



Consolidated Financial Statements  
June 30, 2019

**Developmental Pathways, Inc.  
and Affiliates**

# Developmental Pathways, Inc. and Affiliates

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June 30, 2019

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## Independent Auditor's Report

To the Board of Directors  
Developmental Pathways, Inc. and Affiliates  
Englewood, Colorado

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Developmental Pathways, Inc. and Affiliates, which comprise the consolidated statement of financial position as of June 30, 2019, 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 (financial statements).

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Developmental Pathways, Inc. and Affiliates as of June 30, 2019, 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.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued a report dated December 10, 2019 on our consideration of Developmental Pathways, Inc. and Affiliates' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Developmental Pathways, Inc. and Affiliates' 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 Developmental Pathways, Inc. and Affiliates' internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Denver, Colorado  
December 10, 2019

# Developmental Pathways, Inc. and Affiliates

Consolidated Statement of Financial Position

June 30, 2019

## Assets

Cash and cash equivalents	\$ 4,894,799
Investments	11,820,425
Accounts receivable, net	7,430,371
Prepaid expenses and other assets	137,155
Cash held for deferred compensation	160,379
Cash surrender value of life insurance	108,465
Note receivable	816,267
Property and equipment, net	6,772,142
Endowment investments	1,051,906
Total assets	\$ 33,191,909

## Liabilities and Net Assets

Accounts payable and accrued liabilities	\$ 2,073,535
Settlement liability	495,000
Deferred revenue	3,025,240
Deferred lease arrangements	629,691
Deferred compensation liability	160,379
Capital lease obligations	107,234
Total liabilities	6,491,079

## Net Assets

Without donor restrictions	
Undesignated	15,623,745
Board designated	3,233,498
Invested in property and equipment, net of related debt	6,664,908
	25,522,151
With donor restrictions	
Purpose restrictions	270,716
Perpetual in nature	907,963
	1,178,679
Total net assets	26,700,830
Total liabilities and net assets	\$ 33,191,909

## Developmental Pathways, Inc. and Affiliates

Consolidated Statement of Activities

Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue, Support and Gains</b>			
State of Colorado - Medicaid	\$ 8,057,109	\$ -	\$ 8,057,109
State of Colorado - other	16,282,664	-	16,282,664
Mill levy	15,699,685	-	15,699,685
Service fees and other program income	1,743,986	-	1,743,986
Rental income	948,708	-	948,708
Contributions	245,362	170,457	415,819
Net investment return	419,360	34,664	454,024
Interest and other income	383,697	-	383,697
Net assets released from restrictions	271,983	(271,983)	-
Total revenue, support and gains	44,052,555	(66,863)	43,985,692
<b>Expenses and Losses</b>			
<b>Program services</b>			
Case management	8,992,438	-	8,992,438
Support services	28,110,056	-	28,110,056
Quality assurance	520,495	-	520,495
Total program services	37,622,989	-	37,622,989
<b>Supporting services</b>			
Management and general	5,442,465	-	5,442,465
Fundraising and development	136,523	-	136,523
Total supporting services	5,578,988	-	5,578,988
Total expenses	43,201,977	-	43,201,977
Loss on settlement	495,000	-	495,000
Total expenses and losses	43,696,977	-	43,696,977
Change in net assets before transfers	355,578	(66,863)	288,715
Transfer of HUD entities	(3,951,104)		(3,951,104)
Change in net assets	(3,595,526)	(66,863)	(3,662,389)
Net Assets, Beginning of Year (Restated)	29,117,677	1,245,542	30,363,219
Net Assets, End of Year	\$ 25,522,151	\$ 1,178,679	\$ 26,700,830

Developmental Pathways, Inc. and Affiliates  
Consolidated Statement of Functional Expenses  
Year Ended June 30, 2019

	Program services			Supporting services		Total
	Case Management	Support Services	Quality Assurance	Management and General	Fundraising and Development	
Salaries, benefits, and taxes	\$ 7,123,006	\$ 6,494,217	\$ 353,527	\$ 27,736	\$ -	\$ 13,998,486
Professional services	928,794	10,840,083	12,584	388,735	78,871	12,249,067
Client assistance and activities	-	9,851,578	-	-	-	9,851,578
Management fee	-	-	-	4,012,197	-	4,012,197
Occupancy	376,536	231,206	120,088	260,132	-	987,962
Depreciation and amortization	286,395	287,659	27,345	164,678	16,044	782,121
Other	20,780	163,651	-	103,047	80,439	367,917
Information technology	110,590	97,470	5,913	119,313	-	333,286
Staff development and travel	127,589	127,693	1,038	18,868	643	275,831
Office expenses	18,748	11,628	-	162,804	620	193,800
Insurance	-	537	-	86,234	-	86,771
Dues and subscriptions	-	4,325	-	48,843	269	53,437
Maintenance	-	9	-	44,946	-	44,955
Interest	-	-	-	4,932	-	4,932
<b>Total expenses by function</b>	<b>\$ 8,992,438</b>	<b>\$ 28,110,056</b>	<b>\$ 520,495</b>	<b>\$ 5,442,465</b>	<b>\$ 176,886</b>	<b>\$ 43,242,340</b>
Less expenses netted with revenue						
Cost of direct benefits to donors	-	-	-	-	(40,363)	(40,363)
<b>Total expenses included in the expense section on the statement of activities</b>	<b>\$ 8,992,438</b>	<b>\$ 28,110,056</b>	<b>\$ 520,495</b>	<b>\$ 5,442,465</b>	<b>\$ 136,523</b>	<b>\$ 43,201,977</b>

# Developmental Pathways, Inc. and Affiliates

Consolidated Statement of Cash Flows

Year Ended June 30, 2019

Cash Flows from Operating Activities	
Change in net assets	\$ (3,662,389)
Adjustments to reconcile change in net assets to net cash from operating activities	
Transfer of non-cash assets and liabilities - HUD entities	3,571,133
Loss on settlement	495,000
Depreciation and amortization	782,121
Donated furniture	(33,705)
Deferred compensation expense	29,467
Amortization of lease arrangements	(28,532)
Realized and unrealized (gain) loss on investments	104,674
Endowment net investment return	(34,664)
Change in operating assets and liabilities	
Accounts receivable, net	(3,256,234)
Prepaid expenses and other assets	71,480
Change in cash surrender value of life insurance	(26,218)
Accounts payable and accrued liabilities	419,812
Deferred revenue	(590,776)
Net Cash (used for) Operating Activities	<u>(2,158,831)</u>
Cash Flows from Investing Activities	
Purchases of investments	(3,538,652)
Proceeds from sales of investments	5,138,827
Purchases of property and equipment	(857,822)
Addition to cash held for deferred compensation	(29,467)
Withdrawal from endowment	33,770
Net Cash from Investing Activities	<u>746,656</u>
Cash Flows from Financing Activities	
Principal payments on note receivable	22,856
Principal payments on capital leases	(29,484)
Net Cash (used for) Financing Activities	<u>(6,628)</u>
Net Change in Cash and Cash Equivalents	(1,418,803)
Cash and Cash Equivalents, Beginning of Year	<u>6,313,602</u>
Cash and Cash Equivalents, End of Year	<u>\$ 4,894,799</u>
Transfer of assets and liabilities - HUD entities	
Accounts receivable, net	\$ 5,571
Prepaid expenses and other assets	8,478
Restricted deposits and replacement reserve	292,448
Property and equipment, net	3,512,780
Accounts payable and other liabilities	(248,144)
Non-cash balances transferred	<u>3,571,133</u>
Cash and cash equivalents	64,079
Gain on fair value adjustment	315,892
Total transfer of HUD entities	<u>\$ 3,951,104</u>



**Note 1 - Principal Activities and Significant Accounting Policies****Organization**

Developmental Pathways, Inc. (DPI, we, us, our) is a Colorado nonprofit agency created to serve individuals with developmental disabilities and their families. Formed in 1964 as a community-based alternative to institutional care, DPI provides a broad array of services based on the principle that full inclusion and participation in community life is attainable for every individual with a developmental disability. DPI serves citizens of Arapahoe and Douglas Counties, and that portion of Adams County within the city of Aurora.

We are one of 20 Colorado Community Centered Boards (CCBs) established by state statute in 1963. The role of a CCB is to be responsible for community services for children with developmental disabilities and/or delays in their development, and for adults with developmental disabilities. We enrich the lives of individuals with developmental disabilities and/or delays by partnering to provide expertise, support, and advocacy in their pursuit of a meaningful life. We foster choice and independence by collaborating with individuals and their families to provide high-quality lifetime supports that will empower them to thrive in the community.

On July 1, 2018, we effected a restructuring among certain affiliated entities as part of our continuing commitment towards providing conflict-free case management services to the individuals and families we serve and to realign residential supports. As part of the restructuring, we transferred control of the three Housing and Urban Development Housing Corporations (HUD entities) to Continuum of Colorado. This restructure also included the dissolution of the SUN Foundation as of June 30, 2019. All operating and ongoing activities of the SUN Foundation were absorbed by DPI.

We conduct our activities in cooperation with, and assistance from, our affiliated organizations: SUN Foundation (dissolved as of June 30, 2019), and Youth Housing Colorado. The consolidated financial statements include the accounts of these affiliates. All significant intercompany accounts and transactions have been eliminated in consolidation. Unless otherwise noted, the consolidated entity is hereinafter referred to as "Pathways," "we," "us," and "our."

Our primary service areas include the following:

*Case Management*

As a CCB, we determine eligibility for state and Medicaid-waiver funded programs and provide case management services for individuals with developmental disabilities in Medicaid waiver and state funded programs in our service area. Services identified in an annual individualized plan needs are purchased from approved contractors and program-approved service agencies, using program funds available and as authorized through each individual's plan.

### *Support Services*

In addition to providing Case Management Services, Developmental Pathways provides support services in the following program areas:

#### *Early Intervention*

Our Early Intervention program serves families with a child under three years old who has a significant delay in their development and/or a qualifying diagnosis. We partner with local school districts to determine eligibility for the program and then deliver services in the child's home. We also provide assistance to connect the family to funding and providers of the needed services.

#### *Adult Developmental Disabilities*

The Developmental Disabilities (DD) Medicaid waiver provides 24/7 residential care to adults. Services and supports are provided by provider agencies and the Community Centered Board.

#### *Children's Extensive Support*

Children's Extensive Support (CES) services are provided through the Medicaid Home and Community Based Services Waiver for children with the most challenging developmental disabilities. The CES Waiver allows children who may not otherwise qualify for Medicaid State Plan Benefits to access Medicaid services. Children continue to reside in the community with their families. The services allowed include personal assistance with daily living, respite, homemaking skills, day services, assistive technology, home modification, professional services, transportation and emergency assistance.

#### *Family Support*

This state funded program provides individualized support to families caring for a family member with developmental disabilities/delays, including connecting them with resources and providing limited financial assistance.

#### *Adult Supported Living*

The Medicaid funded Supported Living Services and the state funded Supported Living Services programs provide a variety of services and supports for adults living in their own homes, or with family in the community. The services allowed include personal assistance with daily living, homemaking skills, employment, day services, assistive technology, home modification, professional services, transportation and emergency assistance.

#### *Community Outreach and Support of Families Waiting for Services*

This program provides information and support to individuals and families waiting for state or federally-funded services and helps bridge the gap until such time as funding becomes available.

### *Quality Assurance*

We have developed an extensive quality assurance program to ensure compliance with state rules and regulations, but more importantly, to ensure that all individuals we serve receive the highest levels of attention and care, and are treated with dignity, respect, and compassion. In addition to extensive and ongoing staff training, we actively track our program-approved service agency (PASA) performance outcomes and investigate allegations of abuse and neglect of individuals in services, as needed. We have 3 Human Rights Committees comprised of independent third-party experts and family member volunteers who meet monthly to review investigation results, psychotropic medication usage, rights suspensions, restrictive programming, and other matter as required under state regulations.

### **Cash and Cash Equivalents**

We consider all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to endowment are excluded from this definition.

### **Investments**

We record investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statement of financial position. Net investment return is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

### **Receivables and Credit Policy**

Accounts receivable consist primarily of amounts due from the State of Colorado for services provided to individuals under Medicaid. We determine the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable. At June 30, 2019, the allowance is \$31,606.

### **Cash Surrender Value of Life Insurance**

We maintain variable universal life insurance policies on our key executives. The policies are recorded at their net cash surrender values as determined by the insurance carrier. At June 30, 2019, the carrying value of the policies is \$108,465.

### **Property and Equipment**

We record property and equipment additions over \$5,000 at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from three to forty years, or in the case of capitalized leased assets, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

We review the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended June 30, 2019.

### **Net Assets**

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor- (or certain grantor-) imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor- (or certain grantor-) imposed restrictions. The governing board has designated, from net assets without donor restrictions, net assets for identified needs (Note 8).

*Net Assets With Donor Restrictions* – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates the resources be maintained in perpetuity. We report contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

### **Revenue Recognition**

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

### **Donated Services and In-Kind Contributions**

Volunteers contribute significant amounts of time to our program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. We record donated professional services at the respective fair values of the services received. We received donated furniture in the amount of \$33,705 during the year ended June 30, 2019.

**Functional Allocation of Expenses**

The costs of program and supporting services 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. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The financial statements report certain categories of expenses that are attributable 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 include occupancy, depreciation and amortization, which are allocated on a square footage basis, as well as salaries and wages, benefits, and taxes, professional services, staff development and travel, office expenses, information technology, insurance, and other, which are allocated on the basis of estimates of time and effort.

**Income Taxes**

Developmental Pathways, Inc., SUN Foundation (until dissolution), and Youth Housing Colorado are organized as Colorado nonprofit corporations and have been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code, qualify for the charitable contribution deduction, and have been determined not to be private foundations. Each entity annually is required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the entities are subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. Developmental Pathways, Inc. is subject to unrelated business income tax and files an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

Management believes that Developmental Pathways, Inc. has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the consolidated financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred. The Organization's Forms 990, 990-T and other income tax filings required by state, local, or non-U.S. tax authorities are no longer subject to tax examination for years before 2015.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and those differences could be material.

**Financial Instruments and Credit Risk**

We manage deposit concentration risk by placing cash and money market accounts with financial institutions we believe to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, we have not experienced losses in any of these accounts. Credit risk associated with accounts receivable is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from governmental agencies. Investments are made by an investment manager whose performance is monitored by management and the Finance Committee of the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, the investment manager and the Finance Committee believe that the investment policies and guidelines are prudent for the long-term welfare of the organization.

**Subsequent Events**

We have evaluated subsequent events through December 10, 2019, the date the financial statements were available to be issued.

**Note 2 - Liquidity and Availability**

We operate on a balanced budget, and regularly monitor liquidity to meet our operating needs and other contractual commitments while also striving to maximize the investment of our available funds. Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Cash and cash equivalents	\$ 4,768,026
Investments	10,653,690
Accounts receivable, net	7,430,371
Cash surrender value of life insurance	108,465
Note receivable due in one year	23,375
	<u>\$ 22,983,927</u>

Our endowment funds consist of a single donor-restricted endowment. Income from the donor-restricted endowment is restricted for medical and dental expenses. Donor-restricted endowment funds are not available for general expenditure.

Our governing board has designated a portion of our unrestricted net assets for various initiatives described in Note 8. These funds remain available and may be spent at the discretion of the Board.

**Note 3 - Fair Value Measurements and Disclosures**

We report certain assets at fair value in the financial statements. Fair value is the price that would be received to sell an asset in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets that we can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. These include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset. In these situations, we develop inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to our assessment of the quality, risk or liquidity profile of the asset.

A significant portion of our investment assets are classified within Level 1 because they are comprised of open-end mutual funds with readily determinable fair values based on daily redemption values. We use Net Asset Value (NAV) per share, as a practical expedient to estimate the fair values of certain hedge funds that do not have readily determinable fair values. Investments that are measured at fair value using NAV per share as a practical expedient are not classified in the fair value hierarchy.

# Developmental Pathways, Inc. and Affiliates

Notes to Consolidated Financial Statements

June 30, 2019

The following table presents assets measured at fair value on a recurring basis, except those measured at cost or by using NAV per share as a practical expedient as identified below, at June 30, 2019:

	Total	Fair Value Measurements at Reporting Date Using			Investments Measured at NAV
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>Investments</b>					
Money market (at cost)	\$ 446,981	\$ -	\$ -	\$ -	\$ -
Bond funds	3,496,217	3,496,217	-	-	-
Domestic equity funds	4,363,893	4,363,893	-	-	-
International equity funds	2,346,599	2,346,599	-	-	-
Multi-strategy hedge fund	1,166,735	-	-	-	1,166,735
	<u>\$ 11,820,425</u>	<u>\$ 10,206,709</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,166,735</u>
<b>Endowment investments</b>					
Money market (at cost)	\$ 3,884	\$ -	\$ -	\$ -	\$ -
Bond funds	284,834	284,834	-	-	-
Domestic equity funds	544,551	544,551	-	-	-
International equity funds	218,637	218,637	-	-	-
	<u>\$ 1,051,906</u>	<u>\$ 1,048,022</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Investment in the multi-strategy hedge fund is measured at fair value using NAV per share as a practical expedient at June 30, 2019. This fund is a “fund of hedge funds,” with the objective of capital appreciation with limited variability of returns. The fund attempts to achieve this objective by allocating capital among a number of underlying funds employing a variety of alternative investment strategies. Units are not redeemable at our discretion as the fund makes a tender offer to repurchase members’ units at NAV on certain repurchase dates.

## Note 4 - Note Receivable

We have a note receivable from Continuum of Colorado in the original amount of \$906,326, bearing an interest rate of 2.28%, maturing on July 1, 2045, due in 360 installment payments of principal and interest of \$3,458. At June 30, 2019, the amount receivable under the note is \$816,267.



**Note 5 - Property and Equipment**

Property and equipment at June 30, 2019 consists of the following:

Land	\$ 1,075,909
Buildings and improvements	6,916,610
Vehicles	196,260
Furniture and fixtures	249,650
Computers and equipment	2,764,303
	<u>11,202,732</u>
Less accumulated depreciation and amortization	<u>(4,430,590)</u>
	<u>\$ 6,772,142</u>

On July 1, 2018, we transferred three HUD entities to Continuum of Colorado. The fair value of the entities transferred totaled \$3,951,104, with a gain on fair value adjustment of \$315,892 recorded in interest and other income in the statement of activities.

**Note 6 - Leases**

During the year ended June 30, 2019, we entered into a lease agreement expiring in 2027 for new space related to our programmatic activities. The lease provided for lease incentives for build-out of space. Deferred lease incentives are amortized over the life of the lease on a straight-line basis as an offset to rent expense and are included in deferred lease arrangements in the accompanying statement of financial position. We lease vehicles, equipment and space under various capital and operating lease agreements expiring at various dates through 2027.

Future minimum lease payments are as follows:

<u>Years Ending June 30,</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
2020	\$ 34,416	\$ 379,633
2021	34,416	378,176
2022	34,416	378,176
2023	11,472	378,176
2024	-	359,040
Thereafter	-	927,520
Total minimum lease payments	<u>\$ 114,720</u>	<u>\$ 2,800,721</u>
Less amount representing interest	<u>(7,486)</u>	
Capital lease obligations	<u>\$ 107,234</u>	

Rent expense for the year ended June 30, 2019 totaled \$435,720.

**Note 7 - Endowment**

Our endowment (Endowment) consists of a single donor-restricted fund established to provide funding for medical and dental assistance to individuals with disabilities. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Our Board of Directors has interpreted the Colorado Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At June 30, 2019, there were no such donor stipulations. As a result of this interpretation, we retain in perpetuity (a) the original value of gifts donated to the Endowment, (b) the original value of subsequent gifts donated to the Endowment, and (c) accumulations to the Endowment made in accordance with the direction of the applicable donor gift instrument at the time accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. The following factors are considered in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization

As of June 30, 2019, we had the following donor-restricted endowment net asset composition by type of fund:

	<u>With Donor Restrictions</u>
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ 907,963
Accumulated investment gains	143,943
	<u>\$ 1,051,906</u>

*Investment and Spending Policies*

We have adopted investment and spending policies for the Endowment that attempt to provide a predictable stream of funding for operations while seeking to maintain the purchasing power of the Endowment assets. Over time, long-term rates of return should be equal to an amount sufficient to maintain the purchasing power of the Endowment assets, to provide the necessary capital to fund the spending policy, and to cover the costs of managing the Endowment investments. Under these policies, as approved by the Board of Directors, endowment assets are invested in a manner intended to produce results, measured over full market cycles, which equal or exceed the price and yield results of a blended portfolio of investment securities while assuming a low-to-moderate level of investment risk.

# Developmental Pathways, Inc. and Affiliates

Notes to Consolidated Financial Statements

June 30, 2019

To satisfy long-term rate-of-return objectives, the investment portfolio is structured on a total-return approach through which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). A significant portion of the funds are invested to seek growth of principal over time.

The Board of Directors may appropriate for distribution each year a portion of the accumulated earnings in excess of the perpetually restricted net assets of the Endowment to fund medical and dental expenses. In establishing this policy, the Board of Directors considered the long-term expected return on our Endowment, including times of market downturn. Accordingly, over the long term, the current spending policy is expected to preserve the perpetually restricted net assets of the Endowment. This is consistent with our objective to preserve the fair values of the original gifts made to the Endowment while providing an opportunity for real growth through new gifts and undistributed investment return.

Changes in endowment net assets for the year ended June 30, 2019 are as follows:

	With Donor Restrictions
Endowment net assets, beginning of year	\$ 1,051,012
Net investment return	34,664
Appropriation of endowment earnings	(33,770)
Endowment net assets, end of year	\$ 1,051,906

## **Note 8 - Net Assets With Donor Restrictions**

Net assets with donor restrictions are restricted for the following purposes or periods at June 30, 2019:

Subject to expenditure for specified purpose:	
Respite care	\$ 99,661
Community outreach	10,717
Early intervention	1,395
Senior study grant	15,000
	126,773
Endowments:	
Subject to appropriation and expenditure when specified event occurs:	
Restricted by donors for medical and dental expenditures	143,943
Perpetual in nature, earnings from which are subject to appropriation for Medical and dental expenditures	907,963
Total endowments	1,051,906
	\$ 1,178,679

Net assets were released from restrictions by incurring expenses satisfying the restricted purpose as follows during the year ended June 30, 2019:

Satisfaction of purpose restrictions:	
3+ initiative (support for children ages 3-21)	\$ 121,012
Respite care	65,037
Youth housing	46,500
Medical and dental	33,770
Community outreach	5,521
Employee assistance fund	143
	<u>\$ 271,983</u>

#### Note 9 - Net Assets Without Donor Restrictions

At June 30, 2019, our Board of Directors has designated certain net assets without donor restrictions for the following purposes:

Capacity building	\$ 882,077
Infrastructure development	750,000
Family engagement	726,353
Youth housing	549,576
Contingency reserves	150,000
Transportation	74,242
3+ initiative (support for children ages 3-21)	55,701
Housing exploration	30,840
Respite care	14,709
	<u>\$ 3,233,498</u>

#### Note 10 - Employee Benefits

We sponsor a retirement plan (the Plan) qualified under Section 401(k) of the Internal Revenue Code (IRC) covering substantially all full-time employees who have attained the age of 18 and completed one year of service. Employees may contribute up to the maximum contribution allowed by the IRS. We contribute 4% and may make additional discretionary contributions determined by the Board of Directors each plan year. During the year ended June 30, 2019, our 4% contributions to the plan totaled \$269,887; there were no discretionary contributions.

We sponsor a deferred compensation plan pursuant to section 457(f) of the IRC (Comp Plan) for a number of key employees. Participants may make voluntary contributions to the Comp Plan up to the maximum amount allowed by the IRS. Our contributions to the Comp Plan are discretionary based on individual employee contracts. During the year ended June 30, 2019, we contributed \$29,467.

**Note 11 - Settlement Liability**

Subsequent to year end, we reached settlement under private mediation in an on-going litigation claim. The settlement liability and corresponding loss were recognized in the accompanying consolidated statement of financial position and consolidated statement of activities, respectively as of and for the year ended June 30, 2019.

**Note 12 - Restatement**

During the year ended June 30, 2019, we became aware that the deferred compensation liability under our Comp Plan was not recorded in the previously issued financial statements. This matter required a restatement to the June 30, 2018 consolidated financial information. As a result of this restatement, net assets without donor restrictions and change in net asset without donor restrictions decreased \$130,912 as of and for the year ended June 30, 2018.