



Sept. 18, 2023

Attached please find Developmental Disabilities Center Inc. dba Imagine!'s FY22 final financial audit as required per Local Government Audit Law (Section 29-1-603, C.R.S.).

Regards,

A handwritten signature in blue ink that reads "Robin Grey". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

Robin Grey
COO and CFO
Imagine!



Consolidated Financial Statements and
Independent Auditor's Report

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

June 30, 2022

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

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, 2022, 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Imagine! as of June 30, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Imagine! and to meet our other ethical responsibilities in accordance with the relevant ethical requirements related to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated 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, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Imagine!'s ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Imagine!'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Imagine!'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited Imagine!'s 2021 consolidated financial statements, and our report dated November 4, 2021, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2022, on our consideration of Imagine!'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Imagine!'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Imagine!'s internal control over financial reporting and compliance.

Logan, Thomas + Johnson, LLC

Broomfield, Colorado

December 21, 2022

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Consolidated Financial Statements

Developmental Disabilities Center d.b.a. Imagine! and Affiliates
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2022
(With summarized financial information as of June 30, 2021)

	2022	2021
ASSETS		
Current assets		
Cash and cash equivalents (note B)	\$ 4,919,190	\$ 6,620,042
Certificates of deposit	-	515,485
Investments (note D)	5,325,606	1,663,156
Accounts receivable		
Fees and grants from governmental agencies, net of allowance for doubtful accounts of \$50,128	7,487,385	6,072,339
Other, net of allowance for doubtful accounts of \$39,501	145,714	148,079
Prepaid expenses and other	280,985	732,663
Total current assets	18,158,880	15,751,764
Certificates of deposit	-	5,571,808
Long-term investments (note D)	2,252,852	-
Tenant deposits held in trust (note B)	5,791	5,788
Restricted cash in reserve funds (note B)	116,115	110,210
Right of use assets - operating leases (note K)	379,922	-
Prepaid benefit cost (note J)	728,965	968,694
Beneficial interest in assets held by others (note E)	481,938	549,900
Land, building and equipment, net (note F)	7,519,664	7,657,071
Total assets	\$ 29,644,127	\$ 30,615,235
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 2,878,446	\$ 2,990,186
Deferred revenue	-	81,230
Current portion of lease obligation - operating (note K)	229,333	-
Current portion of long-term debt		
Notes payable (note H)	3,384	3,384
Bonds payable (note H)	195,000	185,000
Total current liabilities	3,306,163	3,259,800
Liability for pension benefits (note J)	1,310,574	1,273,101
Noncurrent liabilities		
Tenant deposits held in trust	5,791	5,788
Long-term lease obligation - operating (note K)	173,432	-
Long-term debt, net of current portion		
Notes payable (note H)	2,858	6,242
Bonds payable, net of deferred bond issuance costs (note H)	609,987	799,502
Total liabilities	5,408,805	5,344,433
Net assets (note I)		
Without donor restrictions		
Board designated for future projects	117,989	117,989
Net investment in land, building and equipment	6,708,435	6,662,943
Undesignated	17,408,898	18,489,870
Total net assets	24,235,322	25,270,802
Total liabilities and net assets	\$ 29,644,127	\$ 30,615,235

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, 2022
(With summarized financial information for the year ended June 30, 2021)

	<u>Total without donor restrictions</u>	
	<u>2022</u>	<u>2021</u>
Revenues and support		
Fees and grants from governmental agencies		
Fees for services		
State of Colorado		
State General Fund	\$ 4,714,832	\$ 4,225,475
Medicaid	19,614,278	19,732,904
Colorado Department of Education - Vocational Rehabilitation	239,690	24,829
City and county	6,728,132	6,153,680
Grants and other		
Department of Housing and Urban Development	161,220	43,376
Medicare	169,205	201,100
Other	141,453	716,818
Total fees and grants from governmental agencies	<u>31,768,810</u>	<u>31,098,182</u>
Public support – contributions	1,032,168	800,846
Residential room and board	1,076,771	1,107,744
Investment return (note D)	(655,847)	521,842
Other revenue	604,423	1,640,761
Total revenues and support	<u>33,826,325</u>	<u>35,169,375</u>
Expenses		
Program services		
Case management	4,865,989	4,472,338
Residential	12,226,921	11,611,189
Adult community services and employment services	2,320,281	2,963,139
School aged services	2,643,276	2,363,454
Organized health care delivery system	1,342,172	1,568,816
Behavioral	516,234	419,861
Family recruited employer	1,397,037	1,533,739
Early intervention	2,760,032	2,681,820
Family support	1,727,230	1,760,424
Other support programs	1,253,655	1,163,131
Total program services	<u>31,052,827</u>	<u>30,537,911</u>
Supporting services		
Management and general	3,173,055	2,995,515
Fundraising	358,721	285,701
Total supporting services	<u>3,531,776</u>	<u>3,281,216</u>
Total expenses	<u>34,584,603</u>	<u>33,819,127</u>
Other components of net periodic pension cost	(50,428)	(107,277)
Pension - related changes other than net periodic pension cost	(226,774)	131,013
CHANGE IN NET ASSETS	<u>(1,035,480)</u>	<u>1,373,984</u>
Net assets, beginning of year	<u>25,270,802</u>	<u>23,896,818</u>
Net assets, end of year	<u>\$ 24,235,322</u>	<u>\$ 25,270,802</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, 2022

(With summarized financial information for the year ended June 30, 2021)

	Program Services					
	Case manage- ment	Residential	Adult community services and employment services	School aged services	Organized health care delivery system	Behavioral
Expenses						
Salaries, benefits and taxes	\$ 4,179,929	\$ 4,449,402	\$ 1,384,845	\$ 2,292,842	\$ 57,819	\$ 503,439
Professional services	48,655	6,633,927	23,599	10,487	1,205,697	25
Staff development and travel	29,947	31,257	15,432	5,988	648	8,696
Vehicles	741	22,245	61,012	29,645	-	-
Occupancy	52,777	288,936	88,150	12,919	3,470	541
Supplies and equipment	189,587	136,790	75,055	42,640	104,067	4,397
Food	-	169,005	574	687	(300)	145
Telephone	58,326	36,233	19,360	8,046	1,023	5
Insurance	37,826	93,724	93,462	49,397	779	1,881
Grants	-	-	-	-	-	-
Interest	5,498	7,204	30,914	1,502	359	64
Other expense	171,524	70,876	163,800	79,765	(34,325)	(3,124)
Depreciation and amortization	91,179	287,322	364,078	109,358	2,935	165
Total expenses	<u>\$ 4,865,989</u>	<u>\$ 12,226,921</u>	<u>\$ 2,320,281</u>	<u>\$ 2,643,276</u>	<u>\$ 1,342,172</u>	<u>\$ 516,234</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	
						2022	2021
\$ 1,341,233	\$ 1,045,400	\$ 317,591	\$ 374,693	\$ 2,117,758	\$ 217,312	\$ 18,282,263	\$ 18,534,330
841	1,606,639	2,481	775,884	380,138	797	10,689,170	9,581,046
66	10,299	97	1,675	40,516	8,167	152,788	80,804
-	-	-	-	13,764	-	127,407	95,807
2,150	17,715	3,500	9,551	49,793	2,814	532,316	761,267
33,247	18,376	17,993	33,398	72,576	8,414	736,540	866,101
-	-	-	62	244	-	170,417	137,990
1,480	11,068	4,033	4,552	26,732	1,510	172,368	96,217
13,533	7,538	2,337	3,504	94,786	1,227	399,994	286,974
-	-	1,365,702	-	-	-	1,365,702	1,455,238
253	2,014	352	991	4,132	292	53,575	19,021
2,783	27,135	8,423	40,132	276,489	115,369	918,847	997,196
1,451	13,848	4,721	9,213	96,127	2,819	983,216	907,136
<u>\$ 1,397,037</u>	<u>\$ 2,760,032</u>	<u>\$ 1,727,230</u>	<u>\$ 1,253,655</u>	<u>\$ 3,173,055</u>	<u>\$ 358,721</u>	<u>\$ 34,584,603</u>	<u>\$ 33,819,127</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, 2022
(With summarized financial information for the year ended June 30, 2021)

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Change in net assets	\$ (1,035,480)	\$ 1,373,984
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	777,063	907,136
Amortization of right of use assets - operating leases	206,153	-
Gain on sale of land, building and equipment	(48,141)	(861,578)
Realized and unrealized (gain)/loss on investments	1,024,128	(393,423)
Realized and unrealized (gain)/loss on certificates of deposit	2,596	108,721
Noncash change in beneficial interest in assets held by others	67,962	(93,049)
Nonperiodic changes in pension plan	37,473	(141,647)
Change in assets and liabilities		
(Increase) decrease in accounts receivable	(1,412,681)	80,885
Decrease in prepaid expenses and other assets	691,407	48,203
Increase (decrease) in deferred revenue	(81,230)	81,230
Increase (decrease) in accounts payable and accrued expenses	(111,737)	659,495
Decrease in operating lease liability obligations	(183,310)	-
Net cash provided by (used in) operating activities	<u>(65,797)</u>	<u>1,769,957</u>
Cash flows from investing activities		
Purchase of land, building and equipment	(641,171)	(131,211)
Proceeds from sale of fixed assets	55,141	966,288
Purchase of certificates of deposit	-	(6,189,230)
Proceeds from sale of certificates of deposit	6,084,697	2,014,907
Purchase of investments	(6,939,430)	(87,268)
Net cash used in investing activities	<u>(1,440,763)</u>	<u>(3,426,514)</u>
Cash flows from financing activities		
Payments on bonds payable	(185,000)	(180,000)
Payments on notes payable	(3,384)	(6,768)
Net cash used in financing activities	<u>(188,384)</u>	<u>(186,768)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	(1,694,944)	(1,843,325)
Cash and cash equivalents and restricted cash, beginning of year	<u>6,736,040</u>	<u>8,579,365</u>
Cash and cash equivalents and restricted cash, end of year	<u>\$ 5,041,096</u>	<u>\$ 6,736,040</u>
Supplemental data		
Cash paid during the year for interest	\$ 31,071	\$ 2,322

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, 2022

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, 2022

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, 2022

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, 2022

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 December 21, 2022, 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 H.

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, 2022

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. *Leases*

As of July 1, 2021, Imagine! adopted Accounting Standards Update (ASU) 2016-02, *Leases*, which was amended in some respects by subsequent ASUs (collectively Accounting Standards Codification 842 (ASC 842) and supersedes existing lease guidance. The Standard requires Imagine! to record operating lease assets and corresponding lease liabilities on the balance sheet and disclose key quantitative and qualitative information about lease contracts.

Under ASC 842, Imagine! determines if a contract is a leasing arrangement at inception. Operating lease assets represent the right to control the use of an identified asset for the lease term and lease liabilities represent the obligation to make lease payment arising from the lease. Operating lease assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. Imagine! used the risk-free rate of return. Imagine! recognized operating lease expense for operating leases on a straight-line basis over the lease term.

Developmental Disabilities Center d.b.a. Imagine! and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2022

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

11. *Leases (Continued)*

Imagine! leases office space and equipment under noncancelable operating leases which may include renewal or termination options that are reasonably certain of exercise. Leases with an initial term of 12 months or less are not recorded on the balance sheet and are expensed on a straight-line basis. Lease and non-lease components are accounted for together as a single lease component for operating leases associated with office space and equipment leases.

12. *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.

13. *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.

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

14. *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.

15. *Change in Accounting Policy*

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 lessee is the requirement under the new guidance to recognize right-of-use assets and lease liabilities for all leases not considered short-term leases. Imagine! adopted ASU 2016-02 on July 1, 2021, using the modified retrospective approach for operating leases, with a term, greater than 12 months. As permitted by the guidance, prior comparative periods will not be adjusted under this method.

The adoption of ASU 2016-02, *Leases*, resulted in recognition of operating lease assets in the amount of \$586,075 and lease liabilities in the amount of \$611,562 for operating leases on the consolidated statement of financial position as of July 1, 2021.

16. *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.

17. *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, 2022. 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, 2019.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

18. *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

19. *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.

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

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 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
 (CONTINUED)

19. *Fair Value Measurements (Continued)*

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.

20. *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, 2021, from which the summarized information was derived. Certain financial information as of and for the year ended June 30, 2021 has been reclassified to conform with the presentation for the current year.

NOTE B – CASH, CASH EQUIVALENTS, AND RESTRICTED 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	\$ 4,919,190
Tenant deposits held in trust	5,791
Restricted cash in reserve funds	<u>116,115</u>
	\$ <u>5,041,096</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.

	Replacement reserve	Tenant deposit
Beginning balance	\$ 110,210	\$ 5,788
Interest earned	11	3
Deposits	5,894	-
Distributions	<u>-</u>	<u>-</u>
Ending balance	\$ <u>116,115</u>	\$ <u>5,791</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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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	\$ 4,919,190
Investments	5,325,606
Accounts receivable	<u>7,633,099</u>
	\$ <u>17,877,895</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, 2022:

Equity mutual funds:	
Domestic	\$ 822,611
International	531,666
Exchanged traded:	
Domestic	1,073,814
International	305,583
Corporate bonds	4,754,784
Corporate stock	<u>90,000</u>
	\$ <u>7,578,458</u>

Investment return for the year ended June 30, 2022, consists of the following:

Interest income and dividends	\$ 368,281
Unrealized loss on investments	<u>(1,024,128)</u>
	\$ <u>(655,847)</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

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

transferred assets, or both, at its discretion. At the time of the transfer, Imagine! granted variance power to TCF. That power gives TCF the right to distribute the investment income and principal to another nonprofit organization of its choice if Imagine! ceases to exist. If TCF ceases to exist, the net assets of the permanent funds shall be distributed to such charitable organizations as the governing board of TCF may select, with primary consideration being given to Imagine!. At June 30, 2022, the permanent fund has a value of \$480,496, 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, 2022.

NOTE F – LAND, BUILDING AND EQUIPMENT

Land, building and equipment consists of the following at June 30, 2022:

Buildings and improvements	\$ 10,253,283
Leasehold improvements	53,458
Administrative and program equipment	1,964,159
Transportation equipment	<u>2,887,890</u>
	15,158,790
Less accumulated depreciation	<u>9,844,378</u>
	5,314,412
Land	<u>2,205,252</u>
	<u>\$ 7,519,664</u>

Depreciation expense was \$777,063 for the year ended June 30, 2022.

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 4.75% at June 30, 2022. The interest rate is 5.25% as of June 30, 2022. The line of credit is collateralized by a second deed of trust. At June 30, 2022, there was no balance outstanding on the line of credit.

Developmental Disabilities Center d.b.a. Imagine! and Affiliates
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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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, 2022 was \$6,242.

Future maturities under the note payable are as follows:

Year ending June 30,				
2023		\$	3,384	
2024			<u>2,858</u>	
			6,242	
Less current portion			<u>3,384</u>	
		\$	<u><u>2,858</u></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, 2022. The outstanding balance of the bonds at June 30, 2022 was \$825,000. In September 2022, Imagine! paid the outstanding balance off in full.

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, 2022, net of accumulated amortization, are \$20,013. 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 liability to unrestricted net assets ratio. Imagine! met these covenants at June 30, 2022.

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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,		
2023	\$	195,000
2024		200,000
2025		210,000
2026		<u>220,000</u>
		825,000
Less deferred bond issuance costs		20,013
Less current portion		<u>195,000</u>
	\$	<u>609,987</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, 2022, Imagine! contributed \$283,957 to the plan.

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 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2022

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 \$54,790 as of June 30, 2022. 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, 2022.

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, 2022, Imagine! contributed the minimum required contribution of \$50,000, estimated amounts to be reclassified as net periodic benefit costs are \$63,023, 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, 2022, 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, 2022:

Change in Plan Assets	
Fair value of plan assets at June 30, 2021	\$ 3,990,309
Actual return on plan assets	(440,211)
Employer contributions	50,000
Annuities purchased or benefits paid (including expenses)	<u>(705,953)</u>
Fair value of plan assets at June 30, 2022	\$ <u>2,894,145</u>
Assets and obligations	
Accumulated benefit obligation	\$ <u>3,475,754</u>

Developmental Disabilities Center d.b.a. Imagine! and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2022

NOTE J – RETIREMENT PLANS (CONTINUED)

Defined Benefit Pension Plan (Continued)

Plan assets at fair value	\$ 2,894,145
Projected benefit obligation	<u>3,475,754</u>
Projected benefit obligation in excess of plan assets	\$ <u>(581,609)</u>
Amounts recognized in the statement of financial position consist of:	
Prepaid benefit cost – noncurrent asset	\$ 728,965
Pension benefit – noncurrent liabilities	<u>(1,310,574)</u>
Funded status at end of year	\$ <u>(581,609)</u>

Net periodic benefit cost for pension benefits for 2022 included the following components:

Service cost – benefits earned during the period	\$ 37,178
Interest cost on projected benefit obligation	87,277
Expected return on plan assets	(137,705)
Amount of recognized actuarial losses	<u>53,346</u>
Net periodic benefit cost	\$ <u>40,096</u>

There are no estimated transition obligation, no net prior service cost, and \$63,023 net loss that will be amortized into net periodic benefit cost over the next fiscal year.

Plan assets as of June 30, 2022 are by category as follows:

<u>Asset category</u>	<u>Percent of fair value</u>	<u>Amount</u>
Equity	41%	\$ 1,199,140
Fixed income	54	1,566,378
General account	<u>5</u>	<u>128,627</u>
Total	<u>100%</u>	\$ <u>2,894,145</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.

Developmental Disabilities Center d.b.a. Imagine! and Affiliates
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2022

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 as of the beginning of 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 4.29%-9.72%. Current market forecasts and volatility suggest that recent historical market data may overstate future returns. Therefore, a conservative rate of 4.0% just below this range was selected.

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

Year ending June 30,	
2023	\$ 808,000
2024	145,000
2025	383,000
2026	180,000
2027	247,000
2028-2032	817,000

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 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2022

NOTE J – RETIREMENT PLANS (CONTINUED)

Defined Benefit Pension Plan (Continued)

Weighted-average assumptions used to determine benefit obligations at June 30, 2022:

Discount rate	4.00%
Rate of compensation increase	0.00

Weighted-average assumptions used to determine net periodic benefit cost for the year ended June 30, 2022:

Discount rate	2.30%
Expected long-term return on plan assets	4.00
Rate of compensation increase	0.00

NOTE K – LEASES

Imagine! has operating leases for real estate and equipment. Imagine! determines if an arrangement is a lease at the inception of a contract and recognizes operating lease expense on a straight-line basis over the lease term. Leases with an initial term of twelve months or less are not recorded on the consolidated statement of financial position and are expense on a straight-line basis. Imagine! has lease agreements which require payments for lease and non-lease components and has elected to account for these as a single lease component, with any variable elements being recorded as variable lease expense.

Operating lease right-of use assets and lease liabilities as of June 30, 2022 are as follows:

Right-of-use assets – operating leases	\$ 379,922
Lease liabilities:	
Current operating lease liabilities	\$ 229,333
Noncurrent operating lease liabilities	<u>173,432</u>
Total operating lease liabilities	\$ <u>402,765</u>

Operating expenses for the leasing activity of Imagine! as lessee for the year ended June 30, 2022 is as follows:

Operating lease costs	\$ 235,244
Short-term lease costs	<u>65,553</u>
Total lease cost	\$ <u>300,797</u>

Developmental Disabilities Center d.b.a. Imagine! and Affiliates
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2022

NOTE K – LEASES (CONTINUED)

Total rent expense was \$246,799 for the year ended June 30, 2022 and is included in occupancy and supplies and equipment on the consolidated statement of functional expenses.

The aggregate future lease payments below summarize the remaining future undiscounted cash flows for operating lease liabilities reported on the consolidated statement of financial position:

2023	\$ 245,648
2024	156,291
2025	<u>22,138</u>
Total lease payments	424,077
Less interest	<u>(21,312)</u>
Present value of lease liability	\$ <u>402,765</u>

Average operating lease terms and discount rate at June 30, 2022 were as follows:

Weighted average remaining lease term (years)	1.85
Weighted average discount rate	6.00%

The following summarizes cash paid for operating lease liabilities and other non-cash information:

Cash paid for amounts included in the measurement of operating lease liability	\$237,888
Right of use assets obtained in exchange for operating lease obligations	\$ 25,487

Future minimum rental payments to be received by Imagine! for space sub-leased as of June 30, 2022 are as follows:

2023	\$ 126,480
2024	131,538
2025	<u>33,204</u>
Total minimum lease payments to be received	\$ <u>291,222</u>

The rental income of \$51,174 is included in other revenue.

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, 2022

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 \$3,336,545 at June 30, 2022. 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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June 30, 2022

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.

Developmental Disabilities Center d.b.a. Imagine! and Affiliates
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2022

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 corporate bonds which 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, 2022:

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments				
Equity securities:				
Domestic	\$ 822,611	\$ 822,611	\$ -	\$ -
International	531,666	531,666	-	-
Exchange Traded:				
Domestic	1,073,814	1,073,814	-	-
International	305,583	305,583	-	-
Corporate bonds	4,754,784	-	4,754,784	-
Corporate stock	90,000	-	-	90,000
Beneficial interest in				
assets held by others	481,938	-	481,938	-
Pension plan investments:				
Annuity contracts – variable	2,894,145	-	2,894,145	-

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

Balance, July 1, 2021	\$ 90,000
Purchase	<u>-</u>
Balance, June 30, 2022	\$ <u>90,000</u>

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Supplementary Information



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INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Developmental Disabilities Center d.b.a. Imagine! and Affiliates (Imagine!), which comprise the consolidated statement of financial position as of June 30, 2022, 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, and have issued our report thereon dated December 21, 2022.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

Logan, Thomas + Johnson, LLC

Broomfield, Colorado

December 21, 2022



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Developmental Disabilities Center and Affiliate's (Imagine!) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022. Imagine!'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Imagine! complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (Government Auditing Standards); and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Imagine! and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Imagine!'s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Imagine!'s federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Imagine!'s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Imagine!'s compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks.
- Such procedures include examining, on a test basis, evidence regarding Imagine!'s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Imagine!'s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Imagine!'s internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

Logan, Thomas + Johnson, LLC

Broomfield, Colorado

March 31, 2023

Developmental Disabilities Center d.b.a. Imagine!
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2022

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass- through Grantor's Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Health and Human Services				
COVID 19 Provider' Relief Fund and American Rescue Plan Rural Distribution	93.498		\$ -	\$ 784,864
Passed through from Colorado Department of Health Care Policy & Financing: Medicaid Cluster				
Medicaid Assistance Program – Case Management	93.778	20-134772A2	-	<u>315,577</u>
Total U.S. Department of Housing and Urban Development			<u>-</u>	<u>1,100,441</u>
U.S. Department of Housing and Urban Development (HUD)				
Section 811 Supportive Housing for Persons with Disabilities – Capital Advance. Matures July 1, 2041	14.181		-	532,500
Section 811 Supportive Housing for Persons with Disabilities – Capital Advance. Matures June 1, 2050	14.181		-	582,900
Section 811 Supportive Housing for Persons with Disabilities – Capital Advance. Matures July 1, 2054	14.181		-	698,220
Section 811 Project Rental Assistance Contract	14.181		-	32,418
Passed through State of Colorado: Housing Voucher Cluster HUD Section 8 Housing	14.871		-	<u>128,802</u>
Total Department of Housing and Urban Development			<u>-</u>	<u>1,974,840</u>
U.S. Department of Education				
Passed through from Colorado Department of Human Services: Special Education – Grants for Infants and Families with Disabilities	84.181A		-	<u>301,397</u>
Total U.S. Department of Education			<u>-</u>	<u>301,397</u>
Total Expenditures of Federal Awards			\$ <u>-</u>	\$ <u>3,376,678</u>

(Continued)

The accompanying notes are an integral part of this schedule.

Developmental Disabilities Center d.b.a. Imagine!
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
Year ended June 30, 2022

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Developmental Disabilities Center d.b.a. Imagine! (Imagine!) under programs of the federal government for the year ended June 30, 2022. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Developmental Disabilities Center, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Developmental Disabilities Center.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C – INDIRECT COST RATE

Imagine! has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE D – PROVIDER RELIEF FUND

Health and Human Services (HHS) has indicated the Provider Relief Funds (PRF) on the Schedule be reported corresponding to reporting requirements of the Health Resources and Services Administration (HRSA) PRF Reporting Portal. Payments from HHS for PRF are assigned to "Payment Received Periods" (each, a Period) based upon the date each payment from the PRF was received. Each Period has a specified Period of Availability and timing of reporting requirements. Entities report into the HRSA PRF Reporting Portal after each Period's deadline to use the funds (i.e., after the end of the Period of Availability).

The amount presented on the Schedule for CFDA # 93.498, COVID 19 – Provider Relief Fund and American Rescue Plan Rural Distribution is for the year ended June 30, 2022. The Schedule includes \$643,937 of PRF Funds received from HHS between July 1, 2020 through December 31, 2020 that was recognized as grants and other revenue in Imagine!'s consolidated financial statements in the year ended June 30, 2021. The other \$140,927 was recognized as grants and other revenue in Imagine!'s consolidated financial statements in the year ended June 30, 2022. In accordance with guidance from HHS, these amounts are presented as Period 2 and Period 3.

Developmental Disabilities Center d.b.a. Imagine!
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year ended June 30, 2022

Section I – Summary of Auditor’s Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

- Unmodified
- Qualified
- Adverse
- Disclaimer

Internal control over financial reporting:
 Material weakness(es) identified?
 Significant deficiency(ies) identified?

- Yes No
- Yes None reported

Noncompliance material to financial statements noted?

- Yes No

Federal Awards

Internal control over major federal programs:
 Material weakness(es) identified?
 Significant deficiency(ies) identified?

- Yes No
- Yes None reported

Type of auditor’s report issued on compliance for major federal programs:

- Unmodified
- Qualified
- Adverse
- Disclaimer

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

- Yes No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
93.498	Provider Relief Fund and American Rescue Plan Rural Distribution
14.181	Section 811 Project Rental Assistance Contract

Dollar threshold used to distinguish between type A and type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

- Yes No

(continued)

Developmental Disabilities Center d.b.a. Imagine!
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year ended June 30, 2022

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

Developmental Disabilities Center d.b.a. Imagine!
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year ended June 30, 2022

No matters were reported.