



Financial Statements and
Independent Auditor's Report

Community Options, Inc.

June 30, 2017



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Logan, Thomas & Johnson, LLC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Audit/Finance Committee
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, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Options, Inc. as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Center's 2016 financial statements, and our report dated December 27, 2016, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Logan, Thomas + Johnson, LLC

Broomfield, Colorado

December 13, 2017

Financial Statements

Community Options, Inc.
STATEMENT OF FINANCIAL POSITION
June 30, 2017
(With summarized financial information as of June 30, 2016)

ASSETS	2017	2016
Current assets		
Cash and cash equivalents	\$ 1,856,448	\$ 1,567,711
Accounts receivable		
Fees and grants from governmental agencies	951,336	936,215
Workshop trade accounts	3,211	4,791
Other	55,514	50,925
Pledges receivable	19,250	33,800
Current portion of notes receivable	52,977	142,859
Prepaid expenses and other	97,181	47,398
Total current assets	3,035,917	2,783,699
Bond issuance costs, net of amortization of \$11,484	12,275	13,463
Pledges receivable	-	25,700
Notes receivable, net of current portion	153,487	206,419
Assets held for sale	1,087,471	1,370,000
Land, buildings and equipment, net	3,250,802	3,312,749
Total assets	\$ 7,539,952	\$ 7,712,030
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 1,052,006	\$ 1,105,631
Current portion of note payable	41,085	54,063
Current portion of bonds payable	26,360	24,840
Total current liabilities	1,119,451	1,184,534
Obligation under interest rate swap	47,981	72,573
Long-term debt		
Note payable, net of current portion	1,449,156	1,485,415
Bonds payable, net of current portion	335,590	359,840
Total liabilities	2,952,178	3,102,362
Net assets		
Unrestricted		
Net investment in land, buildings and equipment	2,486,082	2,758,591
Undesignated	1,991,714	1,726,978
Total unrestricted	4,477,796	4,485,569
Temporarily restricted	109,978	124,099
Total net assets	4,587,774	4,609,668
Total liabilities and net assets	\$ 7,539,952	\$ 7,712,030

The accompanying notes are an integral part of this statement.

Community Options, Inc.
STATEMENT OF ACTIVITIES
Year ended June 30, 2017
(With summarized financial information for the year ended June 30, 2016)

	Unrestricted	Temporarily restricted	Total	
			2017	2016
Revenues and support				
Fees and grants from governmental agencies				
Fees for services				
State of Colorado				
State General Fund	\$ 816,250	\$ -	\$ 816,250	\$ 678,883
Medicaid	6,757,009	-	6,757,009	6,917,063
Counties and cities	5,000	7,500	12,500	36,750
Grants and other				
Colorado Department of Education - Vocational Rehabilitation	28,081	-	28,081	30,271
Department of Housing and Urban Development Part C	724	-	724	927
	45,702	-	45,702	44,847
Total fees and grants from governmental agencies	7,652,766	7,500	7,660,266	7,708,741
Public support - contributions	9,168	183,817	192,985	1,615,188
In-kind contributions	7,050	9,337	16,387	16,381
Residential room and board	683,021	-	683,021	696,659
Gain (loss) on sale of assets	(116,260)	-	(116,260)	300
Other revenue	226,971	-	226,971	120,427
Net assets released from restrictions				
Satisfaction of program restrictions	214,775	(214,775)	-	-
Total revenues and support	8,677,491	(14,121)	8,663,370	10,157,696
Expenses				
Program services				
Medicaid comprehensive	5,713,062	-	5,713,062	5,696,771
State adult supported living	181,619	-	181,619	205,695
Medicaid adult supported living	753,561	-	753,561	873,368
Children's extensive support	81,362	-	81,362	128,150
Early intervention	336,965	-	336,965	254,997
Family support	125,893	-	125,893	138,482
Case management	588,388	-	588,388	549,742
Total program services	7,780,850	-	7,780,850	7,847,205
Supporting services				
Management and general	904,414	-	904,414	967,589
Total expenses	8,685,264	-	8,685,264	8,814,794
CHANGE IN NET ASSETS	(7,773)	(14,121)	(21,894)	1,342,902
Net assets, beginning of year	4,485,569	124,099	4,609,668	3,266,766
Net assets, end of year	\$ 4,477,796	\$ 109,978	\$ 4,587,774	\$ 4,609,668

The accompanying notes are an integral part of this statement.

Community Options, Inc.
STATEMENT OF CASH FLOWS
Year ended June 30, 2017

(With summarized financial information for the year ended June 30, 2016)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Change in net assets	\$ (21,894)	\$ 1,342,902
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	307,942	259,236
Gain on sale of assets	(11,269)	(300)
Loss on sale of assets held for sale	127,529	-
In-kind contributions of land, building improvements, and equipment	(8,653)	(1,385,756)
Contributions restricted for purchase of long-term capital assets	(190,477)	(265,970)
Change in assets and liabilities		
Increase in accounts receivable	(18,130)	(216,694)
(Increase) decrease in pledges receivable	40,250	(59,500)
Increase in prepaid expenses and other	(49,783)	(6,900)
Increase (decrease) in accounts payable and accrued expenses	(53,625)	192,952
Decrease in deferred revenue	-	(18,899)
Increase (decrease) in obligation under interest rate swap	(24,592)	17,896
Net cash provided by (used in) operating activities	<u>97,298</u>	<u>(141,033)</u>
Cash flows from investing activities		
Purchase of land, buildings and equipment	(45,677)	(776,622)
Contributions restricted for purchase of long-term capital assets	(190,477)	(265,970)
Proceeds from sale of assets	11,269	300
Proceeds from sale of assets held for sale	155,000	-
Collection on notes receivable	142,814	138,093
Net cash provided by (used in) investing activities	<u>72,929</u>	<u>(904,199)</u>
Cash flows from financing activities		
Advances on notes payable	-	612,000
Contributions restricted for purchase of long-term capital assets	190,477	265,970
Payments on bonds payable	(22,730)	(23,440)
Payments on note payable	(49,237)	(34,436)
Net cash provided by financing activities	<u>118,510</u>	<u>820,094</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	288,737	(225,138)
Cash and cash equivalents, beginning of year	<u>1,567,711</u>	<u>1,792,849</u>
Cash and cash equivalents, end of year	<u>\$ 1,856,448</u>	<u>\$ 1,567,711</u>
Noncash investing and financing activities		
Fixed asset additions from contributions	\$ 8,653	\$ 15,756
Assets held for sale additions from contributions	-	1,370,000
Supplemental data		
Cash paid for interest	94,175	78,377
Cash paid for taxes	1,739	1,138

The accompanying notes are an integral part of this statement.

Community Options, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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, 2017

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, 2017

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

Community Options, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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

8. *Derivative Financial Instruments (Continued)*

interest amounts calculated by reference to specified notional amounts during the agreement period. Notional principal amounts are used to express the volume of these transactions, but the cash requirements and amounts subject to credit risk are substantially less. 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 available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods, or are restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. Unconditional promises to give, which do not state a due date, are presumed to be time-restricted by the donor until received and are reported as temporarily restricted net assets.

A donor restriction expires when a stipulated time restriction ends, when an unconditional promise with an implied time restriction is collected, or when a purpose restriction is accomplished. Upon expiration, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions.

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. *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 13, 2017, the date on which the financial statements were issued. Other than the transactions disclosed in Note G and Note M, the Center did not identify any events or transactions that would have a material impact on the financial statements.

Community Options, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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

12. *Income Taxes*

The Center is operated as a nonprofit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Center recognizes tax liabilities when, despite the Center's belief that its tax return positions are supportable, the Center believes that certain positions may not be fully sustained upon review by tax authorities. Benefits from tax positions are measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon settlement. The Center has concluded there is no tax liability or benefit required to be recorded as of June 30, 2017. The Center is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any tax periods. The Center believes it is no longer subject to income tax examinations for the years prior to the year ended June 30, 2014.

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 \$1,800. For the year ended June 30, 2017, the Center paid \$1,739 for unrelated business income tax on interest income earned as of June 30, 2016, but no amounts were paid or accrued for current year activity.

13. *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.

Community Options, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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

13. *Fair Value Measurements (Continued)*

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.

14. *Prior Year Summarized Information*

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Center's financial statements as of and for the year ended June 30, 2016, from which the summarized information was derived.

15. *Recent Accounting Pronouncements*

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in generally accepted accounting principles in the United States of America (US GAAP) when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2018. The Center has

Community Options, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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

15. *Recent Accounting Pronouncements (Continued)*

not yet selected a transition method and is currently evaluating the effect that the standard will have on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The most significant change for lessees is the requirement under the new guidance to recognize right-of-use assets and lease liabilities for all leases not considered short-term leases. Changes to the lessor accounting model include: (a) synchronizing key aspects of the model with the new revenue recognition guidance, such as basing whether a lease is similar to a sale or whether control of the underlying asset has transferred to the lessee and (b) prospectively eliminating the specialized accounting for leveraged leases. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The 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 No. 2016-14, *Not-for Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit organization's liquidity, financial performance and cash flows. The ASU will be effective for fiscal years beginning after December 15, 2017. Earlier adoption is permitted. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied. The Center is in the process of evaluating the impact of this new guidance.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. The amendments in this update clarify the guidance regarding the classification of operating, investing and financing activities for certain types of cash receipts and payments. The amendments in this update are effective for the annual periods, and the interim periods within those years, beginning after December 15, 2018, and should be applied using a retrospective transition method to each period presented. Early adoption is permitted. The Center is evaluating the impact of adoption, if any, to the financial statements.

Community Options, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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

15. *Recent Accounting Pronouncements (Continued)*

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.

NOTE B – 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, 2017 is \$206,464.

Future maturities under the note receivable are as follows:

Year ending June 30,	
2018	\$ 52,977
2019	55,322
2020	<u>98,165</u>
	206,464
Less current portion	<u>52,977</u>
	<u>\$ 153,487</u>

NOTE C – PLEDGES RECEIVABLE

Pledges receivable are unconditional promises to give that are recognized as contributions when the promise is received and are recorded at their estimated fair value. Amounts due more than one year later are recorded at the present value of the estimated future cash flows, discounted at risk-free rates applicable to the years in which the promises were received, which is 4.25%. Amortization of the discount is credited to contribution revenue.

Community Options, Inc.
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

NOTE C – PLEDGES RECEIVABLE (CONTINUED)

Total amounts expected to be received are \$19,250 and are due in one year. Pledges are deemed to be collectible. As of June 30, 2017, pledge receivables were restricted for capital asset additions.

NOTE D – LAND, BUILDINGS AND EQUIPMENT

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

Buildings and improvements	\$	4,775,084
Administrative equipment		295,598
Program equipment		188,690
Transportation equipment		<u>1,208,212</u>
		6,467,584
Less accumulated depreciation		<u>4,001,190</u>
		2,466,394
Construction in progress		199,782
Land		<u>584,626</u>
	\$	<u>3,250,802</u>

Depreciation expense was \$306,754 for the year ended June 30, 2017. The Center had outstanding commitments for construction of \$126,922 as of June 30, 2017.

NOTE E – LONG-TERM DEBT

Notes Payable

Notes payable consist of the following at June 30, 2017:

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.	\$ 137,265
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. The loan agreement contains a covenant that requires 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 120 days after year-end. The loan agreement contains a covenant that requires audited financial statements to be issued not later than 168 days after year-end.	775,492

Community Options, Inc.
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

NOTE E – LONG-TERM DEBT (CONTINUED)

Notes Payable (Continued)

4.70% rate note dated October 28, 2015, payments of principal and interest of \$1,399 are due monthly, maturing on October 30, 2020. Collateralized by the land and property.	\$ 236,706
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 of \$267,056 on November 30, 2025. The note is collateralized by land and property.	<u>340,778</u>
	1,490,241
Less current portion	<u>41,085</u>
	<u>\$ 1,449,156</u>

Interest expense for notes payable for the year ended June 30, 2017 was \$73,152. Future maturities under the notes payable are as follows:

Year ending June 30,	
2018	\$ 41,085
2019	43,196
2020	756,877
2021	237,131
2022	19,077
Thereafter	<u>392,875</u>
	1,490,241
Less current portion	<u>41,085</u>
	<u>\$ 1,449,156</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 the amount of \$550,000. Principal and interest payments are made monthly through October 15, 2027. The variable interest rate is computed as .6649 times 1-month LIBOR plus .6649 times 2.00% and the interest rate was approximately 2.13% as of June 30, 2017. The 2007 Bonds are collateralized by a Deed of Trust on the Center’s administrative building.

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NOTE E – LONG-TERM DEBT (CONTINUED)

Bonds Payable (Continued)

The loan agreement contains a covenant that requires audited financial statements to be issued not later than 168 days after year-end. The Center is in compliance with covenants as of June 30, 2017. The outstanding balance on bonds payable was \$361,950 as of June 30, 2017.

The Center's deferred loan costs associated with the issuance of the 2007 Bonds totaled \$23,759 and are being amortized over the life of the bonds. Deferred loan costs at June 30, 2017, net of accumulated amortization, are \$12,275. Amortization on the deferred loan costs for the year ended June 30, 2017 was \$1,188 and is recorded in interest expense. Deferred loan costs will amortize at \$1,188 per year.

Interest expense for bonds payable for the year ended June 30, 2017 was \$8,221.

Future maturities under bonds payable are as follows:

Year ending June 30,	
2018	\$ 26,360
2019	27,920
2020	29,560
2021	31,240
2022	33,080
Thereafter	<u>213,790</u>
	361,950
Less current portion	<u>26,360</u>
	\$ <u>335,590</u>

NOTE F – 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, 2017, 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 \$12,802 for the year ended June 30, 2017. The interest rate swap agreement expires on October 15, 2027. The Center is exposed to a credit loss in the event of nonperformance by the other parties to the interest rate swap agreement. However, the Center does not anticipate nonperformance by the counterparties. The fair value of the interest rate swap agreement as of June 30, 2017 was an obligation of \$47,981.

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NOTE G – 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 1.10 percentage points over the financial institution's Prime Rate (prime was 4.25% at June 30, 2017) with a floor rate of 5.00%. As of June 30, 2017, the rate totaled 5.00% and there was no balance outstanding on the line of credit. The line of credit is secured by all personal property, inventory, accounts, equipment and fixtures. The line of credit matured on October 28, 2017. On November 13, 2017, the \$350,000 line of credit was renewed bearing interest at the same rate and a maturity date of December 31, 2017.

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 6.50% at June 30, 2017). There was no balance outstanding on the line of credit as of June 30, 2017.

NOTE H – 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, 2018 of \$1,200 at June 30, 2017. Total rent expense for operating leases for the year ended June 30, 2017 totaled \$87,970.

NOTE I – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following purpose-restricted amounts as of June 30, 2017:

Medicaid comprehensive	\$ 62,239
Management and general	26,920
Family support	504
Case management	787
Early intervention	278
Time restriction	<u>19,250</u>
	<u>\$109,978</u>

NOTE J – 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 \$950,980 as of June 30,

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NOTE J – RELATED PARTY TRANSACTIONS (CONTINUED)

2017. The Center has a payable at June 30, 2017 to the State of Colorado in the amount of \$168,881 which is recorded in accounts payable and accrued expenses. These transactions are considered to be transactions with a related party by virtue of the significant management influence exercised by the State of Colorado through contract provisions.

One of the Center’s board members is a realtor who received commissions of \$4,650 in the year ended June 30, 2017 and is currently listing three 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 K – FAIR VALUE MEASUREMENTS

The following table presents the Center’s fair value hierarchy for those assets and liabilities measured at fair value as of June 30, 2017:

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial liability:				
Interest rate swap	\$ 47,981	\$ -	\$ -	\$ 47,981

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 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 (\$24,592) was recorded as interest expense as of June 30, 2017.

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

Balance, July 01, 2016	\$ 72,573
Change in fair value	<u>(24,592)</u>
Balance, June 30, 2017	<u>\$ 47,981</u>

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NOTE L – 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 M – SUBSEQUENT EVENTS

The Center made a cash purchase of property located in Montrose in the amount of \$225,000 in August 2017.