NORTH METRO COMMUNITY SERVICES, INC.

Financial Statements As Of June 30, 2018 And 2017

Together With Independent Auditors' Report

JDS professional group

certified public accountants, consultants and advisors 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 statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and cash flows for the years 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 audits. We conducted our audits 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.

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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, 2018 and 2017, and the results of its change in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

JDS Professional Group

October 25, 2018

ASSETS	2018	2017
Current assets:		
Cash and cash equivalents	$ 5,988,217	$ 9,123,804
Accounts receivable -		
Fees and grants from governmental agencies, net of allowance	3,253,190	3,087,964
Vocational contracts	167,859	158,669
Other	347,944	349,413
Investments	3,026,819	
Prepaid expenses and other	400,306	362,665
Total Current Assets	13,184,335	13,082,515
Property and equipment, net of accumulated deprecation	3,316,634	3,318,981
TOTAL ASSETS	$ 16,500,969	$ 16,401,496
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 685,489	$ 735,554
Accrued expenses	1,552,835	1,604,704
Total Current Liabilities	2,238,324	2,340,258
Net Assets:		
Unrestricted -		
Net investment in property and equipment	3,316,634	3,318,981
Undesignated	10,946,011	10,742,257
Total Unrestricted Net Assets	14,262,645	14,061,238
TOTAL LIABILITIES AND NET ASSETS	$ 16,500,969	$ 16,401,496

NORTH METRO COMMUNITY SERVICES, INC.

	2018	2017
Support and Revenue:		
Fees and grants from governmental agencies -		
Fees for services -		
State of Colorado	$ 3,969,186	$ 4,240,086
Medicaid	21,763,909	21,520,019
Counties and cities	1,458,210	1,382,680
Grants and other -		
Part C	300,488	684,766
Total Fees and Grants from Governmental Agencies	27,491,793	27,827,551
Contributions	16,219	16,933
Residential room and board	1,222,291	1,218,550
Vocational revenue	2,071,705	2,116,297
Other revenue	698,035	489,195
Total Support and Revenue	31,500,043	31,668,526
Expenses:		
Program Services -		
Residential	12,329,632	12,512,765
Day program	6,257,675	6,281,177
State adult supported living	271,952	231,019
Medicaid adult supported living	1,733,110	1,611,120
Children's extensive support	738,601	712,587
Early intervention	2,234,690	2,248,796
Family support	488,963	467,265
Case management	3,289,233	2,855,639
Vocational program	2,029,494	2,151,968
Total Program services	29,373,350	29,072,336
Supporting Services -		
Management and general	1,925,286	1,924,453
Total Expenses	31,298,636	30,996,789
CHANGE IN NET ASSETS	201,407	671,737
Net Assets, Beginning Of Year	14,061,238	13,389,501
NET ASSETS, END OF YEAR	$ 14,262,645	$ 14,061,238

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

NORTH METRO COMMUNITY SERVICES, INC.

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ 201,407	$ 671,737
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	391,397	512,949
Loss (gain) on sale of assets	7,700	(196,760)
Allowance for doubtful accounts	60,000	80,642
Change in assets and liabilities -		
(Increase) in accounts receivable	(232,948)	(38,544)
(Increase) decrease in prepaid expenses and other	(37,641)	38,144
(Decrease) increase in accounts payable and accrued expenses	(101,934)	(187,573)
(Decrease) in deferred revenue		(181,381)
Net cash provided by operating activities	287,981	699,214
Cash flow from investing activities:		
Purchases of building and equipment	(405,049)	(164,093)
Proceeds from sale of assets	8,300	289,379
Purchases of investments	(3,026,819)	
Net cash provided by (used in) investing activities	(3,423,568)	125,286
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,135,587)	824,500
Cash and Cash Equivalents, Beginning Of Year	9,123,804	8,299,304
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 5,988,217	9,123,804

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

North Metro Community Services, Inc., (the "Center") 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

Residential Services (Medicaid) included are a number of different types of residential settings, which provide in residential living alternatives designed to meet individual needs. These services may take place in a community setting or within a person's home.

Day Services (State and Medicaid) 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, community integration, volunteer, and senior activities. Finally, transportation activities refer to "Home to Day Program transportation" services relevant to the person's scheduled services as specified in the SP. For these purposes, "scheduled services" is defined broadly to include activities such as habilitation, 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.

Method of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with the accounting principles generally accepted in the United States of America, whereby revenue is recorded when services are performed and expenses are recognized when incurred.

Basis Of Presentation

The Center is required to report information regarding financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As of June 30, 2018 and 2017, the Center's only had unrestricted net assets.

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, 2018, 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.

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.

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 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. As of June 30, 2018 and 2017, the allowance for doubtful accounts amounted to $60,000 and $80,642, respectively.

Inventory

Inventory is reflected at cost and consisted of supplies for contract janitorial services.

Fair Value Measurements

The Organization follows Fair Value Measurements, which among other things requires enhanced disclosures about investments that are measured and reported at fair value and establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

Certificates of deposit: The fair value of the certificates of deposit is based on amortized cost or original cost plus accrued interest.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

In general, investments are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect the investment balances and the amounts reported in the balance sheets.

The carrying amount reported in the statement of financial position for cash, receivables, accounts payable, and accrued expense approximate fair value because of the immediate or short-term maturities of these financial instruments.

Considerable judgment is required in interpreting available market interest rates to develop the fair value of notes payable and bonds payable. The terms and conditions of the Organization's loans vary depending on when the loans were issued and for what purpose, and they also vary from market trends. Accordingly, it is not reasonable to determine the amount that the Organization might realize in a current market exchange, and would not be practical to estimate the fair value.

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:

	Years
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, 2018 and 2017. The Center is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any tax periods. The Center is no longer subject to income tax examinations for the fiscal years prior to June 30, 2015.

(2) Investments and Concentrations of Credit Risk

As of June 30, 2018 and 2017, investments consisted of certificate of deposits which are considered to be Level 1 investments and amounted to $3,026,819 and $0, respectively.

The Center maintains its cash balances in two financial institutions located in Denver, Colorado. The Center has determined they qualify as an official custodian of public funds under the Public Deposit Protection Act (PDPA) and accordingly, the Center's funds are fully covered by the PDPA.

(3) Property and Equipment

Property and equipment consisted of the following as of June 30, 2018 and 2017:

	2018	2017
Buildings and improvements	$ 6,711,215	$ 6,701,871
Administrative equipment	330,040	301,448
Transportation equipment	2,986,166	2,831,782
Program equipment	231,412	231,412
	10,258,833	10,066,513
Less accumulated depreciation	(8,117,978)	(7,923,311)
	2,140,855	2,143,202
Land	1,175,779	1,175,779
	$ 3,316,634	$ 3,318,981

Depreciation expense was $391,397 and $512,949 for the years ended June 30, 2018 and 2017, respectively.

(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 $450,646 and $449,099 for the years ended June 30, 2018 and 2017, respectively, which also includes month-to-month operating leases for apartments in which residential clients reside.

Future minimum payments for noncancelable leases as of June 30, 2018, are as follows:

Year Ended June 30,	
2019	$ 107,236
2020	51,728
2021	48,501
	$ 207,465

(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, 2018 and 2017. The contribution expense was $315,726 and $327,162 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017, 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 $226,122 and $193,492 as of June 30, 2018 and 2017, respectfully. The Center has accrued a liability of $26,848 and $24,290 as of June 30, 2018 and 2017, respectively, for the Center's deferred compensation contribution for the years ended June 30, 2018 and 2017. There were withdrawals of $0 made during the years ended June 30, 2018 and 2017.

(6) Related Party Transactions

The Center receives a substantial amount of revenue from the State of Colorado. The amount of receivables the Center has from the State of Colorado was $3,253,190 and $2,965,270 as of June 30, 2018 and 2017, 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.