

Consolidated Financial Statements and
Independent Auditor's Report

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

June 30, 2021

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Developmental Disabilities Center d.b.a. Imagine! and Affiliates (Imagine!), which comprise the consolidated statement of financial position as of June 30, 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Developmental Disabilities Center d.b.a. Imagine! and Affiliates as of June 30, 2021 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Imagine!'s 2020 consolidated financial statements, and our report dated October 28, 2020, expressed an unmodified opinion on those audited consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Logan, Thomas + Johnson, LLC

Broomfield, Colorado
November 4, 2021

Consolidated Financial Statements

Developmental Disabilities Center d.b.a. Imagine! and Affiliates
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2021
(With summarized financial information as of June 30, 2020)

	2021	2020
ASSETS		
Current assets		
Cash and cash equivalents	\$ 6,620,042	\$ 8,474,286
Certificates of deposit	515,485	2,021,691
Investments	1,663,156	1,182,465
Accounts receivable		
Fees and grants from governmental agencies, net of allowance for doubtful accounts of \$68,843	6,072,339	6,049,039
Other, net of allowance for doubtful accounts of \$56,464	148,079	252,264
Prepaid expenses and other	732,663	662,955
Total current assets	15,751,764	18,642,700
Certificates of deposit	5,571,808	-
Tenant deposits held in trust	5,788	5,788
Restricted cash in reserve funds	110,210	99,291
Prepaid benefit cost	968,694	1,086,605
Beneficial interest in assets held by others	549,900	456,851
Land, building and equipment, net	7,657,071	8,532,222
Total assets	\$ 30,615,235	\$ 28,823,457
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 2,990,186	\$ 2,330,691
Deferred revenue	81,230	-
Current portion of long-term debt		
Notes payable	3,384	6,768
Bonds payable	185,000	180,000
Total current liabilities	3,259,800	2,517,459
Liability for pension benefits	1,273,101	1,414,748
Noncurrent liabilities		
Tenant deposits held in trust	5,788	5,788
Long-term debt, net of current portion		
Notes payable	6,242	9,626
Bonds payable, net of deferred bond issuance costs	799,502	979,018
Total liabilities	5,344,433	4,926,639
Net assets		
Without donor restrictions		
Board designated for future projects	117,989	117,989
Net investment in land, building and equipment	6,662,943	7,356,810
Undesignated	18,489,870	16,422,019
Total net assets	25,270,802	23,896,818
Total liabilities and net assets	\$ 30,615,235	\$ 28,823,457

The accompanying notes are an integral part of this statement.

Developmental Disabilities Center d.b.a. Imagine! and Affiliates
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended June 30, 2021
(With summarized financial information for the year ended June 30, 2020)

	<u>Total without donor restrictions</u>	
	<u>2021</u>	<u>2020</u>
Revenues and support		
Fees and grants from governmental agencies		
Fees for services		
State of Colorado		
State General Fund	\$ 4,225,475	\$ 5,417,413
Medicaid	19,732,904	21,943,279
Colorado Department of Education - Vocational Rehabilitation	24,829	7,864
City and county	6,153,680	7,485,637
Grants and other		
Department of Housing and Urban Development	43,376	160,534
Medicare	201,100	188,877
Other	716,818	3,211
Total fees and grants from governmental agencies	<u>31,098,182</u>	<u>35,206,815</u>
Public support – contributions	800,846	779,069
Residential room and board	1,107,744	1,163,036
Other revenue	2,162,603	1,361,746
Total revenues and support	<u>35,169,375</u>	<u>38,510,666</u>
Expenses		
Program services		
Case management	4,472,338	4,541,496
Residential	11,611,189	12,204,364
Adult community services and employment services	2,963,139	5,437,206
School aged services	2,363,454	1,856,672
Organized health care delivery system	1,568,816	2,106,464
Behavioral	419,861	350,093
Family recruited employer	1,533,739	1,494,622
Early intervention	2,681,820	3,358,637
Family support	1,760,424	1,290,783
Other support programs	1,163,131	883,105
Total program services	<u>30,537,911</u>	<u>33,523,442</u>
Supporting services		
Management and general	2,995,515	3,423,369
Fundraising	285,701	363,372
Total supporting services	<u>3,281,216</u>	<u>3,786,741</u>
Total expenses	<u>33,819,127</u>	<u>37,310,183</u>
Other components of net periodic pension cost	(107,277)	3,304
Pension - related changes other than net periodic pension cost	131,013	(49,063)
CHANGE IN NET ASSETS	<u>1,373,984</u>	<u>1,154,724</u>
Net assets, beginning of year	<u>23,896,818</u>	<u>22,742,094</u>
Net assets, end of year	<u>\$ 25,270,802</u>	<u>\$ 23,896,818</u>

The accompanying notes are an integral part of this statement.

Developmental Disabilities Center d.b.a. Imagine! and Affiliates
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2021

(With summarized financial information for the year ended June 30, 2020)

	Program Services					
	Case manage- ment	Residential	Day habi- litation and employment	Therapeutic activities	Organized health care delivery system	Behavioral
Expenses						
Salaries, benefits and taxes	\$ 3,975,691	\$ 4,859,394	\$ 1,727,793	\$ 2,015,338	\$ 54,493	\$ 403,150
Professional services	50,043	5,586,700	42,148	8,709	1,313,451	87
Staff development and travel	1,997	22,860	11,037	3,868	272	6,072
Vehicles	933	21,051	56,013	10,869	-	-
Occupancy	52,056	282,054	333,755	11,849	3,383	483
Supplies and equipment	130,227	155,561	192,810	110,706	169,698	1,956
Food	370	131,395	2,269	3,400	300	-
Telephone	19,013	31,680	15,902	6,362	311	1
Insurance	21,659	73,390	98,469	27,924	427	1,592
Grants	-	-	-	-	-	-
Interest	4,208	5,553	1,538	1,219	279	49
Other expense	127,032	106,379	193,989	73,238	23,282	6,100
Depreciation and amortization	89,109	335,172	287,416	89,972	2,920	371
Total expenses	<u>\$ 4,472,338</u>	<u>\$ 11,611,189</u>	<u>\$ 2,963,139</u>	<u>\$ 2,363,454</u>	<u>\$ 1,568,816</u>	<u>\$ 419,861</u>

The accompanying notes are an integral part of this statement.

Program Services

Family recruited employer	Early interven- tion	Family support	Other support programs	Management and general	Fund- raising	Total	
						2021	2020
\$ 1,489,604	\$ 1,036,093	\$ 257,752	\$ 374,246	\$ 2,135,610	\$ 205,166	\$ 18,534,330	\$ 21,058,042
584	1,443,067	8,213	583,540	522,639	499	9,559,680	10,226,327
402	4,446	347	2,894	23,630	2,979	80,804	281,209
-	-	-	-	6,941	-	95,807	217,077
1,878	16,150	3,334	9,286	44,310	2,729	761,267	832,618
2,113	28,125	17,598	11,723	28,997	16,587	866,101	1,078,239
-	-	47	200	9	-	137,990	104,889
426	5,989	1,625	890	13,495	523	96,217	90,880
8,722	5,260	1,386	2,003	45,539	603	286,974	246,891
-	-	1,452,377	-	-	-	1,452,377	964,034
195	1,572	279	764	3,140	225	19,021	33,524
27,632	121,460	12,076	168,590	108,038	53,607	1,021,423	1,198,341
2,183	19,658	5,390	8,995	63,167	2,783	907,136	978,112
<u>\$ 1,533,739</u>	<u>\$ 2,681,820</u>	<u>\$ 1,760,424</u>	<u>\$ 1,163,131</u>	<u>\$ 2,995,515</u>	<u>\$ 285,701</u>	<u>\$ 33,819,127</u>	<u>\$ 37,310,183</u>

The accompanying notes are an integral part of this statement.

Developmental Disabilities Center d.b.a. Imagine! and Affiliates
CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended June 30, 2021
(With summarized financial information for the year ended June 30, 2020)

	2021	2020
Cash flows from operating activities		
Change in net assets	\$ 1,373,984	\$ 1,154,724
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	907,136	978,112
Gain on sale of land, building and equipment	(861,578)	(3,388)
Realized and unrealized (gain)/loss on investments	(393,423)	45,523
Realized and unrealized (gain)/loss on certificates of deposit	108,721	(15,709)
Noncash change in beneficial interest in assets held by others	(93,049)	(17,293)
Nonperiodic changes in pension plan	(141,647)	158,610
Change in assets and liabilities		
(Increase) decrease in accounts receivable	80,885	(1,037,352)
(Increase) decrease in prepaid expenses and other assets	48,203	(268,611)
Increase (decrease) in deferred revenue	81,230	(2,848,337)
Increase in accounts payable and accrued expenses	659,495	32,947
Net cash provided by (used in) operating activities	1,769,957	(1,820,774)
Cash flows from investing activities		
Purchase of land, building and equipment	(131,211)	(616,023)
Proceeds from sale of fixed assets	966,288	8,388
Purchase of certificates of deposit	(6,189,230)	-
Proceeds from sale of certificates of deposit	2,014,907	500,000
Proceeds from sale of investments	-	512,402
Purchase of investments	(87,268)	(88,432)
Net cash provided by (used in) investing activities	(3,426,514)	316,335
Cash flows from financing activities		
Payments on bonds payable	(180,000)	(170,000)
Payments on notes payable	(6,768)	-
Net cash used in financing activities	(186,768)	(170,000)
NET DECREASE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	(1,843,325)	(1,674,439)
Cash and cash equivalents and restricted cash, beginning of year	8,579,365	10,253,804
Cash and cash equivalents and restricted cash, end of year	\$ 6,736,040	\$ 8,579,365
Supplemental data		
Cash paid during the year for interest	\$ 2,322	\$ 19,935

The accompanying notes are an integral part of this statement.

Developmental Disabilities Center d.b.a. Imagine! and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021

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

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

1. *Summary of Business Activities*

Developmental Disabilities Center d.b.a. Imagine!, a Colorado nonprofit corporation incorporated under the laws of the State of Colorado in 1963, serves individuals with developmental disabilities by acting as the community centered board (CCB) and providing a variety of services to individuals with disabilities and their families in Boulder and Broomfield Counties. Imagine! is one of 20 CCBs in the State of Colorado.

Our mission is to create a world of opportunity for all abilities.

2. *Principles of Consolidation*

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

3. *Description of Services Provided*

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

Program Services or Supports

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

Developmental Disabilities Center d.b.a. Imagine! and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021

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

3. *Description of Services Provided (Continued)*

Program Services or Supports (Continued)

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

Adult Community Services (ACS) and Employment Services provide opportunities for social, vocational and educational growth to adults with physical and cognitive challenges. These services and supports promote community integration through activities such as work, recreation, and senior citizen activities. ACS provides therapeutic recreation which focuses on providing life-long learning experiences to allow each individual to reach their highest potential. Classes and lesson plans focus on improving a person's physical, cognitive, social, emotional and leisure needs through activity intervention. A Certified Therapeutic Recreation Specialist (CTRS) typically plans and facilitates an activity for their client and ensures that skills are practiced and goals are achieved. Activities include a wide variety of community-based recreational programming such as photography, volunteer work, science, swimming, equine therapy and arts & crafts.

Employment Services provides a range of job preparation, job search, job coaching and training support for individuals with the goal of providing Competitive Integrated Employment opportunities for all. The preferred outcome is full inclusion employment with regular compensation, equal advancement and equal interaction with co-workers in the employment setting.

School Age Services (SAS) provides high quality therapeutic recreation through Imagine!'s after school program, summer camp and school closure days. The program focuses on improving a person's physical, cognitive, social, emotional and leisure needs through activity interventions. A Certified Therapeutic Recreation Specialist (CTRS) typically plans and facilitates an activity for their client and ensures that certain skills are practiced and goals are achieved during the session. Activities include community-based recreational programming such as visiting water parks, amusement parks, fishing, hiking, swimming, equine therapy and, arts & crafts. Imagine! also offers a transitional program geared toward adolescents and young adults ages 16-24, designed to ease the transition from childhood to adulthood focused on increasing independence, practice financial skills and further develop social skills.

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

Developmental Disabilities Center d.b.a. Imagine! and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021

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

3. *Description of Services Provided (Continued)*

Program Services or Supports (Continued)

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

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

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

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

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

Supporting Services

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

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

Developmental Disabilities Center d.b.a. Imagine! and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021

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

4. *Basis of Accounting*

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

5. *Use of Estimates*

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

6. *Subsequent Events*

Imagine! has evaluated events and transactions occurring subsequent to the end of the fiscal year for potential recognition or disclosure through November 4, 2021, the date on which the financial statements were issued. Imagine! did not identify any events or transactions that would have a material impact on the financial statements, except for what is noted in Note Q.

7. *Cash and Cash Equivalents*

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

8. *Accounts Receivable*

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

Developmental Disabilities Center d.b.a. Imagine! and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021

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

9. *Investments*

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

10. *Land, Building and Equipment*

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

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

11. *Revenue Recognition*

Revenue is reported at the amount that reflects the consideration to which Imagine! expects to be entitled in exchange for providing services. Program revenue consists primarily of funds received from the State of Colorado for Medicaid and other services, proceeds from mill levies in Boulder County, miscellaneous smaller grants and awards from federal, state, county and municipal sources. Billings for services are billed after the services are performed. As performance obligations are satisfied, revenue is recognized.

Performance obligations are determined based on the nature of the services provided. As performance obligations are satisfied over time, revenue is recognized based on when related services are performed. This method provides for the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligations. Transaction price is based on standard charges for services provided, which is set by the State of Colorado. Program revenue received in advance is deferred to the applicable period in which the related services are performed at which time the deferred revenue will be recognized in that period. Rent income is recognized in the month in which it is earned rather than received.

Developmental Disabilities Center d.b.a. Imagine! and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021

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

12. *Accounting for Contributions*

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

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

13. *In-kind Contributions*

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

14. *Change in Accounting Policy*

As of July 1, 2020, Imagine! adopted the provisions of Accounting Standards Update (ASU) 2018-08, *Not-for Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The updated standard clarifies and improves the scope and the accounting guidance for contributions received and contributions made. Imagine! implemented ASU 2018-08 and there was no effect on the financial statements. Prior to July 1, 2020, Imagine! had implemented ASU 2018-08 where it was a resource recipient.

15. *Bond Issuance Costs*

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

Developmental Disabilities Center d.b.a. Imagine! and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021

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

16. *Income Taxes*

Imagine! is operated as a nonprofit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Imagine! recognizes tax liabilities when, despite the Imagine!'s belief that its tax return positions are supportable, Imagine! believes that certain positions may not be fully sustained upon review by tax authorities. Benefits from tax positions are measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon settlement. Imagine! has concluded there is no tax liability or benefit required to be recorded as of June 30, 2021. Imagine! is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any tax periods. Imagine! believes it is no longer subject to income tax examinations for the years prior to the year ended June 30, 2017.

17. *Functional Allocation of Expenses*

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

18. *Fair Value Measurements*

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

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

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

Developmental Disabilities Center d.b.a. Imagine! and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021

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

18. *Fair Value Measurements (Continued)*

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

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

19. *Prior Year Summarized Information and Reclassifications*

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Imagine!'s financial statements as of and for the year ended June 30, 2020, from which the summarized information was derived. Certain financial information as of and for the year ended June 30, 2020 has been reclassified to conform with the presentation for the current year.

20. *Recent Accounting Pronouncements*

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

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

20. *Recent Accounting Pronouncements (Continued)*

to existing guidance for sales-type leases, direct financing leases and operating leases. The ASU will be effective for fiscal years beginning after December 15, 2019, with early adoption permitted. In November 2019, the FASB issued ASU 2019-10, which defers the effective date of ASU 2016-02 one year, making it effective for annual reporting periods beginning after December 15, 2020. In June 2020, the FASB issued ASU 2020-05, which allows certain entities the option to delay the adoption by one year, making it effective for annual reporting periods beginning after December 15, 2021. Imagine! is in the process of evaluating the impact of this new guidance.

NOTE B – CASH

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position that sum to the total of the same such amounts shown in the statement of cash flows.

Cash and cash equivalents	\$ 6,620,042
Tenant deposits held in trust	5,788
Restricted cash	<u>110,210</u>
	<u>\$ 6,736,040</u>

In accordance with the HUD regulations, certain reserve accounts are required to be maintained for properties financed by HUD. Distributions for the replacement and/or repair of property and equipment from the replacement reserve account require approval from HUD. Tenant deposits are required at the time a lease is executed.

	<u>Replacement reserve</u>	<u>Tenant deposit</u>
Beginning balance	\$ 99,291	\$ 5,788
Interest earned	12	-
Deposits	6,610	-
Distributions	<u>-</u>	<u>-</u>
Ending balance	<u>\$ 110,210</u>	<u>\$ 5,788</u>

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NOTE C – LIQUIDITY AND AVAILABILITY

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

Cash and cash equivalents	\$ 6,620,042
Certificates of deposit	6,087,293
Investments	1,663,156
Accounts receivable	<u>6,220,418</u>
	\$ <u>20,590,909</u>

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

NOTE D – INVESTMENTS

Investments are carried at fair market value, based on current market quotations or a pricing model, and are comprised of the following at June 30, 2021:

Equity mutual funds:	
Domestic	\$ 1,291,713
International	281,443
Corporate stock	<u>90,000</u>
	\$ <u>1,663,156</u>

Investment return for the year ended June 30, 2021, consists of the following:

Interest income and dividends	\$ 128,454
Realized and unrealized gain on investments	<u>393,423</u>
	\$ <u>521,877</u>

NOTE E – BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

Imagine! transferred assets from its investment portfolio to The Community Foundation (TCF) to establish permanent funds that benefit Imagine!. Under the terms of the agreement, Imagine! receives income generated by the transferred assets and reinvests the income in the fund. Imagine! can withdraw all or a portion of the original amount transferred, any appreciation on those transferred assets, or both, at its discretion. At the time of the transfer, Imagine! granted variance

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NOTE E – BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS (CONTINUED)

power to TCF. That power gives TCF the right to distribute the investment income and principal to another nonprofit organization of its choice if Imagine! ceases to exist. If TCF ceases to exist, the net assets of the permanent funds shall be distributed to such charitable organizations as the governing board of TCF may select, with primary consideration being given to Imagine!. At June 30, 2021, the permanent fund has a value of \$548,458, which is reported in the statement of financial position as beneficial interest in assets held by others. In addition, the Longmont Community Foundation holds funds that are to benefit the Foundation in the amount of \$1,442 at June 30, 2021.

NOTE F – LAND, BUILDING AND EQUIPMENT

Land, building and equipment consists of the following at June 30, 2021:

Buildings and improvements	\$ 9,618,008
Leasehold improvements	53,458
Administrative and program equipment	1,958,259
Transportation equipment	<u>2,989,852</u>
	14,619,577
Less accumulated depreciation	<u>9,167,758</u>
	5,451,819
Land	<u>2,205,252</u>
	\$ <u>7,657,071</u>

Depreciation expense was \$901,652 for the year ended June 30, 2021.

NOTE G – LINE OF CREDIT

Imagine! established a \$543,000 line of credit with a bank at an annual interest rate of one-half percentage point above the financial institution's Index (prime) with a floor rate of 5.00%, maturing on February 15, 2023. The Index was 3.25% at June 30, 2021. Currently, the interest rate is 5.00%. The line of credit is collateralized by a second deed of trust. At June 30, 2021, there was no balance outstanding on the line of credit.

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NOTE H – LONG-TERM DEBT

Notes Payable

In May 2019, Imagine! entered into an unsecured note payable in the amount of \$16,920 with an interest rate of 0% that is due in February 2024. The lender bills Imagine! the monthly payment of \$282. The outstanding balance of the note payable at June 30, 2021 was \$9,626.

Future maturities under the note payable are as follows:

Year ending June 30,			
2022	\$	3,384	
2023		3,384	
2024		<u>2,858</u>	
		9,626	
Less current portion		<u>3,384</u>	
	\$	<u>6,242</u>	

Bonds Payable

In February 2006, Boulder County, Colorado issued \$3,110,000 of Variable Rate Demand Revenue Bonds (2006 Bonds) which were used for the current refunding of bonds issued in 1998, refinancing of existing debt and the purchase and improvements of an additional new administrative facility. With the issuance of the bonds, Imagine! entered into a loan agreement with Boulder County, Colorado in the amount of \$3,110,000. Principal payments are made annually on February 1. Interest payments are paid on the first business day of May, August, November and February and interest is calculated weekly based on comparable securities and prevailing market conditions. The 2006 Bonds are tax-exempt, with an effective interest rate of approximately .21% at June 30, 2021. The outstanding balance of the bonds at June 30, 2021 was \$1,010,000.

The 2006 Bonds are collateralized by a letter of credit, equal to the outstanding principal and interest at the date of renewal, which expired on June 1, 2011, but is automatically extended each year for the life of the 2006 Bonds. Imagine!’s administrative buildings act as collateral for the letter of credit. Imagine! is also responsible for paying a fee to the issuing bank of 1.0% per annum of the face value of the letter of credit.

Deferred bond issuance costs at June 30, 2021, net of accumulated amortization, are \$25,498. At the time of issuance, deferred bond issuance costs were \$109,683 and are amortized at \$5,484 per year.

The bonds contain debt covenants that require a minimum debt service coverage ratio and a minimum total liabilities to unrestricted net assets ratio. Imagine! met these covenants at June 30, 2021.

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 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE H – LONG-TERM DEBT (CONTINUED)

Bonds Payable (Continued)

Future maturities under the 2006 Bonds are as follows:

Year ending June 30,		
2022	\$	185,000
2023		195,000
2024		200,000
2025		210,000
2026		<u>220,000</u>
		1,010,000
Less deferred bond issuance costs		25,498
Less current portion		<u>185,000</u>
	\$	<u>799,502</u>

NOTE I – NET ASSETS

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

NOTE J – RETIREMENT PLANS

Tax Sheltered Annuity Plans

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

Thrift Plan

In March 1994, Imagine! established a thrift plan which meets the requirement of a Section 403(b) annuity plan. Employees are immediately eligible to participate and can contribute between 1% and 20% of their gross salary. Imagine!’s employer contribution rates range from 3% of compensation for less than 5 years of service to 16% of compensation for 20 or more years of service. The participants are 100% vested after three years of service. For the year ended June 30, 2021, Imagine! contributed \$386,149 to the plan.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021

NOTE J – RETIREMENT PLANS (CONTINUED)

Deferred Compensation Plan

Imagine! has a deferred compensation plan for a select group of management and highly compensated employees. Participants contribute a certain percentage of their salary to the Plan. Imagine! will distribute the balance of the participant's account upon the 30th day after the participant separates employment with Imagine! or equal periodic payments over a specified period, unless the participant has elected to commence distribution prior to this date. Imagine! maintains accounts for the participants. The total amount in these accounts was \$112,722 as of June 30, 2021. The amount is recorded in prepaid expenses and other and accounts payable and accrued expenses. No withdrawals had been made during the year ended June 30, 2021.

Defined Benefit Pension Plan

Imagine! has adopted a defined benefit pension plan covering all employees with one year of service and 21 years of age. The benefits are based on years of service and the employee's compensation during the last five years of employment. The participants are 100% vested after five years of service or upon attaining age 55. Imagine!'s policy is to fund pension costs as accrued. In October 2007, Imagine! amended the plan to discontinue all employee eligibility effective December 31, 2007. All participants became 100% vested at that time. Imagine! approved a resolution to start the process of terminating the plan. Upon completion of the termination, all qualifying participants will be paid a present value benefit through an annuity or a lump sum payment. For the year ended, June 30, 2021 Imagine! expects to contribute the minimum required contribution of \$150,000, estimated amounts to be reclassified as net periodic benefit costs are \$52,076, and no plan assets are expected to be returned to the employer.

Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future. Imagine! uses a June 30 measurement date for its plan. Based on the most recent actuarial valuation as of June 30, 2021, the end of the plan year, the following table sets forth the Plan's change in plan assets, assets and obligations, and amounts recognized on Imagine!'s statement of financial position at June 30, 2021:

Change in Plan Assets	
Fair value of plan assets at June 30, 2020	\$ 3,799,146
Actual return on plan assets	576,731
Employer contributions	37,500
Annuities purchased or benefits paid (including expenses)	<u>(423,068)</u>
Fair value of plan assets at June 30, 2021	\$ <u>3,990,309</u>
Assets and obligations	
Accumulated benefit obligation	\$ <u>4,294,716</u>

Developmental Disabilities Center d.b.a. Imagine! and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021

NOTE J – RETIREMENT PLANS (CONTINUED)

Defined Benefit Pension Plan (Continued)

Plan assets at fair value	\$ 3,990,309
Projected benefit obligation	<u>4,294,716</u>
Projected benefit obligation in excess of plan assets	\$ <u>(304,407)</u>
Amounts recognized in the statement of financial position consist of:	
Prepaid benefit cost – noncurrent asset	\$ 968,694
Pension benefit – noncurrent liabilities	<u>1,273,101</u>
Funded status at end of year	\$ <u>(304,407)</u>

Net periodic benefit cost for pension benefits for 2021 included the following components:

Service cost – benefits earned during the period	\$ 37,430
Interest cost on projected benefit obligation	76,710
Expected return on plan assets	(131,109)
Amount of recognized actuarial losses	<u>61,676</u>
Net periodic benefit cost	\$ <u>44,707</u>

There are no estimated transition obligation, no net prior service cost, and \$52,076 net loss that will be amortized into net periodic benefit cost over the next fiscal year.

Plan assets as of June 30, 2021 are by category as follows:

Asset category	Percent of fair value	Amount
Equity	39%	\$ 1,571,877
Fixed income	54	2,143,785
General account	<u>7</u>	<u>274,647</u>
Total	<u>100%</u>	\$ <u>3,990,309</u>

Investment policies and strategies:

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021

NOTE J – RETIREMENT PLANS (CONTINUED)

Defined Benefit Pension Plan (Continued)

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

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

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

The Expected Long-Term Rate of Return on Plan Assets assumption of 4.0% was selected in accordance with the Actuarial Standards Board in Actuarial Standards of Practice No. 27 – Selection Economic Assumptions for Measuring Pension Obligations. Based on Imagine!'s investment policy for the pension plan in effect for the fiscal year, a best estimate range was determined for both the real rate of return (net of inflation and investment expense) and for inflation based on long-term historical return on the applicable asset classes. An average inflation rate within the range within the range equal to 3.0% was selected and added to the real rate of return range to arrive at a best estimate range of 3.99%-9.24%. A rate of 4.0% which is within the best estimate range was selected.

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

Year ending June 30,	
2022	\$ 1,129,000
2023	196,000
2024	149,000
2025	396,000
2026	181,000
2027-2031	836,000

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021

NOTE J – RETIREMENT PLANS (CONTINUED)

Defined Benefit Pension Plan (Continued)

Weighted-average assumptions used to determine benefit obligations at June 30, 2021:

Discount rate	2.30%
Rate of compensation increase	0.00

Weighted-average assumptions used to determine net periodic benefit cost for the year ended June 30, 2021:

Discount rate	2.10%
Expected long-term return on plan assets	4.00
Rate of compensation increase	0.00

NOTE K – OPERATING LEASES

Imagine! leases residential facilities, office space, equipment and vehicles under operating lease arrangements in the operation of its programs. The majority of these leases are on a yearly or month-by-month basis and, therefore, are not subject to future minimum rental commitments. The leases with a term greater than one year expire at various dates through fiscal year 2025. Rental expense under all leases was \$631,377 for the year ended June 30, 2021.

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

Year ending June 30,	
2022	\$ 365,254
2023	372,982
2024	264,830
2025	<u>54,793</u>
	<u>\$ 1,057,859</u>

NOTE L – FUNCTIONALIZED EXPENSES

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

Developmental Disabilities Center d.b.a. Imagine! and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021

NOTE M – RELATED PARTY TRANSACTIONS

Imagine! receives a substantial amount of revenue from the State of Colorado. The amount of receivables Imagine! has from the State of Colorado totaled \$1,930,557 at June 30, 2021. Imagine! has a payable to the State of Colorado of \$48,648 as of June 30, 2020. These transactions are considered to be transactions with a related party by virtue of the significant management influence exercised by the State of Colorado through contract provisions.

NOTE N – CONTINGENCIES

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

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

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE N – CONTINGENCIES (CONTINUED)

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

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

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

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

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

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 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE O – FAIR VALUE

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

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

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

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

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

The following table presents the fair value measurements of assets recognized in the accompanying statement of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2021:

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments				
Equity securities:				
Domestic	\$ 1,291,713	\$1,291,713	\$ -	\$ -
International	281,443	281,443	-	-
Certificates of deposit	6,087,293	-	6,087,293	-
Corporate stock	90,000	-	-	90,000
Beneficial interest in assets held by others	549,900	-	549,900	-
Pension plan investments:				
Annuity contracts – variable	3,990,309	-	3,990,309	-

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

Balance, July 1, 2020	\$ 90,000
Purchase	<u>-</u>
Balance, June 30, 2021	\$ <u>90,000</u>

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NOTE P – RISKS AND UNCERTAINTIES

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

NOTE Q – SUBSEQUENT EVENTS

In September 2021, Imagine! purchased a companion home paying \$635,000 cash for the home.