

**SOUTHEASTERN
DEVELOPMENTAL
SERVICES, INC.**

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

June 30, 2016 and 2015



FREDRICKZINK & Associates

A professional corporation. | CPAs

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Southeastern Developmental Services, Inc.
Lamar, Colorado

We have audited the accompanying financial statements of Southeastern Developmental Services, Inc. (a nonprofit organization) which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and of cash flows for the years 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

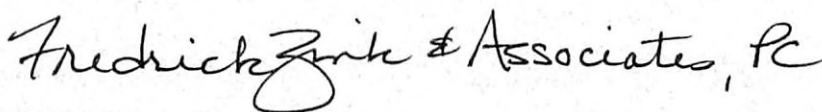
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 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 Southeastern Developmental Services, Inc. as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



FredrickZink & Associates, PC
October 31, 2016

FINANCIAL STATEMENTS

SOUTHEASTERN DEVELOPMENTAL SERVICES, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2016 and 2015

ASSETS

	<u>2016</u>	<u>2015</u>
Current assets		
Cash and cash equivalents.....	\$ 739,859	\$ 849,346
Certificates of deposit (Note 3).....	146,755	146,389
Accounts receivable		
Fees and grants from governmental agencies, net (Note 4).....	213,067	224,881
Vocational contracts and sales.....	20,934	18,594
Prepaid expenses and other.....	20,569	46,264
Total current assets.....	<u>1,141,184</u>	<u>1,285,474</u>
Property and equipment (Note 5)		
Property and equipment	2,009,661	1,943,164
Accumulated depreciation.....	<u>(1,545,956)</u>	<u>(1,473,286)</u>
Total property and equipment.....	<u>463,705</u>	<u>469,878</u>
Total assets	<u>\$ 1,604,889</u>	<u>\$ 1,755,352</u>

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable and accrued expenses.....	\$ 201,781	\$ 277,673
Total current liabilities.....	<u>201,781</u>	<u>277,673</u>
Net assets, unrestricted		
Undesignated.....	939,403	1,007,801
Net investment in property and equipment.....	463,705	469,878
Total net assets, unrestricted.....	<u>1,403,108</u>	<u>1,477,679</u>
Total liabilities and net assets	<u>\$ 1,604,889</u>	<u>\$ 1,755,352</u>

The accompanying notes are an integral part of these financial statements.

SOUTHEASTERN DEVELOPMENTAL SERVICES, INC.

STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Support and Revenue		
Fees and grants from governmental agencies		
Fees for services		
State of Colorado		
State General Fund		
Comprehensive.....	\$ 13,654	\$ 19,669
Adult supported living.....	79,314	85,163
Children's extensive support.....	1,263	4,373
Early intervention.....	95,875	83,664
Family support services program.....	36,212	46,016
Total fees from State General Fund.....	<u>226,318</u>	<u>238,885</u>
Medicaid		
Comprehensive.....	1,899,289	2,016,966
Adult supported living.....	345,318	311,795
Medical services.....	62,771	63,290
Children's extensive support.....	4,758	31,769
Early intervention.....	2,354	3,484
Home community based services.....	415	213
Total fees from Medicaid.....	<u>2,314,905</u>	<u>2,427,517</u>
Other State Sources		
Part C - Early intervention.....	12,306	5,818
Total fees and grants from governmental agencies.....	<u>2,553,529</u>	<u>2,672,220</u>
Public support - contributions.....	22,854	20,921
In-kind donations.....	10,209	7,828
Residential room and board.....	212,806	213,992
Other revenue.....	<u>120,032</u>	<u>47,533</u>
Total support and revenue.....	<u>2,919,430</u>	<u>2,962,494</u>

The accompanying notes are an integral part of these financial statements.

SOUTHEASTERN DEVELOPMENTAL SERVICES, INC.

STATEMENTS OF ACTIVITIES - Continued For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Expenses		
Program services		
Medicaid comprehensive.....	\$ 1,937,748	\$ 1,905,978
State adult supported living.....	60,856	56,870
Medicaid adult supported living.....	244,119	208,212
Children's extensive support.....	11,352	22,619
Early intervention.....	90,166	65,069
Family support services program.....	37,358	23,523
Case management.....	173,047	153,744
Medical services.....	161,563	181,751
Total program services.....	<u>2,716,209</u>	<u>2,617,766</u>
Supporting services		
Management and general.....	259,196	236,746
Fundraising.....	18,596	12,424
Total supporting services.....	<u>277,792</u>	<u>249,170</u>
Total expenses.....	<u>2,994,001</u>	<u>2,866,936</u>
Change in unrestricted net assets.....	(74,571)	95,558
Net assets, beginning of year.....	<u>1,477,679</u>	<u>1,382,121</u>
Net assets, end of year.....	<u><u>\$ 1,403,108</u></u>	<u><u>\$ 1,477,679</u></u>

The accompanying notes are an integral part of these financial statements.

SOUTHEASTERN DEVELOPMENTAL SERVICES, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2016 and 2015

Increase (Decrease) in Cash and Cash Equivalents

	2016	2015
Cash flows from operating activities:		
Cash received from governmental agencies and others.....	\$ 2,866,043	\$ 3,113,079
Cash paid to suppliers and employees.....	(2,910,669)	(2,814,373)
Interest received.....	1,636	1,761
Net cash provided (used) by operating activities.....	(42,990)	300,467
Cash flows from investing activities:		
Redemption of certificate of deposit.....	292,778	292,412
Purchase of certificate of deposit.....	(292,778)	(292,412)
Purchase of property and equipment.....	(66,497)	(101,574)
Net cash used by investing activities.....	(66,497)	(101,574)
Net increase (decrease) in cash and cash equivalents.....	(109,487)	198,893
Cash and cash equivalents, beginning of year.....	849,346	650,453
Cash and cash equivalents, end of year.....	\$ 739,859	\$ 849,346
Non-cash investing and financing activities:		
During the year ended June 30, 2015, depreciable assets valued at \$4,000 were acquired through donation.		
Reconciliation of change in net assets to net cash provided (used) by operating activities:		
Change in net assets.....	\$ (74,571)	\$ 95,558
Adjustments to reconcile:		
Depreciation.....	72,669	68,763
Donated property and equipment.....	-	(4,000)
Reinvested interest earnings on certificates of deposit.....	(366)	(366)
Decrease (increase) in		
Accounts receivable, net.....	9,474	171,520
Prepaid expenses and other.....	25,695	(16,629)
Increase (decrease) in		
Accounts payable and accrued expenses.....	(75,891)	(3,399)
Deferred revenue.....	-	(10,980)
Total adjustments.....	31,581	204,909
Net cash provided (used) by operating activities.....	\$ (42,990)	\$ 300,467

The accompanying notes are an integral part of these financial statements.

SOUTHEASTERN DEVELOPMENTAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE 1 - ORGANIZATION AND NATURE OF ACTIVITIES

Southeastern Developmental Services, Inc. (the Center) was incorporated under the laws of the State of Colorado in 1964 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 Baca, Kiowa, eastern Bent and Prowers Counties. The Center's revenue comes primarily from the State of Colorado for services provided. The major program services or supports and functional activities directly provided or purchased by the Center are:

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

Adult Supported Living - 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 or return to the family home. Waiver services are targeted to children having extensive support needs, which require constant line-of-sight supervision due to significantly challenging behaviors and/or coexisting medical conditions. Available services include personal assistance, household modifications, specialized medical equipment and supplies, professional service, and community connections 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 developmental, and self-help skills, parent-child or family interactions; and early identification, screening and assessment services.

Family Support Services Program - provides an array of supportive services to the person with a development 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.

Home Community Based Services - provides Medicaid benefits of case management and supportive services for disabled children from birth through age seventeen who would otherwise be ineligible for Medicaid due to excess parental income and/or resources. Children must be at risk of nursing facility or hospital placement.

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

SOUTHEASTERN DEVELOPMENTAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2016 and 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and presentation

The financial statements of the Center have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities. The Center reports information regarding its financial position and activities according to three general classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. Donor restricted revenue, whose restrictions are currently satisfied in the same fiscal year, is reported as unrestricted revenue, rather than temporarily restricted. Donor restricted contributions, whose restrictions are not currently met, are reflected as an increase to temporarily restricted net assets. The Center had no temporarily restricted or permanently restricted net assets during this reporting period.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United State of America requires management to make estimates. Estimates affect financial statement amounts and the disclosure of contingent assets and liabilities at the date of the financial statements. Due to their inherent nature, estimates may differ from future actual results.

Cash and cash equivalents

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

Accounts receivable

The majority of the Center's accounts receivable are due from the State of Colorado and other governmental entities. Accounts receivable are due according to contractual terms and are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts considering a number of factors, including the length of time accounts receivables are past due and the Center's previous collection history. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance.

Fair value of financial instruments

Generally accepted accounting principles (GAAP) requires disclosure of an estimate of fair value of certain financial instruments. The Center's significant financial instruments are cash, certificates of deposit, accounts receivable, and other short-term assets and liabilities. For these financial instruments, carrying values approximate fair value.

Property and equipment

Property and equipment are stated at cost at date of acquisition or estimated fair value at date of donation. The Center capitalizes property and equipment acquisitions of \$1,000 or more that have a useful life of more than two years. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets. Lives are estimated at five to twenty years for buildings and improvements, and three to ten years for equipment.

Revenue recognition

Revenues are recognized when services are performed. Deferred revenue represents payments received by the Center not spent in the current year, but for which the Center has met certain control points. Under contract provisions, the Center is allowed to defer a portion of unspent award to the following year.

SOUTHEASTERN DEVELOPMENTAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2016 and 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

In-kind donations

Contributions of property, material, and personal services are known as in-kind donations and are recorded at estimated value as of the date received. These donations (other than contributions of property and equipment) are included as program costs to properly reflect the total cost of the particular program.

Income taxes

The Center is exempt from income tax as provided under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The Organization adopted accounting requirements that prescribe when to recognize and how to measure the financial statement effects of income tax positions taken or expected to be taken on its income tax returns, including the position that the Center continues to qualify to be treated as a tax-exempt organization for both federal and state income tax purposes. These rules require management to evaluate the likelihood that, upon examination by relevant taxing jurisdictions, those income tax positions would be sustained.

Based on that evaluation, if it were more than 50% probable that a material amount of income tax would be imposed at the entity level upon examination by the relevant taxing authorities, a liability would be recognized in the accompanying balance sheet along with any interest and penalties that would result from that assessment. When the Center has unrelated business income, the federal Exempt Organization Business Income Tax Return (Form 990T) would be subject to examination by the Internal Revenue Service for three years after filing. Should any penalties and interest be incurred, they would be recognized as management and general expenses.

Subsequent events

Management has evaluated subsequent events through October 31, 2016, the date which the financial statements were available to be issued. No events were identified that required additional disclosure.

NOTE 3 - CERTIFICATES OF DEPOSIT

The Center holds two certificates of deposit at Frontier Bank. The certificates held at June 30, 2016 mature in December 2016 and both bear interest at 0.40%. The certificates held at June 30, 2015 had an interest rate 0.25% and matured in December 2015.

	<u>2016</u>	<u>2015</u>
Six-month certificate	\$ 73,375	\$ 73,192
Six-month certificate	73,380	73,197
	<u>\$ 146,755</u>	<u>\$ 146,389</u>

NOTE 4 - FEES AND GRANTS FROM GOVERNMENTAL AGENCIES

Amounts receivable from governmental agencies at June 30, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
State of Colorado		
General Fund	\$ 35,232	\$ 34,489
Medicaid	183,018	202,644
Allowance for doubtful accounts	<u>(5,183)</u>	<u>(12,252)</u>
	<u>\$ 213,067</u>	<u>\$ 224,881</u>

SOUTHEASTERN DEVELOPMENTAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2016 and 2015

NOTE 5 - PROPERTY AND EQUIPMENT

The cost of property and equipment and related accumulated depreciation at June 30, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Land	\$ 70,867	\$ 70,867
Building and improvements	1,186,491	1,142,269
Equipment	742,528	730,028
Construction in progress	<u>9,775</u>	<u>-</u>
	2,009,661	1,943,164
Accumulated depreciation	<u>(1,545,956)</u>	<u>(1,473,286)</u>
Total property and equipment	<u>\$ 463,705</u>	<u>\$ 469,878</u>

NOTE 6 - RETIREMENT PLAN

The Center sponsors a 403(b) plan for all full time employees who have completed 120 days of service. Employees may voluntarily contribute to the plan up to the maximum allowed by law. During 2016, the Center started matching contributions made by full-time employees at a maximum of \$200 per month.

NOTE 7 - RELATED PARTY TRANSACTIONS

The State of Colorado is considered a related party by virtue of significant management influence exercised by the State through contract provisions. The Center received a substantial portion of its revenue from the State of Colorado as identified on the statement of activities. There was no outstanding balance as of June 30, 2016. The Center had a balance due to the State of Colorado as of June 30, 2015 for expenses and reimbursements, which are recorded in accounts payable and accrued expenses. The outstanding balance was \$83,543 at June 30, 2015.

NOTE 8 - CONCENTRATION OF RISK

The Center's cash is deposited in financial institutions which are members of the Federal Deposit Insurance Corporation (FDIC). The FDIC insures deposits, including certificates of deposit, up to \$250,000 for each depositor at each institution. As of June 30, 2016, balances at Valley State Bank exceeded FDIC insurance by \$28,567.

SUPPLEMENTARY INFORMATION



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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors
Southeastern Developmental Services, Inc.
Lamar, Colorado

We have audited the financial statements of Southeastern Developmental Services, Inc. (a nonprofit organization) as of and for the years ended June 30, 2016 and 2015, and have issued our report thereon dated October 31, 2016, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole.

The schedule of case management services is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information, except for that portion marked "unaudited" and upon which we express no opinion, has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The statistical data shown on page 11 and marked as "unaudited", is the responsibility of management, and is presented for purposes of additional analysis and is not a required part of the financial statements. That non-accounting information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

FredrickZink & Associates, PC

FredrickZink & Associates, PC
October 31, 2016

SOUTHEASTERN DEVELOPMENTAL SERVICES, INC.

SCHEDULE OF CASE MANAGEMENT SERVICES

For the Year Ended June 30, 2016

	<u>Targeted case management</u>	<u>Other case management</u>	<u>Total</u>
Fees and grants from governmental agencies			
Fees for services			
State of Colorado			
State General Fund			
Comprehensive.....	\$ -	\$ 11,396	\$ 11,396
Adult supported living.....	-	30,570	30,570
Children's extensive support.....	-	1,263	1,263
Early intervention.....	-	17,229	17,229
Family support services program.....	-	7,894	7,894
Medicaid			
Comprehensive.....	67,089	-	67,089
Adult supported living.....	36,069	-	36,069
Children's extensive support.....	1,709	-	1,709
Early intervention.....	2,354	-	2,354
Home community based services.....	415	-	415
Part C - Early intervention.....	-	3,246	3,246
Total support and revenue.....	<u>\$ 107,636</u>	<u>\$ 71,598</u>	<u>\$ 179,234</u>

	<u>Targeted case management</u>	<u>Other case management</u>	<u>Total</u>
Statistical Data (Unaudited)			
Unduplicated number of individuals	72	62	134
Full-time equivalents	2.5	1.50	4.00

SOUTHEASTERN DEVELOPMENTAL SERVICES, INC.

SCHEDULE OF CASE MANAGEMENT SERVICES - Continued

For the Year Ended June 30, 2016

	<u>Targeted case management</u>	<u>Other case management</u>	<u>Total</u>
Expenses			
Salaries			
Direct care.....	\$ 79,914	\$ 53,157	\$ 133,071
Other.....	2,184	1,453	3,637
Payroll taxes.....	6,960	4,630	11,590
Employee benefits.....	8,524	5,670	14,194
Total personal services.....	97,582	64,910	162,492
Medical professional services			
Physicians.....	-	-	-
Other.....	-	-	-
Other professional services.....	61	40	101
Staff development.....	443	295	738
Staff travel.....	534	355	889
Vehicles			
Fuel and oil.....	105	70	175
Maintenance.....	64	43	107
Leases.....	-	-	-
Occupancy			
Rent.....	-	-	-
Maintenance.....	67	45	112
Utilities.....	110	73	183
Equipment			
Leases.....	-	-	-
Maintenance.....	3,719	2,474	6,193
Supplies			
Medical and client care supplies.....	-	-	-
Pharmacy.....	-	-	-
Productions materials.....	58	39	97
Other.....	551	366	917
Telephone.....	55	37	92
Dues and subscriptions.....	30	20	50
Food.....	-	-	-
Insurance.....	348	232	580
Interest.....	-	-	-
Other.....	26	18	44
In-kind donations.....	-	-	-
Total direct program expenses.....	103,753	69,017	172,770
Depreciation and amortization.....	166	111	277
Total expenses.....	<u>\$ 103,919</u>	<u>\$ 69,128</u>	<u>\$ 173,047</u>



FREDRICKZINK & Associates

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October 31, 2016

To the Board of Directors
Southeastern Developmental Services, Inc.
Lamar, Colorado

We have audited the financial statements of Southeastern Developmental Services, Inc. for the year ended June 30, 2016, and have issued our report thereon dated October 31, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 2, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Southeastern Developmental Services, Inc. are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2016. We noted no transactions entered into by the Center during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the collectability of accounts receivable. This estimate was based on subsequent and past collection history.

Management's estimate of the useful lives of depreciable assets and the appropriate charge-off method. The estimates were based on common conventions.

We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements, except as noted below.

There were two adjustments proposed and accepted during the 2016 audit. The first adjustment was to reduce prepaid insurance and increase insurance expense and employee benefits by \$12,191. The second adjustment was to record a payable to the State totaling \$13,465 and reduce revenue. The net effect of all adjusting entries was to decrease total net assets by \$18,398.

There was one uncorrected misstatements detected as a result of audit procedures. This misstatement was an understatement of expense by \$1,298 and an equal overstatement of prepaid worker compensation expense. If corrected, total assets and net assets would have decreased by \$1,298, or less than 1%. Management has determined that the effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 31, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Center's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management prior to retention as the Center's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Directors and management of Southeastern Developmental Services, Inc. and is not intended to be and should not be used by anyone other than these specified parties.



FredrickZink & Associates, PC