



Consolidated Financial Statements and
Independent Auditor's Report

Horizons Specialized Services and Affiliate

June 30, 2017



TABLE OF CONTENTS

| | <u>Page</u> |
|--|-------------|
| INDEPENDENT AUDITOR'S REPORT | 3 |
| CONSOLIDATED FINANCIAL STATEMENTS | |
| CONSOLIDATED STATEMENT OF FINANCIAL POSITION | 6 |
| CONSOLIDATED STATEMENT OF ACTIVITIES | 7 |
| CONSOLIDATED STATEMENT OF CASH FLOWS | 8 |
| NOTES TO CONSOLIDATED FINANCIAL STATEMENTS | 9 |



Logan, Thomas & Johnson, LLC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Horizons Specialized Services

We have audited the accompanying consolidated financial statements of Horizons Specialized Services and Affiliate (jointly, the Center), which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Horizons Specialized Services and Affiliate as of June 30, 2017 and the consolidated changes in its net assets and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Center's 2016 consolidated financial statements, and our report dated January 18, 2017, expressed an unmodified opinion on those audited consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Logan, Thomas + Johnson, LLC

Broomfield, Colorado
February 26, 2018

Consolidated Financial Statements

Horizons Specialized Services and Affiliate
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2017
(With summarized financial information as of June 30, 2016)

| | 2017 | 2016 |
|--|--------------|--------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 1,452,483 | \$ 1,235,912 |
| Certificates of deposit | 1,175,417 | 1,100,000 |
| Accounts receivable | | |
| Fees and grants from governmental agencies | 478,771 | 404,038 |
| Other | 3,396 | 5,515 |
| Accrued interest receivable | - | 73,016 |
| Prepaid expenses and other | 81,439 | 114,613 |
| Total current assets | 3,191,506 | 2,933,094 |
| Investments | - | 117,283 |
| Charitable gift annuity investment | 102,124 | 92,457 |
| Deferred loan costs, net of accumulated amortization of \$18,327 | 8,493 | 8,493 |
| Land, buildings and equipment, net | 3,878,137 | 4,071,605 |
| Total assets | \$ 7,180,260 | \$ 7,222,932 |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities | | |
| Accounts payable | \$ 138,881 | \$ 124,579 |
| Accrued payroll and employee benefits | 247,275 | 233,964 |
| Deferred revenue | 230,824 | 286,691 |
| Current portion of long-term debt | 59,609 | 56,979 |
| Total current liabilities | 676,589 | 702,213 |
| Long-term liabilities | | |
| Notes payable, net of current portion | 487,069 | 546,657 |
| Total liabilities | 1,163,658 | 1,248,870 |
| Net assets | | |
| Unrestricted | | |
| Board designated | | |
| Operating reserve | 1,154,746 | 1,154,746 |
| Mill levy funds | 975,230 | 825,930 |
| Net investment in land, buildings and equipment | 3,339,952 | 3,476,462 |
| Undesignated | 531,100 | 512,391 |
| Total unrestricted | 6,001,028 | 5,969,529 |
| Temporarily restricted | 15,574 | 4,533 |
| Total net assets | 6,016,602 | 5,974,062 |
| Total liabilities and net assets | \$ 7,180,260 | \$ 7,222,932 |

The accompanying notes are an integral part of this statement.

Horizons Specialized Services and Affiliate
CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2017

(With summarized financial information for the year ended June 30, 2016)

| | Unrestricted | Temporarily restricted | Total | |
|--|--------------|---------------------------|--------------|--------------|
| | | | 2017 | 2016 |
| Revenues and support | | | | |
| Fees and grants from governmental agencies | | | | |
| Fees for services | | | | |
| State of Colorado | | | | |
| State General Fund | \$ 513,887 | \$ - | \$ 513,887 | \$ 433,152 |
| Medicaid | 3,394,039 | - | 3,394,039 | 3,473,477 |
| Counties and cities | 1,120,447 | - | 1,120,447 | 1,078,528 |
| Grants and other | | | | |
| Child find | 4,595 | - | 4,595 | 4,752 |
| Part C | 85,669 | - | 85,669 | 58,935 |
| Colorado Department of Transportation | - | - | - | 75,112 |
| Department of Housing and Urban Development | 70,693 | - | 70,693 | 67,118 |
| Total fees and grants from governmental agencies | 5,189,330 | - | 5,189,330 | 5,191,074 |
| Public support - contributions | | | | |
| Individuals and foundations | 142,178 | 35,247 | 177,425 | 86,300 |
| Community organizations | 26,600 | - | 26,600 | 29,750 |
| Total public support - contributions | 168,778 | 35,247 | 204,025 | 116,050 |
| Residential room and board | 330,806 | - | 330,806 | 333,031 |
| In-kind contributions | 55,265 | - | 55,265 | 61,939 |
| Other revenue | 153,247 | - | 153,247 | 135,474 |
| Net assets released from restrictions | | | | |
| Satisfaction of program restrictions | 24,206 | (24,206) | - | - |
| Total revenues and support | 5,921,632 | 11,041 | 5,932,673 | 5,837,568 |
| Expenses | | | | |
| Program services | | | | |
| Medicaid comprehensive | 3,666,556 | - | 3,666,556 | 3,711,880 |
| State adult supported living | 56,034 | - | 56,034 | 35,937 |
| Medicaid adult supported living | 489,674 | - | 489,674 | 504,176 |
| Children's extensive services | 59,132 | - | 59,132 | 50,590 |
| Early intervention | 338,702 | - | 338,702 | 295,409 |
| Family support | 139,824 | - | 139,824 | 135,195 |
| Case management | 398,936 | - | 398,936 | 396,331 |
| Total program services | 5,148,858 | - | 5,148,858 | 5,129,518 |
| Supporting services | | | | |
| Management and general | 741,275 | - | 741,275 | 767,055 |
| Total expenses | 5,890,133 | - | 5,890,133 | 5,896,573 |
| CHANGE IN NET ASSETS | 31,499 | 11,041 | 42,540 | (59,005) |
| Net assets, beginning of year | 5,969,529 | 4,533 | 5,974,062 | 6,033,067 |
| Net assets, end of year | \$ 6,001,028 | \$ 15,574 | \$ 6,016,602 | \$ 5,974,062 |

The accompanying notes are an integral part of this statement.

Horizons Specialized Services and Affiliate
CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended June 30, 2017

(With summarized financial information for the year ended June 30, 2016)

| | 2017 | 2016 |
|--|--------------|--------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ 42,540 | \$ (59,005) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation and amortization | 255,713 | 240,232 |
| Realized/unrealized gain on investments | (13,477) | - |
| Gain (loss) on disposal of land, buildings and equipment | 17,513 | (1,420) |
| Change in assets and liabilities | | |
| Increase in accounts receivable | (72,614) | (22,796) |
| Increase in accrued interest receivable | - | (3,295) |
| (Increase) decrease in prepaid expenses and other | 33,174 | (73,810) |
| Increase in accounts payable | 14,302 | 6,911 |
| Increase (decrease) in accrued payroll and employee benefits | 13,311 | (28,696) |
| Increase (decrease) in deferred revenue | (55,867) | 116,035 |
| Decrease in annuity obligation | - | (2,016) |
| Net cash provided by operating activities | 234,595 | 172,140 |
| Cash flows from investing activities | | |
| Purchase of land, buildings and equipment | (79,758) | (169,772) |
| Proceeds from sale of land, buildings and equipment | - | 1,420 |
| Proceeds from sale of investments | 118,692 | - |
| Net cash provided by (used in) investing activities | 38,934 | (168,352) |
| Cash flows from financing activities | | |
| Payments on notes payable | (56,958) | (54,343) |
| Net cash used in financing activities | (56,958) | (54,343) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 216,571 | (50,555) |
| Cash and cash equivalents, beginning of year | 1,235,912 | 1,286,467 |
| Cash and cash equivalents, end of year | \$ 1,452,483 | \$ 1,235,912 |
| Supplemental data | | |
| Cash paid for interest | \$ 26,381 | \$ 28,996 |

The accompanying notes are an integral part of this statement.

Horizons Specialized Services and Affiliate
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017

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

This description of Horizons Specialized Services and Affiliate's (the Center) nature of activities and summary of significant accounting policies is presented to assist in understanding the Center's consolidated financial statements.

1. *Summary of Business Activities*

Horizons Specialized Services, a Colorado nonprofit corporation, was incorporated under the laws of the State of Colorado in 1975 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 Grand, Jackson, Moffat, Rio Blanco and Routt Counties. The Center's revenue comes primarily from the State of Colorado for services provided and mill levy revenue from Routt County.

2. *Principles of Consolidation*

The consolidated financial statements of the Center include its affiliate, Soda Creek Apartments, Inc. (SCA), a Colorado nonprofit corporation. SCA is an affiliate of the Center due to the fact that the Center exercises control over its Board of Directors. Significant 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 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 Individualized Plan (IP). Included are a number of different types of residential settings, which provide an array of training, learning, experiential and support activities 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 IP. For these purposes, "work schedule" is defined broadly to include adult and retirement activities such as education, training, community integration and employment.

Horizons Specialized Services and Affiliate
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017

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

3. *Description of Services Provided (Continued)*

Program Services or Supports (Continued)

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 coexisting medical conditions. Available services include personal assistance, household modification, specialized medical equipment and supplies, professional services, and community connection services.

Early Intervention is supports 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.

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

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.

4. *Basis of Accounting*

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

Horizons Specialized Services and Affiliate
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017

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

5. *Use of Estimates*

In preparing consolidated 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 consolidated 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*

The Center has evaluated events and transactions occurring subsequent to the end of the fiscal year for potential recognition or disclosure through February 26, 2018, the date on which the consolidated financial statements were issued. The Center did not identify any events or transactions that would have a material impact on the financial statements.

7. *Cash and Cash Equivalents*

For purposes of the consolidated statement of cash flows, the Center considers cash to be cash on hand and cash on deposit, subject to immediate withdrawal, and considers cash equivalents to be certificates of deposit with an original maturity of three months or less.

The Center maintains some of its cash balances in two financial institutions located in Steamboat Springs, Colorado, which at times, may exceed federally insured limits. The Center 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. *Certificates of Deposit and Investments*

The Center records certificates of deposit at each certificate's principal and accrued interest amounts. Certificates of deposit consist of eight individual certificates with interest rates between 0.20% and 0.50%.

Horizons Specialized Services and Affiliate
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017

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

9. *Accounts Receivable*

The majority of the Center's accounts receivable 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. The Center believes all receivables are collectible and that no allowance for uncollectible receivables 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.

10. *Accounting for 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 consolidated statement of activities as net assets released from restrictions. Restricted contributions received in the same year in which the restrictions are met are reported as unrestricted revenues rather than temporarily restricted. Permanently restricted net assets include the principal amount of contributions accepted with the stipulation from the donor that the principal be maintained in perpetuity, and only the income from investment thereof be expended for either general purposes or a purpose specified by the donor.

11. *Loan Issuance Costs*

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

12. *Annuity Obligations*

Annuity obligations represent the present value of the remaining payments due to annuitants under annuity contracts, based upon the remaining life expectancies of the respective annuitants.

Horizons Specialized Services and Affiliate
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017

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

13. *Land, Buildings and Equipment*

Land, buildings and equipment are reported at cost for purchased assets greater than \$2,500 and at estimated fair value, at date of receipt, for donated property greater than \$2,500.

Depreciation is provided on the straight-line method over the following estimated useful lives:

| | <u>Years</u> |
|------------------------------------|--------------|
| Buildings and improvements | 2–35 |
| Administrative and other equipment | 2–5 |
| Program equipment | 2–5 |
| Transportation equipment | 3–5 |

14. *In-kind Contributions*

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

15. *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 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. The Center has concluded there is no tax liability or benefit required to be recorded as of June 30, 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 believes it is no longer subject to income tax examinations for the years prior to the year ended June 30, 2014.

16. *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

Horizons Specialized Services and Affiliate
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017

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

16. *Fair Value Measurements (Continued)*

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. The Center'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 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.

17. *Prior Year Summarized Information*

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

Horizons Specialized Services and Affiliate
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017

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

17. *Prior Year Summarized Information (Continued)*

generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Center's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

18. *Recent Accounting Pronouncements*

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in generally accepted accounting principles in the United States of America (US GAAP) when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2018. The Center has not yet selected a transition method and is currently evaluating the effect that the standard will have on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The most significant change for lessees is the requirement under the new guidance to recognize right-of-use assets and lease liabilities for all leases not considered short-term leases. Changes to the lessor accounting model include: (a) synchronizing key aspects of the model with the new revenue recognition guidance, such as basing whether a lease is similar to a sale or whether control of the underlying asset has transferred to the lessee and (b) prospectively eliminating the specialized accounting for leveraged leases. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The ASU will be effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The Center is in the process of evaluating the impact of this new guidance.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit organization's liquidity, financial performance and cash flows. The

Horizons Specialized Services and Affiliate
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017

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

18. *Recent Accounting Pronouncements (Continued)*

ASU will be effective for fiscal years beginning after December 15, 2017. Earlier adoption is permitted. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied. The Center is in the process of evaluating the impact of this new guidance.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. The amendments in this update clarify the guidance regarding the classification of operating, investing and financing activities for certain types of cash receipts and payments. The amendments in this update are effective for the annual periods, and the interim periods within those years, beginning after December 15, 2018, and should be applied using a retrospective transition method to each period presented. Early adoption is permitted. The Center is evaluating the impact of adoption, if any, to the financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The amendments in this ASU require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The ASU will be effective for fiscal years beginning after December 15, 2018. Earlier adoption is permitted. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied. The Center is in the process of evaluating the impact of this new guidance.

NOTE B – CHARITABLE GIFT ANNUITY

During fiscal year 2007, the Center became the trustee for a charitable gift annuity which provides for monthly annuity payments of \$493 to the annuitant during his life with the remainder to be paid to the Center. Trust assets are recorded at fair market value at the time of donation and the related liability is calculated as the present value of future annuity payments based on the life expectancy of the donor and the current applicable Internal Revenue Service actuarial tables. Contribution revenue was recorded for the balance of assets donated less the annuity liability at the time of donation. The discount rate used to determine the present value of the future obligations to the annuitant was 2.8%. The assets for the annuity are invested in growth mutual funds totaling \$102,124 at June 30, 2017. These investments are recorded at fair value in the consolidated statement of financial position.

Horizons Specialized Services and Affiliate
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017

NOTE C – LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consist of the following at June 30, 2017:

| | |
|------------------------------------|---------------------|
| Buildings and improvements | \$ 4,817,908 |
| Administrative and other equipment | 194,033 |
| Program equipment | 71,566 |
| Transportation equipment | <u>576,616</u> |
| | 5,660,123 |
| Less accumulated depreciation | <u>2,645,725</u> |
| | 3,014,398 |
| Land | <u>863,739</u> |
| | <u>\$ 3,878,137</u> |

Depreciation expense was \$255,713 for the year ended June 30, 2017.

NOTE D – DEFERRED REVENUE

Deferred revenue of \$230,824 at June 30, 2017 consists of unspent mill levy funds from Routt County in the amount of \$205,662 and unspent supported living services funds from the State of Colorado in the amount of \$25,162.

NOTE E – NOTES PAYABLE

In March 2005, the Center entered into a loan agreement in the amount of \$1,101,000 with Yampa Valley Housing Authority to refinance its existing debt. Yampa Valley Housing Authority funded the loan through issuance of refunding revenue bonds. The loan is payable in monthly principal and interest installments of \$6,945 and matures March 2025. The interest rate on the loan was 4.50%. The loan is collateralized by certain real property. At June 30, 2017, the outstanding principal balance is \$546,678. This loan contains a debt service coverage ratio, which the Center met at June 30, 2017. The Center incurred loan costs of \$26,820 for the bond issue. Deferred loan costs at June 30, 2017, net of accumulated amortization, are \$8,493.

Interest expense for the year ended June 30, 2017 was \$26,381.

Horizons Specialized Services and Affiliate
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017

NOTE E – NOTES PAYABLE (CONTINUED)

Future maturities for the notes payable at June 30, 2017, are as follows:

| | |
|----------------------|-------------------|
| Year ending June 30, | |
| 2018 | \$ 59,609 |
| 2019 | 62,388 |
| 2020 | 65,249 |
| 2021 | 68,340 |
| 2022 | 71,527 |
| Thereafter | <u>219,565</u> |
| | 546,678 |
| Less current portion | <u>59,609</u> |
| | <u>\$ 487,069</u> |

NOTE F – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets of \$15,574 as of June 30, 2017 consist of contributions to be used for various client programs.

NOTE G – LEASES

The Center rents several residences used primarily for the residential program under operating lease agreements. Some of these leases are on a month-by-month basis and, therefore, are not subject to future minimum rental commitments. Rent expense for the year ended June 30, 2017 was \$140,840.

Future minimum lease payments under noncancelable operating leases at June 30, 2017 are as follows:

| | |
|----------------------|-------------------|
| Year ending June 30, | |
| 2018 | \$ 114,534 |
| 2019 | 22,118 |
| 2020 | 16,200 |
| 2021 | <u>7,493</u> |
| | <u>\$ 160,345</u> |

Horizons Specialized Services and Affiliate
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2017

NOTE H – 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 \$478,657 and \$25,162, respectively. The Center has a payable to the State of Colorado in the amount of \$66,867 which is recorded in accounts payable. 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 I – FAIR VALUE MEASUREMENTS

The following table presents the Center’s fair value hierarchy for those assets measured at fair value as of June 30, 2017:

| | <u>Fair value</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|-------------------|-------------------|-------------------|----------------|----------------|
| Financial assets: | | | | |
| Mutual funds | \$ <u>102,124</u> | \$ <u>102,124</u> | \$ _____ | \$ _____ |
| | \$ <u>102,124</u> | \$ <u>102,124</u> | \$ _____ | \$ _____ |

NOTE J – COMMITMENTS AND CONTINGENCIES

During fiscal year 2013, the Center received a Community Development Block Grant (CDBG) from the City of Steamboat Springs, Colorado in the amount of \$233,842 for the purchase of land on which the Center constructed an apartment building to be occupied by very low income people with disabilities. The grant contract provides that as long as the facility is used to provide affordable housing for a period of 40 years from the construction close out date, which was during fiscal year 2014, the Center will not be required to repay any portion of the grant. If any default occurs, the grant becomes immediately payable in full, but bears no interest.

During fiscal year 2014, the Center received a capital advance from HUD in the amount of \$1,272,700 to construct an apartment complex for very low income people with disabilities. Provided the facility remains available for occupancy by very low income people with disabilities through February 1, 2054, the capital advance will not become payable back to HUD. If any default occurs, the capital advance bears interest at 3.0% accruing from the closeout date and becomes immediately payable.

Horizons Specialized Services and Affiliate
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017

NOTE J – COMMITMENTS AND CONTINGENCIES (CONTINUED)

During fiscal year 2014, the Center received a grant from the Affordable Housing Program through First National Bank of the Rockies in the amount of \$105,000. If the constructed property is not used for affordable housing, as defined by the Federal Housing Finance Board, then the Center must repay the funds back to the First National Bank of the Rockies. This contingency expires 15 years from the contract date, which was June 17, 2013.