



Consolidated Financial Statements
June 30, 2016

Developmental Pathways, Inc. and Affiliates

Developmental Pathways, Inc. and Affiliates

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Independent Auditor's Report

To the Board of Directors
Developmental Pathways, Inc. and Affiliates
Englewood, Colorado

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Developmental Pathways, Inc. and Affiliates, which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements (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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller general of the United States. 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 Developmental Pathways, Inc. and Affiliates as of June 30, 2016, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated December 13, 2016 on our consideration of Developmental Pathways, Inc. and Affiliates' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That reports is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Developmental Pathways, Inc. and Affiliates' internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Eric Bailly LLP". The signature is written in a cursive, flowing style.

Golden, Colorado
December 13, 2016

Developmental Pathways, Inc. and Affiliates
Consolidated Statement of Financial Position
June 30, 2016

Assets	
Cash and cash equivalents	\$ 13,694,404
Investments	10,175,594
Accounts receivable, net	4,434,405
Prepaid expenses and other assets	464,658
Cash surrender value of life insurance	237,597
Property held for sale	879,373
Restricted deposits and replacement reserve	287,617
Property and equipment, net	10,461,739
Endowment investments	987,673
Total assets	<u>\$ 41,623,060</u>
Liabilities and Net Assets	
Accounts payable and accrued liabilities	\$ 3,664,938
Deferred revenue	3,267,991
Capital lease obligations	356,867
Total liabilities	<u>7,289,796</u>
Net Assets	
Unrestricted	
Undesignated	21,876,741
Board designated	1,224,473
Invested in property and equipment, net of related debt	10,104,872
	<u>33,206,086</u>
Temporarily restricted	219,216
Permanently restricted	907,962
Total net assets	<u>34,333,264</u>
Total liabilities and net assets	<u>\$ 41,623,060</u>

Developmental Pathways, Inc. and Affiliates
Consolidated Statement of Activities
Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Support and Gains				
State of Colorado - Medicaid	\$ 17,574,952	\$ -	\$ -	\$ 17,574,952
State of Colorado - other	12,494,473	-	-	12,494,473
Mill levy	12,861,032	-	-	12,861,032
Service fees and other program income	3,484,537	-	-	3,484,537
Contributions	91,849	163,145	45,554	300,548
Net special events revenue	58,771	-	-	58,771
Net investment return	179,810	6,257	-	186,067
Net assets released from restrictions	136,831	(136,831)	-	-
Total revenue, support and gains	46,882,255	32,571	45,554	46,960,380
Expenses and Losses				
Program services				
Case management	5,394,207	-	-	5,394,207
Residential and support services	30,619,418	-	-	30,619,418
Quality assurance	255,003	-	-	255,003
Management and construction services	129,599	-	-	129,599
Total program services	36,398,227	-	-	36,398,227
Supporting services				
Management and general	7,507,054	-	-	7,507,054
Fundraising and development	96,423	-	-	96,423
Total supporting services	7,603,477	-	-	7,603,477
Total expenses	44,001,704	-	-	44,001,704
Loss on disposal of equipment	161,581	-	-	161,581
Total expenses and losses	44,163,285	-	-	44,163,285
Change in Net Assets	2,718,970	32,571	45,554	2,797,095
Net Assets, Beginning of Year	30,487,116	186,645	862,408	31,536,169
Net Assets, End of Year	\$ 33,206,086	\$ 219,216	\$ 907,962	\$ 34,333,264

Developmental Pathways, Inc. and Affiliates
Consolidated Statement of Functional Expenses
Year Ended June 30, 2016

	Program services					Supporting services			
	Case management	Residential and support services	Quality assurance	Management and construction services	Total	Management and general	Fundraising and development	Cost of direct benefits to donors	Total
Salaries, benefits, and taxes	\$ 4,812,482	\$ 15,796,791	\$ 240,756	\$ 27,212	\$ 20,877,241	\$ 4,349,333	\$ -	\$ -	\$ 25,226,574
Professional services	346,622	9,953,744	9,277	18,772	10,328,415	756,043	73,040	-	11,157,498
Staff development and travel	105,191	274,005	1,417	4,177	384,790	138,908	1,606	-	525,304
Occupancy	-	709,302	-	21,140	730,442	295,644	-	-	1,026,086
Dues and subscriptions	-	36,708	-	732	37,440	53,019	715	-	91,174
Office expenses	9,026	263,358	843	5,604	278,831	376,114	419	-	655,364
Insurance	-	126,245	-	4,314	130,559	165,729	-	-	296,288
Information technology	95,063	224,978	2,078	3,643	325,762	139,279	-	-	465,041
Interest	-	11,505	-	-	11,505	2,473	-	-	13,978
Maintenance	-	404,288	-	1,685	405,973	217,389	-	-	623,362
Client assistance and activities	-	2,087,631	-	-	2,087,631	-	-	-	2,087,631
Depreciation and amortization	-	427,718	-	598	428,316	778,050	-	-	1,206,366
Other	25,823	303,145	632	41,722	371,322	249,815	20,643	68,750	710,530
	<u>5,394,207</u>	<u>30,619,418</u>	<u>255,003</u>	<u>129,599</u>	<u>36,398,227</u>	<u>7,521,796</u>	<u>96,423</u>	<u>68,750</u>	<u>44,085,196</u>
Less expenses included with revenues on the statement of activities									
Cost of direct benefits to donors	-	-	-	-	-	-	-	(68,750)	(68,750)
Investment management fees	-	-	-	-	-	(14,742)	-	-	(14,742)
Total expenses included in the expense section on the statement of activities	<u>\$ 5,394,207</u>	<u>\$ 30,619,418</u>	<u>\$ 255,003</u>	<u>\$ 129,599</u>	<u>\$ 36,398,227</u>	<u>\$ 7,507,054</u>	<u>\$ 96,423</u>	<u>\$ -</u>	<u>\$ 44,001,704</u>

Developmental Pathways, Inc. and Affiliates
Consolidated Statement of Cash Flows
Year Ended June 30, 2016

Cash Flows from Operating Activities	
Change in net assets	\$ 2,797,096
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation and amortization	1,206,366
Realized and unrealized loss on investments	84,632
Loss on disposal of equipment	161,581
Cash surrender value of life insurance	(78,048)
Contributions restricted to endowment	(45,554)
Endowment net investment return	(6,257)
Changes in operating assets and liabilities	
Accounts receivable, net	119,517
Prepaid expenses and other assets	(76,136)
Accounts payable and accrued liabilities	213,157
Deferred revenue	159,217
Net Cash from Operating Activities	<u>4,535,571</u>
Cash Flows used for Investing Activities	
Purchases of investments	(3,104,290)
Proceeds from sales of investments	1,474,880
Purchases of property and equipment	(1,035,915)
Proceeds from sale of equipment	3,200
Addition to restricted deposits and replacement reserve	(15,466)
Addition to endowment	(45,554)
Net Cash used for Investing Activities	<u>(2,723,145)</u>
Cash Flows used for Financing Activities	
Collections of contributions restricted to endowment	45,554
Principal payments on capital leases	(90,939)
Net Cash used for Financing Activities	<u>(45,385)</u>
Net Change in Cash and Cash Equivalents	1,767,041
Cash and Cash Equivalents, Beginning of Year	11,927,363
Cash and Cash Equivalents, End of Year	<u><u>\$ 13,694,404</u></u>
Supplemental Disclosure of Cash Flow Information	
Cash paid during the year for interest	<u><u>\$ 13,978</u></u>
Supplemental Disclosure of Non-cash Investing and Financing Activity	
Accounts payable for property and equipment	\$ 144,000
Vehicles financed through capital lease arrangements	232,122
	<u><u>\$ 376,122</u></u>

Note 1 - Principal Activities and Significant Accounting Policies

Organization

Developmental Pathways, Inc. (DPI) is a Colorado nonprofit agency created to serve persons with developmental disabilities and their families. Formed in 1964 as a community-based alternative to institutional care, DPI provides a broad array of services based on the principle that full inclusion and participation in community life is attainable for every individual with a developmental disability. DPI serves citizens of Arapahoe and Douglas Counties, and that portion of Adams County within the city limits of Aurora.

We enrich the lives of people with developmental disabilities/delays by partnering to provide expertise, support, and advocacy in their pursuit of a meaningful life. We foster choice and independence by collaborating with individuals and their families to provide high-quality lifetime supports that will empower them to thrive in the community.

We are one of 20 Colorado Community Centered Boards (CCBs) established by state statute in 1963. The role of a CCB is to be responsible for community services for children with developmental disabilities and/or delays in their development, and for adults with developmental disabilities.

We conduct our activities in cooperation with, and assistance from, our affiliated organizations: Developmental Pathways Housing Corporations I, II and III, Continuum of Colorado, Inc., Nonprofit Management Services of Colorado, and SUN Foundation. These consolidated financial statements include the accounts of the affiliates. All significant intercompany accounts and transactions have been eliminated in consolidation. Unless otherwise noted, the consolidated entity is hereinafter referred to as “Pathways,” “we,” “us,” and “our.”

Our primary service areas include the following:

Case Management

As a CCB, we determine eligibility for state and Medicaid-waiver funded programs, and provide services for persons with developmental disabilities in our service area. Services within each type of program are available to eligible, enrolled individuals based upon the identification and prioritization of individual needs. Services to address the identified needs are purchased from approved contractors and program-approved service agencies, using program funds available and as authorized through each individual’s plan.

Residential and Support Services

This program is comprised of a variety of specific services targeting the full spectrum of needs encountered by the individuals in our programs, and their families:

- Early Intervention
- Children with Autism
- Children’s Extensive Support
- Family Support
- Adult Support Living and Residential
- Community Integrated Employment Services
- Community Outreach and Support of Families Waiting for Services

Early Intervention

Our Early Intervention program serves families with a child under three years old who has a significant delay in their development and/or a qualifying diagnosis. We partner with our local school districts to determine eligibility for the program and then deliver services in the child's home. We also provide assistance to connect the family to funding and providers of the needed services.

Children with Autism

The Home and Community Based Services Waiver for Children with Autism is for children with a medical diagnosis of Autism, and provides intensive behavioral supports and services to those children. The Autism Waiver allows access to Medicaid services for children who may not otherwise qualify for Medicaid State Plan Benefits, and it also provides funding for the purchase of specific services not covered under the Medicaid State Plan.

Children's Extensive Support

Children's Extensive Support (CES) services are provided through the Medicaid Home and Community Based Services Waiver for children with the most challenging developmental disabilities. The CES Waiver allows children who may not otherwise qualify for Medicaid State Plan Benefits to access Medicaid services. Children continue to reside in the community with their family. The services allowed include personal assistance with daily living, respite, homemaking skills, day services, assistive technology, home modification, professional services, transportation and emergency assistance.

Family Support

This state funded program provides individualized supports to families caring for a family member with developmental disabilities/delays, including connecting them with resources and providing limited financial assistance.

Adult Supported Living

This program provides a variety of services and supports for adults living in their own homes, or with family in the community. The services allowed include personal assistance with daily living, homemaking skills, employment, day services, assistive technology, home modification, professional services, transportation and emergency assistance.

Adult Residential

Adult Residential Services provides living options in settings that include group homes, host homes, and apartment homes, together with 24/7 support designed for each individual according to their needs.

Community Integrated Employment Services

This program provides customized support to enable an individual to secure and maintain employment in the community. Employment Services may be available both for adults enrolled in another program, or those on waiting lists for services.

Community Outreach and Support of Families Waiting for Services

This program provides information and support to individuals and families waiting for state or federally-funded services, and helps bridge the gap until such time as funding becomes available.

Quality Assurance

We have developed an extensive quality assurance program to ensure compliance with state rules and regulations, but more importantly, to ensure that all individuals we serve receive the highest levels of attention and care, and are treated with dignity, respect, and compassion. In addition to extensive and ongoing staff training, we actively track our program approved service agency (PASA) performance outcomes, and adjust our systems, procedures and controls as needed. We have a Human Rights Committee comprised of independent third-party experts and family member volunteers who meet monthly to review investigation results, psychotropic medication usage, rights suspensions, restrictive programming, and other matters as required under state regulations.

Management and Construction Services

We provide a foundation of financial, administration, construction, and maintenance services and solutions to community organizations and individuals, empowering the organizations to focus on their core activities, and the individuals to receive prompt services and home improvements that increase the quality of their lives.

Cash and Cash Equivalents

We consider all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to capital expenditures, permanent endowment, or other long-term purposes are excluded from this definition.

Investments

We record investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statement of financial position. Net investment return is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment management and custodial fees.

Receivables and Credit Policy

Accounts receivable consist primarily of amounts due from the State of Colorado for services provided to individuals under Medicaid. We determine the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable. At June 30, 2016, the allowance is \$140,684.

Property Held for Sale

Property held for sale is carried at net book value; depreciation of the assets has been suspended.

Restricted Deposits and Replacement Reserve

These funds represent reserves for improvements and replacements for our housing projects that are restricted as to their use and require approval of HUD prior to expenditure.

Property and Equipment

We record property and equipment additions over \$5,000 at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from three to forty years, or in the case of capitalized leased assets, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

We review carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended June 30, 2016.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets available for use in general operations. Unrestricted board-designated net assets consist of net assets designated by the Board of Directors for identified needs.

Temporarily Restricted Net Assets – Net assets subject to donor restrictions that may or will be met by expenditures, our actions, and/or the passage of time, and income earned on permanently restricted net assets that has not yet been appropriated for expenditure by the Board of Directors. We report contributions as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets – Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by our actions. The restrictions stipulate that resources be maintained permanently but permit us to expend the income generated in accordance with the provisions of the agreements.

Revenue Recognition

Revenue is recognized when earned. Amounts received in advance of performance of the underlying services are deferred to the period in which the services are performed. Our revenue consists primarily of funds received from the State of Colorado for Medicaid and other services, proceeds from mill levies in Douglas and Arapahoe Counties, miscellaneous smaller grants and awards from federal, state, county and municipal sources, and rental income from housing projects. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to our program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. We record donated professional services at the respective fair values of the services received. No significant donated materials or professional services were received in fiscal year 2016.

Expenses

Expenses are recognized when incurred. Expenses paid in advance but not yet incurred are deferred to the applicable period.

Functional Allocation of Expenses

The costs of program and supporting services 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. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

Developmental Pathways, Inc., Developmental Pathways Housing Corporations I, II, and III, Continuum of Colorado, Inc., Nonprofit Management Services or Colorado, and SUN Foundation are organized as Colorado nonprofit corporations and have been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as organizations described in Section 501(c)(3), qualify for the charitable contribution deduction under Section 170(b)(1)(A)(vi) or (viii), and have been determined not to be private foundations under Section 509(a)(1), (a)(2), or (a)(3). Each entity annually is required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the entities are subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. We have determined that Nonprofit Management Services or Colorado is subject to unrelated business income tax and will file an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS. We have determined that the amount of any income tax due will be insignificant.

We believe that Nonprofit Management Services or Colorado has appropriate support for any tax positions taken affecting its Form 990-T annual filing requirements, and as such, it has no uncertain tax positions material to the financial statements. We would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties were to be incurred. Nonprofit Management Services of Colorado's Forms 990-T are no longer subject to tax examination for years before 2013.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of 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 and those differences could be material.

Financial Instruments and Credit Risk

We manage deposit concentration risk by placing cash and money market accounts with financial institutions we believe to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, we have not experienced losses in any of these accounts. Credit risk associated with accounts receivable is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from governmental agencies. Investments are made by an investment manager whose performance is monitored by management and the Finance Committee of the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, the investment manager and the Finance Committee believe that the investment policies and guidelines are prudent for the long-term welfare of the organization.

Subsequent Events

We have evaluated subsequent events through December 13, 2016, the date the financial statements were available to be issued.

Note 2 - Fair Value Measurements and Disclosures

We report certain assets at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets that we can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. These include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset. In these situations, we develop inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to our assessment of the quality, risk or liquidity profile of the asset.

Developmental Pathways, Inc. and Affiliates

Notes to Consolidated Financial Statements

June 30, 2016

A significant portion of our investment assets are classified within Level 1 because they are comprised of open-end mutual funds with readily determinable fair values based on daily redemption values. We use Net Asset Value (NAV) per share to estimate the fair values of certain hedge funds that do not have readily determinable fair values. Investments valued at NAV are classified within Level 2 if we have the ability to redeem the investment at NAV per share at the measurement date or within the near term; otherwise, the investment is classified within Level 3.

The following table presents assets and liabilities measured at fair value on a recurring basis, except those measured at cost as identified below, at June 30, 2016:

		Fair Value Measurements at Reporting Date Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Money market (at cost)	\$ 47,481	\$ -	\$ -	\$ -
Bond funds	7,260,272	7,260,272	-	-
Domestic equity funds	1,482,881	1,482,881	-	-
International equity funds	416,686	416,686	-	-
Hedge funds	968,274	-	381,526	586,748
	<u>\$ 10,175,594</u>	<u>\$ 9,159,839</u>	<u>\$ 381,526</u>	<u>\$ 586,748</u>
Endowment investments				
Money market (at cost)	\$ 5,132	\$ -	\$ -	\$ -
Bond funds	632,031	632,031	-	-
Domestic equity funds	300,956	300,956	-	-
International equity funds	49,554	49,554	-	-
	<u>\$ 987,673</u>	<u>\$ 982,541</u>	<u>\$ -</u>	<u>\$ -</u>

Below is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2016:

Balance at June 30, 2015	\$ 575,628
Purchases	35,000
Unrealized loss	(23,880)
Balance at June 30, 2016	<u>\$ 586,748</u>
Unrealized loss included in net investment return in the statement of activities relating to assets still held at June 30, 2016	<u>\$ (23,880)</u>

Investments in certain entities that calculate NAV per share are as follows at June 30, 2016:

	Number of Investments	Fair value	Redemption Frequency	Redemption Notice Period
Long/short hedge fund	1	\$ 381,526	Quarterly	105 days
Multi-strategy hedge fund	1	586,748	Units are not redeemable	N/A
		<u>\$ 968,274</u>		

Long/Short Hedge Fund – This fund is a “fund of hedge funds,” with the objective of capital appreciation by taking advantage of perceived inefficiencies across global capital markets. The fund attempts to achieve this objective by allocating capital among a number of underlying funds employing various long and short equity investment strategies, including leveraged short-sale positions and other nontraditional strategies.

Multi-Strategy Hedge Fund – This fund is a “fund of hedge funds,” with the objective of capital appreciation with limited variability of returns. The fund attempts to achieve this objective by allocating capital among a number of underlying funds employing a variety of alternative investment strategies.

Note 3 - Net Investment Return

Net investment return consists of the following for the year ended June 30, 2016:

Investments	
Interest and dividends	\$ 276,909
Net realized and unrealized loss	(84,632)
Less investment management and custodial fees	<u>(12,467)</u>
	<u>179,810</u>
Endowment investments	
Interest and dividends	34,289
Net realized and unrealized loss	(25,757)
Less investment management and custodial fees	<u>(2,275)</u>
	<u>6,257</u>
	<u>\$ 186,067</u>

Note 4 - Property and Equipment

Property and equipment at June 30, 2016 consists of the following:

Land	\$ 1,770,152
Buildings and improvements	9,221,328
Vehicles	1,222,190
Computers and equipment	2,064,899
	<u>14,278,569</u>
Less accumulated depreciation and amortization	<u>(4,480,361)</u>
	9,798,208
Assets not placed in service	663,531
	<u><u>\$ 10,461,739</u></u>

Property held for sale at June 30, 2016 consists of two buildings and a parcel of land previously used as administrative offices and garage. We sold the properties on July 11, 2016 for \$2,000,000, and recognized a gain on sale of approximately \$996,000.

Property held for sale	\$ 1,005,336
Less accumulated depreciation	<u>(125,963)</u>
	<u><u>\$ 879,373</u></u>

Note 5 - Leases

We lease vehicles and equipment under various operating and capital lease agreements expiring at various dates through 2021. Future minimum lease payments are as follows:

<u>Years Ending June 30,</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
2017	\$ 117,815	\$ 421,585
2018	117,815	177,541
2019	81,988	50,025
2020	51,646	49,053
2021	<u>13,724</u>	<u>32,173</u>
Total minimum lease payments	382,988	<u>\$ 730,378</u>
Less amount representing interest	<u>(26,121)</u>	
Capital lease obligations	<u><u>\$ 356,867</u></u>	

Rent expense for the year ended June 30, 2016 was \$561,031.

Leased property under capital leases at June 30, 2016 includes:

Vehicles	\$ 551,861
Less accumulated amortization	<u>(198,111)</u>
	<u>\$ 353,750</u>

Note 6 - Endowment

Our endowment (Endowment) consists of a single donor-restricted fund established to provide funding for medical and dental assistance to individuals with disabilities. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Our Board of Directors has interpreted the Colorado Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At June 30, 2016, there were no such donor stipulations. As a result of this interpretation, we classify as permanently restricted net assets (a) the original value of gifts to the Endowment, (b) the original value of subsequent gifts to the Endowment, and (c) accumulations to the Endowment made in accordance with the direction of the applicable donor gift instrument at the time accumulation is added. The remaining portion of the donor-restricted endowment is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by us in a manner consistent with the standard of prudence described by UPMIFA. We consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization

As of June 30, 2016, we had the following endowment net asset composition by type of fund:

	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment	<u>\$ 79,711</u>	<u>\$ 907,962</u>	<u>\$ 987,673</u>

Investment and Spending Policies

We have adopted investment and spending policies for the Endowment that attempt to provide a predictable stream of funding for operations while seeking to maintain the purchasing power of the Endowment assets. Over time, long-term rates of return should be equal to an amount sufficient to maintain the purchasing power of the Endowment assets, to provide the necessary capital to fund the spending policy, and to cover the costs of managing the Endowment investments. Under these policies, as approved by the Board of Directors, endowment assets are invested in a manner intended to produce results, measured over full market cycles, which equal or exceed the price and yield results of a blended portfolio of investment securities while assuming a low-to-moderate level of investment risk. To satisfy long-term rate-of-return objectives, the investment portfolio is structured on a total-return approach through which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). A significant portion of the funds are invested to seek growth of principal over time.

The Board of Directors has a policy of appropriating for distribution each year a portion of the accumulated earnings in excess of the permanently restricted net assets of the Endowment as is necessary to fund medical and dental expenses as determined by the Board of Directors. In establishing this policy, the Board of Directors considered the long-term expected return on our Endowment. Accordingly, over the long term, the current spending policy is expected to preserve the permanently restricted net assets of the Endowment. This is consistent with the Foundation's objective to preserve the fair values of the original gifts made to the Endowment while providing an opportunity for real growth through new gifts and undistributed investment return. No distributions were made during the year ended June 30, 2016.

Changes in endowment net assets for the year ended June 30, 2016 are as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 73,454	\$ 862,408	\$ 935,862
Net investment return			
Investment income, net of fees	32,014	-	32,014
Net realized and unrealized loss	(25,757)	-	(25,757)
	6,257	-	6,257
Contributions	-	45,554	45,554
Endowment net assets, end of year	<u>\$ 79,711</u>	<u>\$ 907,962</u>	<u>\$ 987,673</u>

Note 7 - Restricted Net Assets

Temporarily restricted net assets at June 30, 2016 consist of:

Restricted by donors for	
3+ initiative (support for children ages 3-21)	\$ 139,476
Community outreach	29
Unspent appreciation of Endowment funds which must be appropriated for expenditure before use	
Restricted by donors for medical and dental expenditures	79,711
	<u>\$ 219,216</u>

Net assets were released from restrictions as follows during the year ended June 30, 2016:

Restricted by donors for	
3+ initiative (support for children ages 3-21)	\$ 21,701
Respite care	75,000
Recreational activities	14,980
Autism Speaks initiative	16,550
Early intervention	7,077
Community outreach	1,523
	<u>\$ 136,831</u>

At June 30, 2016, our Board of Directors has designated certain unrestricted net assets for the following purposes:

3+ initiative (support for children ages 3-21)	\$ 238,039
Respite care	266,874
Transportation	275,066
Wellness	144,494
Capacity building	300,000
	<u>\$ 1,224,473</u>

Note 8 - Employee Benefits

We sponsor a retirement plan (the Plan) qualified under Section 401(k) of the Internal Revenue Code covering substantially all full-time employees who have attained the age of 18 and completed one year of service.

Employees may contribute up to the maximum contribution allowed by the IRS. We contribute 4%, and may make additional discretionary contributions determined by the Board of Directors each plan year. During the year ended June 30, 2016, our 4% contributions to the plan totaled \$425,518; there were no discretionary contributions.

Note 9 - Contingencies

HUD Capital Advances

We have received capital advances from HUD totaling \$3,173,036 related to our housing activities. Provided that we continue to make our housing projects available to eligible very-low-income households for a total of 40 years, and operate the projects in accordance with Section 811 of the National Affordable Housing Act of 1959, repayment of the advances, with accrued interest thereon, will not be required. We consider the possibility we will be unable to remain in compliance with the terms and conditions of operation to be remote, and therefore have not recorded any liability in our financial statements.

Other Forgivable Advances

We have received certain housing rehabilitation advances from state, county and municipal funding sources totaling \$732,000. Provided that we meet certain compliance requirements throughout the periods specified by the agreements, ranging from 20 to 40 years, repayment of the advances will not be required. We consider the possibility we will be unable to remain in compliance with the terms and conditions of the agreements to be remote, and therefore have not recorded any liability in our financial statements.