

Consolidated Financial Statements and
Independent Auditor's Report

**Developmental Disabilities Center d.b.a. Imagine!
and Affiliates**

June 30, 2020

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email: info@ltjcpa.com
web: ltjcpa.com
main phone/fax: 303-663-1400
toll-free phone/fax: 888-959-9640

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Developmental Disabilities Center d.b.a. Imagine!

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Developmental Disabilities Center d.b.a. Imagine! and Affiliates (Imagine!), which comprise the consolidated statement of financial position as of June 30, 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board of the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 that 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 financial position of Developmental Disabilities Center d.b.a. Imagine! and Affiliates as of June 30, 2020 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Imagine!'s 2019 consolidated financial statements, and our report dated November 11, 2019, expressed an unmodified opinion on those audited consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Matter

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statement of financial position and the consolidating statement of activities on pages 32 through 35 are presented for purposes of additional analysis and are 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 on pages 32 through 35 is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Logan, Thomas + Johnson, LLC

Broomfield, Colorado
October 28, 2020

Consolidated Financial Statements

Developmental Disabilities Center d.b.a. Imagine! and Affiliates
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2020
(With summarized financial information as of June 30, 2019)

ASSETS	2020	2019
Current assets		
Cash and cash equivalents	\$ 8,579,365	\$ 10,253,804
Certificates of deposit	2,021,691	1,001,316
Investments	1,182,465	1,651,958
Accounts receivable		
Fees and grants from governmental agencies, net of allowance for doubtful accounts of \$103,440	6,049,039	5,049,535
Other, net of allowance for doubtful accounts of \$151,225	252,264	214,416
Prepaid expenses and other	662,955	507,195
Total current assets	18,747,779	18,678,224
Certificates of deposit	-	1,504,666
Prepaid benefit cost	1,086,605	973,754
Beneficial interest in assets held by others	456,851	439,558
Land, building and equipment, net	8,532,222	8,893,827
Total assets	\$ 28,823,457	\$ 30,490,029
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 2,336,479	\$ 2,303,532
Deferred revenue	-	2,848,337
Current portion of long-term debt		
Notes payable	6,768	3,384
Bonds payable	180,000	170,000
Total current liabilities	2,523,247	5,325,253
Liability for pension benefits	1,414,748	1,256,138
Long-term debt, net of current portion		
Notes payable	9,626	13,010
Bonds payable, net of deferred bond issuance costs	979,018	1,153,534
Total liabilities	4,926,639	7,747,935
Net assets		
Without donor restrictions		
Board designated for future projects	117,989	117,989
Net investment in land, building and equipment	7,356,810	7,553,899
Undesignated	16,422,019	15,070,206
Total net assets	23,896,818	22,742,094
Total liabilities and net assets	\$ 28,823,457	\$ 30,490,029

The accompanying notes are an integral part of this statement.

Developmental Disabilities Center d.b.a. Imagine! and Affiliates
CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2020

(With summarized financial information for the year ended June 30, 2019)

	Total without donor restrictions	
	2020	2019
Revenues and support		
Fees and grants from governmental agencies		
Fees for services		
State of Colorado		
State General Fund	\$ 5,417,413	\$ 4,556,160
Medicaid	21,943,279	21,522,949
Colorado Department of Education - Vocational Rehabilitation	7,864	9,650
City and county	7,485,637	7,303,879
Grants and other		
Department of Housing and Urban Development	160,534	166,596
Medicare	188,877	139,652
Other	3,211	-
Total fees and grants from governmental agencies	35,206,815	33,698,886
Public support – contributions	779,069	684,048
Residential room and board	1,163,036	1,173,777
Other revenue	1,361,746	1,675,837
Total revenues and support	38,510,666	37,232,548
Expenses		
Program services		
Residential	12,204,364	11,872,611
Day habilitation and employment	5,010,851	4,549,762
Therapeutic activities	2,283,027	2,114,909
Organized health care delivery system	2,106,464	2,274,407
Behavioral	350,093	96,278
Family recruited employer	1,494,622	1,402,247
Early intervention	3,358,637	3,056,450
Family support	1,290,783	1,336,868
Case management	4,541,496	4,171,362
Other support programs	883,105	728,272
Total program services	33,523,442	31,603,166
Supporting services		
Management and general	3,423,369	3,114,066
Fundraising	363,372	317,409
Total supporting services	3,786,741	3,431,475
Total expenses	37,310,183	35,034,641
Other components of net periodic pension cost	3,304	(18,126)
Pension - related changes other than net periodic pension cost	(49,063)	(10,907)
CHANGE IN NET ASSETS	1,154,724	2,168,874
Net assets, beginning of year	22,742,094	20,573,220
Net assets, end of year	\$ 23,896,818	\$ 22,742,094

The accompanying notes are an integral part of this statement.

Developmental Disabilities Center d.b.a. Imagine! and Affiliates
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2020

(With summarized financial information for the year ended June 30, 2019)

	Program Services					
	Residential	Day habi- litation and employment	Therapeutic activities	Organized health care delivery system	Behavioral	Family recruited employer
Expenses						
Salaries, benefits and taxes	\$ 5,695,043	\$ 3,533,577	\$ 1,701,281	\$ 53,843	\$ 301,504	\$ 1,453,853
Professional services	5,357,387	93,844	27,975	1,867,422	43,605	1,000
Staff development and travel	53,502	36,601	9,213	(820)	2,219	1,551
Vehicles	30,786	134,625	36,065	520	-	-
Occupancy	274,077	364,882	25,827	4,405	264	3,083
Supplies and equipment	187,842	215,354	148,773	137,767	2,152	7,256
Food	98,026	1,671	19	-	-	3
Telephone	29,358	14,691	8,924	281	28	766
Insurance	60,931	75,983	44,717	994	31	5,811
Grants	-	-	-	-	-	-
Interest	7,994	1,215	3,310	568	31	420
Other expense	89,686	249,604	102,524	38,526	44	18,036
Depreciation and amortization	319,732	288,804	174,399	2,958	215	2,843
Total expenses	<u>\$ 12,204,364</u>	<u>\$ 5,010,851</u>	<u>\$ 2,283,027</u>	<u>\$ 2,106,464</u>	<u>\$ 350,093</u>	<u>\$ 1,494,622</u>

The accompanying notes are an integral part of this statement.

Program Services

Early interven- tion	Family support	Case manage- ment	Other support programs	Management and general	Fund- raising	Total	
						2020	2019
\$ 1,178,001	\$ 271,042	\$ 3,973,627	\$ 335,840	\$ 2,346,994	\$ 213,437	\$ 21,058,042	\$ 19,793,765
2,051,871	16,943	69,175	207,615	488,355	1,135	10,226,327	9,912,760
17,851	3,291	71,252	(1,459)	87,181	827	281,209	322,649
-	-	1,251	-	13,830	-	217,077	228,855
18,234	4,085	65,771	12,016	56,554	3,420	832,618	792,158
51,164	18,741	171,327	29,844	94,484	13,535	1,078,239	918,735
10	89	2,570	2,500	1	-	104,889	96,166
5,943	1,402	14,049	1,045	14,006	387	90,880	88,050
3,962	998	16,594	1,475	34,848	547	246,891	225,586
-	964,034	-	-	-	-	964,034	1,030,055
2,602	549	8,317	1,605	6,455	458	33,524	48,052
6,563	4,259	64,324	282,057	215,969	126,749	1,198,341	650,310
22,436	5,350	83,239	10,567	64,692	2,877	978,112	927,500
<u>\$ 3,358,637</u>	<u>\$ 1,290,783</u>	<u>\$ 4,541,496</u>	<u>\$ 883,105</u>	<u>\$ 3,423,369</u>	<u>\$ 363,372</u>	<u>\$ 37,310,183</u>	<u>\$ 35,034,641</u>

The accompanying notes are an integral part of this statement.

Developmental Disabilities Center d.b.a. Imagine! and Affiliates
CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended June 30, 2020

(With summarized financial information for the year ended June 30, 2019)

	2020	2019
Cash flows from operating activities		
Change in net assets	\$ 1,154,724	\$ 2,168,874
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	978,112	927,500
Gain on sale of land, building and equipment	(3,388)	(2,375)
Realized and unrealized loss on investments	45,523	103,160
Realized and unrealized gain on certificates of deposit	(15,709)	(12,081)
Noncash change in beneficial interest in assets held by others	(17,293)	(19,697)
Nonperiodic changes in pension plan	158,610	150,714
Change in assets and liabilities		
Increase in accounts receivable	(1,037,352)	(2,162,138)
Increase in prepaid expenses and other assets	(268,611)	(231,123)
Decrease in deferred revenue	(2,848,337)	(3,379)
Increase (decrease) in accounts payable and accrued expenses	32,947	(89,442)
Net cash provided by (used in) operating activities	(1,820,774)	830,013
Cash flows from investing activities		
Purchase of land, building and equipment	(616,023)	(626,517)
Proceeds from sale of fixed assets	8,388	26,375
Purchase of certificates of deposit	-	(2,000,000)
Proceeds from sale of certificates of deposit	500,000	2,000,000
Proceeds from sale of investments	512,402	-
Purchase of investments	(88,432)	(184,928)
Net cash provided by (used in) investing activities	316,335	(785,070)
Cash flows from financing activities		
Payments on bonds payable	(170,000)	(165,000)
Payments on notes payable	-	(526)
Net cash used in financing activities	(170,000)	(165,526)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,674,439)	(120,583)
Cash and cash equivalents, beginning of year	10,253,804	10,374,387
Cash and cash equivalents, end of year	\$ 8,579,365	\$ 10,253,804
Supplemental data		
Cash paid during the year for interest	\$ 19,935	\$ 23,903
Noncash investing and financing activities		
Fixed asset additions acquired through notes payable	-	16,920

The accompanying notes are an integral part of this statement.

Developmental Disabilities Center d.b.a. Imagine! and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2020

NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This description of Developmental Disabilities Center d.b.a. Imagine!’s (Imagine!) nature of activities and summary of significant accounting policies is presented to assist in understanding Imagine!’s consolidated financial statements.

1. *Summary of Business Activities*

Developmental Disabilities Center d.b.a. Imagine!, a Colorado nonprofit corporation, was incorporated under the laws of the State of Colorado in 1963 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 Boulder County.

2. *Principles of Consolidation*

The consolidated financial statements of Imagine! include its affiliates, DDC Foothills Home (Foothills), a Colorado nonprofit corporation; Imagine! Housing Corp. II (Housing Corp. II), a Colorado nonprofit corporation; Imagine! Housing Corp. III (Housing Corp. III), a Colorado nonprofit corporation; Imagine! Development Company, Inc. (Development Company), a Colorado for-profit corporation; and Imagine! Foundation (Foundation), a Colorado nonprofit corporation. Foothills, Housing Corp. II, Housing Corp. III, Development Company and the Foundation are affiliates of Imagine! due to the fact that Imagine! exercises control over the Boards of Directors of these entities. All material intercompany accounts and transactions have been eliminated.

3. *Description of Services Provided*

The major program services or supports and functional activities directly provided or purchased by the organization are:

Program Services or Supports

Residential is customized residential and community access options to people of all ages with physical, developmental, and cognitive disabilities. Residential settings include host home and companion homes, group homes, family models, personal care alternatives, along with nursing and financial supports.

Day Habilitation and Employment provide opportunities for social, vocational and educational growth to adults with physical and cognitive challenges. These services and supports enable individuals to access and participate in typical community activities such as work, recreation, and senior citizen activities. There is an emphasis on attaining the skills necessary for employment. Once employment is accessible, individuals are supported in both crew work and individual employment.

Developmental Disabilities Center d.b.a. Imagine! and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2020

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

3. *Description of Services Provided (Continued)*

Program Services or Supports (Continued)

Therapeutic Activities - Therapeutic Recreation (TR) is an allied health profession which focuses on improving a person's physical, cognitive, social, emotional and leisure needs through activity interventions. A Certified Therapeutic Recreation Specialist (CTRS) typically plans and facilitates an activity for their client and ensures that certain skills are practiced and goals are achieved during the session. Activities include community-based recreational programming such as swimming, equine therapy, arts & crafts, as well as an after school program for school-aged children.

Organized Health Care Delivery System provides billing services for those providers that meet the mission of Imagine! and meet the qualification standards for those services. Services must be authorized through an individual's service or family plan.

Behavioral offers expert behavioral health support to individuals of all ages, families, and their support network with a comprehensive, teaming approach through direct intervention including consultation, evaluation, advocacy, education, and program development.

Family Recruited Employer is uniquely designed to provide families with the opportunity to find, recruit, and utilize individuals they know and trust to provide services for their loved one. The service was developed to meet a need and address a gap in services in a cost-efficient manner. The service preserves consumer dignity by allowing trusted family members to be paid to provide certain aspects of care instead of having an employee of an agency with whom they are not familiar assist with these tasks. It also allows parents respite from primary care evenings, weekends, holidays or overnights, hours, or days when typical agencies may not offer support.

Early Intervention is for children from birth through age two which offer infants and toddlers and their families services and supports to enhance child development in the areas of cognition, speech, communication, physical, motor, vision, hearing, social-emotional development, and self-help skills; parent-child or family interaction; and early identification, screening and assessment services.

Family Support provides an array of supportive services to the person with a developmental disability and his/her family when the person remains within the family home, thereby preventing or delaying the need for out-of-home placement which is unwanted by the person or the family.

Developmental Disabilities Center d.b.a. Imagine! and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2020

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

3. *Description of Services Provided (Continued)*

Program Services or Supports (Continued)

Case Management is the determination of eligibility for services and supports, service and support coordination, and the monitoring of all services and supports delivered pursuant to the Individualized Plan (IP), and the evaluation of results identified in the IP.

Other Support Programs includes other programs such as the Autism Spectrum Disorder (ASD) program which provides resources to improve the living situation of local citizens who have ASD.

Supporting Services

Management and General includes those activities necessary for planning, coordination and overall direction of Imagine!, financial administration, general board activities and other related activities indispensable to Imagine!'s corporate existence.

Fundraising is an organized program of activities consisting of raising money, creating public awareness and educating the public for the purpose of furthering our goal of providing supports for people with developmental disabilities. It also includes Imagine! Foundation whose purpose is to exclusively raise funds, and carry out other charitable and educational activities for the benefit of Imagine!.

4. *Basis of Accounting*

Financial statements of Imagine! have been prepared on the accrual basis, whereby revenues are recorded when services are performed and expenses are recognized when incurred.

5. *Use of Estimates*

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues, support and expenses during the reporting period. Actual results could differ from those estimates.

6. *Subsequent Events*

Imagine! has evaluated events and transactions occurring subsequent to the end of the fiscal year for potential recognition or disclosure through October 28, 2020, the date on which the financial statements were issued. Imagine! did not identify any events or transactions that would have a material impact on the financial statements.

Developmental Disabilities Center d.b.a. Imagine! and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2020

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

7. *Cash and Cash Equivalents*

For purposes of the statement of cash flows, Imagine! considers cash to be cash on hand and cash on deposit, subject to immediate withdrawal, and cash equivalents to be certificates of deposit with an original maturity of three months or less. Imagine! maintains cash balances in a financial institution located in Boulder, Colorado, which at times, may exceed federally insured limits. Imagine! has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

8. *Accounts Receivable*

The majority of Imagine!'s accounts receivables are due from the State of Colorado. Accounts receivable are due according to contractual terms and are stated at the amount management expects to collect from outstanding balances. Imagine! determines its allowance by considering a number of factors, including the length of time accounts receivable are past due and Imagine!'s previous collection history. Imagine! writes off accounts receivable to bad debt expense after reasonable collection efforts have been made. Payments subsequently received on such receivables, if any, are recorded against bad debt expense.

9. *Investments*

Imagine! records its investments in debt and equity securities at fair value in the statement of financial position. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

10. *Land, Building and Equipment*

Land, building and equipment are reported at cost for purchased assets and at estimated fair value, at date of receipt, for donated property. Any asset purchased for more than \$5,000 that has a life expectancy of more than one year is capitalized. Depreciation and amortization are provided on the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings and improvements	20–30
Leasehold improvements	5–15
Administrative and program equipment	3–10
Transportation equipment	3– 5

Developmental Disabilities Center d.b.a. Imagine! and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2020

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

11. *In-kind Contributions*

Contributions of property, materials and personal services are known as in-kind contributions and are recorded at fair value at the date of receipt. The amount recorded for these donations (other than contributions of land, building and equipment) is also included as program costs to properly reflect the total cost of the particular program.

12. *Accounting for Contributions*

All contributions are considered to be without donor restrictions unless specifically restricted by the donor. Amounts received that are designated for future periods, or are restricted by the donor for specific purposes are reported as increases in net assets with donor restrictions. Unconditional promises to give, which do not state a due date, are presumed to be time-restricted by the donor until received and are reported as net assets with donor restrictions.

A donor restriction expires when a stipulated time restriction ends, when an unconditional promise with an implied time restriction is collected, or when a purpose restriction is accomplished. Upon expiration, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statement of activities as net assets released from restrictions. Restricted contributions received in the same year in which the restrictions are met are recorded as increases in net assets without donor restrictions. In the current fiscal year, Imagine! has no donor restricted contributions whose restrictions were not currently met.

13. *Revenue Recognition*

The Center meets performance obligations and records revenue for contracts as earned based on service dates. Services are typically contracted based on fixed fees for various types of services and dates of service.

Contracts primarily consist of various agreements with the State of Colorado which are recorded in State General Fund and Medicaid revenue and with local governmental agencies which is included in city and county revenue. Receivables for contracts are recorded in fees and grants from governmental agencies. Payables related to these contracts are included in accounts payable and accrued expenses and disclosed in Note L. Deferred revenue represents amounts received, but not earned on these contracts as of year-end.

14. *Bond Issuance Costs*

Bond issuance costs are deferred and amortized to depreciation and amortization expense over the term of the respective bond using the straight-line method, which approximates the effective interest method.

Developmental Disabilities Center d.b.a. Imagine! and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2020

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

15. *Income Taxes*

Imagine! is operated as a nonprofit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Imagine! recognizes tax liabilities when, despite the Imagine!'s belief that its tax return positions are supportable, Imagine! believes that certain positions may not be fully sustained upon review by tax authorities. Benefits from tax positions are measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon settlement. Imagine! has concluded there is no tax liability or benefit required to be recorded as of June 30, 2020. Imagine! is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any tax periods. Imagine! believes it is no longer subject to income tax examinations for the years prior to the year ended June 30, 2017.

16. *Functional Allocation of Expenses*

The costs of supporting various programs and other activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Certain costs have been allocated to program and management and general based on estimates of time and effort, square footage of the office and other methods

17. *Fair Value Measurements*

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. A fair value hierarchy has been established under generally accepted accounting principles, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and mutual funds that are traded in an active exchange market.

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. This category generally includes certain U.S. Government agency debt securities and corporate-debt securities. Imagine!'s Level 2 securities are primarily valued using quoted market prices for similar instruments and nonbinding market prices that are corroborated by observable market data.

Developmental Disabilities Center d.b.a. Imagine! and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2020

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

17. *Fair Value Measurements (Continued)*

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of timing, amount of expected future cash flows, and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial asset. The disclosed fair values do not reflect any premium or discount that could result from offering for sale at one time an entire holding of a particular financial asset. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in amounts disclosed. Management recognizes transfers between fair value hierarchy levels at the time of fair value measurement.

18. *Prior Year Summarized Information*

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Imagine!'s financial statements as of and for the year ended June 30, 2019, from which the summarized information was derived.

19. *Recent Accounting Pronouncements*

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. Imagine! adopted this ASU during the year ended June 30, 2020 and there was no effect.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The amendments in this ASU require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally

Developmental Disabilities Center d.b.a. Imagine! and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2020

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

19. *Recent Accounting Pronouncements (Continued)*

described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This ASU is effective for fiscal years beginning after December 15, 2018. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied. Imagine! adopted this ASU during the year ended June 30, 2020 and there was no effect.

In June 2018, the FASB issued ASU No. 2018-08 *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU clarify and improve the scope and the accounting guidance for contributions received and contributions made. The ASU is effective for entities that have issued, or is a conduit bond obligor for, securities that are traded, listed or quoted on an exchange or an over-the-counter market and serves as a resource recipient, for fiscal years beginning after June 15, 2018. The ASU will be effective for entities that have issued or is a conduit bond obligor for securities that are traded, listed or quoted on an exchange or an over-the-counter market and serves as a resource provider, for fiscal years beginning after December 15, 2018. Imagine! adopted this ASU as a resource recipient during the year ended June 30, 2019 and adopted this ASU as a resource provider for the year ended June 30, 2020. There was no effect in adopting this ASU as resource recipient and a resource provider.

In March 2017, the FASB issued ASU No. 2017-07 *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The amendments in this ASU require that an employer report the service cost component of a defined benefit or postemployment benefit plan in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The amendments in this update are effective for the annual periods beginning after December 15, 2018 and should be applied retrospective for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit costs in the statement of activities. Imagine! adopted this ASU during the year ended June 30, 2020 and there was no effect.

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

Developmental Disabilities Center d.b.a. Imagine! and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2020

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

19. *Recent Accounting Pronouncements (Continued)*

lease is similar to a sale or whether control of the underlying asset has transferred to the lessee and (b) prospectively eliminating the specialized accounting for leveraged leases. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The ASU will be effective for fiscal years beginning after December 15, 2019, with early adoption permitted. In November 2019, the FASB issued ASU 2019-10, which defers the effective date of ASU 2016-02 one year, making it effective for annual reporting periods beginning after December 15, 2020. In June 2020, the FASB issued ASU 2020-05, which allows certain entities the option to delay the adoption by one year, making it effective for annual reporting periods beginning after December 15, 2021. Imagine! is in the process of evaluating the impact of this new guidance.

NOTE B – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash and cash equivalents	\$ 8,579,365
Certificates of deposit	2,021,691
Investments	1,182,465
Accounts receivable	<u>6,301,303</u>
	\$ <u>18,084,824</u>

As a part of Imagine!'s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, Imagine! invests cash in excess of daily requirements in short-term investments. To help manage unanticipated liquidity needs, Imagine! has a committed line of credit in the amount of \$543,000 which it could draw upon. See Note F for details on the line of credit.

NOTE C – INVESTMENTS

Investments are carried at fair market value, based on current market quotations or a pricing model, and are comprised of the following at June 30, 2020:

Equity mutual funds:	
Domestic	\$ 876,222
International	216,243
Corporate stock	<u>90,000</u>
	\$ <u>1,182,465</u>

Developmental Disabilities Center d.b.a. Imagine! and Affiliates
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2020

NOTE C – INVESTMENTS (CONTINUED)

Investment return for the year ended June 30, 2020, consists of the following:

Interest income and dividends	\$ 316,724
Realized and unrealized loss on investments	<u>(45,523)</u>
	\$ <u>271,201</u>

NOTE D – BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

Imagine! transferred assets from its investment portfolio to The Community Foundation (TCF) to establish permanent funds that benefit Imagine!. Under the terms of the agreement, Imagine! receives income generated by the transferred assets and reinvests the income in the fund. Imagine! can withdraw all or a portion of the original amount transferred, any appreciation on those transferred assets, or both, at its discretion. At the time of the transfer, Imagine! granted variance power to TCF. That power gives TCF the right to distribute the investment income and principal to another nonprofit organization of its choice if Imagine! ceases to exist. If TCF ceases to exist, the net assets of the permanent funds shall be distributed to such charitable organizations as the governing board of TCF may select, with primary consideration being given to Imagine!. At June 30, 2020, the permanent fund has a value of \$455,409, which is reported in the statement of financial position as beneficial interest in assets held by others. In addition, the Longmont Community Foundation holds funds that are to benefit the Foundation in the amount of \$1,442.

NOTE E – LAND, BUILDING AND EQUIPMENT

Land, building and equipment consists of the following at June 30, 2020:

Buildings and improvements	\$ 9,762,033
Leasehold improvements	53,458
Administrative and program equipment	1,958,259
Transportation equipment	<u>3,024,426</u>
	14,798,176
Less accumulated depreciation	<u>8,546,206</u>
	6,251,970
Land	<u>2,280,252</u>
	\$ <u>8,532,222</u>

Depreciation expense was \$972,628 for the year ended June 30, 2020.

Developmental Disabilities Center d.b.a. Imagine! and Affiliates
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2020

NOTE F – LINE OF CREDIT

Imagine! established a \$543,000 line of credit with a bank at an annual interest rate of one-half percentage point above the financial institution’s Index (prime) with a floor rate of 5.00%, maturing on February 15, 2023. The Index was 3.25% at June 30, 2020. Currently, the interest rate is 5.00%. The line of credit is collateralized by a second deed of trust. At June 30, 2020, there was no balance outstanding on the line of credit.

NOTE G – LONG-TERM DEBT

Notes Payable

In May 2019, Imagine! entered into an unsecured note payable in the amount of \$16,920 with an interest rate of 0% that is due in February 2024. The lender bills Imagine! the monthly payment of \$282, but Imagine! was not billed during the year ending June 30, 2020. The outstanding balance of the note payable at June 30, 2020 was \$16,394.

Future maturities under the note payable are as follows:

Year ending June 30,				
2021		\$	6,768	
2022			3,384	
2023			3,384	
2024			<u>2,858</u>	
			16,394	
Less current portion			<u>6,768</u>	
		\$	<u>9,626</u>	

Bonds Payable

In February 2006, Boulder County, Colorado issued \$3,110,000 of Variable Rate Demand Revenue Bonds (2006 Bonds) which were used for the current refunding of bonds issued in 1998, refinancing of existing debt and the purchase and improvements of an additional new administrative facility. With the issuance of the bonds, Imagine! entered into a loan agreement with Boulder County, Colorado in the amount of \$3,110,000. Principal payments are made annually on February 1. Interest payments are paid on the first business day of May, August, November and February and interest is calculated weekly based on comparable securities and prevailing market conditions. The 2006 Bonds are tax-exempt, with an effective interest rate of approximately 1.55% at June 30, 2020. The outstanding balance of the bonds at June 30, 2020 was \$1,190,000.

The 2006 Bonds are collateralized by a letter of credit, equal to the outstanding principal and interest at the date of renewal, which expired on June 1, 2011, but is automatically extended each year for the life of the 2006 Bonds. Imagine!’s administrative buildings act as collateral for the letter

Developmental Disabilities Center d.b.a. Imagine! and Affiliates
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2020

NOTE G – LONG-TERM DEBT (CONTINUED)

Bonds Payable (Continued)

of credit. Imagine! is also responsible for paying a fee to the issuing bank of 1.0% per annum of the face value of the letter of credit.

Deferred bond issuance costs at June 30, 2020, net of accumulated amortization, are \$30,982. At the time of issuance, deferred bond issuance costs were \$109,683 and are amortized at \$5,484 per year.

The bonds contain debt covenants that require a minimum debt service coverage ratio and a minimum total liabilities to unrestricted net assets ratio. Imagine! met these covenants at June 30, 2020.

Future maturities under the 2006 Bonds are as follows:

Year ending June 30,		
2021	\$	180,000
2022		185,000
2023		195,000
2024		200,000
2025		210,000
Thereafter		<u>220,000</u>
		1,190,000
Less deferred bond issuance costs		30,982
Less current portion		<u>180,000</u>
	\$	<u>979,018</u>

NOTE H – NET ASSETS

From time to time, Imagine!'s Board of Directors approves designating net assets for future use for a specific purpose. Net investment in land, building and equipment is comprised of net land, building and equipment, less bonds payable net of deferred bond issuance costs and notes payable.

NOTE I – RETIREMENT PLANS

Tax Sheltered Annuity Plans

Imagine! has tax sheltered annuity plans in which employees were eligible to participate after thirty days of employment by contributing a percentage of their gross salary. The plans currently do not accept new participants. Employees still in the plans are no longer able to make contributions. Imagine! does not contribute to these plans.

Developmental Disabilities Center d.b.a. Imagine! and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2020

NOTE I – RETIREMENT PLANS (CONTINUED)

Thrift Plan

In March 1994, Imagine! established a thrift plan which meets the requirement of a Section 403(b) annuity plan. Employees are immediately eligible to participate and can contribute between 1% and 20% of their gross salary. Imagine!'s employer contribution rates range from 3% of compensation for less than 5 years of service to 16% of compensation for 20 or more years of service. The participants are 100% vested after three years of service. For the year ended June 30, 2020, Imagine! contributed \$901,598 to the plan.

Deferred Compensation Plan

Imagine! has a deferred compensation plan for a select group of management and highly compensated employees. Participants contribute a certain percentage of their salary to the Plan. Imagine! will distribute the balance of the participant's account upon the 30th day after the participant separates employment with Imagine! or equal periodic payments over a specified period, unless the participant has elected to commence distribution prior to this date. Imagine! maintains accounts for the participants. The total amount in these accounts was \$92,187 as of June 30, 2020. The amount is recorded in prepaid expenses and other and accounts payable and accrued expenses. No withdrawals had been made during the year ended June 30, 2020.

Defined Benefit Pension Plan

Imagine! has adopted a defined benefit pension plan covering all employees with one year of service and 21 years of age. The benefits are based on years of service and the employee's compensation during the last five years of employment. The participants are 100% vested after five years of service or upon attaining age 55. Imagine!'s policy is to fund pension costs as accrued. In October 2007, Imagine! amended the plan to discontinue all employee eligibility effective December 31, 2007. All participants became 100% vested at that time. Imagine! approved a resolution to start the process of terminating the plan. Upon completion of the termination, all qualifying participants will be paid a present value benefit through an annuity or a lump sum payment. For the year ended, June 30, 2021 Imagine! expects to contribute the minimum required contribution of \$150,000, estimated amounts to be reclassified as net periodic benefit costs are \$61,853, and no plan assets are expected to be returned to the employer.

Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future. Imagine! uses a June 30 measurement date for its plan. Based on the most recent actuarial valuation as of June 30, 2020, the end of the plan year, the following table sets forth the Plan's change in plan assets, assets and obligations, and amounts recognized on Imagine!'s statement of financial position at June 30, 2020:

Developmental Disabilities Center d.b.a. Imagine! and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2020

NOTE I – RETIREMENT PLANS (CONTINUED)

Defined Benefit Pension Plan (Continued)

Change in Plan Assets		
Fair value of plan assets at June 30, 2019	\$	3,943,734
Actual return on plan assets		213,711
Employer contributions		350,000
Annuities purchased or benefits paid (including expenses)		<u>(708,299)</u>
Fair value of plan assets at June 30, 2020	\$	<u>3,799,146</u>
Assets and obligations		
Accumulated benefit obligation	\$	<u>4,127,289</u>
Plan assets at fair value	\$	3,799,146
Projected benefit obligation		<u>4,127,289</u>
Projected benefit obligation in excess of plan assets	\$	<u>(328,143)</u>
Amounts recognized in the statement of financial position consist of:		
Prepaid benefit cost – noncurrent asset	\$	1,086,605
Pension benefit – noncurrent liabilities		<u>1,414,748</u>
Funded status at end of year	\$	<u>(328,143)</u>

Net periodic benefit cost for pension benefits for 2020 included the following components:

Service cost – benefits earned during the period	\$	10,145
Interest cost on projected benefit obligation		114,192
Expected return on plan assets		(169,064)
Amount of recognized actuarial losses		<u>51,568</u>
Net periodic benefit cost	\$	<u>6,841</u>

There are no estimated transition obligation, no net prior service cost, and \$61,853 net loss that will be amortized into net periodic benefit cost over the next fiscal year.

Plan assets as of June 30, 2020 are by category as follows:

Asset category	Percent of fair value	Amount
Equity	38%	\$ 1,455,611
Fixed income	53	2,011,198
General account	<u>9</u>	<u>332,337</u>
Total	<u>100%</u>	\$ <u>3,799,146</u>

Developmental Disabilities Center d.b.a. Imagine! and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2020

NOTE I – RETIREMENT PLANS (CONTINUED)

Defined Benefit Pension Plan (Continued)

Investment policies and strategies:

Imagine!'s overall investment strategy is to manage Plan assets in a prudent, conservative yet productive manner. Managing the Plan assets to increase the value of Plan assets, while recognizing the need to preserve asset value in order to enhance the ability of the Plan to meet its obligations to Plan participants and their beneficiaries when due. Preservation of capital is of prime importance and within the stated investment objectives for the Plan's assets. Risks, including excessive volatility in the value of Plan assets, should be minimized. Plan assets shall be managed to achieve stated objectives over a long-term time horizon.

Plan assets are managed with a long-term asset mix guideline of 40% equity alternatives and 60% fixed income alternatives, for assets in excess of the Liquidity Reserve. The Liquidity Reserve is the aggregate amount of anticipated benefit and expense outflow in the next two years based on the most recent valuation furnished by the Plan actuary or such other amount as may be determined by Imagine!. The total equity and total fixed income exposures may range plus or minus 10% from the target allocations. These ranges may be exceeded on a temporary basis as a result of market conditions, contributions to and withdrawals from the amounts maintained under the contract.

The investment objective for Plan assets shall be to achieve an average annual rate of return (investment income plus realized and unrealized gains and losses) over a three-to-five year period which exceeds the average annual rate of return that would have been achieved in the same period by a composite market index.

Expected long-term rate of return on plan assets assumption:

The Expected Long-Term Rate of Return on Plan Assets assumption of 5.0% was selected in accordance with the Actuarial Standards Board in Actuarial Standards of Practice No. 27 – Selection Economic Assumptions for Measuring Pension Obligations. Based on Imagine!'s investment policy for the pension plan in effect for the fiscal year, a best estimate range was determined for both the real rate of return (net of inflation and investment expense) and for inflation based on long-term historical return on the applicable asset classes. An average inflation rate within the range within the range equal to 3.0% was selected and added to the real rate of return range to arrive at a best estimate range of 3.99%-9.24%. A rate of 5.0% which is within the best estimate range was selected.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Developmental Disabilities Center d.b.a. Imagine! and Affiliates
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2020

NOTE I – RETIREMENT PLANS (CONTINUED)

Deferred Compensation Plan (Continued)

Year ending June 30,	
2021	\$ 782,000
2022	319,000
2023	15,000
2024	179,000
2025	136,000
2026-2030	1,096,000

Weighted-average assumptions used to determine benefit obligations at June 30, 2020:

Discount rate	2.10%
Rate of compensation increase	0.00

Weighted-average assumptions used to determine net periodic benefit cost for the year ended June 30, 2020:

Discount rate	3.10%
Expected long-term return on plan assets	5.00
Rate of compensation increase	0.00

NOTE J – OPERATING LEASES

Imagine! leases residential facilities, office space, equipment and vehicles under operating lease arrangements in the operation of its programs. The majority of these leases are on a yearly or month-by-month basis and, therefore, are not subject to future minimum rental commitments. The leases with a term greater than one year expire at various dates through fiscal year 2025. Rental expense under all leases was \$716,623 for the year ended June 30, 2020.

Future minimum rental payments under noncancelable operating leases are as follows:

Year ending June 30,	
2021	\$ 314,551
2022	322,837
2023	330,566
2024	222,414
2025	<u>44,190</u>
	<u>\$ 1,234,558</u>

Developmental Disabilities Center d.b.a. Imagine! and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2020

NOTE K – FUNCTIONALIZED EXPENSES

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated included salaries and benefits, telephone, depreciation and amortization, insurance, utilities, postage, storage and equipment lease, and miscellaneous, which are allocated on the basis of usage studies, square footage and other methods.

NOTE L – RELATED PARTY TRANSACTIONS

Imagine! receives a substantial amount of revenue from the State of Colorado. The amount of receivables Imagine! has from the State of Colorado totaled \$3,487,529 at June 30, 2020. Imagine! has a payable to the State of Colorado of \$118,061 as of June 30, 2020. These transactions are considered to be transactions with a related party by virtue of the significant management influence exercised by the State of Colorado through contract provisions.

NOTE M – CONTINGENCIES

Imagine! is contingently liable to the Department of Housing and Urban Development (HUD) and Colorado Division of Housing (CDH) for advances on the Foothills residential facility. HUD and CDH have financed the construction of the residential facility in the amounts of \$532,500 and \$105,000, respectively. If the planned use of the facility changes, Imagine! must reimburse HUD and CDH for their respectively funded amounts. The restrictions for HUD and CDH will expire 40 years after the project closeout date. If default occurs, these advances will bear interest from inception to the date of default.

Imagine! is contingently liable to the City of Boulder, Colorado for the funding of the construction of the Foothills residential facility in the amount of \$60,000 from HUD Community Development Block Grant funds. The grant agreement provides that as long as the facility is used to provide housing for people with low incomes, Imagine! will not be required to repay any portion of the grant. However, if the building is sold to a party who does not agree to operate it as low-income housing, or if Imagine! ceases to operate the facilities as low-income housing, as defined, the grant becomes immediately payable in full, but bears no interest. If the building is sold to a party who agrees to operate it as low-income housing as defined, Imagine! would be required to pass the grant on to the acquiring entity.

Imagine! is contingently liable to the Department of Housing and Urban Development (HUD) and Colorado Department of Local Affairs (CDOLA) for advances on the Housing Corp. II residential facility. HUD and CDOLA have financed the construction of the residential facility in the amounts of \$582,900 and \$90,000, respectively. If the planned use of the facility changes, Imagine! must reimburse HUD and CDOLA for their respectively funded amounts. The restrictions for HUD and CDOLA will expire 40 years after the project closeout date. If default occurs, these advances will bear interest from inception to the date of default.

Developmental Disabilities Center d.b.a. Imagine! and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2020

NOTE M – CONTINGENCIES (CONTINUED)

Imagine! is contingently liable to the City of Longmont, Colorado for advances on the Housing Corp. II residential facility through the HOME program. The City of Longmont, Colorado has financed the construction of the residential facility in the amount of \$120,000 from HUD Home Investment Partnerships Program and \$21,165 from HUD Community Development Block Grant funds. If the planned use of the facility changes, Imagine! must reimburse the City of Longmont, Colorado for its funded amount. The restrictions for the City of Longmont, Colorado will expire on November 9, 2029. If default occurs, these advances will bear interest from inception to the date of default.

Imagine! is contingently liable to the Department of Housing and Urban Development (HUD) and Colorado Department of Local Affairs (CDOLA) for advances on the Housing Corp. III residential facility. HUD and CDOLA have financed the construction of the residential facility in the amounts of \$698,220 and \$150,000, respectively. If the planned use of the facility changes, Imagine! must reimburse HUD and CDOLA for their respectively funded amounts. The restrictions for HUD and CDOLA will expire 40 years after the project closeout date. If default occurs, these advances will bear interest from inception to the date of default.

Imagine! is contingently liable to the City and County of Broomfield, Colorado for advances on the Housing Corp. III residential facility through HUD Community Development Block Grant funds. The City and County of Broomfield, Colorado has financed the construction of the residential facility in the amount of \$25,000. The grant requires the facility to be used to provide housing for people with low incomes. If the planned use of the facility changes, Imagine! must reimburse the City and County of Broomfield, Colorado for its funded amount. The restrictions for the City and County of Broomfield, Colorado will expire on November 5, 2043. If default occurs, these advances will bear interest from inception to the date of default.

Imagine! is contingently liable to the Federal Home Loan Bank of Topeka for the funding of the construction of the Housing Corp. III residential facility in the amount of \$90,000. The Affordable Housing Program agreement provides that as long as the facility is used to provide housing for low-income persons at affordable rents through September 30, 2028, Imagine! will not be required to repay any portion of the grant.

Imagine! was awarded Community Housing Assistance funds from the City of Boulder, Colorado in the amount of \$350,000 for the funding of the construction of the Charles Smart House. The agreement for these funds provides that as long as the facility is used to provide housing for people with low incomes, Imagine! will not be required to repay any portion of these funds. However, if the building is sold to a party who does not agree to operate it as low-income housing, or if Imagine! ceases to operate the facility as low-income housing, as defined, the funds become immediately payable in full, but bear no interest. If the building is sold to a party who agrees to operate it as low-income housing as defined, Imagine! would be required to pass the funds on to the acquiring entity.

Developmental Disabilities Center d.b.a. Imagine! and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2020

NOTE M – CONTINGENCIES (CONTINUED)

Imagine! was awarded funds from Worthy Cause III 2014 Pool Funds from the County of Boulder, Colorado in the amount of \$49,000 during fiscal year 2014 for repairs needed as a result of flooding damage at the Charles Smart House. The agreement for these funds provides that as long as the facility is used to provide housing as a necessary and integral part of its program for 99 years, Imagine! will not be required to repay any portion of these funds.

NOTE N – FAIR VALUE

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the accompanying statement of financial position, as well as general classifications of such assets pursuant to the valuation hierarchy.

Investments - Imagine!'s investments are based on quoted market prices in an active market or pricing model and are considered a Level 1 asset. Imagine! invests in certificates of deposits (CD) traded in the financial markets. Those CDs are valued by custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates, and market-rate assumptions. The CDs are considered a Level 2 asset.

Beneficial Interest in Assets Held by Others - Imagine!'s beneficial interest in assets held by others approximates the fair value of the underlying investments and is considered a Level 2 asset based on other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset.

Corporate Stock - Imagine!'s corporate stock is recorded at cost and is considered a Level 3 asset.

Pension Plan Investments - Imagine!'s pension plan investments consist of variable annuity contracts which are based on an actuarial valuation as described in Note I. This is considered a Level 2 asset.

Developmental Disabilities Center d.b.a. Imagine! and Affiliates
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2020

NOTE N – FAIR VALUE (CONTINUED)

The following table presents the fair value measurements of assets recognized in the accompanying statement of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2020:

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments				
Equity securities:				
Domestic	\$ 876,222	\$ 876,222	\$ -	\$ -
International	216,243	216,243	-	-
Certificates of deposit	2,021,691	-	2,021,691	-
Corporate stock	90,000	-	-	90,000
Beneficial interest in assets held by others	456,851	-	456,851	-
Pension plan investments:				
Annuity contracts – variable	3,799,146	-	3,799,146	-

The reconciliation of Level 3 assets consists of the following components:

Balance, July 1, 2019	\$ 90,000
Purchase	<u>-</u>
Balance, June 30, 2020	\$ <u>90,000</u>

NOTE O – RISKS AND UNCERTAINTIES

In March 2020, the World Health Organization declared coronavirus (COVID-19) a global pandemic. This contagious disease outbreak has adversely affected workforces, customers, economies, and financial markets globally. This outbreak could adversely affect Imagine!’s ability to provide services, and reduce funding sources available. It is not possible for Imagine! to predict the duration or magnitude of the adverse results of the outbreak and its effects on the organization’s activities or results of operations, financial condition, or liquidity, at this time.

Supplementary Information

Developmental Disabilities Center d.b.a. Imagine! and Affiliates
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
June 30, 2020

	Developmental Disabilities Center	Imagine! Foundation	DDC Foothills Home	Housing Corp. II
ASSETS				
Current assets				
Cash and cash equivalents	\$ 8,265,512	\$ 171,438	\$ 61,039	\$ 47,790
Certificates of deposit	2,021,691	-	-	-
Investments	1,092,465	-	-	-
Accounts receivable				
Fees and grants from governmental agencies, net of allowance for doubtful accounts of \$103,440	6,049,039	-	-	-
Other, net of allowance for doubtful accounts of \$151,225	253,914	-	-	-
Prepaid expenses and other	667,314	-	-	-
Total current assets	<u>18,349,935</u>	<u>171,438</u>	<u>61,039</u>	<u>47,790</u>
Investments				
Investment in DDC Foothills Home	103,029	-	-	-
Investment in Housing Corp. II	594,157	-	-	-
Investment in Housing Corp. III	541,360	-	-	-
Investment in Imagine! Development Company	90,000	-	-	-
Certificates of deposit	-	-	-	-
Prepaid benefit cost	1,086,605	-	-	-
Beneficial interest in assets held by others	455,409	1,442	-	-
Land, building and equipment, net	6,050,015	-	417,897	866,710
Total assets	<u>\$ 27,270,510</u>	<u>\$ 172,880</u>	<u>\$ 478,936</u>	<u>\$ 914,500</u>
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable and accrued expenses	\$ 2,336,416	\$ -	\$ 104,773	\$ 596,196
Current portion of long-term debt				
Notes payable	6,768	-	-	-
Bonds payable	180,000	-	-	-
Total current liabilities	<u>2,523,184</u>	<u>-</u>	<u>104,773</u>	<u>596,196</u>
Liability for pension benefits	1,414,748	-	-	-
Long-term debt, net of current portion				
Notes payable	9,626	-	-	-
Bonds payable, net of deferred loan costs	979,018	-	-	-
Total liabilities	<u>4,926,576</u>	<u>-</u>	<u>104,773</u>	<u>596,196</u>
Net assets				
Unrestricted				
Board designated for future projects	117,989	-	-	-
Net investment in land, building and equipment	4,874,603	-	417,897	866,710
Undesignated	17,351,342	172,880	(43,734)	(548,406)
Total net assets	<u>22,343,934</u>	<u>172,880</u>	<u>374,163</u>	<u>318,304</u>
Total liabilities and net assets	<u>\$ 27,270,510</u>	<u>\$ 172,880</u>	<u>\$ 478,936</u>	<u>\$ 914,500</u>

Housing Corp. III	Imagine! Development Company	Eliminations	Consolidated
\$ 33,586	\$ -	\$ -	\$ 8,579,365
-	-	-	2,021,691
-	90,000	-	1,182,465
-	-	-	6,049,039
-	-	(1,650)	252,264
-	-	(4,359)	662,955
33,586	90,000	(6,009)	18,747,779
-	-	(103,029)	-
-	-	(594,157)	-
-	-	(541,360)	-
-	-	(90,000)	-
-	-	-	-
-	-	-	1,086,605
-	-	-	456,851
1,197,600	-	-	8,532,222
<u>\$ 1,231,186</u>	<u>\$ 90,000</u>	<u>\$ (1,334,555)</u>	<u>\$ 28,823,457</u>
\$ 543,649	\$ -	\$ (1,244,555)	\$ 2,336,479
-	-	-	6,768
-	-	-	180,000
543,649	-	(1,244,555)	2,523,247
-	-	-	1,414,748
-	-	-	9,626
-	-	-	979,018
543,649	-	(1,244,555)	4,926,639
-	-	-	117,989
1,197,600	-	-	7,356,810
(510,063)	90,000	(90,000)	16,422,019
687,537	90,000	(90,000)	23,896,818
<u>\$ 1,231,186</u>	<u>\$ 90,000</u>	<u>\$ (1,334,555)</u>	<u>\$ 28,823,457</u>

Developmental Disabilities Center d.b.a. Imagine! and Affiliates
CONSOLIDATING STATEMENT OF ACTIVITIES
Year ended June 30, 2020

	Developmental Disabilities Center	Imagine! Foundation	DDC Foothills Home	Housing Corp. II
Revenues and support				
Fees and grants from governmental agencies				
Fees for services				
State of Colorado				
State General Fund	\$ 5,417,413	\$ -	\$ -	\$ -
Medicaid	21,943,279	-	-	-
Colorado Department of Education - Vocational Rehabilitation	7,864	-	-	-
City and county	7,485,637	-	-	-
Grants and other				
Department of Housing and Urban Development	125,531	-	8,968	14,449
Medicare	188,877	-	-	-
Other	3,211	-	-	-
Total fees and grants from governmental agencies	<u>35,171,812</u>	<u>-</u>	<u>8,968</u>	<u>14,449</u>
Public support – contributions	884,202	776,754	-	-
Residential room and board	1,111,524	-	16,726	21,108
Other revenue	1,278,256	104,986	22	8
Total revenues and support	<u>38,445,794</u>	<u>881,740</u>	<u>25,716</u>	<u>35,565</u>
Expenses				
Program services				
Residential	12,006,739	-	49,772	78,154
Day habilitation and employment	5,010,851	-	-	-
Therapeutic activities	2,283,027	-	-	-
Organized health care delivery system	2,106,464	-	-	-
Behavioral	350,093	-	-	-
Family recruited employer	1,494,622	-	-	-
Early intervention	3,358,637	-	-	-
Family support	1,290,783	-	-	-
Case management	4,541,496	-	-	-
Other support programs	883,105	-	-	-
Total program services	<u>33,325,817</u>	<u>-</u>	<u>49,772</u>	<u>78,154</u>
Supporting services				
Management and general	3,412,908	-	7,656	7,131
Fundraising	327,198	918,061	-	-
Total supporting services	<u>3,740,106</u>	<u>918,061</u>	<u>7,656</u>	<u>7,131</u>
Total expenses	<u>37,065,923</u>	<u>918,061</u>	<u>57,428</u>	<u>85,285</u>
Other components of net periodic pension cost	3,304	-	-	-
Pension - related changes other than net periodic pension cost	(49,063)	-	-	-
CHANGE IN NET ASSETS	<u>1,334,112</u>	<u>(36,321)</u>	<u>(31,712)</u>	<u>(49,720)</u>
Net assets, beginning of year	21,009,822	209,201	405,875	368,024
Net assets, end of year	<u>\$ 22,343,934</u>	<u>\$ 172,880</u>	<u>\$ 374,163</u>	<u>\$ 318,304</u>

Housing Corp. III	Imagine! Development Company	Eliminations	Consolidated
\$ -	\$ -	\$ -	\$ 5,417,413
-	-	-	21,943,279
-	-	-	7,864
-	-	-	7,485,637
11,586	-	-	160,534
-	-	-	188,877
-	-	-	3,211
11,586	-	-	35,206,815
-	-	(881,887)	779,069
13,678	-	-	1,163,036
5	-	(21,531)	1,361,746
25,269	-	(903,418)	38,510,666
80,730	-	(11,031)	12,204,364
-	-	-	5,010,851
-	-	-	2,283,027
-	-	-	2,106,464
-	-	-	350,093
-	-	-	1,494,622
-	-	-	3,358,637
-	-	-	1,290,783
-	-	-	4,541,496
-	-	-	883,105
80,730	-	(11,031)	33,523,442
6,174	-	(10,500)	3,423,369
-	-	(881,887)	363,372
6,174	-	(892,387)	3,786,741
86,904	-	(903,418)	37,310,183
-	-	-	3,304
-	-	-	(49,063)
(61,635)	-	-	1,154,724
749,172	90,000	(90,000)	22,742,094
\$ 687,537	\$ 90,000	\$ (90,000)	\$ 23,896,818