

**SOUTHEASTERN
DEVELOPMENTAL
SERVICES, INC.**

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

June 30, 2017 and 2016



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, 2017 and 2016, 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

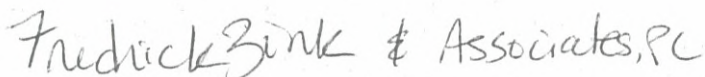
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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, 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.



FredrickZink & Associates, PC
October 16, 2017

FINANCIAL STATEMENTS

SOUTHEASTERN DEVELOPMENTAL SERVICES, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2017 and 2016

ASSETS

	<u>2017</u>	<u>2016</u>
Current assets		
Cash and cash equivalents.....	\$ 570,670	\$ 739,859
Certificates of deposit (Note 3).....	147,342	146,755
Accounts receivable		
Fees and grants from governmental agencies, net (Note 4).....	239,849	213,067
Vocational contracts and sales.....	28,854	20,934
Prepaid expenses and other.....	27,508	20,569
Total current assets.....	<u>1,014,223</u>	<u>1,141,184</u>
Property and equipment (Note 5)		
Property and equipment	2,032,005	2,009,661
Accumulated depreciation.....	<u>(1,584,860)</u>	<u>(1,545,956)</u>
Total property and equipment.....	<u>447,145</u>	<u>463,705</u>
Total assets	<u>\$ 1,461,368</u>	<u>\$ 1,604,889</u>

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable and accrued expenses.....	\$ 188,103	\$ 201,781
Deferred revenue (Note 6).....	43,215	-
Total current liabilities.....	<u>231,318</u>	<u>201,781</u>
Net assets, unrestricted		
Undesignated.....	782,905	939,403
Net investment in property and equipment.....	447,145	463,705
Total net assets, unrestricted.....	<u>1,230,050</u>	<u>1,403,108</u>
Total liabilities and net assets	<u>\$ 1,461,368</u>	<u>\$ 1,604,889</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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Support and Revenue		
Fees and grants from governmental agencies		
Fees for services		
State of Colorado		
State General Fund		
Comprehensive.....	\$ 54,464	\$ 13,654
Adult supported living.....	26,178	79,314
Children's extensive support.....	539	1,263
Early intervention.....	102,001	95,875
Family support services program.....	34,134	36,212
Total fees from State General Fund.....	<u>217,316</u>	<u>226,318</u>
Medicaid		
Comprehensive.....	1,818,368	1,899,289
Adult supported living.....	364,013	345,318
Medical services.....	11,493	62,771
Children's extensive support.....	3,574	4,758
Early intervention.....	1,016	2,354
Home community based services.....	86	415
Total fees from Medicaid.....	<u>2,198,550</u>	<u>2,314,905</u>
Other State Sources		
Part C - Early intervention.....	19,003	12,306
Total fees and grants from governmental agencies.....	<u>2,434,869</u>	<u>2,553,529</u>
Public support - contributions.....	15,514	22,854
In-kind donations.....	3,173	10,209
Residential room and board.....	201,474	212,806
Other revenue.....	49,513	120,032
Total support and revenue.....	<u>2,704,543</u>	<u>2,919,430</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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Expenses		
Program services		
Medicaid comprehensive.....	\$ 1,835,110	\$ 1,937,748
State adult supported living.....	60,856	60,856
Medicaid adult supported living.....	255,111	244,119
Children's extensive support.....	10,066	11,352
Early intervention.....	94,075	90,166
Family support services program.....	31,234	37,358
Case management.....	183,530	173,047
Medical services.....	120,626	161,563
Total program services.....	<u>2,590,608</u>	<u>2,716,209</u>
Supporting services		
Management and general.....	268,919	259,196
Fundraising.....	18,074	18,596
Total supporting services.....	<u>286,993</u>	<u>277,792</u>
Total expenses.....	<u>2,877,601</u>	<u>2,994,001</u>
Change in unrestricted net assets.....	(173,058)	(74,571)
Net assets, beginning of year.....	<u>1,403,108</u>	<u>1,477,679</u>
Net assets, end of year.....	<u><u>\$ 1,230,050</u></u>	<u><u>\$ 1,403,108</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, 2017 and 2016

Increase (Decrease) in Cash and Cash Equivalents

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Cash received from governmental agencies and others.....	\$ 2,711,304	\$ 2,866,043
Cash paid to suppliers and employees.....	(2,825,850)	(2,910,669)
Interest received.....	1,445	1,636
Net cash used by operating activities.....	<u>(113,101)</u>	<u>(42,990)</u>
Cash flows from investing activities:		
Redemption of certificate of deposit.....	293,510	292,778
Purchase of certificate of deposit.....	(293,510)	(292,778)
Purchase of property and equipment.....	(56,088)	(66,497)
Net cash used by investing activities.....	<u>(56,088)</u>	<u>(66,497)</u>
Net decrease in cash and cash equivalents.....	(169,189)	(109,487)
Cash and cash equivalents, beginning of year.....	<u>739,859</u>	<u>849,346</u>
Cash and cash equivalents, end of year.....	<u>\$ 570,670</u>	<u>\$ 739,859</u>
Reconciliation of change in net assets to net cash used by operating activities:		
Change in net assets.....	<u>\$ (173,058)</u>	<u>\$ (74,571)</u>
Adjustments to reconcile:		
Depreciation.....	72,648	72,669
Reinvested interest earnings on certificates of deposit.....	(587)	(366)
Decrease (increase) in		
Accounts receivable, net.....	(34,702)	9,474
Prepaid expenses and other.....	(6,939)	25,695
Increase (decrease) in		
Accounts payable and accrued expenses.....	(13,678)	(75,891)
Deferred revenue.....	43,215	-
Total adjustments.....	<u>59,957</u>	<u>31,581</u>
Net cash used by operating activities.....	\$ (113,101)	\$ (42,990)

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

SOUTHEASTERN DEVELOPMENTAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

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, 2017 and 2016

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 and 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, 2017 and 2016

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 16, 2017, the date which the financial statements were available to be issued. Except as disclosed in Note 5, 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, 2017 mature in December 2017 and both bear interest at 0.70%. The certificates held at June 30, 2016 had an interest rate of 0.40% and matured in December 2016.

	<u>2017</u>	<u>2016</u>
Six-month certificate	\$ 73,669	\$ 73,375
Six-month certificate	73,673	73,380
	<u>\$ 147,342</u>	<u>\$ 146,755</u>

NOTE 4 - FEES AND GRANTS FROM GOVERNMENTAL AGENCIES

Amounts receivable from governmental agencies at June 30, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
State of Colorado		
General Fund	\$ 32,613	\$ 35,232
Medicaid	212,139	183,018
Allowance for doubtful accounts	(4,903)	(5,183)
	<u>\$ 239,849</u>	<u>\$ 213,067</u>

SOUTHEASTERN DEVELOPMENTAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2017 and 2016

NOTE 5 - PROPERTY AND EQUIPMENT

The cost of property and equipment and related accumulated depreciation at June 30, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Land	\$ 70,867	\$ 70,867
Buildings and improvements	1,224,354	1,186,491
Equipment	736,784	742,528
Construction in progress	<u>-</u>	<u>9,775</u>
	2,032,005	2,009,661
Accumulated depreciation	<u>(1,584,860)</u>	<u>(1,545,956)</u>
Total property and equipment	<u>\$ 447,145</u>	<u>\$ 463,705</u>

Subsequent to June 30, 2017, the Center received an insurance settlement of \$35,444 to repair damage to the Center's buildings that resulted from a storm in 2014.

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. Beginning in 2016, the Center matched contributions made by full-time employees at a maximum of \$200 per month. The Center paid \$14,250 and \$4,200, respectively, into the plan during the years ended June 30, 2017 and 2016.

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, 2017. The Center had a balance due to the State of Colorado as of June 30, 2016 for expenses and reimbursements, which were recorded in accounts payable and accrued expenses in the amount of \$13,465.

NOTE 8 - CONCENTRATION OF RISK

The Center had significant activity with one major vendor which represented 30% of accounts payable (30% in 2016) and 19% of expenses (16% in 2016) for the year ended June 30, 2017. The Center expects to maintain this relationship with the vendor as it is the only vendor in the region that provides behavioral services.

SUPPLEMENTARY INFORMATION



FREDRICKZINK & Associates

A professional corporation. | CPAs

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, 2017 and 2016, and have issued our report thereon dated October 16, 2017, 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 16, 2017

SOUTHEASTERN DEVELOPMENTAL SERVICES, INC.

SCHEDULE OF CASE MANAGEMENT SERVICES

For the Year Ended June 30, 2017

	<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.....	\$ -	\$ 18,766	\$ 18,766
Adult supported living.....	-	14,061	14,061
Children's extensive support.....	-	539	539
Early intervention.....	-	16,260	16,260
Family support services program.....	-	7,894	7,894
Medicaid			
Comprehensive.....	52,292	-	52,292
Adult supported living.....	28,693	-	28,693
Children's extensive support.....	841	-	841
Early intervention.....	1,016	-	1,016
Home community based services.....	86	-	86
Part C - Early intervention.....	-	7,558	7,558
Total support and revenue.....	<u>\$ 82,928</u>	<u>\$ 65,078</u>	<u>\$ 148,006</u>

	<u>Targeted case management</u>	<u>Other case management</u>	<u>Total</u>
Statistical Data (Unaudited)			
Unduplicated number of individuals	84	58	142
Full-time equivalents	2.5	1.5	4.0

SOUTHEASTERN DEVELOPMENTAL SERVICES, INC.

SCHEDULE OF CASE MANAGEMENT SERVICES - Continued

For the Year Ended June 30, 2017

	Targeted case management	Other case management	Total
Expenses			
Salaries			
Direct care.....	\$ 73,875	\$ 57,973	\$ 131,848
Other.....	1,992	1,564	3,556
Payroll taxes.....	6,322	4,961	11,283
Employee benefits.....	9,922	7,787	17,709
Total personal services.....	92,111	72,285	164,396
Medical professional services			
Physicians.....	-	-	-
Other.....	-	-	-
Other professional services.....	217	171	388
Staff development.....	375	294	669
Staff travel.....	433	339	772
Vehicles			
Fuel and oil.....	206	161	367
Maintenance.....	140	109	249
Leases.....	-	-	-
Occupancy			
Rent.....	-	-	-
Maintenance.....	2,510	1,970	4,480
Utilities.....	637	499	1,136
Equipment			
Leases.....	-	-	-
Maintenance.....	1,020	801	1,821
Supplies			
Medical and client care supplies.....	-	-	-
Pharmacy.....	-	-	-
Productions materials.....	495	388	883
Other.....	961	754	1,715
Telephone.....	528	414	942
Dues and subscriptions.....	48	38	86
Food.....	-	-	-
Insurance.....	703	551	1,254
Interest.....	-	-	-
Other.....	164	132	296
In-kind donations.....	-	-	-
Total direct program expenses.....	100,548	78,906	179,454
Depreciation and amortization.....	2,284	1,792	4,076
Total expenses.....	\$ 102,832	\$ 80,698	\$ 183,530