

**Rocky Mountain Human Services
and Subsidiary**

**Consolidated Financial Statements and
Supplemental Information**

June 30, 2020 and 2019

(With Independent Auditor's Report Thereon)

Kundinger, Corder & Engle, P.C.

Certified Public Accountants

Rocky Mountain Human Services and Subsidiary

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Independent Auditor's Report

Board of Directors Rocky Mountain Human Services and Subsidiary

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Rocky Mountain Human Services and Subsidiary (RMHS), which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of RMHS as of June 30, 2020 and 2019, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

Other Matters - Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental information on pages 19 – 21 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2020, on our consideration of RMHS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of RMHS' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering RMHS' internal control over financial reporting and compliance.

Kearndinger, Cochrane & Congle, P.C.

November 11, 2020

Rocky Mountain Human Services and Subsidiary
Consolidated Statements of Financial Position
June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Assets		
Cash and cash equivalents	\$ 8,580,512	3,953,095
Receivables		
Service receivables, less allowance for uncollectible accounts of \$355,750 in 2020 and \$359,079 in 2019	2,063,007	2,495,302
Denver Mill Levy receivables	2,761,952	3,268,636
State grant receivables	1,459,805	1,885,696
Other receivables	<u>2,468,095</u>	<u>1,153,717</u>
Net accounts receivable	8,752,859	8,803,351
Prepaid expenses and other assets	650,015	82,211
Cash held for others (note 3)	113,116	72,648
Property and equipment, net (notes 4 through 6)	<u>5,082,715</u>	<u>5,651,142</u>
Total assets	<u>\$ 23,179,217</u>	<u>18,562,447</u>
Liabilities and Net Assets		
Accounts payable	\$ 1,933,305	1,905,297
Accrued liabilities	1,955,275	1,821,672
Deferred revenue	109,712	92,703
Deferred gain on conversion of debt (note 6)	240,000	720,000
Paycheck Protection Program loan (note 7)	2,580,300	—
Obligations under capital leases (note 5)	283,450	762,580
Bond and notes payable, net (note 6)	<u>7,177,887</u>	<u>7,730,737</u>
Total liabilities	<u>14,279,929</u>	<u>13,032,989</u>
Net assets		
Without donor restrictions	<u>8,899,288</u>	<u>5,529,458</u>
Total net assets	8,899,288	5,529,458
Commitments and contingency (notes 6 through 10)		
Total liabilities and net assets	<u>\$ 23,179,217</u>	<u>18,562,447</u>

See the accompanying notes to the consolidated financial statements.

Rocky Mountain Human Services and Subsidiary
Consolidated Statements of Activities
Years Ended June 30, 2020 and 2019

	2020	2019
Operating revenue		
Service coordination	\$ 4,532,617	5,426,471
Behavioral health services	–	145,693
Client directed mill levy funds	9,546,606	8,807,279
Child and family services	14,191,866	12,280,137
Residential services and support	8,532,893	9,560,529
Transition programs	10,574,107	6,924,430
Other programs	2,358,829	2,868,310
Total operating revenue	49,736,918	46,012,849
Expenses		
Program services		
Service coordination	4,810,251	4,873,244
Behavioral health services	–	147,921
Client directed mill levy funds	8,105,381	7,213,668
Child and family services	10,927,703	9,809,233
Residential services and support	7,633,313	9,045,119
Transition programs	9,410,550	6,166,562
Other programs	1,445,201	2,056,809
Total program services	42,332,399	39,312,556
Supporting services		
Management and general	4,664,079	4,364,103
Total supporting services	4,664,079	4,364,103
Total operating expenses	46,996,478	43,676,659
Total operating net income	2,740,440	2,336,190
Non-operating revenue and expenses		
Contributions and grants	29,524	26,905
Billing revenue	18,597	280,619
Other revenue	116,170	5,757
Gain on conversion of debt (note 6)	480,000	480,000
Fund raising expenses	(14,901)	(27,973)
Total non-operating revenue and expenses	629,390	765,308
Change in net assets	3,369,830	3,101,498
Net assets at beginning of year	5,529,458	2,427,960
Net assets at end of year	\$ 8,899,288	5,529,458

See the accompanying notes to the consolidated financial statements.

Rocky Mountain Human Services and Subsidiary
Consolidated Statement of Functional Expenses
Year Ended June 30, 2020

	Service coordi- nation	Client directed mill levy funds	Child and family services	Residential services and support	Transition programs	Other programs	Total program services	Manage- ment and general	Fund raising	Total expenses
Salaries	\$ 2,966,459	419,840	4,536,329	1,354,660	3,539,452	17,743	12,834,483	2,520,139	7,027	15,361,649
Payroll taxes	231,092	28,587	350,681	104,116	272,934	984	988,394	198,111	356	1,186,861
Benefits	482,034	67,875	740,565	241,849	583,400	1,747	2,117,470	422,259	1,203	2,540,932
Client expenses										
Services and activities	–	4,456,271	3,001,944	270,870	380,995	90,308	8,200,388	–	–	8,200,388
Professional services	1,147	2,858,936	1,089,660	5,095	379,393	575	4,334,806	–	–	4,334,806
Habilitation services	–	–	2,749	724,988	43,683	441,961	1,213,381	–	–	1,213,381
Personal care	8	–	134,201	396,926	281,715	81,532	894,382	–	–	894,382
Transportation	–	–	4,093	159,080	130,924	784,523	1,078,620	–	–	1,078,620
Housing	564	283,720	426	4,060,835	2,851,696	–	7,197,241	–	–	7,197,241
Other expenses	–	–	3,000	841	21,033	57,266	82,140	–	–	82,140
Professional fees	66,160	33,290	81,581	45,687	100,552	94	327,364	530,388	2,206	859,958
Office supplies	371,536	26,590	460,228	143,332	348,354	6,751	1,356,791	360,719	2,240	1,719,750
Occupancy	311,455	(112,669)	122,407	(24,132)	127,997	(27,811)	397,247	142,835	454	540,536
Travel	34,909	681	53,547	17,818	146,399	2	253,356	10,462	56	263,874
Conferences	5,996	5,234	18,029	15,633	34,757	3	79,652	113,990	355	193,997
Interest	96,378	8,976	78,185	23,282	30,622	7	237,450	50,586	62	288,098
Depreciation and amortization	230,641	22,028	239,834	73,112	106,059	162	671,836	129,627	204	801,667
Insurance	11,793	5,925	10,121	3,500	5,889	–	37,228	62,812	733	100,773
Bad debt	–	–	–	–	–	–	–	10,049	–	10,049
Other expenses	79	97	123	15,821	24,696	(10,646)	30,170	112,102	5	142,277
Total expenses	\$ 4,810,251	8,105,381	10,927,703	7,633,313	9,410,550	1,445,201	42,332,399	4,664,079	14,901	47,011,379

See the accompanying notes to the consolidated financial statements.

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

	Service coordi- nation	Behavioral health services	Client directed mill levy funds	Child and family services	Residential services and support	Transition programs	Other programs	Total program services	Manage- ment and general	Fund raising	Total expenses
Salaries	\$ 3,070,848	101,865	99,843	3,922,057	1,512,526	2,434,980	–	11,142,119	2,295,396	8,570	13,446,085
Payroll taxes	240,714	8,823	8,263	311,740	118,287	195,359	–	883,186	170,587	623	1,054,396
Benefits	522,808	16,900	18,049	665,420	274,494	441,676	–	1,939,347	406,362	1,347	2,347,056
Client expenses											
Services and activities	91	–	2,753,908	2,919,572	588,898	146,881	64,428	6,473,778	–	–	6,473,778
Professional services	10,282	391	2,621,636	1,021,259	18,043	318,982	425	3,991,018	–	–	3,991,018
Habilitation services	–	–	695,541	–	933,733	–	835,609	2,464,883	–	–	2,464,883
Personal care	–	40	557,512	55,670	1,177,483	95,527	41,063	1,927,295	–	–	1,927,295
Transportation	–	–	41,807	1,815	182,095	94,564	1,060,036	1,380,317	–	–	1,380,317
Housing	859	–	296,683	–	3,659,744	1,765,399	7,449	5,730,134	–	–	5,730,134
Other expenses	–	–	–	–	131,289	2,867	47,500	181,656	–	–	181,656
Professional fees	97,165	828	23,853	59,999	47,289	55,825	–	284,959	650,840	2,832	938,631
Office supplies	359,769	6,754	6,760	452,078	162,773	228,505	280	1,216,919	278,105	9,688	1,504,712
Occupancy	110,411	2,542	12,412	79,074	67,773	153,805	–	426,017	82,279	410	508,706
Travel	54,264	788	501	65,538	22,546	108,510	–	252,147	13,589	57	265,793
Conferences	3,105	122	869	5,039	6,614	7,167	–	22,916	38,082	97	61,095
Interest	115,143	2,617	33,263	44,785	34,327	25,500	–	255,635	62,782	283	318,700
Depreciation and amortization	276,447	6,100	36,933	193,543	99,972	81,916	–	694,911	143,709	1,825	840,445
Insurance	10,723	151	5,678	11,644	5,174	5,993	–	39,363	46,072	704	86,139
Bad debt	–	–	–	–	–	–	–	–	6,683	–	6,683
Other expenses	615	–	157	–	2,059	3,106	19	5,956	169,617	1,537	177,110
Total expenses	\$ 4,873,244	147,921	7,213,668	9,809,233	9,045,119	6,166,562	2,056,809	39,312,556	4,364,103	27,973	43,704,632

See the accompanying notes to the consolidated financial statements.

Rocky Mountain Human Services and Subsidiary
Consolidated Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Change in net assets	\$ 3,369,830	3,101,498
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization of property and equipment	796,813	807,394
Amortization of debt issuance costs	4,854	33,051
Bad debt expense	10,049	6,683
Gain on conversion of debt	(480,000)	(480,000)
Loss on disposal of property and equipment	10,939	24,212
Change in operating assets and liabilities		
Accounts receivable	40,443	(309,873)
Prepaid expenses and other assets	(567,804)	(16,562)
Accounts payable and accrued liabilities	161,611	111,179
Deferred revenue	17,009	31,886
	<u>3,363,744</u>	<u>3,309,468</u>
Cash flows from investing activities		
Increase in restricted cash and cash equivalents	(40,468)	139,108
Purchases of property and equipment	<u>(236,198)</u>	<u>(112,589)</u>
	<u>(276,666)</u>	<u>26,519</u>
Cash flows from financing activities		
Paycheck Protection Program loan proceeds	2,580,300	—
Principal payments on bonds and notes payable	(557,704)	(894,754)
Draws on line of credit	—	700,000
Payments on line of credit	—	(700,000)
Payments on capital lease obligations	<u>(482,257)</u>	<u>(425,834)</u>
	<u>1,540,339</u>	<u>(1,320,588)</u>
Increase in cash and cash equivalents	4,627,417	2,015,399
Cash and cash equivalents at beginning of year	<u>3,953,095</u>	<u>1,937,696</u>
Cash and cash equivalents at end of year	<u>\$ 8,580,512</u>	<u>3,953,095</u>
Supplemental cash flow information		
Interest paid	<u>\$ 290,281</u>	<u>268,890</u>

See the accompanying notes to the consolidated financial statements.

Rocky Mountain Human Services and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

(1) Summary of Significant Accounting Policies

(a) Organization

Rocky Mountain Human Services (Organization) embraces the power of community to support individuals and families in creating their future. The Organization is a not-for-profit corporation designated by the State of Colorado as a Community Centered Board to coordinate programs to provide services to individuals with developmental disabilities in the City and County of Denver. The Organization also provides services and programs in addition to those specific to its designation as a Community Centered Board. On January 1, 2019, the Organization formed Rocky Mountain Human Services Foundation (Foundation) as a wholly-owned not-for-profit subsidiary.

The Organization and Foundation are supported primarily through governmental and client service revenue, grants, and contributions. The Organization and Foundation's services and programs can be categorized under the following pillars:

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

Behavioral Health Services: Behavioral and mental health services are provided to adults with intellectual and developmental disabilities and other cognitive needs, and the clinic specializes in care for adults with complex coordination of care needs. This program ended June 30, 2019.

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

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

Rocky Mountain Human Services and Subsidiary

Notes to Consolidated Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(a) Organization, Continued

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

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

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

(b) Principles of Consolidation

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

(c) Basis of Accounting

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

Rocky Mountain Human Services and Subsidiary

Notes to Consolidated Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(d) Financial Statement Presentation

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

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

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of RMHS or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. At June 30, 2020 and 2019, RMHS did not have any net assets with donor restrictions.

(e) Measure of Operations

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

(f) Cash and Cash Equivalents

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

(g) Concentrations of Credit Risk

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

(h) Property and Equipment

Property and equipment is recorded at cost. Prior to January 1, 2019, RMHS capitalized all expenditures for property and equipment in excess of \$2,500, increasing to \$5,000 in January 1, 2019. As of December 11, 2019 RMHS capitalizes all expenditures for property and equipment in excess of \$10,000. Depreciation is computed using the straight-line method over estimated useful lives of the assets ranging from two to forty years. Leasehold improvements are amortized ratably over the lesser of the lease term or their respective estimated useful life.

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

(1) Summary of Significant Accounting Policies, Continued

(i) Debt Issuance Costs

RMHS incurred debt issuance costs totaling \$303,268 on a bond issue and two term loans which are being amortized over the life of the respective bond and loans. The balance at June 30, 2020 and 2019 was \$165,044 and \$169,898, respectively, and amortization expense was \$4,854 in 2020 and \$33,051 in 2019.

(j) Revenue Recognition

Grants and contributions

Contributions are recognized when cash or unconditional promises to give are received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend are substantially met. Should RMHS substantially meet all the conditions in the same period that the contribution was recognized, and barring any further donor-imposed restrictions, RMHS has elected to recognize the revenue in net assets without donor restrictions.

Federal and state government grants included in operating revenue are treated as contributions that are conditioned upon specific performance requirements and the incurrence of allowable qualifying expenses. Consequently, at June 30, 2020, conditional contributions totaling \$11,362,621 relating to these grants have not been recognized in the accompanying consolidated financial statements.

Grants and contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purposes restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

Contributions receivable are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year. At June 30, 2020 and 2019, RMHS did not have any contributions receivable.

Insurance revenue

Medicaid and private insurance charges are billed by encounter, usually on an hourly or unitized basis, and recognized by RMHS monthly in the month in which the services were rendered. If the services are outsourced to third party providers, RMHS recognizes revenue in the month the services are billed. No funds are received in advanced. At year-end, management and the revenue cycle team makes a concerted effort to receive any outstanding billings from the third party providers related to the fiscal year so that those services can be accrued. Billing rules sometimes allow third parties additional time to bill, so in addition to accruing for all the services performed in the fiscal year received two to three months after year-end, RMHS may also accrue an amount for services incurred but not billed (INBR).

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

(1) Summary of Significant Accounting Policies, Continued

(j) Revenue Recognition, Continued

Denver Mill Levy revenue

Denver Mill Levy revenue is grant and contribution revenue from a reimbursement-based grant that is conditional upon specific spending and service requirements set forth by the City. Revenue is recognized following the grant and contribution revenue recognition policies discussed above.

State revenue

State revenue consists of both grants and contributions and fee for service contracts. Grants and contribution revenue includes Momentum and TSP agreements. Revenue is recognized following the grant and contribution revenue recognition policies discussed above.

Early Intervention (EI) and Division for Intellectual and Developmental Disabilities (DIDD) revenue is recognized monthly after the service is rendered. For EI services, no funds are received in advanced. At year-end, management and the revenue cycle team make a concerted effort to receive any outstanding billings from the third party providers related to the fiscal year so they can accrue those services. Because of billing rules, the third party may have additional time to bill, thus in addition to accruing all services performed in the fiscal year received 2-3 months after year-end, RMHS may also accrue an amount for services incurred but not billed. DIDD revenue may be received in advance and is recorded as deferred revenue until the services are rendered.

Room and board revenue

Room and board revenue is recognized in the month received with all clients paying twelve times per year. Funds are typically not received in advance.

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

Operating revenue consists of the following grants and fee for service contracts for the years ended June 30:

	<u>2020</u>	<u>2019</u>
Federal grants	\$ 5,592,125	3,858,867
Medicaid contracts	12,080,152	13,004,308
Denver Mill Levy grants	14,484,091	14,655,469
State grants	6,118,081	3,643,273
State contracts	10,531,069	9,856,247
Private insurance contracts	306,358	300,934
Room and board and other	<u>625,042</u>	<u>693,751</u>
Total operating revenue	\$ <u>49,736,918</u>	<u>46,012,849</u>

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

(1) Summary of Significant Accounting Policies, Continued

(k) Functional Allocation of Expenses

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

(l) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure on contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(m) Income Taxes

The Organization and the Foundation are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and qualify for the charitable contribution deduction. However, income from activities not directly related to their respective tax-exempt purpose is subject to taxation as unrelated business income. These entities incurred no unrelated business income tax during 2020 or 2019.

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

(n) Subsequent Events

RMHS has evaluated subsequent events through November 11, 2020, the date the consolidated financial statements were available to be issued. See note 6.

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

(1) Summary of Significant Accounting Policies, Continued

(o) New Accounting Pronouncements

During 2020, RMHS adopted ASU No. 2018-18, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounts for as contributions or exchange transactions and determining whether a contribution is conditional. The provisions of ASU No. 2018-08 applicable to both contributions received and to contributions made have been implemented in the accompanying consolidated financial statements under a modified prospective basis. There was no effect on net assets in connection with the implementation of ASU No. 2018-08.

During 2020, RMHS adopted ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, using the modified retrospective method. The update supersedes the revenue recognition requirements in *Revenue Recognition (Topic 605)* and requires entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, this guidance requires that entities disclose the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The adoption of Topic 606 did not significantly impact RMHS' consolidated statements of activities or consolidated statements of financial position; therefore, no cumulative adjustment to beginning net assets was required as a result of adoption.

(p) Reclassifications

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

(2) Liquidity and Availability of Financial Assets

The following reflects RMHS' financial assets as of June 30, 2020 and 2019. Because restricted cash and cash equivalents are not available for general expenditure within one year, these financial assets were not included in the table below.

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 8,580,512	3,953,095
Accounts receivable	<u>8,752,859</u>	<u>8,803,351</u>
Total financial assets available for general expenditure within one year	\$ <u>17,333,371</u>	<u>12,756,446</u>

As part of RMHS' liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. RMHS manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. In the event of an unanticipated liquidity need, RMHS could also draw upon \$2,500,000 of available line of credit (see note 6).

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

(3) Cash Held for Others

RMHS receives funds on behalf of certain clients that are restricted by government agencies for the exclusive benefit of the named clients. Before January 1, 2019, RMHS was also required by its bond agreement to make deposits equal to 10% of the annual interest and principal due into a restricted repayment account during the months of January through October for purposes of funding the monthly bond payment (see note 6). At June 30, 2020 and 2019, these funds totaled \$113,116 and \$72,648, respectively.

(4) Property and Equipment

Property and equipment consists of the following at June 30:

	<u>2020</u>	<u>2019</u>
Land	\$ 1,231,000	1,231,000
Buildings and improvements	3,572,235	3,573,727
Furniture, fixtures, and equipment	2,664,895	2,740,771
Vehicles	<u>81,526</u>	<u>125,554</u>
	7,549,656	7,671,052
Less accumulated depreciation	<u>(2,466,941)</u>	<u>(2,019,910)</u>
	<u>\$ 5,082,715</u>	<u>5,651,142</u>

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

(5) Obligations Under Capital Leases

During the year ended June 30, 2019, RMHS entered into two capital lease agreements for certain furniture, fixtures, and equipment totaling \$1,200,000. The leased furniture, fixtures, and equipment are amortized on a straight-line basis over thirty months. The capital leases have a 4.125% interest rate and expire January 2021. Future principal payments under the capital leases are \$283,450, due in fiscal year 2021.

(6) Bond and Notes Payable

On December 1, 2012, the Organization entered into an agreement for an \$11,100,000 Bond Issue (Bond) secured by the deed of trust for the administrative building which carries a fixed interest rate of 3.27%. On March 19, 2019, a portion of the Bond was converted to a loan (see Term Loan below). After the partial conversion to a loan, principal and interest totaling \$53,535 are due monthly through February 1, 2031. The Bond has certain financial covenants which have been met at June 30, 2020 and 2019.

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

(6) Bonds and Notes Payable, Continued

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

On December 19, 2013, the Organization entered into a seven-year, \$1,400,969 loan agreement which was secured by certain inventory, accounts, furniture and equipment and carries a fixed interest rate of 3.95%. On November 25, 2014, the Organization entered into a seven-year, \$1,599,304 loan agreement which was secured by certain inventory, accounts, furniture and equipment and carries a fixed interest rate of 4.24%. On July 1, 2018, the lender converted both loans to two capital leases, in a transaction similar to a sale-leaseback, resulting in a gain on conversion of debt totaling \$1,200,000, of which \$480,000 of the gain was recognized during each of the years ended June 30, 2020 and 2019. The gain is recognized over the life of the capital leases, and at June 30, 2020, the remaining deferred gain totaled \$240,000. See note 5 also.

On March 19, 2019, RMHS entered into a twelve-year, \$1,704,367 term loan agreement (Term Loan) due to the conversion of a portion of the bond payable to a note payable. This agreement is secured by certain revenues and carries a fixed interest rate of 4.34%. Principal and interest totaling \$15,286 are due monthly through February 1, 2031. This Term Loan has certain financial covenants which have been met at June 30, 2020.

RMHS had a revolving line of credit with a bank in the amount of \$1,000,000 with a variable interest rate at 2.75% over Prime Rate. On April 25, 2016, the outstanding balance totaling \$1,000,000 on the line of credit was converted into a loan secured by certain inventory, accounts, furniture and equipment with an interest rate of 3.5%. Beginning in July 2016, principal and interest payments totaling \$29,430 are due monthly through June 2019. The loan was paid in full at June 30, 2019.

RMHS opened a line of credit for \$2,500,000 on September 23, 2020, with a variable interest rate of 0.25% over Prime Rate secured by personal property. There was no balance outstanding as of June 30, 2020.

On July 1, 2020, RMHS entered into a loan agreement in the amount of \$800,000. The loan matures on January 3, 2023, is secured by certain inventory, accounts, furniture and equipment, and has an interest rate of 3.28%. Principal and interest payments totaling \$27,834 are due monthly beginning August 3, 2020.

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

	<u>2020</u>	<u>2019</u>
Bond	\$ 5,782,589	6,227,252
Term Loan	<u>1,560,342</u>	<u>1,673,383</u>
Total bond and notes payable	7,342,931	7,900,635
Less unamortized debt issuance costs	<u>(165,044)</u>	<u>(169,898)</u>
Bond and notes payable, net	<u>\$ 7,177,887</u>	<u>7,730,737</u>

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

(6) Bond and Notes Payable, Continued

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

2021	\$ 578,908
2022	598,754
2023	619,995
2024	642,002
2025	664,802
Thereafter	<u>4,238,470</u>
Total bond and notes payable	7,342,931
Less unamortized debt issuance costs	<u>(165,044)</u>
Total bond and notes payable, net	<u>\$ 7,177,887</u>

(7) Paycheck Protection Program Loan

In April 2020, RMHS received a \$3,380,300 loan, of which \$800,000 was returned because it was not needed, for a total \$2,580,300, loan under the U.S. Small Business Administration's (SBA) Paycheck Protection Program (PPP) authorized under the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act). Under the program, this loan may be partially or fully forgiven if certain eligibility requirements are met, including that 60% of the loan must be spent on payroll. The loan is being treated as a refundable advance of a conditional contribution until such time that the loan has been explicitly forgiven by the SBA. At such time that the loan is forgiven, the conditions will be considered met and RMHS will recognize contribution revenue in the amount of the loan forgiveness.

In the case that the loan is not forgiven in its entirety, the outstanding balance is payable in equal amounts required to fully amortize the principal amount outstanding on the note by the maturity date of April 10, 2022. The loan is unsecured, and interest is charged at 1% annum.

(8) Operating Leases

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

2021	\$ 1,034,065
2022	968,477
2023	898,633
2024	865,300
2025	865,300
Thereafter	<u>5,768,666</u>
	<u>\$ 10,400,441</u>

Total office, equipment, and vehicle rent expense for the years ended June 30, 2020 and 2019, was \$1,135,786 and \$612,519, respectively.

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

(8) Operating Leases, Continued

On January 1, 2019, the Organization entered into an office lease agreement with the Foundation as part of the purchase and sale agreement related to the building and land. The rent amount charged by the Foundation to the Organization was made at fair market value as of the date of the lease agreement. Rent paid by the Organization pursuant to the lease agreement is used, in part, by the Foundation to make debt service payments. Total rent paid by the Organization to the Foundation during 2020 and 2019 was \$869,672 and \$432,650, respectively. Upon execution of the lease agreement, the Organization made a payment to the Foundation for a refundable rental deposit totaling \$144,217.

(9) Retirement Plan

RMHS maintains a tax sheltered annuity plan (the Plan) which covers substantially all employees. Eligible employees may begin to participate in the Plan with elective deferral contributions on the date of hire. An employee becomes eligible for employer matching contributions after six months of service. Under the Plan, beginning January 1, 2017, RMHS matched 2% of eligible compensation. On January 1, 2018, the match increased to 3% of eligible compensation. On July 1, 2018, the match increased to 4% of eligible compensation. For the years ended June 30, 2020 and 2019, RMHS contributed \$446,075 and \$335,451, respectively, to the Plan.

(10) Impact of COVID-19

The COVID-19 pandemic has caused business disruption and economic uncertainties in a number of sectors of the economy. The related financial impact on RMHS' future revenue, expenses, cash flows, and financial condition cannot be reasonably estimated at this time. As a precautionary safeguard, RMHS applied for Paycheck Protection Program loan (see note 7). Management and the Board of Directors continue to monitor the situation to minimize the disruption and negative financial impact on the operations of RMHS.

Rocky Mountain Human Services and Subsidiary
Supplemental Consolidating Schedule of Financial Position
June 30, 2020

	<u>Organization</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
Assets				
Cash and cash equivalents	\$ 8,247,023	333,489	–	8,580,512
Receivables				
Service receivables, less allowance for uncollectible accounts	2,063,007	–	–	2,063,007
Denver Mill Levy receivables	2,761,952	–	–	2,761,952
State grant receivables	1,459,805	–	–	1,459,805
Other receivables	2,468,095	–	–	2,468,095
Intercompany receivables (payables)	<u>(21,655)</u>	<u>–</u>	<u>21,655</u>	<u>–</u>
Net accounts receivable	8,731,204	–	21,655	8,752,859
Prepaid expenses and other assets	650,015	–	–	650,015
Security deposit	144,217	–	(144,217)	–
Cash held for others	113,116	–	–	113,116
Property and equipment, net	<u>664,673</u>	<u>4,418,042</u>	<u>–</u>	<u>5,082,715</u>
Total assets	<u>\$ 18,550,248</u>	<u>4,751,531</u>	<u>(122,562)</u>	<u>23,179,217</u>
Liabilities and Net Assets				
Accounts payable	\$ 1,933,305	–	–	1,933,305
Intercompany payables (receivables)	–	(21,655)	21,655	–
Accrued liabilities	1,933,777	21,498	–	1,955,275
Security deposit	–	144,217	(144,217)	–
Deferred revenue	109,712	–	–	109,712
Deferred gain on conversion of debt	240,000	–	–	240,000
Paycheck Protection Program loan	2,580,300	–	–	2,580,300
Obligations under capital leases	283,450	–	–	283,450
Bond and notes payable, net	<u>657</u>	<u>7,177,230</u>	<u>–</u>	<u>7,177,887</u>
Total liabilities	<u>7,081,201</u>	<u>7,321,290</u>	<u>(122,562)</u>	<u>14,279,929</u>
Net assets (deficit)				
Without donor restrictions	<u>11,469,047</u>	<u>(2,569,759)</u>	<u>–</u>	<u>8,899,288</u>
Total net assets (deficit)	<u>11,469,047</u>	<u>(2,569,759)</u>	<u>–</u>	<u>8,899,288</u>
Total liabilities and net assets	<u>\$ 18,550,248</u>	<u>4,751,531</u>	<u>(122,562)</u>	<u>23,179,217</u>

See the accompanying independent auditor's report.

Rocky Mountain Human Services and Subsidiary
Supplemental Consolidating Schedule of Activities
Year Ended June 30, 2020

	Organization	Foundation	Eliminations	Total
Operating revenue				
Service coordination	\$ 4,532,617	–	–	4,532,617
Client directed mill levy funds	9,546,606	–	–	9,546,606
Child and family services	14,191,866	–	–	14,191,866
Residential services and support	8,532,893	–	–	8,532,893
Transition programs	10,574,107	–	–	10,574,107
Other programs	2,358,829	–	–	2,358,829
Total operating revenue	<u>49,736,918</u>	<u>–</u>	<u>–</u>	<u>49,736,918</u>
Expenses				
Program services				
Service coordination	4,717,733	179,485	(86,967)	4,810,251
Client directed mill levy funds	8,240,035	16,669	(151,323)	8,105,381
Child and family services	10,987,232	142,235	(201,764)	10,927,703
Residential services and support	7,732,898	42,172	(141,757)	7,633,313
Transition programs	9,531,156	54,198	(174,804)	9,410,550
Other programs	1,473,031	–	(27,830)	1,445,201
Total program services	<u>42,682,085</u>	<u>434,759</u>	<u>(784,445)</u>	<u>42,332,399</u>
Supporting services				
Management and general	4,631,942	117,364	(85,227)	4,664,079
Total supporting services	<u>4,631,942</u>	<u>117,364</u>	<u>(85,227)</u>	<u>4,664,079</u>
Total operating expenses	<u>47,314,027</u>	<u>552,123</u>	<u>(869,672)</u>	<u>46,996,478</u>
Total operating net income	<u>2,422,891</u>	<u>(552,123)</u>	<u>869,672</u>	<u>2,740,440</u>
Non-operating revenue and expenses				
Contributions and grants	29,524	–	–	29,524
Billing revenue	18,597	–	–	18,597
Other revenue	692	115,478	–	116,170
Rental income	–	869,672	(869,672)	–
Gain on conversion of debt	480,000	–	–	480,000
Fund raising expenses	(14,789)	(112)	–	(14,901)
Total non-operating revenue and expenses	<u>514,024</u>	<u>985,038</u>	<u>(869,672)</u>	<u>629,390</u>
Change in net assets	2,936,915	432,915	–	3,369,830
Net assets (deficit) at beginning of year	<u>8,532,132</u>	<u>(3,002,674)</u>	<u>–</u>	<u>5,529,458</u>
Net assets (deficit) at end of year	<u>\$ 11,469,047</u>	<u>(2,569,759)</u>	<u>–</u>	<u>8,899,288</u>

See the accompanying independent auditor's report.

Rocky Mountain Human Services and Subsidiary
Supplemental Consolidating Schedules of Operating Revenue by Funder
Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Federal grant revenue		
Child and family services	\$ 1,136,099	577,710
Transition programs	4,456,026	3,281,157
Total federal grant revenue	<u>5,592,125</u>	<u>3,858,867</u>
Medicaid revenue		
Service coordination	2,477,171	2,479,078
Behavioral health services	–	15,514
Child and family services	997,702	849,050
Residential services and support	6,437,316	6,930,398
Other programs	2,167,963	2,730,268
Total Medicaid revenue	<u>12,080,152</u>	<u>13,004,308</u>
Denver Mill Levy revenue		
Service coordination	1,126,841	1,959,149
Behavioral health services	–	128,382
Client directed mill levy funds	9,546,606	8,807,279
Child and family services	3,828,015	3,221,189
Residential services and support	(17,371)	539,470
Total mill levy revenue	<u>14,484,091</u>	<u>14,655,469</u>
State revenue		
Service coordination	926,111	988,244
Child and family services	7,923,692	7,325,154
Residential services and support	1,490,400	1,417,332
Transition programs	6,118,081	3,643,273
Other programs	190,866	125,517
Total state revenue	<u>16,649,150</u>	<u>13,499,520</u>
Private insurance revenue		
Behavioral health services	–	1,797
Child and family services	306,358	299,137
Total private insurance revenue	<u>306,358</u>	<u>300,934</u>
Other program revenue		
Service coordination	2,494	–
Child and family services	–	7,897
Residential services and support	622,548	673,329
Other programs	–	12,525
Total other program revenue	<u>625,042</u>	<u>693,751</u>
Total program revenue	<u>\$ 49,736,918</u>	<u>46,012,849</u>

See the accompanying independent auditor's report.

Rocky Mountain Human Services and Subsidiary
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

Federal grantor/pass-through grantor/program or cluster title	Pass-through Entity Identifying Number	Federal CFDA number	Federal expend- itures
<i>U.S. Department of Veteran Affairs</i>			
<i>Direct Programs</i>			
VA Supportive Services for Veteran Families	20-CO-020-20	64.033	\$ 2,038,977
VA Supportive Services for Veteran Families	18-CO-020	64.033	790,213
VA Supportive Services for Veteran Families -	20-CO-020-CA	64.033	<u>1,626,837</u>
Subtotal 64.033			<u>4,456,027</u>
<i>Total Direct Programs</i>			<u>4,456,027</u>
<i>Total U.S. Department of Veteran Affairs</i>			<u>4,456,027</u>
<i>U.S. Department of Education</i>			
<i>Pass-through Programs From</i>			
State of Colorado, Department of Human Services			
Special Education - Grants for Infants and			
Families with Disabilities	20IHIA139069	84.181A	<u>837,885</u>
<i>Total Pass-through Programs</i>			<u>837,885</u>
<i>Total U.S. Department of Education</i>			<u>837,885</u>
<i>U.S. Department of Health and Human Services</i>			
<i>Pass-through Programs From</i>			
State of Colorado, Department of Health Care			
Policy and Financing			
Medical Assistance Program	20-134771A2	93.778	<u>298,214</u>
<i>Total Pass-through Programs</i>			<u>298,214</u>
<i>Total U.S. Department of Health and Human Services</i>			<u>298,214</u>
<i>Total Expenditures of Federal Awards</i>			<u>\$ 5,592,127</u>

(Continued)

Rocky Mountain Human Services and Subsidiary
Schedule of Expenditures of Federal Awards, Continued
Year Ended June 30, 2020

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Rocky Mountain Human Services and Subsidiary (RMHS) under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of RMHS, it is not intended to and does not present the financial position, changes in net assets, or cash flows of RMHS.

Note 2: Summary of Significant Accounting Policies

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Rocky Mountain Human Services and Subsidiary (RMHS), which comprise the consolidated statement of financial position as of June 30, 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related consolidated notes to the financial statements, and have issued our report thereon dated November 11, 2020.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

**Board of Directors
Rocky Mountain Human Services**

Purpose of this Report

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

Keandinger, Cochrane & Congle, P.C.

November 11, 2020

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

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

Report on Compliance for Each Major Federal Program

We have audited Rocky Mountain Human Services and Subsidiary (RMHS) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of RMHS' major federal programs for the year ended June 30, 2020. RMHS' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, RMHS complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2020-001. Our opinion on each major federal program is not modified with respect to these matters.

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

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

Report on Internal Control over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2020-001 that we consider to be significant deficiencies.

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

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

Kerndinger, Cochrane & Congle, P.C.

November 11, 2020

Rocky Mountain Human Services and Subsidiary
Schedule of Findings and Questioned Costs
Year Ended June 30, 2020

A. Summary of Auditor's Results

1. The auditor's report expresses an unmodified opinion on whether the consolidated financial statements of Rocky Mountain Human Services and Subsidiary (RMHS) were prepared in accordance with GAAP.
2. No significant deficiencies relating to the audit of the consolidated financial statements are reported in the *Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*. No material weaknesses are reported.
3. No instances of noncompliance material to the consolidated financial statements of RMHS, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. One significant deficiency in internal control over major federal award programs disclosed during the audit is reported in the *Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance*. No material weaknesses are reported.
5. The auditor's report on compliance for the major federal award programs for RMHS expresses an unmodified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with 2 CFR section 200.516(a) are reported in this Schedule.
7. The programs tested as a major program were U.S. Department of Veteran Affairs, VA Supportive Services for Veteran Families Program, CFDA No. 64.033 and U.S. Department of Education State of Colorado, Department of Human Services Special Education – Grants for Infants and Families with Disabilities, CFDA No. 84.181.
8. The threshold for distinguishing between Type A and B programs was \$750,000.
9. RMHS was determined to be a low-risk auditee.

B. Findings-Financial Statement Audit

None.

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

Federal Agency: U.S. Department of Veterans Affairs and U.S. Department of Education
Federal Program and CFDA Number: VA Supportive Services for Veteran Families, 64.033 and State of Colorado, Department of Human Services Special Education – Grants for Infants and Families with Disabilities, 84.181

Identification Numbers: 18-CO-020, 18-CO-020-CA, 20-CO-020-20, and 20IHIA139069

Grant Period: October 1, 2018 – September 30, 2019 and October 1, 2019 – September 30, 2020, with CARES Act funding for the period April 1, 2020 – July 31, 2020, and July 1, 2019 – June 30, 2020.

2020-001 Procurement and Suspension and Debarment – Significant Deficiency in Internal Control over Compliance

Criteria and Condition: RMHS must document their procurement process in writing and comply with applicable state and local laws and regulations and conform to applicable federal statutes and procurement requirements identified in 2 CFR part 200. In addition, RMHS is prohibited from contracting with parties that are suspended or debarred.

Rocky Mountain Human Services and Subsidiary
Schedule of Findings and Questioned Costs, Continued
Year Ended June 30, 2020

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

2020-001 Procurement and Suspension and Debarment – Significant Deficiency in Internal Control over Compliance, Continued

Context: Program expenditures made to one vendor in the past have not exceeded the micro-purchase or covered transaction threshold due to the nature of the program. Due to additional funding received under the CARES Act and changes in how program funds may be spent this year, and additional Federal funding for the State EI program received, program expenditures to certain vendors exceeded either the micro-purchase or covered transaction threshold, triggering the testing of this compliance area during the audit.

Cause: Policies and procedures were not documented in accordance with Uniform Guidance. Although there was a method used by management to procure these new services under the CARES Act funding, this was not documented in writing nor did it follow all required elements in accordance with Uniform Guidance. In addition, RMHS did not ensure suspension and debarment requirements were met (Department of Veteran Affairs).

Effect: Without following a written procurement policy that includes all required elements under Uniform Guidance, procurements under federal awards may not have been made in compliance with applicable Federal regulations, and covered transaction payments could have been made to parties that were federally suspended, debarred, or otherwise disqualified.

Recommendation: We recommend RMHS establish a written procurement policy to include all required elements by Uniform Guidance. Procedures should be included that outline processes and control activities specifically defining which personnel are responsible for each step in the process and who is performing the review over the process, including who is responsible for ensuring vendors under covered transactions are not suspended, debarred, or otherwise disqualified.

Views of Responsible Officials and Planned Corrective Actions: RMHS has drafted a procurement policy in accordance with all required elements of Uniform Guidance. As of the date of this report, the draft policy is being reviewed by management. Full implementation will occur no later than January 1, 2021.

Rocky Mountain Human Services and Subsidiary
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2020

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

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

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

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