors and/or coexisting medical conditions. Available services include personal assistance, household modification, specialized medical equipment and supplies, professional services, and community connection services.

Early Intervention is for children from birth through age two which offer infants and toddlers and their families, services and supports to enhance child development in the areas of cognition, speech, communication, physical, motor, vision, hearing, social-emotional development, and self-help skills; parent-child or family interaction; and early identification, screening and assessment services.

Family Support provides an array of supportive services to the person with a developmental disability and his/her family when the person remains within the family home, thereby preventing or delaying the need for out-of-home placement 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 IP, and the evaluation of results identified in the IP.

Supporting Services

Management and General includes those activities necessary for planning, coordination and overall direction of the 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 revenues 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, support and expenses during the reporting period. Actual results could differ from those estimates.

Community Options, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

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

5. *Cash and Cash Equivalents*

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

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 believes all receivables are collectible and that no allowance for doubtful accounts is necessary. The Center writes off accounts receivable when they become uncollectible. Payments subsequently received on such receivables, if any, are recorded as other revenue.

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

Land, buildings and equipment are reported at cost for purchased assets and estimated fair value, at date of receipt, for donated property. Any asset purchased for \$1,000 or more that has a life expectancy of more than two years is capitalized. Assets held for sale are not depreciated. Depreciation is 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

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

Community Options, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

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

8. *Derivative Financial Instruments (Continued)*

transactions, but the cash requirements and amounts subject to credit risk are substantially less. The fair value of the swap is recorded as a receivable or payable on the statement of financial position and changes in fair value are recognized as either an increase or decrease in interest expense.

9. *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.

10. *In-kind Contributions*

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

11. *Revenue Recognition*

The Center adopted ASU 2014-09, along with all subsequent related ASUs impacting revenue from contracts with customers (collectively, “the new revenue recognition standard”), effective July 1, 2018, using the modified retrospective method of adoption. The Center has applied the new revenue recognition standard for the year ended June 30, 2019. There was no cumulative effect of initially applying the new accounting to all contracts recognized on July 1, 2018. The Center meets performance obligations and records revenue for contracts as earned based on service dates. Services are typically contracted based on fixed fees for various types of services and dates of service.

Community Options, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

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

12. *Bond Issuance Costs*

Bond issuance costs are deferred and amortized to interest expense over the term of the respective bond using the straight-line method, which approximates the effective interest method.

13. *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 15, 2019, the date on which the financial statements were issued. Other than the transactions disclosed in Note O, the Center did not identify any events or transactions that would have a material impact on the financial statements.

14. *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, 2019. 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, 2016.

Interest income derived from the Center's notes receivable are considered unrelated business income, which may be subject to federal tax. The Center estimates taxes due for unrelated business income tax will approximate \$1,035. For the year ended June 30, 2019, the Center paid \$1,283 for unrelated business income tax on interest income earned as of June 30, 2018, but no amounts were paid or accrued for current year activity.

15. *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, square footage of the office and other methods.

Community Options, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

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

16. *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.

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.

Community Options, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

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

17. *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, 2018, from which the summarized information was derived. Certain financial information as of and for the year ended June 30, 2018 has been reclassified to conform with the presentation for the current year.

18. *Recent Accounting Pronouncements*

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. For the year ended June 30, 2019, the Center has implemented ASU No. 2016-14 and has adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented and no adjustments were needed to the financial statements.

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 modified 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, 2017. The Center has implemented ASU 2014-09. There was no effect 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

Community Options, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

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

18. *Recent Accounting Pronouncements (Continued)*

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. 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. This ASU will be effective for fiscal years beginning after December 15, 2018. Earlier adoption is permitted. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied. The Center is in the process of evaluating the impact of this new guidance.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU clarify and improve the scope and the accounting guidance for contributions received and contributions made. The ASU will be effective for all entities that have issued, or is a conduit bond obligor for, securities that are traded, listed or quoted on an exchange or an over-the-counter market services as a resource recipient, for fiscal years beginning after December 15, 2018. The ASU will be effective for all entities that have not issued or is a conduit bond obligor for securities that are traded, listed or quoted on an exchange or an over-the-counter market services as a resource provider, for fiscal years beginning after December 15, 2019. The Center is in the process of evaluating the impact of this new guidance.

Community Options, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE B – GOING CONCERN

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 205-40, *Presentation of Financial Statements – Going Concern* (ASC 205-40) requires management to assess the Center’s ability to continue as a going concern for one year after the date the financial statements are issued. As required by this standard, management’s evaluation shall not take into consideration the potential mitigating effects of management’s plans that have not been fully implemented as of the financial statement issuance date.

Financial Condition

In performing this assessment, management has concluded that the following conditions raise substantial doubt about the Center’s ability to meet its financial obligations as they become due. The Center has experienced significant operational losses in the last few years which resulted in the Center failing to comply with debt covenants. Management believes those losses primarily relate to loss of enrollment slots due to changes in State wait list allocations, inadequate program funding for services provided, increases in wages due to minimum wage increases and substantial increases in health insurance costs. The Center has experienced losses of (\$300,146) for fiscal year 2019 and (\$411,034) for fiscal year 2018. As of June 30, 2019, the Center had cash and cash equivalents of \$1,133,784 available to fund operations and debt service costs and working capital of \$491,021. For the year ended June 30, 2019, the Center had used cash in operating activities of (\$289,205) and total change in cash of (\$345,192). The Center does not have adequate cash flow to meet debt maturities due in fiscal year 2020 and has failed to comply with the debt coverage ratio covenant for the year ended June 30, 2019.

Management’s Evaluation of Financial Condition and Center’s Ability to Meet Obligations

The Center is moving to a self-insured health insurance plan in an effort to reduce those costs and is working with the State of Colorado to address current funding issues. The Center has notes payable with substantial balloon payments maturing in fiscal year 2020 and 2021 for which the Center does not have adequate operational cash flows to meet those obligations. The Center is working with their financial institution to restructure debt obligations. In an effort to manage obligations, the Center will not renew their \$350,000 line of credit when it matures. The Center has identified one property that is no longer needed for operations which the Center anticipates selling during fiscal year 2020. In addition, one note receivable will mature during fiscal year 2020. Proceeds from these activities will be applied to the debt obligation and plans are in process to refinance the obligations maturing in fiscal years 2020 and 2021. As disclosed in Note O, the Center will discontinue select services effective December 31, 2019 and reduce staff accordingly.

Management’s Evaluation of Plans to Mitigate Conditions Raising Substantial Doubt

In performing the next step of this assessment, management is required to evaluate whether plans to mitigate the conditions above alleviate the substantial doubt about the Center’s

Community Options, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE B – GOING CONCERN (CONTINUED)

Management’s Evaluation of Plans to Mitigate Conditions Raising Substantial Doubt (Continued)

ability to meet its obligations as they become due within one year after the date that the financial statements are issued. The Center’s ability to continue as a going concern will require it to generate positive cash flow from operations, restructure current financing obligations, and/or sell assets. The current lack of cash resources may result in the Center’s potential inability to continue as a going concern. The sources of working capital and restructuring of debt are not currently assured, and consequently do not sufficiently mitigate the risks and uncertainties disclosed above. Management therefore concluded there is substantial doubt about the Center’s ability to continue as a going concern through December 15, 2020.

The accompanying financial statements have been prepared on a going-concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The accompanying financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from uncertainty related to the Center’s ability to continue as a going concern.

NOTE C – 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	\$ 1,133,784
Accounts receivable	795,054
Notes receivable	<u>101,875</u>
	<u>\$ 2,030,713</u>

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 committed lines of credit in the amount of \$350,000 and \$20,000 which it could draw upon. See Note H for details on the lines of credit.

NOTE D – NOTES RECEIVABLE

On March 23, 2015, the Center received a promissory note for \$497,500 for the sale of land and property with monthly principal and interest installments of \$5,037 plus additional payments of \$100,000 on March 23, 2016 and March 23, 2017, and a maturity date of March 23, 2020. The interest rate is 4.0%. The note is secured by a deed of trust for the land and property sold. The outstanding balance at June 30, 2019 is \$97,233.

Community Options, Inc.
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2019

NOTE D – NOTES RECEIVABLE (CONTINUED)

On February 9, 2018, the Center received a promissory note for \$56,000 for the sale of land and property with monthly principal and interest installments of \$608 and a balloon payment at the maturity date of February 9, 2021. The interest rate is 5.5%. The note is secured by a deed of trust for the land and property sold. The outstanding balance at June 30, 2019 is \$50,651.

Future maturities under the note receivable are as follows:

Year ending June 30,	
2020	\$ 101,875
2021	<u>46,009</u>
	147,884
Less current portion	<u>101,875</u>
	\$ <u>46,009</u>

NOTE E – LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consists of the following at June 30, 2019:

Buildings and improvements	\$ 5,305,014
Administrative equipment	262,082
Program equipment	147,168
Transportation equipment	<u>1,135,133</u>
	6,849,397
Less accumulated depreciation	<u>4,251,965</u>
	2,597,432
Land	<u>604,605</u>
	\$ <u>3,202,037</u>

Depreciation expense was \$286,979 for the year ended June 30, 2019.

NOTE F – LONG-TERM DEBT

Notes Payable

Notes payable consist of the following at June 30, 2019:

5.90% rate note dated August 26, 2013, payments of principal and interest of \$1,320 are due monthly, maturing on July 15, 2029. Collateralized by the land and property. (1)	\$ 120,399
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Community Options, Inc.
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2019

NOTE F – LONG-TERM DEBT (CONTINUED)

Notes Payable (Continued)

4.50% rate note dated March 23, 2015, payments of principal and interest of \$4,560 are due monthly with a balloon payment at maturity, maturing on March 25, 2020. Collateralized by the land and property. (1)	\$ 733,364
4.70% rate note dated October 28, 2015, payments of principal and interest of \$1,399 are due monthly with a balloon payment at maturity, maturing on October 30, 2020. Collateralized by the land and property. (1)	224,644
Note dated November 9, 2015, payments of principal and interest beginning December 30, 2015 for 12 months of \$1,508 with an interest rate of 1.98% followed by 107 monthly principal and interest payments of \$2,182 at an interest rate of 5.55% and matures with a balloon payment on November 30, 2025. The note is collateralized by land and property. (1)	<u>325,298</u>
	1,403,705
Less current portion	<u>756,345</u>
	\$ <u>647,360</u>

(1) The loan contains covenants that require a debt coverage ratio at the end of each year not less than 1.0 to 1.0 and audited financial statements to be issued not later than 168 days after year end. The Center received a waiver for noncompliance with the debt coverage ratio covenant as of June 30, 2019.

Interest expense for notes payable for the year ended June 30, 2019 was \$68,325. Future maturities under the notes payable are as follows:

Year ending June 30,	
2020	\$ 756,345
2021	236,508
2022	19,034
2023	20,170
2024	21,318
Thereafter	<u>350,330</u>
	\$ <u>1,403,705</u>

Bonds Payable

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

Community Options, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE F – LONG-TERM DEBT (CONTINUED)

Bonds Payable (Continued)

the amount of \$550,000. The bonds, including the loan agreement, were subsequently purchased by a bank. 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 2.92% as of June 30, 2019. The 2007 Bonds are collateralized by a Deed of Trust on the Center's administrative building. The outstanding balance on bonds payable was \$306,600 as of June 30, 2019.

Interest expense for bonds payable for the year ended June 30, 2019 was \$18,084.

The loan agreement contains a covenant that requires audited financial statements to be issued not later than 168 days after year-end, which the Center met.

The Center's deferred bond costs associated with the issuance of the 2007 Bonds totaled \$23,759 and are being amortized over the life of the bonds. Deferred bond costs at June 30, 2019, net of accumulated amortization, are \$9,900. Amortization on the deferred loan costs for the year ended June 30, 2019 was \$1,188 and is recorded in interest expense. Deferred bond costs are amortized at \$1,188 per year.

Future maturities under bonds payable are as follows:

Year ending June 30,	
2020	\$ 29,560
2021	31,240
2022	33,080
2023	35,000
2024	37,080
Thereafter	<u>140,640</u>
	306,600
Less deferred bond costs	9,900
Less current portion	<u>29,560</u>
	\$ <u>267,140</u>

NOTE G – 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, 2019, the Center has outstanding one interest rate swap agreement with a commercial bank having a total notional amount of \$361,950. The agreement effectively changes the Center's interest rate exposure on its outstanding bonds to a fixed rate of 5.13%. The interest expense incurred with the interest rate swap agreement was \$4,167 for the year ended June 30, 2019. The interest rate swap

Community Options, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE G – INTEREST RATE SWAP AGREEMENT (CONTINUED)

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, 2019 was an obligation of \$35,444.

NOTE H – LINES OF CREDIT

The Center maintains a line of credit with a financial institution which allows for advances up to \$350,000 bearing interest at a rate of 0.510 percentage points over the financial institution's Prime Rate (prime was 5.50% at June 30, 2019) with a floor rate of 5.00%. As of June 30, 2019, the rate totaled 6.01% and there was no balance outstanding on the line of credit. The line matures on January 28, 2020. The line of credit is secured by all personal property, inventory, accounts, equipment and fixtures. The line of credit contains covenants that require a debt coverage ratio at the end of each year not less than 1.0 to 1.0 and audited financial statements to be issued not later than 168 days after year end. The Center received a waiver for noncompliance with the debt coverage ratio covenant as of June 30, 2019.

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 8.00% at June 30, 2019). There was no balance outstanding on the line of credit as of June 30, 2019.

NOTE I – LEASES

The Center conducts a portion of its operations from leased facilities under operating lease arrangements. The Center leases housing under operating leases that are currently on a month-to-month basis. The Center also leases a building under an operating lease with noncancelable future minimum rental payments for the year ended June 30, 2020 of \$5,000 at June 30, 2019. Total rent expense year ended June 30, 2019 was \$140,899 which includes \$79,309 for host home contract allocation and \$61,590 for operating leases.

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, telephone, depreciation, insurance, utilities, postage, host home contract costs, and interest which are allocated on the basis of usage studies, square footage and other methods.

Community Options, Inc.
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2019

NOTE K – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following purpose-restricted amounts as of June 30, 2019:

Medicaid comprehensive	\$ 26,685
Management and general	22,410
Buildings and building improvements	11,209
Family support	222
Case management	487
Early intervention	<u>646</u>
	\$ <u>61,659</u>

NOTE L – RELATED PARTY TRANSACTIONS

The Center receives a substantial amount of revenue from the State of Colorado. The amount of receivables the Center has from the State of Colorado is \$760,246 as of June 30, 2019. 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.

One of the Center’s board members is a realtor who is currently listing two properties for sale on behalf of the Center. The Board member does not participate in any voting or decision making related to the Center’s realty transactions to which they are involved.

NOTE M – 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, 2019:

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial liability:				
Interest rate swap	\$ 35,444	\$ -	\$ -	\$ 35,444

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 0.3% to 4.0% based on number of years to maturity. The valuation is a fair value estimate based on discounted cash flows derived from the proprietary model of the counterparty based

Community Options, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE M – FAIR VALUE MEASUREMENTS (CONTINUED)

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. Changes in fair value are reported in interest expense. The total changes in fair value of \$4,167 was recorded as interest expense as of June 30, 2019.

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

Balance, July 01, 2018	\$ 31,277
Change in fair value	<u>4,167</u>
Balance, June 30, 2019	<u>\$ 35,444</u>

NOTE N – CONTINGENCIES

The Center is contingently liable to the Daniels Fund for the \$90,000 of funding received for the facilities located at Park Place. The funding agreement provides that as long as the facility is used and managed by the Center for their exempt purpose and as described in the grant agreement, title of the property is not transferred, and the Center complies with the terms and conditions of the grant through May 31, 2028, the Center will not be required to repay any portion of the grant.

NOTE O – SUBSEQUENT EVENTS

On December 10, 2019, the Center entered into agreements to establish the Community Options Medical Benefits Plan (the Plan) for the purpose of providing certain group-health plan benefits to eligible participants effective January 1, 2020. The Center will be the Plan sponsor. The Plan will provide a contract to be self-insured. There is also an agreement with a third-party administrator (TPA) which will automatically renew on a yearly basis. However, the TPA agreement may be terminated by any of the parties to the agreement with 30 days prior written notice to the other parties.

Effective December 31, 2019, the Center will relinquish its Home Care Agency Class B license which eliminates related services for which rates are not adequate to cover the cost of providing those services. In addition, staff and management positions related to those services were also eliminated.