

**Rocky Mountain Human Services
and Subsidiary**

**Consolidated Financial Statements and
Supplemental Information**

June 30, 2019 and 2018

(With Independent Auditor's Report Thereon)

Kundinger, Corder & Engle, P.C.

Certified Public Accountants

Rocky Mountain Human Services and Subsidiary

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Independent Auditor's Report

Board of Directors Rocky Mountain Human Services and Subsidiary

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Rocky Mountain Human Services and Subsidiary (RMHS), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of RMHS as of June 30, 2019 and 2018, 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
Rocky Mountain Human Services and Subsidiary**

Emphasis of Matter

As discussed in note 1, RMHS adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended June 30, 2019. The requirements of the ASU have applied retrospectively for all years presented. Our opinion is not modified with respect to this matter.

Other Matters - Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental information on pages 17 – 19 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* 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 consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated 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 13, 2019, 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.

Kennedinger, Cordia & Congle, P.C.

November 13, 2019

Rocky Mountain Human Services and Subsidiary
Consolidated Statements of Financial Position
June 30, 2019 and 2018

| | 2019 | 2018 |
|--|---------------|------------|
| Assets | | |
| Cash and cash equivalents | \$ 3,953,095 | 1,937,696 |
| Receivables | | |
| Service receivables, less allowance for uncollectible accounts of \$359,079 in 2019 and \$970,648 in 2018 | 2,495,302 | 3,328,741 |
| Denver Mill Levy receivables | 3,268,636 | 4,379,401 |
| State grant receivables | 1,885,696 | 644,763 |
| Other receivables | 1,153,717 | 147,256 |
| Net accounts receivable | 8,803,351 | 8,500,161 |
| Prepaid expenses and other assets | 82,211 | 65,649 |
| Restricted cash and cash equivalents (note 3) | 72,648 | 211,756 |
| Property and equipment, net (note 4) | 5,651,142 | 5,181,745 |
| Total assets | \$ 18,562,447 | 15,897,007 |
| Liabilities and Net Assets | | |
| Accounts payable | \$ 1,905,297 | 2,035,148 |
| Accrued liabilities | 1,821,672 | 1,580,642 |
| Deferred revenue | 92,703 | 60,817 |
| Deferred gain on conversion of debt (note 6) | 720,000 | - |
| Obligations under capital leases (note 5) | 762,580 | - |
| Bonds and notes payable, net (note 6) | 7,730,737 | 9,792,440 |
| Total liabilities | 13,032,989 | 13,469,047 |
| Net assets | | |
| Without donor restrictions | 5,529,458 | 2,427,960 |
| Total net assets | 5,529,458 | 2,427,960 |
| Commitments and contingency (notes 6 through 8) | | |
| Total liabilities and net assets | \$ 18,562,447 | 15,897,007 |

See the accompanying notes to the consolidated financial statements.

Rocky Mountain Human Services and Subsidiary
Consolidated Statements of Activities
Years Ended June 30, 2019 and 2018

| | 2019 | 2018 |
|---|--------------|------------|
| Operating revenue | | |
| Service coordination | \$ 5,426,471 | 4,626,453 |
| Behavioral health services | 145,693 | 641,188 |
| Client directed mill levy funds | 8,807,279 | 8,637,724 |
| Child and family services | 12,280,137 | 10,960,686 |
| Residential services and support | 9,560,529 | 10,933,168 |
| Transition programs | 6,924,430 | 2,781,531 |
| Other programs | 2,868,310 | 3,836,834 |
| Total operating revenue | 46,012,849 | 42,417,584 |
| Expenses | | |
| Program services | | |
| Service coordination | 4,873,244 | 4,093,854 |
| Behavioral health services | 147,921 | 538,658 |
| Client directed mill levy funds | 7,213,668 | 8,082,765 |
| Child and family services | 9,809,233 | 8,707,957 |
| Residential services and support | 9,045,119 | 10,352,526 |
| Transition programs | 6,166,562 | 2,653,742 |
| Other programs | 2,056,809 | 2,141,637 |
| Total program services | 39,312,556 | 36,571,139 |
| Supporting services | | |
| Management and general | 4,364,103 | 4,486,730 |
| Total supporting services | 4,364,103 | 4,486,730 |
| Total operating expenses | 43,676,659 | 41,057,869 |
| Total operating net income | 2,336,190 | 1,359,715 |
| Non-operating revenue and expenses | | |
| Contributions and grants | 26,905 | 50,364 |
| Billing revenue | 280,619 | 593,090 |
| Other revenue | 5,757 | 34,532 |
| Gain on conversion of debt (note 6) | 480,000 | - |
| Fund raising expenses | (27,973) | (12,148) |
| Total non-operating revenue and expenses | 765,308 | 665,838 |
| Change in net assets | 3,101,498 | 2,025,553 |
| Net assets at beginning of year | 2,427,960 | 402,407 |
| Net assets at end of year | \$ 5,529,458 | 2,427,960 |

See the accompanying notes to the consolidated financial statements.

Rocky Mountain Human Services and Subsidiary
Consolidated Statement of Functional Expenses
Year Ended June 30, 2019

| | Service coordi- nation | Behavioral health services | Client directed mill levy funds | Child and family services | Residential services and support | Transition programs | Other programs | Total program services | Manage- ment and general | Fund raising | Total expenses |
|----------------------------------|------------------------------|----------------------------------|---------------------------------------|---------------------------------|--|------------------------|-------------------|------------------------------|--------------------------------|-----------------|-------------------|
| Salaries | \$ 3,070,848 | 101,865 | 99,843 | 3,922,057 | 1,512,526 | 2,434,980 | – | 11,142,119 | 2,295,396 | 8,570 | 13,446,085 |
| Payroll taxes | 240,714 | 8,823 | 8,263 | 311,740 | 118,287 | 195,359 | – | 883,186 | 170,587 | 623 | 1,054,396 |
| Benefits | 522,808 | 16,900 | 18,049 | 665,420 | 274,494 | 441,676 | – | 1,939,347 | 406,362 | 1,347 | 2,347,056 |
| Client expenses | | | | | | | | | | | |
| Services and activities | 91 | – | 1,359,223 | 2,261,678 | 238,478 | 129,647 | 50,437 | 4,039,554 | – | – | 4,039,554 |
| Professional services | 10,282 | 391 | 2,621,636 | 1,021,259 | 18,043 | 318,982 | 425 | 3,991,018 | – | – | 3,991,018 |
| Habilitation services | – | – | 695,541 | – | 933,733 | – | 835,609 | 2,464,883 | – | – | 2,464,883 |
| Respite | – | – | 1,219,001 | 657,894 | 350,420 | 17,234 | 13,991 | 2,258,540 | – | – | 2,258,540 |
| Personal care | – | 40 | 557,512 | 55,670 | 1,177,483 | 95,527 | 41,063 | 1,927,295 | – | – | 1,927,295 |
| Transportation | – | – | 41,807 | 1,815 | 182,095 | 94,564 | 1,060,036 | 1,380,317 | – | – | 1,380,317 |
| Housing | 859 | – | 296,683 | – | 3,659,744 | 1,765,399 | 7,449 | 5,730,134 | – | – | 5,730,134 |
| Other expenses | – | – | 175,684 | – | 131,289 | 2,867 | 47,500 | 357,340 | – | – | 357,340 |
| Professional fees | 97,165 | 828 | 23,853 | 59,999 | 47,289 | 55,825 | – | 284,959 | 650,840 | 2,832 | 938,631 |
| Office supplies | 359,769 | 6,754 | 6,760 | 452,078 | 162,773 | 228,505 | 280 | 1,216,919 | 278,105 | 9,688 | 1,504,712 |
| Occupancy | 110,411 | 2,542 | 12,412 | 79,074 | 67,773 | 153,805 | – | 426,017 | 82,279 | 410 | 508,706 |
| Travel | 54,264 | 788 | 501 | 65,538 | 22,546 | 108,510 | – | 252,147 | 13,589 | 57 | 265,793 |
| Conferences | 3,105 | 122 | 869 | 5,039 | 6,614 | 7,167 | – | 22,916 | 38,082 | 97 | 61,095 |
| Interest | 115,143 | 2,617 | 33,263 | 44,785 | 34,327 | 25,500 | – | 255,635 | 62,782 | 283 | 318,700 |
| Depreciation and amortization | 276,447 | 6,100 | 36,933 | 193,543 | 99,972 | 81,916 | – | 694,911 | 143,709 | 1,825 | 840,445 |
| Insurance | 10,723 | 151 | 5,678 | 11,644 | 5,174 | 5,993 | – | 39,363 | 46,072 | 704 | 86,139 |
| Bad debt | – | – | – | – | – | – | – | – | 6,683 | – | 6,683 |
| Other expenses | 615 | – | 157 | – | 2,059 | 3,106 | 19 | 5,956 | 169,617 | 1,537 | 177,110 |
| Total expenses | \$ 4,873,244 | 147,921 | 7,213,668 | 9,809,233 | 9,045,119 | 6,166,562 | 2,056,809 | 39,312,556 | 4,364,103 | 27,973 | 43,704,632 |

See the accompanying notes to the consolidated financial statements.

Rocky Mountain Human Services and Subsidiary
Consolidated Statement of Functional Expenses
Year Ended June 30, 2018

| | Service coordi- nation | Behavioral health services | Client directed mill levy funds | Child and family services | Residential services and support | Transition programs | Other programs | Total program services | Manage- ment and general | Fund raising | Total expenses |
|----------------------------------|------------------------------|----------------------------------|---------------------------------------|---------------------------------|--|------------------------|-------------------|------------------------------|--------------------------------|-----------------|-------------------|
| Salaries | \$ 2,817,076 | 387,585 | 253,656 | 3,029,083 | 1,426,942 | 1,031,225 | – | 8,945,567 | 2,594,633 | 6,179 | 11,546,379 |
| Payroll taxes | 222,077 | 28,257 | 20,225 | 241,822 | 112,086 | 83,478 | – | 707,945 | 193,699 | 441 | 902,085 |
| Benefits | 395,420 | 69,067 | 95,663 | 466,029 | 274,619 | 142,444 | – | 1,443,242 | 386,104 | 1,401 | 1,830,747 |
| Client expenses | | | | | | | | | | | |
| Services and activities | 17 | – | 1,670,447 | 2,382,156 | 405,498 | – | 19,589 | 4,477,707 | 7,562 | – | 4,485,269 |
| Professional services | 2,267 | 4 | 3,152,429 | 1,245,502 | 31,786 | 9 | 201 | 4,432,198 | 4,269 | – | 4,436,467 |
| Habilitation services | – | – | 515,228 | – | 1,586,110 | – | 1,061,150 | 3,162,488 | – | – | 3,162,488 |
| Respite | – | – | 1,447,553 | 667,815 | 918,292 | – | 20,089 | 3,053,749 | – | – | 3,053,749 |
| Personal care | 941 | 102 | 308,331 | 30,281 | 1,627,819 | 138 | 6,743 | 1,974,355 | – | – | 1,974,355 |
| Transportation | – | – | 45,109 | 3,092 | 327,104 | 18,332 | 1,022,032 | 1,415,669 | 18 | – | 1,415,687 |
| Housing | 135 | – | 303,692 | – | 3,164,646 | 934,628 | 9,929 | 4,413,030 | – | 250 | 4,413,280 |
| Other expenses | – | – | 187,905 | 331 | 81,217 | – | – | 269,453 | – | – | 269,453 |
| Professional fees | 57,356 | 7,018 | 10,687 | 56,080 | 69,207 | 17,639 | – | 217,987 | 311,222 | 952 | 530,161 |
| Office supplies | 203,749 | 16,079 | 9,950 | 210,996 | 121,149 | 110,921 | – | 672,844 | 203,806 | 416 | 877,066 |
| Occupancy | 103,683 | 7,051 | 23,686 | 83,161 | 55,482 | 145,621 | 1,271 | 419,955 | 97,277 | 188 | 517,420 |
| Travel | 52,813 | 5,173 | 3,106 | 65,716 | 23,017 | 17,746 | 314 | 167,885 | 10,510 | 54 | 178,449 |
| Conferences | 4,519 | 695 | 1,619 | 10,279 | 5,399 | 323 | 281 | 23,115 | 27,838 | 74 | 51,027 |
| Interest | 94,523 | 6,491 | 3,900 | 75,611 | 36,156 | 14,066 | – | 230,747 | 114,061 | 63 | 344,871 |
| Depreciation and amortization | 125,625 | 9,139 | 4,977 | 107,055 | 56,304 | 65,888 | – | 368,988 | 101,396 | 75 | 470,459 |
| Insurance | 12,801 | 1,992 | 6,136 | 11,562 | 10,524 | 9,130 | – | 52,145 | 59,238 | 739 | 112,122 |
| Bad debt | – | – | – | 15,000 | 7,944 | – | – | 22,944 | 207,456 | – | 230,400 |
| Other expenses | 852 | 5 | 18,466 | 6,386 | 11,225 | 62,154 | 38 | 99,126 | 167,641 | 1,316 | 268,083 |
| Total expenses | \$ 4,093,854 | 538,658 | 8,082,765 | 8,707,957 | 10,352,526 | 2,653,742 | 2,141,637 | 36,571,139 | 4,486,730 | 12,148 | 41,070,017 |

See the accompanying notes to the consolidated financial statements.

Rocky Mountain Human Services and Subsidiary
Consolidated Statements of Cash Flows
Years Ended June 30, 2019 and 2018

| | <u>2019</u> | <u>2018</u> |
|--|---------------------|--------------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ 3,101,498 | 2,025,553 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities | | |
| Depreciation and amortization of property and equipment | 807,394 | 450,324 |
| Amortization of debt issuance costs | 33,051 | 20,135 |
| Bad debt expense | 6,683 | 230,400 |
| Gain on extinguishments of debt | (480,000) | – |
| Loss on disposal of property and equipment | 24,212 | – |
| Change in operating assets and liabilities | | |
| Accounts receivable | (309,873) | (370,760) |
| Prepaid expenses and other assets | (16,562) | 75,502 |
| Accounts payable and accrued liabilities | 111,179 | (2,092,033) |
| Deferred revenue | 31,886 | (465,422) |
| Net cash provided by (used in) operating activities | <u>3,309,468</u> | <u>(126,301)</u> |
| Cash flows from investing activities | | |
| Increase in restricted cash and cash equivalents | 139,108 | (3,444) |
| Purchases of property and equipment | <u>(112,589)</u> | <u>(136,036)</u> |
| Net cash provided by (used in) investing activities | <u>26,519</u> | <u>(139,480)</u> |
| Cash flows from financing activities | | |
| Principal payments on bonds and notes payable | (894,754) | (1,734,096) |
| Draws on line of credit | 700,000 | – |
| Payments on line of credit | (700,000) | – |
| Payments on capital lease obligations | <u>(425,834)</u> | <u>–</u> |
| Net cash used in financing activities | <u>(1,320,588)</u> | <u>(1,734,096)</u> |
| Increase (decrease) in cash and cash equivalents | 2,015,399 | (1,999,877) |
| Cash and cash equivalents at beginning of year | <u>1,937,696</u> | <u>3,937,573</u> |
| Cash and cash equivalents at end of year | <u>\$ 3,953,095</u> | <u>1,937,696</u> |
| Supplemental cash flow information | | |
| Interest paid | <u>\$ 268,890</u> | <u>353,186</u> |

See the accompanying notes to the consolidated financial statements.

Rocky Mountain Human Services and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(1) Summary of Significant Accounting Policies

(a) Organization

Rocky Mountain Human Services (Organization) embraces the power of community to support individuals and families in creating their future. The Organization 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. The Organization also provides services and programs in addition to those specific to its designation as a Community Centered Board. On January 1, 2019, the Organization formed Rocky Mountain Human Services Foundation (Foundation) as a wholly-owned not-for-profit subsidiary.

The Organization and Foundation are supported primarily through governmental and client service revenue, grants, and contributions. The Organization and Foundation's 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 for individuals with intellectual developmental disabilities (I/DD).

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.

Client Directed Mill Levy Funds: This Denver Mill Levy funded program provides services and resources not available from other funding sources to individuals with I/DD and delays. Additionally, the program provides funding to other agencies offering services to individuals with I/DD. Services and resources provided including behavioral/mental health; basic needs/environmental supports; education and increasing independence; medical/dental; social/recreational; training and support; and services addressing system gaps.

Child and Family Services: RMHS provides services to children and adolescents with developmental delays or disabilities, including autism, under three programs. The Early Intervention (EI) program provides case management and 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.

Rocky Mountain Human Services and Subsidiary
Notes to Consolidated Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(a) Organization, Continued

Residential Services and Support: 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 (HCBS-DD), Supported Living Services Waiver (SLS), and Children's Extensive Waiver (CES). HCBS-DD provides 24/7 home living arrangements and all associated supports; SLS and CES services include, but are not limited to, home health care, daily living skills coaching, and independent living support. For clients not eligible for Waivers, the State SLS program provides select services to eligible clients. Depending on individual needs, clients may also be provided caregiver respite, personal care, behavioral services, mentorship, transportation, hippotherapy, movement therapy, massage therapy, day habilitation, basic and enhanced homemaker services, supported employment, and community connections.

Transition Programs: RMHS runs programs with services for adults and children transitioning from mental health institutions, psychiatric hospitals, or substance abuse facilities to a community setting. RMHS also provides stable housing services to Veterans who are homeless or at risk of becoming homeless, while addressing root causes of homelessness through case management.

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 PASAs which enable clients to receive services from the provider of their choice.

(b) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Rocky Mountain Human Services and Rocky Mountain Human Services Foundation (collectively RMHS). All significant intercompany balances and transactions have been eliminated in consolidation.

(c) Basis of Accounting

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

Rocky Mountain Human Services and Subsidiary
Notes to Consolidated Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(d) Financial Statement Presentation

RMHS is required to present information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of RMHS. These net assets may be used at the discretion of RMHS' management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of RMHS or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. At June 30, 2019 and 2018, RMHS did not have any net assets with donor restrictions.

(e) Measure of Operations

The consolidated statements of activities report all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to RMHS' ongoing program activities, including governmental grants and service fee income. Non-operating activities are limited to contributions and grants for operations and from non-governmental sources, billing revenue, other revenue, fund raising expenses, and activities considered to be of a more unusual or nonrecurring nature.

(f) Cash and Cash Equivalents

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

(g) 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.

(h) 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.

Rocky Mountain Human Services and Subsidiary
Notes to Consolidated Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(i) Contributions and Contributions Receivable

Contributions are recognized when cash or unconditional promises to give are received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met. Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires, (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Contributions receivable are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year. At June 30, 2019 and 2018, RMHS did not have any contributions receivable.

(j) Property and Equipment

Property and equipment is recorded at cost. Prior to January 1, 2019, RMHS capitalized all expenditures for property and equipment in excess of \$2,500. As of January 1, 2019, RMHS capitalizes all expenditures for property and equipment in excess of \$5,000. 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.

(k) Debt Issuance Costs

RMHS incurred debt issuance costs totaling \$303,268 on a bond issue and two term loans which are being amortized over the life of the respective bond and loans. The balance at June 30, 2019 and 2018 was \$169,898 and \$201,856, respectively, and amortization expense was \$33,051 in 2019 and \$20,135 in 2018.

(l) 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.

Rocky Mountain Human Services and Subsidiary
Notes to Consolidated Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(m) Functional Allocation of Expenses

The costs of providing various programs and other supporting activities have been summarized on a functional basis in the accompanying consolidated statements of functional expenses. RMHS incurs expenses that directly relate to, and can be assigned to, a specific program or supporting activity. RMHS also conducts a number of activities, which benefit both its program objective as well as supporting services (i.e. fund raising and management and general activities). These costs, which are not specifically attributable to a specific program or supporting activity, are allocated by management on a consistent basis among program and supporting services benefited, based on either financial or nonfinancial data, such as headcount, square-footage, or estimates of time and effort incurred by personnel.

(n) 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.

(o) Income Taxes

The Organization and the Foundation are 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 their respective tax-exempt purpose is subject to taxation as unrelated business income. These entities incurred no unrelated business income tax during 2019 or 2018.

Management is required to evaluate tax positions taken by the entities 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. Each entity 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. Each entity 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.

(p) Subsequent Events

RMHS has evaluated subsequent events through November 13, 2019, the date the consolidated financial statements were available to be issued.

Rocky Mountain Human Services and Subsidiary
Notes to Consolidated Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(q) Not-For-Profit Financial Statement Presentation

During 2019, RMHS adopted ASU No. 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*, which is intended to improve how not-for-profit entity classifies its net assets, as well as the information it presents in its consolidated financial statements about its liquidity and availability of resources, expenses and investment returns, and cash flows. The guidance replaces the three classes of net assets previously presented in the consolidated statements of financial position with two new classes of net assets, which are based on the existence or absence of donor-imposed restrictions.

(2) Liquidity and Availability of Financial Assets

The following reflects RMHS' financial assets as of June 30, 2019. Because restricted cash and cash equivalents are not available for general expenditure within one year, these financial assets were not included in the table below.

| | |
|--|----------------------|
| Cash and cash equivalents | \$ 3,953,095 |
| Accounts receivable | <u>8,803,351</u> |
| Total financial assets available for general expenditure within one year | <u>\$ 12,756,446</u> |

As part of RMHS' liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. RMHS manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. In the event of an unanticipated liquidity need, RMHS could also draw upon \$750,000 of available line of credit (see note 6).

(3) 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. Before January 1, 2019, RMHS was also required by its 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 the monthly bond payment (see note 6). At June 30, 2019 and 2018, these funds totaled \$72,648 and \$211,756, respectively.

(4) Property and Equipment

Property and equipment consists of the following at June 30:

| | <u>2019</u> | <u>2018</u> |
|------------------------------------|---------------------|--------------------|
| Land | \$ 1,231,000 | 1,231,000 |
| Buildings and improvements | 3,573,727 | 7,681,062 |
| Furniture, fixtures, and equipment | 2,740,771 | 4,326,330 |
| Vehicles | <u>125,554</u> | <u>125,554</u> |
| | 7,671,052 | 13,363,946 |
| Less accumulated depreciation | <u>(2,019,910)</u> | <u>(8,182,201)</u> |
| | <u>\$ 5,651,142</u> | <u>5,181,745</u> |

Rocky Mountain Human Services and Subsidiary
Notes to Consolidated Financial Statements, Continued

(4) Property and Equipment, Continued

On January 1, 2019, the Organization entered into a purchase and sale agreement with the Foundation to transfer the land and building at 9900 East Iliff Avenue from the Organization to the Foundation. As part of the agreement, the Foundation also assumed the total bond payable amount owed (see note 6). The Foundation recorded the transaction at net book value of the land and building (totaling \$4,803,892) while the Organization removed the land and building at full book value.

Depreciation and amortization expense for the years ended June 30, 2019 and 2018 totals \$807,394 and \$450,324, respectively.

(5) Obligations Under Capital Leases

During the year ended June 30, 2019, RMHS entered into two capital lease agreements for certain furniture, fixtures, and equipment totaling \$1,200,000. The leased furniture, fixtures, and equipment are amortized on a straight-line basis over thirty months. The capital leases have a 4.125% interest rate and expire January 2021. Future principal payments under the capital leases are as follows as of June 30:

| | |
|------|-------------------|
| 2020 | \$ 483,257 |
| 2021 | <u>279,323</u> |
| | <u>\$ 762,580</u> |

(6) Bonds and Notes Payable

On December 1, 2012, the Organization 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%. On March 19, 2019, a portion of the bond was converted to a loan (see Loan 3 below). After the partial conversion to a loan, principal and interest totaling \$53,535 are due monthly through February 1, 2031. The bonds have certain financial covenants which have been met at June 30, 2019 and 2018.

On January 1, 2019, the Organization transferred the outstanding bond payable to the Foundation as part of the purchase and sale agreement related to the building and land. The amount of debt transferred to the Foundation, net of unamortized bond issuance costs, totaled \$7,951,992. The difference between the debt transferred and the \$4,803,892 net book value of the land and building totaling \$3,148,100 was recorded as a contribution from the Foundation to the Organization.

On December 19, 2013, the Organization entered into a seven-year, \$1,400,969 term loan agreement (Loan 1) which was secured by certain inventory, accounts, furniture and equipment and carries a fixed interest rate of 3.95%. On November 25, 2014, the Organization entered into a seven-year, \$1,599,304 term loan agreement (Loan 2) which was secured by certain inventory, accounts, furniture and equipment and carries a fixed interest rate of 4.24%. On July 1, 2018, the lender converted Loan 1 and Loan 2 to a capital lease, in a transaction similar to a sale-leaseback, resulting in a gain on conversion of debt totaling \$1,200,000, of which \$480,000 of the gain was recognized during the year ended June 30, 2019. The gain will be recognized over the life of the capital lease, and at June 30, 2019, the remaining deferred gain totaled \$720,000. See note 5 also.

Rocky Mountain Human Services and Subsidiary
Notes to Consolidated Financial Statements, Continued

(6) Bonds and Notes Payable, Continued

On March 19, 2019, RMHS entered into a twelve-year, \$1,704,367 term loan agreement (Loan 3) due to the conversion of a portion of the bond payable to a note payable. This agreement is secured by certain revenues and carries a fixed interest rate of 4.34%. Principal and interest totaling \$15,286 are due monthly through February 1, 2031. This loan has certain financial covenants which have been met at June 30, 2019.

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. The term loan was paid in full at June 30, 2019.

RMHS opened a line of credit for \$750,000 on July 2, 2018, with a variable interest rate of 0.85% over Prime Rate secured by personal property. A draw down of \$700,000 was made in August 2018 and repaid in September 2018. The line of credit matures on February 1, 2020. There was no balance outstanding as of June 30, 2019.

Bonds and notes payable outstanding consist of the following at June 30:

| | <u>2019</u> | <u>2018</u> |
|--------------------------------------|---------------------|------------------|
| Bond | \$ 6,227,252 | 8,446,237 |
| Loan 1 | - | 500,000 |
| Loan 2 | - | 700,000 |
| Loan 3 | 1,673,383 | - |
| Term loan | <u>-</u> | <u>348,059</u> |
| Total bonds and notes payable | 7,900,635 | 9,994,296 |
| Less unamortized debt issuance costs | <u>(169,898)</u> | <u>(201,856)</u> |
| Bonds and notes payable, net | <u>\$ 7,730,737</u> | <u>9,792,440</u> |

Aggregate future principal payments on the bonds and notes are as follows for the years ended June 30:

| | |
|--------------------------------------|---------------------|
| 2020 | \$ 558,461 |
| 2021 | 578,251 |
| 2022 | 598,754 |
| 2023 | 619,995 |
| 2024 | 642,002 |
| Thereafter | <u>4,903,172</u> |
| Total bonds and notes payable | 7,900,635 |
| Less unamortized debt issuance costs | <u>(169,898)</u> |
| Total bonds and notes payable, net | <u>\$ 7,730,737</u> |

Interest expense during the years ended June 30, 2019 and 2018 totaled \$318,700 and \$344,871, respectively.

Rocky Mountain Human Services and Subsidiary
Notes to Consolidated Financial Statements, Continued

(7) Operating Leases

The Organization leases office space, equipment, and vehicles used in operations under non-cancelable operating lease agreements. The leases expire at various dates through February 2031. Future minimum lease payments under these non-cancelable operating leases are as follows as of June 30:

| | |
|------------|----------------------|
| 2020 | \$ 990,913 |
| 2021 | 906,549 |
| 2022 | 880,505 |
| 2023 | 870,430 |
| 2024 | 865,300 |
| Thereafter | <u>6,633,966</u> |
| | <u>\$ 11,147,663</u> |

Total office, equipment, and vehicle rent expense for the years ended June 30, 2019 and 2018, was \$612,159 and \$156,680, respectively.

On January 1, 2019, the Organization entered into an office lease agreement with the Foundation as part of the purchase and sale agreement related to the building and land. The rent amount charged by the Foundation to the Organization was made at fair market value as of the date of the lease agreement. Rent paid by the Organization pursuant to the lease agreement is used, in part, by the Foundation to make debt service payments. Total rent paid by the Organization to the Foundation during 2019 was \$432,650. Upon execution of the lease agreement, the Organization made a payment to the Foundation for a refundable rental deposit totaling \$144,217.

(8) 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, beginning January 1, 2017, RMHS matched 2% of eligible compensation. On January 1, 2018, the match increased to 3% of eligible compensation. On July 1, 2018, the match increased to 4% of eligible compensation. For the years ended June 30, 2019 and 2018, RMHS contributed \$335,451 and \$220,380, respectively, to the Plan.

Rocky Mountain Human Services and Subsidiary
Supplemental Consolidating Schedule of Financial Position
June 30, 2019

| | <u>Organization</u> | <u>Foundation</u> | <u>Eliminations</u> | <u>Total</u> |
|---|----------------------|--------------------|---------------------|-------------------|
| Assets | | | | |
| Cash and cash equivalents | \$ 3,718,576 | 234,519 | – | 3,953,095 |
| Receivables | | | | |
| Service receivables, less allowance for uncollectible accounts | 2,495,302 | – | – | 2,495,302 |
| Denver Mill Levy receivables | 3,268,636 | – | – | 3,268,636 |
| State grant receivables | 1,885,696 | – | – | 1,885,696 |
| Other receivables | 1,153,717 | – | – | 1,153,717 |
| Intercompany receivables | 14,209 | – | (14,209) | – |
| Net accounts receivable | 8,817,560 | – | (14,209) | 8,803,351 |
| Prepaid expenses and other assets | 82,211 | – | – | 82,211 |
| Security deposit | 144,217 | – | (144,217) | – |
| Restricted cash and cash equivalents | 72,648 | – | – | 72,648 |
| Property and equipment, net | 976,051 | 4,675,091 | – | 5,651,142 |
| Total assets | <u>\$ 13,811,263</u> | <u>4,909,610</u> | <u>(158,426)</u> | <u>18,562,447</u> |
| Liabilities and Net Assets | | | | |
| Accounts payable | \$ 1,905,297 | – | – | 1,905,297 |
| Intercompany payables | – | 14,209 | (14,209) | – |
| Accrued liabilities | 1,798,551 | 23,121 | – | 1,821,672 |
| Security deposit | – | 144,217 | (144,217) | – |
| Deferred revenue | 92,703 | – | – | 92,703 |
| Deferred gain on conversion of debt | 720,000 | – | – | 720,000 |
| Obligations under capital leases | 762,580 | – | – | 762,580 |
| Bonds and notes payable, net | – | 7,730,737 | – | 7,730,737 |
| Total liabilities | <u>5,279,131</u> | <u>7,912,284</u> | <u>(158,426)</u> | <u>13,032,989</u> |
| Net assets | | | | |
| Without donor restrictions | <u>8,532,132</u> | <u>(3,002,674)</u> | – | <u>5,529,458</u> |
| Total net assets | 8,532,132 | (3,002,674) | – | 5,529,458 |
| Total liabilities and net assets | <u>\$ 13,811,263</u> | <u>4,909,610</u> | <u>(158,426)</u> | <u>18,562,447</u> |

See the accompanying independent auditor's report.

Rocky Mountain Human Services and Subsidiary
Supplemental Consolidating Schedule of Activities
Year Ended June 30, 2019

| | <u>Organization</u> | <u>Foundation</u> | <u>Eliminations</u> | <u>Total</u> |
|--|---------------------|--------------------|---------------------|-------------------|
| Operating revenue | | | | |
| Service coordination | \$ 5,426,471 | – | – | 5,426,471 |
| Behavioral health services | 145,693 | – | – | 145,693 |
| Client directed mill levy funds | 8,807,279 | – | – | 8,807,279 |
| Child and family services | 12,280,137 | – | – | 12,280,137 |
| Residential services and support | 9,560,529 | – | – | 9,560,529 |
| Transition programs | 6,924,430 | – | – | 6,924,430 |
| Other programs | 2,868,310 | – | – | 2,868,310 |
| Total operating revenue | <u>46,012,849</u> | <u>–</u> | <u>–</u> | <u>46,012,849</u> |
| Expenses | | | | |
| Program services | | | | |
| Service coordination | 4,935,267 | 103,835 | (165,858) | 4,873,244 |
| Behavioral health services | 149,342 | 2,374 | (3,795) | 147,921 |
| Client directed mill levy funds | 7,150,341 | 63,327 | – | 7,213,668 |
| Child and family services | 9,908,218 | 2,174 | (101,159) | 9,809,233 |
| Residential services and support | 9,062,261 | 28,626 | (45,768) | 9,045,119 |
| Transition programs | 6,179,030 | 20,921 | (33,389) | 6,166,562 |
| Other programs | 2,056,809 | – | – | 2,056,809 |
| Total program services | <u>39,441,268</u> | <u>221,257</u> | <u>(349,969)</u> | <u>39,312,556</u> |
| Supporting services | | | | |
| Management and general | 4,380,753 | 65,850 | (82,500) | 4,364,103 |
| Total supporting services | <u>4,380,753</u> | <u>65,850</u> | <u>(82,500)</u> | <u>4,364,103</u> |
| Total operating expenses | <u>43,822,021</u> | <u>287,107</u> | <u>(432,469)</u> | <u>43,676,659</u> |
| Total operating net income | <u>2,190,828</u> | <u>(287,107)</u> | <u>432,469</u> | <u>2,336,190</u> |
| Non-operating revenue and expenses | | | | |
| Contributions and grants | 26,905 | – | – | 26,905 |
| Billing revenue | 280,619 | – | – | 280,619 |
| Other revenue | 5,757 | – | – | 5,757 |
| Rental income | – | 432,650 | (432,650) | – |
| Gain on conversion of debt | 480,000 | – | – | 480,000 |
| Gain (loss) on transfer of property | 3,148,100 | (3,148,100) | – | – |
| Fund raising expenses | (28,037) | (117) | 181 | (27,973) |
| Total non-operating revenue and expenses | <u>3,913,344</u> | <u>(2,715,567)</u> | <u>(432,469)</u> | <u>765,308</u> |
| Change in net assets | 6,104,172 | (3,002,674) | – | 3,101,498 |
| Net assets at beginning of year | <u>2,427,960</u> | <u>–</u> | <u>–</u> | <u>2,427,960</u> |
| Net assets (deficit) at end of year | <u>\$ 8,532,132</u> | <u>(3,002,674)</u> | <u>–</u> | <u>5,529,458</u> |

See the accompanying independent auditor's report.

Rocky Mountain Human Services and Subsidiary
Supplemental Consolidating Schedules of Operating Revenue by Funder
Years Ended June 30, 2019 and 2018

| | <u>2019</u> | <u>2018</u> |
|----------------------------------|----------------------|-------------------|
| Federal grant revenue | | |
| Child and family services | \$ 577,710 | 592,384 |
| Transition programs | <u>3,281,157</u> | <u>2,781,531</u> |
| Total federal grant revenue | <u>3,858,867</u> | <u>3,373,915</u> |
| Medicaid revenue | | |
| Service coordination | 2,479,078 | 2,433,630 |
| Behavioral health services | 15,514 | 130,590 |
| Child and family services | 849,050 | 743,239 |
| Residential services and support | 6,930,398 | 8,552,477 |
| Other programs | <u>2,730,268</u> | <u>3,077,607</u> |
| Total Medicaid revenue | <u>13,004,308</u> | <u>14,937,543</u> |
| Denver Mill Levy revenue | | |
| Service coordination | 1,959,149 | 1,364,960 |
| Behavioral health services | 128,382 | 414,517 |
| Client directed mill levy funds | 8,807,279 | 8,637,724 |
| Child and family services | 3,221,189 | 2,559,902 |
| Residential services and support | <u>539,470</u> | <u>436,728</u> |
| Total mill levy revenue | <u>14,655,469</u> | <u>13,413,831</u> |
| State revenue | | |
| Service coordination | 988,244 | 827,863 |
| Behavioral health services | - | 23,910 |
| Child and family services | 7,325,154 | 6,820,532 |
| Residential services and support | 1,417,332 | 1,306,268 |
| Transition programs | 3,643,273 | - |
| Other programs | <u>125,517</u> | <u>733,828</u> |
| Total state revenue | <u>13,499,520</u> | <u>9,712,401</u> |
| Private insurance revenue | | |
| Behavioral health services | 1,797 | 91,239 |
| Child and family services | 299,137 | 243,815 |
| Other programs | - | 67 |
| Total private insurance revenue | <u>300,934</u> | <u>335,121</u> |
| Other program revenue | | |
| Behavioral health services | - | (19,068) |
| Child and family services | 7,897 | 814 |
| Residential services and support | 673,329 | 637,695 |
| Other programs | <u>12,525</u> | <u>25,332</u> |
| Total other program revenue | <u>693,751</u> | <u>644,773</u> |
| Total program revenue | <u>\$ 46,012,849</u> | <u>42,417,584</u> |

See the accompanying independent auditor's report.

Rocky Mountain Human Services and Subsidiary
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

| Federal grantor/pass-through grantor/program or cluster title | Pass-through Entity Identifying Number | Federal CFDA number | Federal expend- itures |
|---|--|---------------------------|------------------------------|
| <i>U.S. Department of Veteran Affairs</i> | | | |
| <i>Direct Programs</i> | | | |
| VA Supportive Services for Veteran Families | 18-ZZ-020 | 64.033 | \$ 1,020,202 |
| VA Supportive Services for Veteran Families | 18-CO-020 | 64.033 | 2,260,955 |
| Subtotal 64.033 | | | <u>3,281,157</u> |
| <i>Total Direct Programs</i> | | | <u>3,281,157</u> |
| <i>Total U.S. Department of Veteran Affairs</i> | | | <u>3,281,157</u> |
| | | | |
| <i>U.S. Department of Education</i> | | | |
| <i>Pass-through Programs From</i> | | | |
| State of Colorado, Department of Human Services Special Education - Grants for Infants and Families with Disabilities | 19IHIA110994 | 84.181A | 287,682 |
| <i>Total Pass-through Programs</i> | | | <u>287,682</u> |
| <i>Total U.S. Department of Education</i> | | | <u>287,682</u> |
| | | | |
| <i>U.S. Department of Health and Human Services</i> | | | |
| <i>Pass-through Programs From</i> | | | |
| University of Colorado Screening and Linkage to Services for Autism | 6R40MC27702-03-03 | 93.110 | 3,550 |
| State of Colorado, Department of Health Care Policy and Financing Medical Assistance Program | 15-67177A2 | 93.778 | 285,478 |
| University of Illinois Child Health and Human Development Extramural Research | 5P2CHD065702-09 | 93.865 | 1,000 |
| <i>Total Pass-through Programs</i> | | | <u>290,028</u> |
| <i>Total U.S. Department of Health and Human Services</i> | | | <u>290,028</u> |
| <i>Total Expenditures of Federal Awards</i> | | | <u>\$ 3,858,867</u> |

Rocky Mountain Human Services and Subsidiary
Schedule of Expenditures of Federal Awards, Continued
Year Ended June 30, 2019

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Rocky Mountain Human Services and Subsidiary (RMHS) under programs of the federal government for the year ended June 30, 2019. 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 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 not use the 10% de minimis indirect cost rate 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
Rocky Mountain Human Services and Subsidiary**

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 consolidated financial statements of Rocky Mountain Human Services and Subsidiary (RMHS), which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related consolidated notes to the financial statements, and have issued our report thereon dated November 13, 2019.

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 RHMS’ 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
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.

Keandinger, Candra & Congle, P.C.

November 13, 2019

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

**Board of Directors
Rocky Mountain Human Services and Subsidiary**

Report on Compliance for Each Major Federal Program

We have audited Rocky Mountain Human Services and Subsidiary (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, 2019. 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; 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, 2019.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2019-001. Our opinion on each major federal program is not modified with respect to these matters.

**Board of Directors
Rocky Mountain Human Services and Subsidiary**

RMHS' response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. RMHS' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 a 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 must be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2019-001 that we consider to be significant deficiencies.

RMHS' response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. RMHS' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

Kerndinger, Candra + Congle, P.C.

November 13, 2019

Rocky Mountain Human Services and Subsidiary
Schedule of Findings and Questioned Costs
Year Ended June 30, 2019

A. Summary of Auditor's Results

1. The auditor's report expresses an unmodified opinion on whether the consolidated financial statements of Rocky Mountain Human Services and Subsidiary (RMHS) were prepared in accordance with GAAP.
2. No significant deficiencies relating to the audit of the consolidated financial statements is 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*. No material weaknesses are reported.
3. No instances of noncompliance material to the consolidated financial statements of RMHS, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. One significant deficiency in internal control over major federal award programs disclosed during the audit are 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. Audit findings that are required to be reported in accordance with 2 CFR section 200.516(a) are reported in this Schedule.
7. The program tested as a major program was Department of Veteran Affairs, VA Supportive Services for Veteran Families Program, CFDA No. 64.033.
8. The threshold for distinguishing between Type A and B programs was \$750,000.
9. RMHS was determined to be a low-risk auditee.

B. Findings-Financial Statement Audit

None.

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

Federal Agency: Department of Veterans Affairs

Federal Program and CFDA Number: VA Supportive Services for Veteran Families, 64.033

Identification Numbers: 18-ZZ-020, 18-CO-020

Grant Period: October 1, 2017 – September 30, 2018 and October 1, 2018 – September 30, 2019

2019-001 Eligibility – Significant Deficiency in Internal Control over Compliance

Criteria and Condition: The VA Supportive Services for Veteran Families program guide states enrollees in the program must exit the program within three months of entering or must be recertified every three months for continued participation in the program. During our testing of forty enrollees, we noted one enrollee was exited two weeks after the required three month deadline.

Cause: Each case manager uses a tracking sheet to indicate upcoming recertification or exit dates in order to prompt attempts to reach the veteran before the due date. The case manager verbally indicated they reached out to the veteran but failed to document attempts in writing that we could verify. In addition, there was no secondary review performed by a supervisor or another case manager to ensure the recertification or exit was performed timely.

Effect: Although this finding did not result in any questioned costs, an enrollee not exited from the program timely which indicates there may be administrative program requirements that are not being met.

Rocky Mountain Human Services and Subsidiary
Schedule of Findings and Questioned Costs, Continued
Year Ended June 30, 2019

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

2019-001 Eligibility – Significant Deficiency in Internal Control over Compliance, Continued

Identification of Repeat Findings: This is a repeat finding of 2018-002 from the June 30, 2018 audit.

Recommendation: All program staff should be trained on timeframes and documentation in which the grant program requires enrollees to be exited. RMHS should implement a tracking schedule to remind program staff of impending deadlines as well as a secondary review to ensure that the exit or recertification occurred timely and is documented.

Views of Responsible Officials and Planned Corrective Actions: RMHS will provide training to all staff regarding recertification/exit timing requirements and will verify that timing requirements were met upon file closure. Additionally, in August 2019, RMHS implemented new case management software that alerts case managers to upcoming deadlines and notifies the case manager's supervisor when a deadline is within 15 days.

Rocky Mountain Human Services and Subsidiary
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2019

2018-001 Revenue Recognition and Month-End Close – Significant Deficiency

Criteria and Condition: The accounting records should be a reflection of the activity in the billing system, and the accounting team should have procedures in place to ensure a timely and accurate month-end closing process for all accounts. During the audit, we had difficulty obtaining supporting documentation from the billing system for certain service receivables, contractual adjustments, the allowance for doubtful accounts, and client billing revenue recorded in the accounting system. At the start of the audit, some non-revenue accounts had not been reconciled to third party documents during the year.

Recommendation: We recommend the accounting department develop a portfolio of reports from the new billing system to be used in the month-end reconciliation process for all client billing revenue and receivable accounts. While developing these reports, we recommend the accounting department work closely with the billing department to ensure reports are designed to include all relevant information needed for the month-end close process and to ensure accounting staff have a full understanding of the controls surrounding the billing software and its reports. We further recommend management expand the abilities of accounting staff and rebalance tasks amongst the department. We recommend the accounting department also update their accounting policies and procedures to include these changes.

Current Status: The recommendation was adopted and no similar findings were noted during the current audit year.

2018-002 Eligibility – Significant Deficiency in Internal Control over Compliance

Criteria and Condition: The VA Supportive Services for Veteran Families program guide states enrollees in the program must exit the program within three months of entering or must be recertified every three months for continued participation in the program. During our testing of forty enrollees, we noted the following:

- One enrollee’s recertification was completed three weeks after the required three month deadline.
- One enrollee was exited two weeks after the required three month deadline.

Recommendation: All program staff should be trained on which date the grant program requires to be used as the start of the certification period so that the three month timeline is properly and consistently tracked for all enrollees.

Current Status: During testing, we noted improvement in the timeliness of exiting and recertifying program participants; however, we found one exception after the 2018 audit was issued. Accordingly, this finding is repeated as 2019-001.

Rocky Mountain Human Services and Subsidiary
Summary Schedule of Prior Audit Findings, Continued
Year Ended June 30, 2019

2018-003 Eligibility – Significant Deficiency in Internal Control over Compliance

Criteria and Condition: Enrollees in the program must meet “Very Low-Income” requirements which is defined by the program as annual income less than 50% of area median income. Documentation supporting current income must be annualized per procedures prescribed by the VA Supportive Services for Veteran Families program guide. Income verification is required during initial verification and during subsequent recertification. Certificates of eligibility must be signed by the program staff completing the certification or recertification as well as their supervisor. During our testing of forty enrollees, we noted the following:

- Two enrollees’ certification or recertification of income forms were not signed by a supervisor.
- Five enrollees’ income was not annualized accurately as required by the program guide, of which one enrollee would not have been eligible for the program had the income been calculated properly.

Recommendation: We recommend management provide additional training to all program in-take staff and their supervisors on how to properly calculate income on an annualized basis, including tools that can assist in accurate calculations. We further recommend supervisors recalculate income determination for each participant during their review process and complete signatures timely as required under the grant program.

Current Status: The recommendation was adopted and no similar findings were noted during the current year audit.