

NORTH METRO COMMUNITY SERVICES, INC.

Financial Statements As Of June 30, 2016

Together With Independent Auditors' Report

JDS professional
group
certified public accountants, consultants and advisors

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Denver
North Metro Community Services, Inc:

Report on the Financial Statements

We have audited the accompanying financial statements of North Metro Community Services, Inc. (the "Center"), which comprise the statement of financial position as of June 30, 2016, and the related statement of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Members:

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Independent Auditors' Report, Continued

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Metro Community Services, Inc. as of June 30, 2016, and the results of its change in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior Year Report

The financial statements of North Metro Community Services, Inc. were audited by another auditor whose report dated September 23, 2015, expressed an unmodified opinion.

JDS Professional Group

October 25, 2016

NORTH METRO COMMUNITY SERVICES, INC.

Statements Of Financial Position
As Of June 30, 2016 and 2015

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ASSETS	<u>2016</u>	<u>2015</u>
Current assets:		
Cash and cash equivalents	\$ 8,299,304	\$ 8,372,812
Accounts receivable -		
Fees and grants from governmental agencies	2,965,270	3,048,923
Vocational contracts	519,932	281,057
Other	152,941	155,684
Prepaid expenses and other	400,809	260,926
Total Current Assets	<u>12,338,256</u>	<u>12,119,402</u>
Property and equipment, net of accumulated depreciation	<u>3,760,456</u>	<u>3,996,694</u>
TOTAL ASSETS	<u><u>\$ 16,098,712</u></u>	<u><u>\$ 16,116,096</u></u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 684,802	\$ 808,871
Accrued expenses	1,843,028	1,573,663
Deferred revenue	181,381	267,371
Total Current Liabilities	<u>2,709,211</u>	<u>2,649,905</u>
Net Assets:		
Unrestricted -		
Net investment in property and equipment	3,760,456	3,996,694
Undesignated	9,629,045	9,469,497
Total Unrestricted Net Assets	<u>13,389,501</u>	<u>13,466,191</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 16,098,712</u></u>	<u><u>\$ 16,116,096</u></u>

The accompanying notes are an internal part of the financial statements.

NORTH METRO COMMUNITY SERVICES, INC.

Statements Of Activities
For The Years Ended June 30, 2016 and 2015

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	<u>2016</u>	<u>2015</u>
Support and Revenue:		
Fees and grants from governmental agencies -		
Fees for services -		
State of Colorado	\$ 3,814,554	\$ 3,423,558
Medicaid	21,454,032	21,453,391
Counties and cities	1,243,963	1,185,533
Grants and other -		
Part C	424,690	348,337
Total Fees and Grants from Governmental Agencies	<u>26,937,239</u>	<u>26,410,819</u>
Contributions	22,098	15,467
Residential room and board	1,238,504	1,229,876
Vocational revenue	2,963,190	3,436,272
Other revenue	506,352	946,450
Total Support and Revenue	<u>31,667,383</u>	<u>32,038,884</u>
Expenses:		
Program Services -		
Medicaid comprehensive	17,382,552	17,396,148
State adult supported living	483,611	573,770
Medicaid adult supported living	3,115,150	3,100,698
Children's extensive support	610,084	552,738
Early intervention	1,841,052	2,079,363
Family support	559,980	405,849
Case management	2,834,774	2,561,674
Vocational program	3,115,909	3,512,900
Total Program services	<u>29,943,112</u>	<u>30,183,140</u>
Supporting Services -		
Management and general	1,800,961	1,745,228
Total Expenses	<u>31,744,073</u>	<u>31,928,368</u>
CHANGE IN NET ASSETS	(76,690)	110,516
Net Assets, Beginning Of Year	<u>13,466,191</u>	<u>13,355,675</u>
NET ASSETS, END OF YEAR	<u><u>\$ 13,389,501</u></u>	<u><u>\$ 13,466,191</u></u>

The accompanying notes are an internal part of the financial statements.

NORTH METRO COMMUNITY SERVICES, INC.

Statements Of Cash Flows
For The Years Ended June 30, 2016 and 2015

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	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ (76,690)	110,516
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	516,677	472,414
Loss (gain) on sale of assets	(21,723)	500
Change in assets and liabilities -		
(Increase) in accounts receivable	(152,479)	(106,082)
Decrease (increase) in prepaid expenses and other	(139,883)	2,063
Increase in accounts payable and accrued expenses	145,295	8,167
(Decrease) in deferred revenue	(85,990)	(82,674)
Net cash provided by operating activities	<u>185,207</u>	<u>404,904</u>
Cash flow from investing activities:		
Purchases of building and equipment	(288,438)	(261,106)
Proceeds from sale of assets	29,723	7,500
Net cash (used in) investing activities	<u>(258,715)</u>	<u>(253,606)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(73,508)	151,298
Cash and Cash Equivalents, Beginning Of Year	<u>8,372,812</u>	<u>8,221,514</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 8,299,304</u>	<u>8,372,812</u>

The accompanying notes are an internal part of the financial statements.

(1) **Nature Of Activities And Summary Of Significant Accounting Policies**

North Metro Community Services, Inc., a Colorado nonprofit corporation, was incorporated under the laws of the State of Colorado in 1964 for the purpose of providing a community center board to coordinate programs through interagency cooperation and local agencies to provide services to persons with developmental disabilities in Adams County. The Center's revenue comes primarily from the State of Colorado for services provided.

Description of Services Provided

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

Program Services or Supports

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

Adult Supported Living (State and Medicaid) provides individualized living services for persons who are responsible for their own living arrangements in the community.

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

Early Intervention is for children from birth through age two which offers 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.

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

Vocational Program refers to vocational contracts, which are not State or Medicaid funded. These contracts provide community employment opportunities for disabled individuals.

Supporting Services

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

Basis of Accounting

Financial statements of the Center have been prepared on the accrual basis, whereby revenue is recorded when services are performed and expenses are recognized when incurred.

Subsequent Events

The Center has evaluated events and transactions occurring subsequent to the end of the fiscal year for potential recognition or disclosure through October 25, 2016, the date on which the financial statements were issued. The Center did not identify any events or transactions that would have a material impact on the financial statements.

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.

Reclassifications

Certain amounts have been reclassified in the prior year for comparative purposes.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Center 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.

The Center maintains its cash balances in two financial institutions located in Denver, Colorado, which at times may exceed federally insured limits. The Center's uninsured deposits amounted to approximately \$3.5 million, as of June 30, 2016. The Center has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

Accounts Receivable

The majority of the Center's accounts receivable is 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. The Center believes all receivables are collectible and that no allowance for doubtful accounts is necessary. The Center 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 as other revenue.

Property and Equipment

Land, buildings and equipment are reported at cost for purchased assets with a cost of \$5,000 or more and an estimated fair value, at date of receipt, for donated property. Depreciation is provided on the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings and improvements	5 - 30
Administrative equipment	3 - 5
Transportation equipment	4
Program equipment	3 - 6

Contributions

All contributions are considered to be available for unrestricted use 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 temporarily restricted or permanently restricted support that increases those net asset classes. 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 temporarily restricted net assets.

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, temporarily restricted net assets are reclassified to unrestricted net assets 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 unrestricted revenue, rather than temporarily restricted revenue.

In-Kind Contributions

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

Income Taxes

The Center is operated as a nonprofit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Center recognizes tax liabilities when, despite the Center's belief that its tax return positions are supportable, the Center believes that certain positions are measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon settlement. The Center has concluded there is no tax liability or benefit required to be recorded as of June 30, 2016 and 2015. The Center is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any tax periods. The Center believes it is no longer subject to income tax examinations for the years prior to ended June 30, 2012.

(2) Property and Equipment

Property and equipment consisted of the following as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Buildings and improvements	\$ 6,906,709	\$ 6,862,782
Administrative equipment		248,252
Transportation equipment	2,882,435	2,858,549
Program equipment	223,214	206,304
	<u>10,295,399</u>	<u>10,175,887</u>
Less accumulated depreciation	(7,710,722)	(7,354,972)
	<u>2,584,677</u>	<u>2,820,915</u>
Land	1,175,779	1,175,779
	<u>\$ 3,760,456</u>	<u>\$ 3,996,694</u>

Depreciation expense was \$516,677 and \$472,414 for the years ended June 30, 2016 and 2015, respectively.

(3) **Deferred Revenue**

Deferred revenue of \$181,381 and \$267,371 at June 30, 2016 and 2015, respectively, consists of unearned revenue from Adams County.

(4) **Leases**

The Center leases Day Program space, office equipment, office space and residential facilities under operating lease agreements.

Rental expense for property under operating leases was \$424,937 and \$382,693 for the years ended June 30, 2016 and 2015, respectively, which also includes month-to-month operating leases for apartments in which residential clients reside.

Future minimum payments for noncancelable leases at June 30, 2016, are as follows:

<u>Year Ended June 30,</u>	
2017	\$ 177,160
2018	183,395
2019	107,232
2020	51,728
Thereafter	48,501
	<u>\$ 568,016</u>

(5) **Retirement Plans**

Defined Contribution Plan

The Center has adopted a defined contribution 401(k) plan for all employees over the age of 21 who have completed one year and 1,000 hours of service. Under the plan, employees can contribute up to 12% of their gross compensation. Employer matching is discretionary. The Center has elected to make a matching contribution of 4% for the years ended June 30, 2016 and 2015. The contribution expense was \$332,468 and \$301,906 for the years ended June 30, 2016 and 2015, respectively.

Deferred Compensation Plan

The Center 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 and the Center can make discretionary contributions to the Plan, which was 4% for the years ended June 30, 2016 and 2015, respectively. The Center will distribute the balance of the participant's account 60 days after the participant's severance from employment with the Center. The Center maintains accounts for the participants. The total amount in these accounts was \$156,461 and \$133,352 as of June 30, 2016 and 2015, respectively. The Center has accrued a liability of \$24,334 and \$12,467 as of June 30, 2016 and 2015, respectively, for the Center's deferred compensation contribution for the year ended June 30, 2016. There were withdrawals of \$0 and \$43,585 made during the years ended June 30, 2016 and 2015, respectively.

(6) Related Party Transactions

The Center receives a substantial amount of revenue from the State of Colorado. The amount of receivables and deferred revenue the Center has from the State of Colorado is \$2,965,270 and \$0 as of June 30, 2016, respectively. The amount of receivables and deferred revenue the Center has from the State of Colorado is \$3,024,696 and \$89,021 as of June 30, 2015, respectively. The Center has a payable to the State of Colorado in the amount of \$0 and \$22,108 as of June 30, 2016 and 2015, respectively. 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.