

**SOUTHEASTERN  
DEVELOPMENTAL  
SERVICES, INC.**

FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT

June 30, 2019 and 2018

## 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, 2019 and 2018, and the related statements of activities, of functional expenses 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southeastern Developmental Services, Inc. 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.

*FredrickZink & Associates, PC*

FredrickZink & Associates, PC  
October 14, 2019

## FINANCIAL STATEMENT

# **SOUTHEASTERN DEVELOPMENTAL SERVICES, INC.**

## STATEMENTS OF FINANCIAL POSITION

June 30, 2019 and 2018

### **ASSETS**

	<u>2019</u>	<u>2018</u>
<b>Current assets</b>		
Cash and cash equivalents.....	\$ 361,092	\$ 470,096
Certificates of deposit (Note 3).....	137,153	148,375
Accounts receivable		
Fees and grants from governmental agencies, net (Note 4).....	240,219	222,152
Vocational contracts and sales.....	19,709	20,054
Prepaid expenses and other.....	13,188	37,969
Total current assets.....	<u>771,361</u>	<u>898,646</u>
<b>Non-current assets</b>		
Certificates of deposit (Note 3) .....	137,157	-
Property and equipment, net (Note 5) .....	430,109	507,191
Total non-current assets.....	<u>567,266</u>	<u>507,191</u>
<b>Total assets</b> .....	<b><u>\$ 1,338,627</u></b>	<b><u>\$ 1,405,837</u></b>

### **LIABILITIES AND NET ASSETS**

<b>Current liabilities</b>		
Accounts payable and accrued expenses (Note 9).....	\$ 184,949	\$ 184,409
Deferred revenue (Note 6).....	37,333	37,589
Total current liabilities.....	<u>222,282</u>	<u>221,998</u>
<b>Net assets without donor restrictions</b>		
Available for operations.....	686,236	676,648
Net investment in property and equipment (Note 5).....	430,109	507,191
Total net assets without donor restrictions.....	<u>1,116,345</u>	<u>1,183,839</u>
<b>Total liabilities and net assets</b> .....	<b><u>\$ 1,338,627</u></b>	<b><u>\$ 1,405,837</u></b>

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

# **SOUTHEASTERN DEVELOPMENTAL SERVICES, INC.**

## STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2019 and 2018

	2019	2018
Support and Revenue		
Fees and grants from governmental agencies		
Fees for services		
State of Colorado		
State General Fund		
Comprehensive.....	\$ 20,841	\$ 37,291
Adult supported living.....	27,328	11,671
Children's extensive support.....	-	244
Early intervention.....	111,679	92,301
Family support services program.....	29,787	29,103
Total fees from State General Fund.....	189,635	170,610
Medicaid		
Comprehensive.....	1,928,097	1,841,281
Adult supported living.....	419,011	370,751
Medical services.....	28,669	26,482
Early intervention.....	16,060	6,120
Home community based services.....	838	854
Total fees from Medicaid.....	2,392,675	2,245,488
Other State Sources		
Part C - Early intervention.....	-	40,592
Total fees and grants from governmental agencies.....	2,582,310	2,456,690
Public support - contributions.....	35,355	19,294
In-kind donations.....	7,603	18,207
Residential room and board.....	206,670	199,975
Gain (loss) on sale and damaged property and equipment (Note 5).....	(7,401)	110,624
Other revenue.....	58,947	45,039
Total support and revenue.....	2,883,484	2,849,829

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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Expenses		
Program services		
Medicaid comprehensive.....	\$ 1,831,607	\$ 1,818,523
State adult supported living.....	19,432	9,880
Medicaid adult supported living.....	302,515	313,166
Children's extensive support.....	4,409	6,386
Early intervention.....	112,784	99,142
Family support services program.....	40,197	27,021
Case management.....	209,471	187,583
Medical services.....	120,558	125,169
Total program services.....	<u>2,640,973</u>	<u>2,586,870</u>
Supporting services		
Management and general.....	289,601	289,356
Fundraising.....	20,404	19,814
Total supporting services.....	<u>310,005</u>	<u>309,170</u>
Total expenses.....	<u>2,950,978</u>	<u>2,896,040</u>
<b>Change in net assets without donor restrictions.....</b>	<b>(67,494)</b>	<b>(46,211)</b>
Net assets, beginning of year.....	<u>1,183,839</u>	<u>1,230,050</u>
Net assets, end of year.....	<u><u>\$ 1,116,345</u></u>	<u><u>\$ 1,183,839</u></u>

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

**SOUTHEASTERN DEVELOPMENT SERVICES, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**

For the Year Ended June 30, 2019  
(with comparative totals for June 30, 2018)

	Program Services						
	Medicaid comprehensive services	State adult supported living services	Medicaid adult supported living services	Children and family services	Early Intervention	Family support services	Case management
Salaries, benefits and taxes.....	\$ 1,293,609	\$ 12,682	\$ 198,697	\$ -	\$ 44,196	\$ 10,780	\$ 182,559
Professional fees.....	201,441	5,181	81,155	-	62,545	27,291	1,365
Depreciation.....	65,234	406	6,368	-	203	150	6,799
Supplies.....	38,440	203	3,178	4,154	1,198	245	2,468
Insurance.....	55,661	255	4,047	-	893	657	3,295
Utilities.....	58,328	75	1,178	-	244	179	2,241
Repairs and maintenance.....	42,908	154	2,419	-	447	328	6,640
Staff development and travel.....	25,212	196	3,068	-	1,354	247	2,349
Vehicle fuel.....	15,396	75	1,181	-	309	179	901
Other.....	4,715	146	301	-	40	17	231
Telephone.....	14,998	33	521	-	1,176	79	397
Food.....	11,581	-	-	255	118	-	-
Dues and subscriptions.....	4,084	26	402	-	61	45	226
Total expenses.....	<u>\$ 1,831,607</u>	<u>\$ 19,432</u>	<u>\$ 302,515</u>	<u>\$ 4,409</u>	<u>\$ 112,784</u>	<u>\$ 40,197</u>	<u>\$ 209,471</u>

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

Medical Services	Total	Supporting Services			Total Expenses	2018 Total Expenses
		Management and general	Development and Fundraising	Total		
\$ 111,393	\$ 1,853,916	\$ 228,197	\$ -	\$ 228,197	\$ 2,082,113	\$ 2,099,320
2,500	381,478	34,433	1,106	35,539	417,017	359,533
-	79,160	3,855	-	3,855	83,015	72,445
5,582	55,468	862	13,058	13,920	69,388	70,975
-	64,808	4,417	-	4,417	69,225	68,021
-	62,245	963	-	963	63,208	65,833
-	52,896	6,884	-	6,884	59,780	51,717
816	33,242	835	-	835	34,077	29,697
-	18,041	967	-	967	19,008	20,686
147	5,597	7,428	5,910	13,338	18,935	23,360
120	17,324	426	-	426	17,750	16,316
-	11,954	92	330	422	12,376	12,852
-	4,844	242	-	242	5,086	5,285
<u>\$ 120,558</u>	<u>\$ 2,640,973</u>	<u>\$ 289,601</u>	<u>\$ 20,404</u>	<u>\$ 310,005</u>	<u>\$ 2,950,978</u>	<u>\$ 2,896,040</u>

**SOUTHEASTERN DEVELOPMENT SERVICES, INC.**

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2018

	Program Services					
	Medicaid comprehensive services	State adult supported living services	Medicaid adult supported living services	Children and family services	Early Intervention	Family support services
Salaries, benefits and taxes.....	\$ 1,333,388	\$ 6,970	\$ 221,396	\$ 3,302	\$ 14,770	\$ 4,979
Professional fees.....	151,162	2,159	68,593	49	77,446	21,457
Supplies.....	44,051	133	3,545	2,519	811	100
Repairs and maintenance.....	42,824	71	2,255	74	740	74
Depreciation.....	55,617	172	5,461	41	406	41
Food.....	11,437	-	-	31	-	-
Other.....	10,149	12	568	9	102	9
Utilities.....	60,225	44	1,385	49	491	49
Staff development and travel.....	21,351	82	2,463	56	781	56
Insurance.....	54,161	152	4,836	170	1,695	170
Telephone.....	13,435	20	623	22	1,260	22
Dues and subscriptions.....	4,181	16	501	12	124	12
Vehicle fuel.....	16,542	49	1,540	52	516	52
Total expenses.....	<u>\$ 1,818,523</u>	<u>\$ 9,880</u>	<u>\$ 313,166</u>	<u>\$ 6,386</u>	<u>\$ 99,142</u>	<u>\$ 27,021</u>

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

			Supporting Services			
Case management	Medical Services	Total	Management and general	Development and Fundraising		Total Expenses
					Total	
\$ 165,848	\$ 116,687	\$ 1,867,340	\$ 231,980	\$ -	\$ 231,980	\$ 2,099,320
486	3,477	324,829	34,704	-	34,704	359,533
4,050	3,790	58,999	2,595	9,381	11,976	70,975
3,326	-	49,364	2,353	-	2,353	51,717
6,455	-	68,193	4,252	-	4,252	72,445
-	-	11,468	109	1,275	1,384	12,852
167	50	11,066	3,136	9,158	12,294	23,360
2,057	-	64,300	1,533	-	1,533	65,833
2,606	1,165	28,560	1,137	-	1,137	29,697
1,695	-	62,879	5,142	-	5,142	68,021
223	-	15,605	711	-	711	16,316
124	-	4,970	315	-	315	5,285
546	-	19,297	1,389	-	1,389	20,686
<u>\$ 187,583</u>	<u>\$ 125,169</u>	<u>\$ 2,586,870</u>	<u>\$ 289,356</u>	<u>\$ 19,814</u>	<u>\$ 309,170</u>	<u>\$ 2,896,040</u>

# **SOUTHEASTERN DEVELOPMENTAL SERVICES, INC.**

## STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2019 and 2018

### **Increase (Decrease) in Cash and Cash Equivalents**

	<u>2019</u>	<u>2018</u>
<b>Cash flows from operating activities:</b>		
Cash received from governmental agencies and others.....	\$ 2,884,072	\$ 2,758,387
Cash paid to suppliers and employees.....	(2,871,681)	(2,839,095)
Interest received.....	2,762	2,001
Net cash provided (used) by operating activities.....	<u>15,153</u>	<u>(78,707)</u>
<b>Cash flows from investing activities:</b>		
Redemption of certificate of deposit.....	297,789	295,715
Purchase of certificates of deposit.....	(421,789)	(295,715)
Purchase of property and equipment.....	(13,332)	(163,272)
Proceeds from insurance company (Note 5).....	13,175	134,372
Proceeds from sale of property and equipment.....	-	7,033
Net cash used by investing activities.....	<u>(124,157)</u>	<u>(21,867)</u>
<b>Net decrease in cash and cash equivalents.....</b>	<b>(109,004)</b>	<b>(100,574)</b>
Cash and cash equivalents, beginning of year.....	470,096	570,670
Cash and cash equivalents, end of year.....	<u>\$ 361,092</u>	<u>\$ 470,096</u>
<b>Reconciliation of change in net assets to net cash provided (used) by operating activities:</b>		
Change in net assets.....	\$ (67,494)	\$ (46,211)
<b>Adjustments to reconcile:</b>		
Depreciation.....	83,015	72,445
Reinvested interest earnings on certificates of deposit.....	(1,935)	(1,033)
Increase (decrease) in the doubtful for uncollectible accounts.....	1,749	(1,345)
Net change in insurance proceeds.....	(13,175)	(134,372)
Decrease (increase) in		
Accounts receivable.....	(19,471)	27,842
Prepaid expenses and other.....	28,177	(10,461)
Increase (decrease) in		
Accounts payable and accrued expenses.....	24,127	(3,694)
Deferred revenue.....	(19,840)	18,122
Total adjustments.....	<u>82,647</u>	<u>(32,496)</u>
<b>Net cash provided (used) by operating activities.....</b>	<b>\$ 15,153</b>	<b>\$ (78,707)</b>

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

# **SOUTHEASTERN DEVELOPMENTAL SERVICES, INC.**

## **NOTES TO FINANCIAL STATEMENTS - Continued**

June 30, 2019 and 2018

### **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 supporting activities and transportation activities as specified in the Individualized Service 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 supporting activities 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 Service 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 Service Plan, and the evaluation of results identified in the Individualized Service Plan.

# **SOUTHEASTERN DEVELOPMENTAL SERVICES, INC.**

## **NOTES TO FINANCIAL STATEMENTS - Continued**

June 30, 2019 and 2018

### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Basis of accounting and presentation**

The accompanying financial statements have been prepared using the accrual basis of accounting, in accordance with the U.S. generally accepted accounting principles (GAAP), whereby revenues are recorded when earned and expenses are recorded when the obligation is incurred. The financial statements reflect all significant receivables, payables, and other liabilities.

For financial reporting purposes, the Center follows the reporting requirements of GAAP, which requires that resources be classified for reporting purposes based on the existence or absence of donor-imposed restrictions. The Center reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Descriptions of the two net asset categories and the types of transactions affecting each category follow:

*Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor or certain grantor imposed restrictions.

*Net Assets With Donor Restrictions* – Net assets subject to donor or certain grantor imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates the resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenues are reported as increases in net assets without donor restriction unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor restrictions on the net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

#### **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.

#### **Use of estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could differ from those estimates, and those differences could be material.

# **SOUTHEASTERN DEVELOPMENTAL SERVICES, INC.**

## **NOTES TO FINANCIAL STATEMENTS - Continued**

June 30, 2019 and 2018

### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

#### **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 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.

#### **Fair value measurements**

The Center applies GAAP for fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis. GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in an active market for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

These levels are:

- Level 1      Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date.
- Level 2      Other observable inputs, either directly or indirectly, including:
  - Quoted prices for similar assets/liabilities in active markets;
  - Quoted prices for identical or similar assets in non-active markets;
  - Inputs other than quoted prices that are observable for the asset/liability; and,
  - Inputs that are derived principally from or corroborated by other observable market data.
- Level 3      Unobservable inputs that cannot be corroborated by observable market data.

Cash and cash equivalents are excluded from the fair value hierarchy as cash is generally measured at cost.

#### **Property and equipment**

Property and equipment are stated at cost at the date of acquisition or estimated fair value at the 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 awards to the following year.

# **SOUTHEASTERN DEVELOPMENTAL SERVICES, INC.**

## **NOTES TO FINANCIAL STATEMENTS - Continued**

June 30, 2019 and 2018

### **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.

#### **Functional allocation of expenses**

The costs of program and supporting service activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses provides additional detail into the natural classification of said costs. As some categories of expenses are attributable to more than one function, allocations are used to align the expense with the programs and supporting services benefited. The expenses that are allocated include occupancy, depreciation and amortization, which are allocated on a square footage basis, as well as salaries and wages, benefits, payroll taxes, professional services, staff development and travel, office expenses, information technology, insurance, and other, which are allocated on the basis of estimates of time and effort.

#### **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 Center 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.

Based on the results of management's evaluation, these requirements did not have a material effect on the Center's financial statements. Consequently, no liability is recognized in the accompanying statements of financial position for uncertain income tax positions.

#### **Compensated absences**

The Center allows its employees to accumulate annual leave based on length of service as a full-time, defined as 35 hours or more in a work week, employee. Employees begin accruing paid leave after thirty days, and leave may be taken after ninety days of continuous employment. The maximum number of accrued hours permitted by the Center for any employee is three hundred hours, and once a year, employees are permitted to sell their accrued paid leave, so long as certain criteria established by the Center are met.

# **SOUTHEASTERN DEVELOPMENTAL SERVICES, INC.**

## **NOTES TO FINANCIAL STATEMENTS - Continued**

June 30, 2019 and 2018

### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

#### **Adopted accounting pronouncements in effect at year-end**

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update ("ASU") No. 2016-14, Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. The amendment applies to all not-for-profit entities. The amendment reduces the classes of net assets to net assets with donor restrictions and net assets without donor restrictions; removes the reconciliation of cash flows to the indirect method if using the direct method; requires the reporting of investment returns, net of expenses, with no disclosure of netted expenses required; requires the use, in the absence of explicit donor stipulations, of the placed-in-service approach for reporting expirations of restrictions on cash or other asset donations; and requires disclosure of expenses by both their natural and functional classification on the face of the statement of activities, as a separate statement, or in the notes to the financial statements.

In addition, the amendment provides enhanced disclosures on amounts and purposes of board designations and appropriations, composition of net assets with donor restrictions, discussion of liquidity for the year following year-end, discussion of liquidity of financial assets at year-end, methodology used to allocate costs between program and support functions, and underwater endowment funds. The amendment is effective for the Center's June 30, 2019 year-end. Organizations should apply the amendment in this update retrospectively to all periods presented.

A recap of the net asset reclassifications driven by adoption of ASU 2016-14 as of June 30, 2018 follows:

<u>Net Assets Classifications</u>	<u>ASU 2016-14 Classifications</u>		<u>Total Net Assets</u>
	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	
As previously presented:			
Unrestricted	\$ 676,648	\$ -	\$ 676,648
Temporarily restricted	-	507,191	507,191
Net assets as previously presented	<u>\$ 676,648</u>	<u>\$ 507,191</u>	<u>\$ 1,183,839</u>

#### **Recent accounting pronouncements in effect after year-end**

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2018. The Center has not yet selected a transition method and is currently evaluating the effect that the standard will have on the financial statements.

# **SOUTHEASTERN DEVELOPMENTAL SERVICES, INC.**

## **NOTES TO FINANCIAL STATEMENTS - Continued**

June 30, 2019 and 2018

### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

#### **Recent accounting pronouncements in effect after year-end - Continued**

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The most significant change for lessees is the requirement under the new guidance to recognize right-of-use assets and lease liabilities for all leases not considered short-term leases. Changes to the lessor accounting model include: (a) synchronizing key aspects of the model with the new revenue recognition guidance, such as basing whether a lease is similar to a sale on whether control of the underlying asset has transferred to the lessee and (b) prospectively eliminating the specialized accounting for leveraged leases. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The standard is effective on January 1, 2020, with early adoption permitted. The Center is in the process of evaluating the impact of this new guidance.

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

In June 2018, the FASB issues ASU 2018-08. *Not-for-Profit Entities (Topic 958)*. This new standard will clarify the scope and the accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transaction should be accounted for as contributions (nonreciprocal transactions) within the scope, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The amendments in the ASU should be applied on a modified prospective basis although retrospective application is permitted. Entities should apply the amendments for transactions in which the entity serves as the resource recipient to annual periods beginning after December 15, 2018. Entities should apply the amendments for transactions in which the entity serves as the resource provider to annual periods beginning after December 15, 2019. The Center is currently assessing the potential impact on the Center's financial statements.

#### **Reclassifications**

Certain reclassifications have been made to the prior year state presentation to correspond to the current year's format. Total net assets and the change in total net assets are unchanged by these reclassifications.

#### **Subsequent events**

Management has evaluated subsequent events through October 14, 2019 the date which the financial statements were available to be issued. Except as described in Note 3, no events were identified that required additional disclosure.

# **SOUTHEASTERN DEVELOPMENTAL SERVICES, INC.**

## **NOTES TO FINANCIAL STATEMENTS - Continued**

June 30, 2019 and 2018

### **NOTE 3 - CERTIFICATES OF DEPOSIT**

The Center holds two certificates of deposit at Frontier Bank and two certificates of deposit with Edward Jones. The certificates held as of June 30, 2019 are as follows:

	Balance 2019	Interest Rate	Maturity Date
Certificates of deposit classified as current assets:			
Edward Jones six month certificate	\$ 62,000	2.45%	July 2019
Frontier Bank	75,153	1.50%	July 2019
Frontier Bank	75,157	1.50%	December 2019
	212,310		
Certificates of deposit classified as noncurrent assets:			
Edward Jones six month certificate	62,000	2.40%	October 2019
Total certificates of deposit	\$ 274,310		

Subsequent to year end, three of the certificates identified above have been renewed.

For the year ended June 30, 2018, the Center held two certificates of deposit at Frontier Bank bearing interest at 1.20%. These six-month certificates were \$74,185 and \$74,190 at June 30, 2018, matured in December 2018 and were renewed.

### **NOTE 4 - FEES AND GRANTS FROM GOVERNMENTAL AGENCIES**

Amounts receivable from governmental agencies at June 30, 2019 and 2018 were as follows:

	2019	2018
State of Colorado		
General Fund	\$ 41,454	\$ 30,983
Medicaid	204,072	194,727
Allowance for doubtful accounts	(5,307)	(3,558)
	\$ 240,219	\$ 222,152

### **NOTE 5 - PROPERTY AND EQUIPMENT**

The cost of property and equipment and related accumulated depreciation at June 30, 2019 and 2018 were as follows:

	2019	2018
Land	\$ 70,867	\$ 70,867
Buildings and improvements	1,217,484	1,301,456
Equipment	476,634	700,620
Construction in process	8,413	-
	1,773,398	2,072,943
Accumulated depreciation	(1,343,289)	(1,565,752)
Total property and equipment	\$ 430,109	\$ 507,191

# **SOUTHEASTERN DEVELOPMENTAL SERVICES, INC.**

## **NOTES TO FINANCIAL STATEMENTS - Continued**

June 30, 2019 and 2018

### **NOTE 5 - PROPERTY AND EQUIPMENT - Continued**

In 2014, a storm damaged the Center's buildings resulting in an insurance settlement of \$154,468. During the year ended June 30, 2018, \$134,372 was used to repair damages and is included in property and equipment on the statement of financial position. During the year ended June 30, 2019, the Center received an additional \$13,175 in insurance proceeds. Of the insurance proceeds received over the past two years, \$142,785 was used to repair damages and is included in property and equipment. As of June 30, 2019, \$24,858 remains in deferred revenue until it is used for repairs.

### **NOTE 6 - DEFERRED REVENUE**

Deferred revenue of \$37,333 at June 30, 2019 represents amounts received but not yet earned by performance of services or time. The balance consists of \$12,475 of State adult supported living services and insurance proceeds of \$24,858 for repairs. For the year ended June 30, 2018 deferred revenue of \$37,589 consisted of \$17,493 of State adult supported living services and insurance proceeds of \$20,096 for repairs.

### **NOTE 7 - 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. The Center matches contributions made by full-time employees at a maximum of \$200 per month. The Center paid \$20,350 and \$19,925, respectively, into the plan during the years ended June 30, 2019 and 2018.

### **NOTE 8 - 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. The amount due to the Center from the State of Colorado is described in Note 4. There were no outstanding balances due to the State of Colorado as of June 30, 2019 and 2018 for expenses and reimbursements.

### **NOTE 9 - CONCENTRATION OF RISK**

The Center had significant activity with one major vendor which represented 37% of accounts payable (30% in 2018) and 22% of expenses (18% in 2018) for the year ended June 30, 2019. The Center expects to maintain this relationship with the vendor as it is the only vendor in the region that provides behavioral services.

The State of Colorado is considered a major customer. See Note 8.

**SOUTHEASTERN DEVELOPMENTAL SERVICES, INC.**

NOTES TO FINANCIAL STATEMENTS - Continued  
June 30, 2019 and 2018

**NOTE 10 - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS**

The Center monitors its liquidity so that it is able to meet its operating needs and other contractual commitments. The Center's assets available within one year of the financial statement date for general expenditure without limitations are as follows:

	<u>2019</u>
Cash and cash equivalents	\$ 361,092
Certificates of deposit	274,310
Grants and contributions receivable	259,928
Prepaid expenses and other	13,188
	<u>\$ 908,518</u>

The Center's primary source of revenue is from fees and grants from governmental agencies which comprise approximately 90% of revenue and support. The Center has enough liquid assets to fund approximately four months of current year expenditures in the subsequent year.

**SUPPLEMENTARY INFORMATION**

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, 2019 and 2018, and have issued our report thereon dated October 14, 2019, 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 18 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 14, 2019

**SOUTHEASTERN DEVELOPMENTAL SERVICES, INC.**

**SCHEDULE OF CASE MANAGEMENT SERVICES**

For the Year Ended June 30, 2019

	<u>Targeted case management</u>	<u>Other case management</u>	<u>Total</u>
<b>Fees and grants from governmental agencies</b>			
Fees for services			
State of Colorado			
State General Fund			
Comprehensive.....	\$ -	\$ 12,768	\$ 12,768
Adult supported living.....	-	16,387	16,387
Children's extensive support.....	-	-	-
Early intervention.....	-	32,759	32,759
Family support services program.....	-	3,778	3,778
Medicaid			
Comprehensive.....	70,932	-	70,932
Adult supported living.....	46,644	-	46,644
Early intervention.....	16,060	-	16,060
Home community based services.....	838	-	838
Part C - Early intervention.....	-	-	-
Total support and revenue.....	<u>\$ 134,474</u>	<u>\$ 65,692</u>	<u>\$ 200,166</u>

	<u>Targeted case management</u>	<u>Other case management</u>	<u>Total</u>
Statistical Data (Unaudited)			
Unduplicated number of individuals	150	71	221
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, 2019

	Targeted case management	Other case management	Total
<b>Expenses</b>			
Salaries			
Direct care.....	\$ 94,190	\$ 46,013	\$ 140,203
Other.....	8,245	4,028	12,273
Payroll taxes.....	9,091	4,441	13,532
Employee benefits.....	11,119	5,432	16,551
Total personal services.....	122,645	59,914	182,559
Medical professional services			
Physicians.....	-	-	-
Other.....	-	-	-
Other professional services.....	917	448	1,365
Staff development.....	958	468	1,426
Staff travel.....	620	303	923
Vehicles			
Fuel and oil.....	605	296	901
Maintenance.....	643	314	957
Leases.....	-	-	-
Occupancy			
Rent.....	-	-	-
Maintenance.....	3,010	1,471	4,481
Utilities.....	1,506	735	2,241
Equipment			
Leases.....	-	-	-
Maintenance.....	808	394	1,202
Supplies			
Medical and client care supplies.....	-	-	-
Pharmacy.....	-	-	-
Productions materials.....	498	243	741
Other.....	1,160	567	1,727
Telephone.....	267	130	397
Dues and subscriptions.....	152	74	226
Food.....	-	-	-
Insurance.....	2,214	1,081	3,295
Interest.....	-	-	-
Other.....	155	76	231
In-kind donations.....	-	-	-
Total direct program expenses.....	136,158	66,514	202,672
Depreciation and amortization.....	4,568	2,231	6,799
Total expenses.....	\$ 140,726	\$ 68,744	\$ 209,471