

Denver Options, Inc.
d/b/a Rocky Mountain Human Services

Financial Statements and Supplementary Information

June 30, 2017 and 2016

(With Independent Auditor's Report Thereon)

Kundinger, Corder & Engle, P.C.

Certified Public Accountants

Denver Options, Inc.
d/b/a Rocky Mountain Human Services

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Independent Auditor's Report

**Board of Directors
Denver Options, Inc.
d/b/a Rocky Mountain Human Services:**

Report on the Financial Statements

We have audited the accompanying financial statements of Denver Options, Inc. d/b/a Rocky Mountain Human Services (RMHS), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expenses, and 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 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 RMHS as of June 30, 2017 and 2016, 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.

**Board of Directors
Denver Options, Inc.
d/b/a Rocky Mountain Human Services**

Other Matters - Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for 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 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2017, on our consideration of RMHS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of RMHS' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering RMHS' internal control over financial reporting and compliance.

KUNDINGER, CORDER & ENGLE, P.C.

November 15, 2017

Denver Options, Inc. d/b/a Rocky Mountain Human Services
Statements of Financial Position
June 30, 2017 and 2016

	2017	2016
Assets:		
Cash and cash equivalents	\$ 3,937,573	2,409,853
Receivables:		
Service receivables, less allowance for uncollectible accounts of \$852,240 in 2017 and \$913,599 in 2016	4,828,943	2,988,476
Mill levy receivables	2,242,969	2,231,897
State grant receivables	1,021,144	815,052
Other receivables	266,745	498,024
Net accounts receivable	8,359,801	6,533,449
Prepaid expenses and other assets	141,151	166,237
Restricted cash and cash equivalents (note 2)	208,312	211,255
Property and equipment (note 3):		
Land	1,231,000	1,231,000
Buildings and improvements	7,942,706	8,073,039
Equipment	3,386,701	3,508,343
Furniture, fixtures, vehicles	1,064,261	1,210,758
Less accumulated depreciation and amortization	(8,128,635)	(7,702,424)
Net property and equipment	5,496,033	6,320,716
Total assets	\$ 18,142,870	15,641,510
Liabilities and Net Assets:		
Accounts payable	\$ 1,502,531	1,750,326
Accrued liabilities	4,205,292	1,706,954
Deferred revenue and rent	526,239	321,087
Bonds and notes payable, net (note 3)	11,506,401	12,769,678
Total liabilities	17,740,463	16,548,045
Net assets (deficit):		
Unrestricted	402,407	(906,535)
Total net assets (deficit)	402,407	(906,535)
Commitments and contingency (notes 4 through 6)		
Total liabilities and net assets	\$ 18,142,870	15,641,510

See the accompanying notes to the financial statements.

Denver Options, Inc. d/b/a Rocky Mountain Human Services
Statements of Activities
Years Ended June 30, 2017 and 2016

	2017	2016
Operating revenue:		
Service coordination	\$ 5,455,853	5,805,419
Behavioral health services	815,897	955,749
Child and family services	12,059,229	10,395,646
Life skills and support services	12,096,824	13,955,376
Housing and employment for veterans	3,168,291	3,191,537
Other programs	3,229,312	4,143,402
Total operating revenue	36,825,406	38,447,129
Expenses:		
Program services:		
Service coordination	4,103,325	4,611,241
Behavioral health services	664,233	766,741
Child and family services	10,628,609	8,901,379
Life skills and support services	11,326,615	12,106,289
Housing and employment for veterans	3,151,105	3,669,334
Other programs	2,349,759	4,334,530
Total program services	32,223,646	34,389,514
Supporting services:		
Management and general	4,189,791	4,246,019
Total supporting services	4,189,791	4,246,019
Total operating expenses	36,413,437	38,635,533
Total operating net income (loss)	411,969	(188,404)
Non-operating revenue and expenses:		
Contributions and grants	165,935	365,272
Recoveries of contributions receivable previously written off	-	50,000
Billing revenue	738,584	570,904
Other revenue	35,536	307,499
Fund raising expenses	(43,082)	(186,801)
Total non-operating revenue and expenses	896,973	1,106,874
Change in net assets	1,308,942	918,470
Net deficit at beginning of year	(906,535)	(1,825,005)
Net assets (deficit) at end of year	\$ 402,407	(906,535)

See the accompanying notes to the financial statements.

Denver Options, Inc. d/b/a Rocky Mountain Human Services
Statement of Functional Expenses
Year Ended June 30, 2017

	Service coordination	Behavioral health services	Child and family services	Life skills and support services	Housing and employment for veterans	Other programs	Total program services	Management and general	Fund raising	Total expenses
Salaries	\$ 2,776,509	490,153	3,377,751	1,697,295	1,307,567	945	9,650,220	2,159,257	15,537	11,825,014
Payroll taxes	231,370	35,372	278,506	137,659	110,858	75	793,840	165,360	1,326	960,526
Benefits	392,404	67,037	485,640	284,960	189,884	129	1,420,054	322,853	2,132	1,745,039
Client expenses:										
Services and activities	-	-	2,779,406	495,413	-	39,979	3,314,798	-	-	3,314,798
Professional services	1,384	175	1,333,186	37,011	-	534	1,372,290	-	-	1,372,290
Habilitation services	-	-	51,832	2,072,922	50	1,187,265	3,312,069	-	-	3,312,069
Respite	-	-	1,223,480	1,018,345	-	17,772	2,259,597	-	-	2,259,597
Personal care	600	-	239,060	1,733,001	9,399	15,458	1,997,518	-	-	1,997,518
Transportation	-	-	18,017	397,324	21,989	1,012,275	1,449,605	-	-	1,449,605
Housing	-	-	33,757	2,893,886	918,071	7,791	3,853,505	-	-	3,853,505
Other expenses	-	-	66,679	64,306	-	53,790	184,775	-	-	184,775
Professional fees	50,492	12,506	95,167	82,423	13,834	94	254,516	406,921	1,927	663,364
Office supplies	180,152	13,671	189,704	114,901	106,382	530	605,340	176,804	8,469	790,613
Occupancy	98,394	9,461	85,534	70,406	179,648	548	443,991	178,058	3,156	625,205
Travel	48,966	4,185	55,378	22,165	24,615	-	155,309	2,097	330	157,736
Conferences	5,907	11	8,072	1,181	310	-	15,481	21,061	155	36,697
Interest	118,707	12,111	112,861	76,384	24,462	5,935	350,460	128,282	3,206	481,948
Depreciation	176,979	14,607	161,422	80,478	228,179	217	661,882	202,571	3,828	868,281
Insurance	11,466	4,938	29,346	31,812	8,653	6,412	92,627	14,802	137	107,566
Bad debt	-	-	-	-	-	-	-	285,955	-	285,955
Other expenses	9,995	6	3,811	14,743	7,204	10	35,769	125,770	2,879	164,418
Total expenses	\$ 4,103,325	664,233	10,628,609	11,326,615	3,151,105	2,349,759	32,223,646	4,189,791	43,082	36,456,519

See the accompanying notes to the financial statements.

Denver Options, Inc. d/b/a Rocky Mountain Human Services
Statement of Functional Expenses
Year Ended June 30, 2016

	Service coordination	Behavioral health services	Child and family services	Life skills and support services	Housing and employment for veterans	Other programs	Total program services	Management and general	Fund raising	Total expenses
Salaries	\$ 3,067,866	584,059	3,254,856	1,910,375	1,470,578	909,405	11,197,139	2,239,030	108,419	13,544,588
Payroll taxes	235,667	41,394	257,113	155,408	115,714	69,005	874,301	165,866	8,786	1,048,953
Benefits	473,220	51,068	422,559	328,707	186,351	114,622	1,576,527	270,362	8,802	1,855,691
Client expenses:										
Services and activities	-	-	2,486,794	490,753	-	227,431	3,204,978	-	-	3,204,978
Professional services	2,956	847	852,374	8,727	-	12,319	877,223	2,992	-	880,215
Habilitation services	-	-	-	2,032,294	-	1,506,190	3,538,484	-	-	3,538,484
Respite	-	-	629,484	1,244,302	-	13,802	1,887,588	-	-	1,887,588
Personal care	-	-	8,809	1,833,776	4,461	98,147	1,945,193	25	-	1,945,218
Transportation	-	-	1,523	510,678	17,908	836,793	1,366,902	-	-	1,366,902
Housing	1,789	-	346	2,715,776	1,149,775	13,602	3,881,288	-	-	3,881,288
Other expenses	2,395	-	75,249	67,594	2,389	55,335	202,962	-	-	202,962
Professional fees	68,699	3,723	80,089	119,895	42,394	82,732	397,532	478,074	8,674	884,280
Office supplies	151,696	17,308	156,098	121,417	107,051	77,262	630,832	154,888	4,865	790,585
Occupancy	263,094	26,772	281,992	259,117	240,924	129,581	1,201,480	153,199	6,389	1,361,068
Travel	42,547	6,806	54,694	14,800	36,726	15,865	171,438	3,612	4,216	179,266
Conferences	2,293	24	2,028	1,293	130	4,093	9,861	7,885	3,459	21,205
Interest	89,841	11,511	125,194	130,900	36,538	43,335	437,319	66,493	2,866	506,678
Depreciation	176,150	17,770	181,187	120,591	245,459	110,624	851,781	347,587	4,520	1,203,888
Insurance	14,568	5,437	28,034	39,333	11,507	13,892	112,771	13,987	625	127,383
Bad debt	-	-	-	-	-	-	-	213,112	-	213,112
Other expenses	18,460	22	2,956	553	1,429	495	23,915	128,907	25,180	178,002
Total expenses	\$ 4,611,241	766,741	8,901,379	12,106,289	3,669,334	4,334,530	34,389,514	4,246,019	186,801	38,822,334

See the accompanying notes to the financial statements.

Denver Options, Inc. d/b/a Rocky Mountain Human Services
Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 1,308,942	918,470
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	868,281	1,189,637
Amortization of debt issuance costs	21,228	14,251
Gain on sale/disposal of property	—	(225,788)
Bad debt expense	285,955	213,112
(Increase) decrease in operating assets:		
Accounts receivable	(2,112,307)	784,511
Prepaid expenses and other assets	25,086	207,081
Restricted cash and cash equivalents	2,943	95,815
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities	2,250,543	(1,415,020)
Deferred revenue and rent	205,152	(374,189)
	<u>2,855,823</u>	<u>1,407,880</u>
Cash flows from investing activities:		
Proceeds from sales of properties	—	955,134
Purchases of property and equipment	(43,598)	(72,727)
	<u>(43,598)</u>	<u>882,407</u>
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	—	2,023,154
Principal payments on bonds and notes payable	(1,284,505)	(2,626,460)
	<u>(1,284,505)</u>	<u>(603,306)</u>
Increase in cash and cash equivalents	1,527,720	1,686,981
Cash and cash equivalents at beginning of year	<u>2,409,853</u>	<u>722,872</u>
Cash and cash equivalents at end of year	<u>\$ 3,937,573</u>	<u>2,409,853</u>
Supplemental cash flow information:		
Interest paid	<u>\$ 477,365</u>	<u>457,672</u>

See the accompanying notes to the financial statements.

Denver Options, Inc. d/b/a Rocky Mountain Human Services

Notes to Financial Statements

June 30, 2017 and 2016

(1) Summary of Significant Accounting Policies

(a) Organization

Denver Options, Inc., d/b/a Rocky Mountain Human Services (RMHS) is a not-for-profit corporation designated by the State of Colorado as a Community Centered Board to coordinate programs to provide services to individuals with developmental disabilities in the City and County of Denver. RMHS also provides services and programs in addition to those specific to its designation as a Community Centered Board. RMHS is supported primarily through governmental and client service revenue, grants, and contributions. RMHS' services and programs can be categorized under the following pillars:

Service Coordination: Case management includes intake activities and eligibility determination, the facilitation of enrollment into home and community based services, and locating, coordinating, and monitoring developmental disabilities services. Service coordinators monitor the effective and efficient provision of services across multiple funding sources and may also assist clients with obtaining non-developmental disabilities funded medical, social, education, and other services.

Behavioral Health Services: Behavioral and mental health services are provided to adults with intellectual and developmental disabilities and other cognitive needs, and the clinic specializes in care for adults with complex coordination of care needs.

Child and Family Services: RMHS provides services to children and adolescents with developmental delays or disabilities, including autism, under three programs. The EI program provides child development services to eligible infants and toddlers, and their families, in the areas of cognition, speech and communication, sensory and motor development, social and emotional development, and self-help skills. The Children's Clinical program provides comprehensive assessment, consultation, and intervention services to infants, children, and adolescents under age nineteen, and children with autism spectrum disorder. The Family Support Services Program (FSSP) provides support for families who have children with developmental disabilities or delays with costs that are beyond those normally experienced by other families and focuses on preventing out-of-home placements.

Life Skills and Support Services: This program provides direct care for adults and children with intellectual and developmental disabilities through the Home and Community-Based Services Waiver for Developmentally Disabled, including 24/7 home living arrangements, as well as home health care, daily living skills coaching, and independent living support through the Children's Extensive Waiver (CES) and Supported Living Services Waiver (SLS). This program further provides residential services, respite, personal care, behavioral services, mentorship, transportation, hippotherapy, movement therapy, massage therapy, day habilitation, basic and enhanced homemaker services, supported employment, and community connections.

Housing and Employment for Veterans: RMHS provides workforce preparation, job placement, and stable housing services to Veterans who are homeless or at risk of becoming homeless as well as providing peer mentoring to Veterans in the criminal justice system.

Denver Options, Inc. d/b/a Rocky Mountain Human Services
Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

(a) Organization, Continued

Other programs: Transportation services to daily activities are available to adult clients who have the ability to participate in independent local travel. The Program Approved Service Agency (PASA) Administration program provides general oversight and administrative services to PASA's which enable clients to receive services from the provider of their choice.

RMHS provides services to adults, and their families, with traumatic brain injuries which include case management, crisis resolution, advocacy, resource referrals, emergency financial aid, educational workshops and support. As of July 1, 2016, this program was transferred to another service provider. RMHS also provides services under the Operation TBI Freedom program, which includes case management, psycho-educational workshops, peer support groups, and transitional services to individuals with traumatic brain injuries who have served in the military on or after September 11, 2001. As of April 4, 2016, this program was transferred to Craig Hospital.

(b) Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

(c) Financial Statement Presentation

RMHS reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. RMHS did not have any temporarily restricted or permanently restricted net assets at June 30, 2017 and 2016.

(d) Contributions

Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a 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 statements of activities as net assets released from restrictions. Restrictions met in the same period in which the related contributions are received are recorded as unrestricted support.

Denver Options, Inc. d/b/a Rocky Mountain Human Services
Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

(e) Contributed Property and Services

Contributed property and equipment are recorded as unrestricted support at its estimated fair value at date of donation. Donated goods and services are recorded as contributions and corresponding expenses at their estimated fair values at the date of donation. A number of volunteers have donated their time in connection with RMHS' activities. No amounts have been reflected in the accompanying financial statements for volunteers' donated services because they do not meet the criteria for recognition.

(f) Recognition of Income

Program services revenue is deemed to be earned and is reported as revenue when RMHS has incurred expenditures or performed services in compliance with the provisions of the respective service agreements. Cash received for contracts in excess of allowable expenses incurred is recorded as unearned revenue, and allowable expenses incurred on contracts in excess of cash received are recorded as a receivable. Net client service revenue is reported at the estimated net realizable amounts from third party payors and others for services rendered and includes estimated retroactive adjustments.

(g) Debt Issuance Costs

RMHS incurred debt issuance costs on a bond issue and two term loans totaling \$303,268 which are being amortized over the life of the respective bond and loans. The balances at June 30, 2017 and 2016 was \$223,085 and \$244,313, respectively, and amortization expense was \$21,228 in 2017 and \$14,251 in 2016.

(h) Cash and Cash Equivalents

For purposes of the statements of cash flows, RMHS considers all unrestricted highly liquid instruments with original maturities of three months or less to be cash equivalents.

(i) Accounts Receivable

The change in net assets is charged with an allowance for estimated uncollectible accounts based on past experience and on analysis of current accounts receivable collectability. Accounts deemed uncollectible are charged to the allowance in the year they are deemed uncollectible.

(j) Property and Equipment

Property and equipment is recorded at cost. RMHS capitalizes all expenditures for property and equipment in excess of \$2,500. Depreciation is computed using the straight-line method over estimated useful lives of the assets ranging from two to forty years. Leasehold improvements are amortized ratably over the lesser of the lease term or their respective estimated useful life.

Denver Options, Inc. d/b/a Rocky Mountain Human Services
Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

(k) Deferred Rent

Deferred rent represents the unamortized portion of lessor incentives (free rent and reimbursed tenant expenses) received in conjunction with several of RMHS' office leases. RMHS amortizes deferred rent over the lives of the leases.

(l) Concentrations of Credit Risk

Financial instruments that potentially subject RMHS to concentrations of credit risk consist of cash and cash equivalents and receivables. RMHS places its cash and cash equivalents with creditworthy, high quality, financial institutions. At times, a portion of these cash and balances may not be insured by the Federal Deposit Insurance Corporation or related entity. Credit risk with respect to trade receivables is generally diversified due to the large number of entities and credit-worthiness of the organizations that comprise RMHS' customer base.

(m) Use of 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 and disclosure on contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(n) Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited.

(o) Income Taxes

RMHS is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and qualify for the charitable contribution deduction. However, income from activities not directly related to RMHS' tax-exempt purpose is subject to taxation as unrelated business income. RMHS incurred no unrelated business income tax during 2017 or 2016.

Management is required to evaluate tax positions taken by the entity and to recognize a tax liability if an entity has taken an uncertain tax position that more likely than not would not be sustained upon examination by taxing authorities. RMHS believes that it has appropriate support for any tax positions taken and that none would require recognition of a liability or disclosure in the financial statements. RMHS is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Tax returns for the previous three years are subject to examination by the IRS, generally for three years after initial filing.

Denver Options, Inc. d/b/a Rocky Mountain Human Services
Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

(p) Subsequent Events

Management is required to evaluate, through the date the financial statements are issued or available to be issued, events or transactions that may require recognition or disclosure in the financial statements, and to disclose the date through which subsequent events were evaluated. RMHS' financial statements were available to be issued on November 15, 2017, and this is the date through which subsequent events were evaluated.

(q) Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation. The reclassifications had no effect on the change in net assets.

(2) Restricted Cash and Cash Equivalents

RMHS receives funds on behalf of certain clients that are restricted by government agencies for the exclusive benefit of the named clients. RMHS is required by the bond agreement to make deposits equal to 10% of the annual interest and principal due into a restricted repayment account during the months of January through October for purposes of funding monthly bond payment (see note 3). At June 30, 2017 and 2016, these funds totaled \$208,312 and \$211,255, respectively.

(3) Bonds and Notes Payable

On December 1, 2012, RMHS entered into an agreement for an \$11,100,000 Bond Issue secured by the deed of trust for the administrative building which carries a fixed interest rate of 3.27%. At June 30, 2017 and 2016, the bonds had a balance of \$8,975,922 and \$9,488,589, respectively. Principal and interest totaling \$67,942 are due monthly through February 1, 2031. The bonds have certain financial covenants which have been met at June 30, 2017 and 2016.

On December 19, 2013, RMHS entered into a seven-year, \$1,400,969 term loan agreement which is secured by certain inventory, accounts, furniture and equipment and carries a fixed interest rate of 3.95%. At June 30, 2017 and 2016, the loan had a balance of \$713,782 and \$911,078, respectively. Principal and interest payments totaling \$19,140 are due monthly through January 2021. This loan has certain financial covenants which have been met at June 30, 2017 and 2016.

On November 25, 2014, RMHS entered into a seven-year, \$1,599,304 term loan agreement which is secured by certain inventory, accounts, furniture and equipment and carries a fixed interest rate of 4.24%. At June 30, 2017 and 2016, the loan had a balance of \$947,724 and \$1,241,170, respectively. Principal and interest payments totaling \$24,956 are due monthly through January 2021. This loan has certain financial covenants which have been met at June 30, 2017 and 2016.

Denver Options, Inc. d/b/a Rocky Mountain Human Services

Notes to Financial Statements

(3) Bonds and Notes Payable, Continued

During fiscal 2016, as a result of discontinued operations, RMHS terminated a lease agreement early, and on December 31, 2015, negotiated a \$373,154 unsecured loan agreement with the landlord for payment of the early termination fee over a five-year period. No payments are required for the first two years, then beginning November 1, 2017, monthly payments are required as follows: \$5,000 through October 2018; \$7,500 through October 2019; \$10,000 through October 2020, and a balloon payment totaling \$191,461 is due on October 1, 2020. The note bears an interest rate of 5%.

RMHS had a revolving line of credit with a bank in the amount of \$1,000,000 with a variable interest rate at 2.75% over Prime Rate. On April 25, 2016, the outstanding balance totaling \$1,000,000 on the line of credit was converted into a term loan secured by certain inventory, accounts, furniture and equipment with an interest rate of 3.5%. Beginning in July 2016, principal and interest payments totaling \$29,430 are due monthly through June 2019. At June 30, 2017 and 2016, the loan had a balance of \$679,246 and \$1,000,000, respectively. This loan has certain financial covenants which have been met at June 30, 2017 and 2016.

RMHS opened a temporary line of credit for \$650,000 on July 1, 2015 with a variable interest rate of 0.5% over Prime Rate secured by personal property and rents. The full line of credit was used for a one week period, then subsequently repaid in August 2015. The line of credit was closed in December 2015. The effective interest rate during this period was 3.25%. This line of credit was not used during the year ended June 30, 2017.

Aggregate future minimum principal payments on the bonds and notes are as follows as of June 30:

2018	\$ 1,360,301
2019	1,442,222
2020	1,171,359
2021	1,006,271
2022	603,595
Thereafter	<u>6,145,738</u>
Total bonds and notes payable	11,729,486
Less unamortized debt issuance costs	<u>(223,085)</u>
Total bonds and notes payable, net	\$ <u>11,506,401</u>

Interest expense during the years ended June 30, 2017 and 2016 totaled \$460,720 and \$506,678, respectively.

(4) Leases

RMHS entered into various non-cancelable operating leases for office space, equipment, and vehicles that expire through December 2019. Total rent expense for the years ended June 30, 2017 and 2016 was \$226,690 and \$899,191, respectively. Future minimum lease payments under these non-cancelable operating leases are as follows as of June 30:

2018	\$ 149,981
2019	40,620
2020	<u>16,382</u>
	\$ <u>206,983</u>

Denver Options, Inc. d/b/a Rocky Mountain Human Services

Notes to Financial Statements

(5) Retirement Plan

RMHS maintains a tax sheltered annuity plan (the Plan) which covers substantially all employees. Eligible employees may begin to participate in the Plan with elective deferral contributions on the date of hire. An employee becomes eligible for employer matching contributions after six months of service. Under the Plan, for the first pay period during the year ended June 30, 2016, RMHS matched 5% of eligible compensation; then all matching contributions were suspended for the remainder of the calendar year. On January 1, 2017, the match was reinstated at 2% of eligible compensation. For the years ended June 30, 2017 and 2016, RMHS contributed \$82,343 and \$27,807, respectively, to the Plan.

(6) Financial Position and Future Operations

As indicated in the accompanying financial statements, RMHS had net assets of \$402,407 and debt totaling \$11,506,401 as of June 30, 2017. RMHS had operating net income of \$411,969 during the year ended June 30, 2017 which resulted in a change in net assets of \$1,308,942. This is a result of management taking actions during the year to ensure RMHS will continue as a going concern. Management continues to monitor personnel needs and reduce discretionary spending. Management believes these continued actions will allow RMHS to achieve continued positive financial results in future years.

RMHS has a significant contract with the City and County of Denver which represents 23.5% of its total revenue for the year ended June 30, 2017, and this contract expires on December 31, 2017. RMHS is in the process of renegotiating the contract for renewal; however, at this time, the outcome cannot be reasonably determined.

Denver Options, Inc.
d/b/a Rocky Mountain Human Services
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal grantor/pass-through grantor/program or cluster title	Pass-through Entity Identi- fying Number	Federal CFDA number	Federal expend- itures
U.S. Department of Labor:			
Direct Programs:			
Homeless Veterans' Reintegration Project	HV25979145058	17.805 \$	179,293
Homeless Veterans' Reintegration Project	HV27451156058	17.805	8,522
Subtotal 17.805			<u>187,815</u>
Total Direct Programs			<u>187,815</u>
Total U.S. Department of Labor			<u>187,815</u>
U.S. Department of Veteran Affairs:			
Direct Programs:			
VA Supportive Services for Veteran Families	C15-CO-504A	64.033	908,269
VA Supportive Services for Veteran Families	12-ZZ-020	64.033	2,072,207
Subtotal 64.033			<u>2,980,476</u>
Total Direct Programs			<u>2,980,476</u>
Total U.S. Department of Veteran Affairs			<u>2,980,476</u>
U.S. Department of Education			
Pass-through Programs From:			
State of Colorado, Department of Human Services:			
Special Education-Grants for Infants and Families with Disabilities	H181A150097	84.181A	46,206
Special Education-Grants for Infants and Families with Disabilities	H181A160097	84.181A	867,720
Subtotal 84.181A			<u>913,926</u>
Total Pass-through Programs			<u>913,926</u>
Total U.S. Department of Education			<u>913,926</u>
U.S. Department of Health and Human Services			
Pass-through Programs From:			
University of Colorado:			
Screening and Linkage to Services for Autism	R40MC27702	93.110	12,569
State of Colorado, Department of Health Care Policy and Financing:			
Medical Assistance Program	15-67177A2	93.778	269,058
University of Illinois:			
Child Health and Human Development Extramural Research	N/A	93.865	778
Total Pass-through Programs			<u>282,405</u>
Total U.S. Department of Health and Human Services			<u>282,405</u>
Total Expenditures of Federal Awards			<u>\$ 4,364,622</u>

Denver Options, Inc.
d/b/a Rocky Mountain Human Services
Schedule of Expenditures of Federal Awards, Continued
Year Ended June 30, 2017

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Denver Options, Inc., d/b/a Rocky Mountain Human Services (RMHS) under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of RMHS, it is not intended to and does not present the financial position, changes in net assets, or cash flows of RMHS.

Note 2: Summary of Significant Accounting Policies

- (a) Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance or OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, as applicable, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- (b) RMHS has elected to use the 10% de minimum indirect cost rate as allowed under the Uniform Guidance.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

**Board of Directors
Denver Options, Inc.
d/b/a Rocky Mountain Human Services:**

We have audited, in accordance with the 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, the financial statements of Denver Options, Inc. d/b/a Rocky Mountain Human Services (RMHS), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 15, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered RMHS' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of RMHS' internal control. Accordingly, we do not express an opinion on the effectiveness of RMHS' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether RMHS' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Board of Directors
Denver Options, Inc.
d/b/a Rocky Mountain Human Services:**

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KUNDINGER, CORDER & ENGLE, P.C.

November 15, 2017

**Independent Auditor's Report on Compliance for Each Major Program
and on Internal Control over Compliance Required by the Uniform Guidance**

**Board of Directors
Denver Options, Inc.
d/b/a Rocky Mountain Human Services:**

Report on Compliance for Each Major Federal Program

We have audited Denver Options, Inc. d/b/a Rocky Mountain Human Services (RMHS) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of RMHS' major federal programs for the year ended June 30, 2017. RMHS' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of RMHS' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about RMHS' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of RMHS' compliance.

Opinion on Each Major Federal Program

In our opinion, RMHS complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

**Board of Directors
Denver Options, Inc.
d/b/a Rocky Mountain Human Services:**

Report on Internal Control over Compliance

Management of RMHS is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered RMHS' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of RMHS' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

KUNDINGER, CORDER & ENGLE, P.C.

November 15, 2017

Denver Options, Inc.
d/b/a Rocky Mountain Human Services
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

A. Summary of Auditor's Results

1. The auditor's report expresses an unmodified opinion on whether the financial statements of Denver Options, Inc. d/b/a Rocky Mountain Human Services (RMHS) were prepared in accordance with GAAP.
2. No significant deficiencies relating to the audit of the financial statements are reported in the *Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of RMHS, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs were disclosed during the audit is reported in the *Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance*. No material weaknesses are reported.
5. The auditor's report on compliance for the major federal award programs for RMHS expresses an unmodified opinion on all major federal programs.
6. There are no audit findings related to major programs that are required to be reported in accordance with 2 CFR section 200.516(a) are reported in this Schedule.
7. The major program tested was: Department of Veteran Affairs, VA Supportive Services for Veteran Families Program, CFDA No. 64.033.
8. The threshold used for distinguishing between Type A and B programs was \$750,000.
9. RMHS did not qualify as a low-risk auditee.

B. Findings-Financial Statement Audit

None.

C. Findings and Questioned Costs-Major Federal Award Programs Audit

None.

Denver Options, Inc.
d/b/a Rocky Mountain Human Services
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2017

2016-001 Documentation of Salaries Charged to Federal Grants – The prior year audit finding stated salaries charged to grants were not properly substantiated by timesheets. Our audit indicated salaries charged to the federal grant were properly supported by timesheets for all employees tested during the year ended June 30, 2017.