

**SOUTHEASTERN  
DEVELOPMENTAL  
SERVICES, INC.**

FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT

June 30, 2020

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Southeastern Developmental Services, Inc.

We have audited the accompanying financial statements of Southeastern Developmental Services, Inc. (a nonprofit Center), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, of functional expenses, and of cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southeastern Developmental Services, Inc. as of June 30, 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.

*FredrickZink & Associates, PC*

FredrickZink & Associates, PC  
April 15, 2021

## FINANCIAL STATEMENTS

# **SOUTHEASTERN DEVELOPMENTAL SERVICES, INC.**

## **STATEMENT OF FINANCIAL POSITION**

June 30, 2020

### **ASSETS**

Cash and cash equivalents.....	\$	511,895
Accounts receivable		
Fees and grants from governmental agencies, net.....		523,781
Vocational contracts and sales.....		21,826
Certificates of deposit.....		152,273
Investments.....		97,476
Prepaid expenses and other.....		20,759
Property and equipment, net.....		<u>367,482</u>
<b>Total assets.....</b>	<b>\$</b>	<b><u>1,695,492</u></b>

### **LIABILITIES AND NET ASSETS**

#### **Liabilities**

Accounts payable and accrued expenses.....	\$	195,338
Deferred insurance proceeds.....		24,858
Capital lease obligation.....		<u>3,103</u>
<b>Total liabilities.....</b>		<b><u>223,299</u></b>

#### **Net assets without donor restrictions**

Available for operations.....		1,107,814
Net investment in property and equipment.....		<u>364,379</u>
<b>Total net assets without donor restrictions.....</b>		<b><u>1,472,193</u></b>

<b>Total liabilities and net assets.....</b>	<b>\$</b>	<b><u>1,695,492</u></b>
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The accompanying notes are an integral part of these financial statements.

**SOUTHEASTERN DEVELOPMENTAL SERVICES, INC.**

STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2020

	<u>Without Donor</u>	<u>With Donor</u>	<u>Total</u>
	Restrictions	Restrictions	
Support and Revenue			
Fees and grants from governmental agencies			
Fees for services			
State of Colorado			
State General Fund			
Comprehensive.....	\$ 19,187	\$ -	\$ 19,187
Adult supported living.....	84,487	-	84,487
Children's extensive support.....	163	-	163
Early intervention.....	143,191	-	143,191
Family support services program.....	27,894	-	27,894
Total fees from State General Fund.....	<u>274,922</u>		<u>274,922</u>
Medicaid			
Comprehensive.....	2,011,077	-	2,011,077
Adult supported living.....	419,675	-	419,675
Medical services.....	17,613	-	17,613
Early intervention.....	14,100	-	14,100
Home community based services.....	4,912	-	4,912
Total fees from Medicaid.....	<u>2,467,575</u>		<u>2,467,575</u>
Total fees and grants from governmental agencies.....	2,742,497	-	2,742,497
Government grant - SBA Paycheck Protection Program.....	-	345,500	345,500
Public support - contributions.....	28,081	13,500	41,581
In-kind donations.....	6,818	-	6,818
Residential room and board.....	194,808	-	194,808
Gain on sale of property and equipment.....	1,500	-	1,500
Investment income, net.....	5,376	-	5,376
Other revenue.....	24,252	-	24,252
Net assets released from restriction.....	359,000	(359,000)	-
Total support and revenue.....	<u>\$ 3,362,332</u>	<u>\$ -</u>	<u>\$ 3,362,332</u>

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

**SOUTHEASTERN DEVELOPMENTAL SERVICES, INC.**

STATEMENT OF ACTIVITIES - Continued  
For the Year Ended June 30, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restriction</u>	<u>Total</u>
Expenses			
Program services			
Medicaid comprehensive.....	\$ 1,795,855		\$ 1,795,855
State adult supported living.....	65,567		65,567
Medicaid adult supported living.....	324,711		324,711
Children's extensive support.....	2,980		2,980
Early intervention.....	142,373		142,373
Family support services program.....	37,099		37,099
Case management.....	178,862		178,862
Medical services.....	120,645		120,645
Total program services.....	<u>2,668,092</u>	<u>-</u>	<u>2,668,092</u>
Supporting services			
Management and general.....	311,870		311,870
Fundraising.....	26,522		26,522
Total supporting services.....	<u>338,392</u>	<u>-</u>	<u>338,392</u>
Total expenses.....	<u>3,006,484</u>	<u>-</u>	<u>3,006,484</u>
<b>Change in net assets.....</b>	<b>355,848</b>	<b>-</b>	<b>355,848</b>
Net assets, beginning of year.....	1,116,345	-	1,116,345
Net assets, end of year.....	<u>\$ 1,472,193</u>	<u>\$ -</u>	<u>\$ 1,472,193</u>

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

**SOUTHEASTERN DEVELOPMENT SERVICES, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**

For the Year Ended June 30, 2020

	Program Services										Supporting Services		Total Expenses
	Medicaid comprehensive services	State adult supported living services	Medicaid adult supported living services	Children and family services	Early Intervention	Family support services	Case management	Medical Services	Total	Management and general	Development and Fundraising	Total	
Salaries, benefits and taxes.....	\$ 1,324,630	\$ 43,400	\$ 214,986	\$ -	\$ 61,294	\$ 11,211	\$ 152,970	\$ 113,923	\$ 1,922,414	\$ 243,067	\$ -	\$ 243,067	\$ 2,165,501
Professional fees.....	193,221	18,266	91,275	100	76,849	22,767	1,104	773	404,355	31,691	-	31,691	436,046
Depreciation.....	49,234	1,226	6,089	-	170	139	7,142	-	64,000	4,655	-	4,655	68,655
Supplies.....	43,906	862	2,973	2,880	1,069	1,067	4,100	5,041	61,918	1,460	12,576	14,036	75,954
Insurance.....	46,091	388	2,244	-	722	590	2,960	-	52,995	15,335	-	15,335	68,330
Utilities.....	51,027	236	1,170	-	203	166	4,546	-	57,348	20	-	20	57,368
Repairs and maintenance.....	28,833	272	1,354	-	165	135	2,282	-	33,041	4,568	-	4,568	37,609
Staff development and travel.....	16,348	127	2,175	-	240	154	1,754	248	21,046	1,590	-	1,590	22,636
Vehicle fuel.....	13,289	225	1,119	-	194	158	861	-	15,846	99	-	99	15,945
Other.....	6,285	369	395	-	188	596	517	-	8,350	9,359	11,151	20,510	28,960
Telephone.....	17,439	95	473	-	1,062	67	380	660	20,176	5	-	5	20,181
Food.....	1,231	-	-	-	137	-	-	-	1,368	-	2,795	2,795	4,163
Dues and subscriptions.....	4,321	101	458	-	60	49	246	-	5,235	1	-	1	5,236
<b>Total expenses.....</b>	<b>\$ 1,795,855</b>	<b>\$ 65,567</b>	<b>\$ 324,711</b>	<b>\$ 2,980</b>	<b>\$ 142,373</b>	<b>\$ 37,099</b>	<b>\$ 178,862</b>	<b>\$ 120,645</b>	<b>\$ 2,668,092</b>	<b>\$ 311,870</b>	<b>\$ 26,522</b>	<b>\$ 338,392</b>	<b>\$ 3,006,484</b>

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

# **SOUTHEASTERN DEVELOPMENTAL SERVICES, INC.**

## **STATEMENT OF CASH FLOWS**

For the Year Ended June 30, 2020

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

#### **Cash flows from operating activities:**

Cash received from governmental agencies and others.....	\$ 2,705,025
Cash received from Cares Act - SBA Paycheck Protection Program .....	345,500
Cash paid to suppliers and employees.....	(2,920,127)
Interest received.....	5,349
Interest paid.....	(125)
Net cash provided by operating activities.....	<u>135,622</u>

#### **Cash flows from investing activities:**

Redemption of certificates of deposit.....	274,310
Purchase of certificates of deposit.....	(152,273)
Purchase of property and equipment.....	(9,988)
Purchase of investments.....	(98,368)
Proceeds from sale of property and equipment.....	1,500
Net cash provided by investing activities.....	<u>15,181</u>

**Net increase in cash and cash equivalents..... 150,803**

Cash and cash equivalents, beginning of year..... 361,092

Cash and cash equivalents, end of year..... \$ 511,895

#### **Reconciliation of change in net assets to net cash provided by operating activities:**

Change in net assets..... \$ 355,848

#### **Adjustments to reconcile:**

Depreciation.....	68,655
Unrealized loss on investments.....	892
Increase in allowance for uncollectible accounts.....	(878)
Decrease (increase) in	
Accounts receivable.....	(286,557)
Prepaid expenses and other.....	(7,571)
Increase (decrease) in	
Accounts payable and accrued expenses.....	(7,242)
Deferred revenue.....	12,475
Total adjustments.....	<u>(220,226)</u>

**Net cash provided by operating activities..... \$ 135,622**

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

# **SOUTHEASTERN DEVELOPMENTAL SERVICES, INC.**

## **NOTES TO FINANCIAL STATEMENTS**

June 30, 2020

### **NOTE 1 - CENTER AND NATURE OF ACTIVITIES**

Southeastern Developmental Services, Inc. (the Center) was incorporated under the laws of the State of Colorado in 1964 for the purpose of providing a community center board to coordinate programs through interagency cooperation and local agencies to provide services to persons with developmental disabilities in Baca, Kiowa, eastern Bent and Prowers Counties. The Center's revenue comes primarily from the State of Colorado for services provided. The major program services or supports and functional activities directly provided or purchased by the Center are:

Comprehensive - refers to the residential services, adult day services or supporting activities and transportation activities as specified in the Individualized Service Plan. Included are a number of different types of residential settings which provide an array of training, learning, experiential and support activities provided in residential living alternatives designed to meet individual needs. Additionally, adult day services provide opportunities for individuals to experience and actively participate in valued roles in the community. These services and supporting activities enable individuals to access and participate in typical community activities such as work, recreation, and senior citizens activities. Finally, transportation activities refer to "Home to Day Program transportation" services relevant to an individual's work schedule as specified in the Individualized Service Plan. For these purposes, "work schedule" is defined broadly to include adult and retirement activities such as education, training, community integration and employment.

Adult Supported Living - provides individualized living services for persons who are responsible for their own living arrangements in the community.

Children's Extensive Support - is a deeming waiver (only the child's income is considered in determining eligibility) intended to provide needed services and supports to eligible children under the age of eighteen years in order for the children to remain or return to the family home. Waiver services are targeted to children having extensive support needs, which require constant line-of-sight supervision due to significantly challenging behaviors and/or coexisting medical conditions. Available services include personal assistance, household modifications, specialized medical equipment and supplies, professional service, and community connections services.

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

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

Home Community Based Services - provides Medicaid benefits of case management and supportive services for disabled children from birth through age seventeen who would otherwise be ineligible for Medicaid due to excess parental income and/or resources. Children must be at risk of nursing facility or hospital placement.

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

# **SOUTHEASTERN DEVELOPMENTAL SERVICES, INC.**

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

June 30, 2020

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

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

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

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

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

*Net Assets Without Donor Restrictions* – Amounts that are not subject to usage restrictions based on donor-imposed requirements. This class also includes assets previously restricted where restrictions have expired or been met.

*Net Assets with Donor Restrictions* – Assets subject to usage limitations based on donor imposed or grantor restrictions. These restrictions may be temporary or may be based on a particular use. Restrictions may be met by the passage of time or by actions of the Center. Certain restrictions may need to be maintained in perpetuity.

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

#### **Use of estimates**

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

#### **Cash and cash equivalents**

For purposes of the statement of cash flows, the Center defines cash and cash equivalents as all cash on hand and cash on deposit, subject to immediate withdrawal, and certificates of deposits with an original maturity of three months or less.

#### **Accounts receivable**

The majority of the Center's accounts receivable are due from the State of Colorado and other governmental entities. Accounts receivable are due according to contractual terms and are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts considering a number of factors, including the length of time accounts receivables are past due and the Center's previous collection history. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance.

# **SOUTHEASTERN DEVELOPMENTAL SERVICES, INC.**

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

June 30, 2020

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

#### **Fair value of financial instruments**

Generally accepted accounting principles requires disclosure of an estimate of fair value of certain financial instruments. The Center's significant financial instruments are cash, certificates of deposit, investments, accounts receivable, and other short-term assets and liabilities. For these financial instruments, carrying values approximate fair value.

#### **Property and equipment**

Property and equipment are stated at cost at the date of acquisition or estimated fair value at the date of donation. The Center capitalizes property and equipment acquisitions of \$2,500 or more that have a useful life of more than two years. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets. Lives are estimated at five to twenty years for buildings and improvements, and three to ten years for equipment.

The carrying values of property and equipment are reviewed for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended June 30, 2020.

#### **Revenue recognition**

Revenue is recognized when earned. Amounts received in advance of performance of the underlying services are deferred to the period in which the services are performed. The Center's revenue consists primarily of funds received from the State of Colorado for Medicaid and other services, miscellaneous smaller grants and awards from federal, state, county and municipal sources. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

#### **Donated services and In-kind donations**

Volunteers contribute significant amounts of time to our program services, administration, and development and fundraising activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributions of property, material, and personal services are recorded at their estimated value as of the date received. These donations (other than contributions of property and equipment) are included as program costs to properly reflect the total cost of the particular program.

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

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

# **SOUTHEASTERN DEVELOPMENTAL SERVICES, INC.**

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

June 30, 2020

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

#### **Income taxes**

The Center is exempt from income tax as provided under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The Center has adopted accounting requirements that prescribe when to recognize and how to measure the financial statement effects of income tax positions taken or expected to be taken on its income tax returns, including the position that the Center continues to qualify to be treated as a tax-exempt Center for both federal and state income tax purposes. These rules require management to evaluate the likelihood that, upon examination by relevant taxing jurisdictions, those income tax positions would be sustained.

Based on that evaluation, if it were more than 50% probable that a material amount of income tax would be imposed at the entity level upon examination by the relevant taxing authorities, a liability would be recognized in the accompanying statement of financial position along with any interest and penalties that would result from that assessment. When the Center has unrelated business income, the federal Exempt Center Business Income Tax Return (Form 990T) would be subject to examination by the Internal Revenue Service for three years after filing. Should any penalties and interest be incurred, they would be recognized as management and general expenses. Consequently, no liability or expense is recognized in the accompanying statements for uncertain income tax positions.

#### **Compensated absences**

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

#### **Recent accounting pronouncements**

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in generally accepted accounting principles in the United States of America (US GAAP) when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2018. Then again, in June 2020, the FASB issued ASU 2020-05 as a limited deferral of the effective date for annual periods beginning after December 15, 2019. The Center has not yet selected a transition method and is currently evaluating the effect that the standard will have on the financial statements.

# **SOUTHEASTERN DEVELOPMENTAL SERVICES, INC.**

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

June 30, 2020

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

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The most significant change for lessees is the requirement under the new guidance to recognize right-of-use assets and lease liabilities for all leases not considered short-term leases. Changes to the lessor accounting model include: (a) synchronizing key aspects of the model with the new revenue recognition guidance, such as basing whether a lease is similar to a sale 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. Then again, in June 2020, the FASB issued ASU 2020-05 as a limited deferral of the effective date for annual periods beginning after December 15, 2021. The Center is in the process of evaluating the impact of this new guidance.

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 will be effective for all 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 services as are source recipient, for fiscal years beginning after December 15, 2018. The ASU will be effective for all entities that have not issued or is a conduit bond obligor for securities that are traded, listed or quoted on an exchange or an over-the-counter market services as a resource provider, for fiscal years beginning after December 15, 2019. The Center is in the process of evaluating the impact of this new guidance.

### **NOTE 3 - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS**

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

Cash and cash equivalents	\$ 511,895
Accounts receivable	
Fees and grants from governmental agencies	523,781
Vocational contracts and sales	21,826
Certificates of deposit	152,273
Investments	97,476
Prepaid expenses and other	20,759
	<u>\$ 1,328,010</u>

The Center's primary source of revenue is from fees and grants from governmental agencies which comprise approximately 92% of revenue and support. The Center has enough liquid assets to fund approximately five and a half months of current year expenditures in the subsequent year.

# **SOUTHEASTERN DEVELOPMENTAL SERVICES, INC.**

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

June 30, 2020

### **NOTE 4 - CERTIFICATES OF DEPOSIT**

The Center holds two, six-month certificates of deposit at Frontier Bank. The certificates held at June 30, 2020, matured in December 2020, and bore interest at 0.40%. The Center renewed the two certificates for another six-month term.

The Center has a six-month certificate of deposit with Edward Jones included in cash and cash equivalents. The certificate is valued at \$29,028, matured in July 2020, and yielded an interest rate of 1.90%. The certificate was renewed for another six months.

### **NOTE 5 - INVESTMENTS AND FAIR VALUE MEASUREMENT**

#### **Investments**

Investments at June 30, 2020 consist of an exchange traded fund with the fair value at that time of \$97,476. Investment loss of \$892 related to these investments is included in net investment income on the statement of activities and change in net assets at June 30, 2020.

#### **Fair value measurements**

U.S. GAAP provides a framework for measuring fair value. To increase consistency and comparability in fair value measurements, the framework requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the primary or most advantageous market for the asset or liability in an orderly transaction between market participants. The framework uses a three-level valuation hierarchy based on observable and non-observable inputs. Observable inputs consist of data obtained from independent sources. Non-observable inputs reflect industry assumptions. These two types of inputs are used to create the fair value hierarchy, giving preference to observable inputs.

Assets classified as Level 1 have fair values based on unadjusted quoted market prices for identical instruments in active markets. Assets and liabilities classified as Level 2 have fair values based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in inactive markets, and model derived valuations whose inputs are observable. Assets and liabilities classified as Level 3 have fair values based on value drivers that are unobservable.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2020.

Cash equivalents - Consist primarily of money market funds and are valued at the closing price reported on the active markets in which the securities are traded at fiscal yearend.

Exchange traded funds - Valued at quoted market prices in active markets.

All investments of the Center are valued using Level 1 inputs. The valuation methodologies used by the Center may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Center's management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

# **SOUTHEASTERN DEVELOPMENTAL SERVICES, INC.**

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

June 30, 2020

### **NOTE 6 - FEES AND GRANTS FROM GOVERNMENTAL AGENCIES**

Amounts receivable from governmental agencies at June 30, 2020 were as follows:

State of Colorado	
General fund	\$ 86,547
Medicaid	443,419
Allowance for doubtful accounts	<u>(6,185)</u>
	<u>\$ 523,781</u>

### **NOTE 7 - PROPERTY AND EQUIPMENT**

The cost of property and equipment and related accumulated depreciation at June 30, 2020 were as follows:

Land	\$ 70,867
Buildings and improvements	1,221,609
Equipment	465,000
Construction in process	<u>6,350</u>
	1,763,826
Accumulated depreciation	<u>(1,396,344)</u>
Total property and equipment	<u>\$ 367,482</u>

In 2014, a storm damaged the Center's buildings resulting in an insurance settlement of \$167,643. Since that time, the Center used \$142,785 to repair damages and is included in property and equipment. As of June 30, 2020, \$24,858 remains in deferred revenue until used for repairs.

### **NOTE 8 - RETIREMENT PLAN**

The Center sponsors a 403(b) plan for all full-time employees who have completed minimum service requirements. Employees may voluntarily contribute to the plan up to the maximum allowed by law. The Center matches contributions made by full-time employees at a maximum of \$200 per month. The Center paid \$19,289 into the plan during the year ended June 30, 2020.

### **NOTE 9 - RELATED PARTY TRANSACTIONS**

The State of Colorado is considered a related party by virtue of significant management influence exercised by the State through contract provisions. The Center received a substantial portion of its revenue from the State of Colorado as identified on the statement of activities. The amount due to the Center from the State of Colorado is described in Note 6. There were no outstanding balances due to the State of Colorado as of June 30, 2020 for expenses and reimbursements.

### **NOTE 10 - CONCENTRATIONS OF RISK**

#### **Deposit risk**

The Center maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Management has not experienced any losses in such accounts. Management believes the Center is not exposed to any significant credit risk on cash and cash equivalents.

# **SOUTHEASTERN DEVELOPMENTAL SERVICES, INC.**

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

June 30, 2020

### **NOTE 10 - CONCENTRATIONS OF RISK - Continued**

#### Major vendor

The Center had significant activity with one major vendor which represented 33% of accounts payable and 22% of expenses for the year ended June 30, 2020. The Center expects to maintain this relationship with the vendor as it is the only vendor in the region that provides behavioral services.

#### Major resource provider

The State of Colorado is considered a major customer. See Note 9.

### **NOTE 11 - LEASE COMMITMENT**

During the year ended June 30, 2018, the Center entered into a lease agreement for equipment with an interest rate of 3.5%. Future minimum lease payments as follows:

<u>Years ending June 30,</u>	
2021	\$ 988
2022	988
2023	988
2024	<u>328</u>
Total minimum lease payments	\$ 3,292
Less: amount representing interest	<u>(189)</u>
Capital lease obligations	<u>\$ 3,103</u>

Interest expense associated with this lease was \$125 for the year ended June 30, 2020.

### **NOTE 12 - PAYCHECK PROTECTION PROGRAM**

In May 2020, the Center received loan proceeds in the amount of approximately \$345,550 under the Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after twenty-four weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the twenty-four-week period. The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months. In January of 2021, the lender determined that the Center had met the obligations and the loan was forgiven. Management considers the entire amount as a restricted grant in the statement of activities used for operating activities on the statement of cash flows as of June 30, 2020.

# **SOUTHEASTERN DEVELOPMENTAL SERVICES, INC.**

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

June 30, 2020

### **NOTE 13 - UNCERTAINTIES**

#### **COVID-19**

In January 2020, the World Health Center (WHO) announced a global health emergency because of a new strain of coronavirus (the COVID-19 outbreak) and the risks to the community as the virus spread globally. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic based on the rapid increase in global exposure.

The extent of the impact of COVID-19 on the Center's operations and financial performance are heavily dependent on funding from the state and federal government. Access to grants and contracts from federal, state and local governments may decrease or may not be available depending on appropriations. The outbreak may have a continued material adverse impact on economic and market conditions, triggering a period of global or national economic slowdown. As such, this may hinder the Center's ability to advance our mission. As such, our financial condition and liquidity may be negatively impacted for the fiscal year ended June 30, 2020 and beyond.

The coronavirus had an impact on the mean in which the Center delivers services. With facility closures, the Center was forced to perform services remotely. The economic recession brought on by the pandemic may have an impact on future funding of services due to state budget constraints. The Center continues to monitor evolving economic and general business conditions and the actual and potential impacts on our financial position, results of operations, and cash flows.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Center's financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global response to curb its spread, the Center is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition or liquidity during the fiscal year ending June 30, 2021.

### **NOTE 14 - SUBSEQUENT EVENTS**

Management has performed subsequent events procedures through April 15, 2021, which is the date the financial statements were available to be issued. Except as described in Note 12 and below, there were no other subsequent events requiring adjustment to the financial statements or disclosures as stated herein.

#### **Paycheck Protection Program**

The Center received a loan from Citizens Bank in the amount of \$345,500 under the Paycheck Protection Program established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The loan is subject to a note dated May 6, 2020. The Center applied for, and in December 2020, was notified that \$345,500 in eligible expenditures for payroll and other expenses described in the CARES Act has been forgiven.