



Consolidated Financial Statements
June 30, 2021

**Developmental Pathways, Inc.
and Affiliate**

Developmental Pathways, Inc. and Affiliate

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June 30, 2021

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Developmental Pathways, Inc. and Affiliate, which comprise the consolidated statement of financial position as of June 30, 2021, 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 Affiliate as of June 30, 2021, 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 16, 2021 on our consideration of Developmental Pathways, Inc. and Affiliate's 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 Affiliate's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Developmental Pathways, Inc. and Affiliate's internal control over financial reporting and compliance.

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

Denver, Colorado
December 16, 2021

Developmental Pathways, Inc. and Affiliate

Consolidated Statement of Financial Position

June 30, 2021

| | |
|---------------------------------------------------------|---------------|
| Assets | |
| Cash and cash equivalents | \$ 14,363,449 |
| Investments | 15,037,719 |
| Accounts receivable | 6,040,023 |
| Prepaid expenses and other assets | 188,736 |
| Note receivable | 768,987 |
| Property and equipment, net | 5,582,141 |
| Endowment investments | 1,098,307 |
| Total assets | \$ 43,079,362 |
| | |
| Liabilities and Net Assets | |
| Accounts payable and accrued liabilities | \$ 2,190,805 |
| Deferred revenue | 3,801,901 |
| Deferred lease arrangements | 500,819 |
| Capital lease obligations | 44,613 |
| Total liabilities | 6,538,138 |
| | |
| Net Assets | |
| Without donor restrictions | |
| Undesignated | 26,229,602 |
| Board designated | 3,663,465 |
| Invested in property and equipment, net of related debt | 5,537,528 |
| | 35,430,595 |
| With donor restrictions | |
| Purpose restrictions | 202,666 |
| Perpetual in nature | 907,963 |
| | 1,110,629 |
| Total net assets | 36,541,224 |
| Total liabilities and net assets | \$ 43,079,362 |

Developmental Pathways, Inc. and Affiliate

Consolidated Statement of Activities

Year Ended June 30, 2021

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---------------------------------------|-------------------------------|----------------------------|---------------|
| Revenue, Support and Gains | | | |
| State of Colorado - Medicaid | \$ 7,716,750 | \$ - | \$ 7,716,750 |
| State of Colorado - other | 14,900,636 | - | 14,900,636 |
| Mill levy | 19,120,656 | - | 19,120,656 |
| Service fees and other program income | 1,233,243 | - | 1,233,243 |
| Rental income | 795,716 | - | 795,716 |
| Contributions and grants | 115,964 | 24,282 | 140,246 |
| Net investment return | 3,292,813 | 284,329 | 3,577,142 |
| Interest and other income | 105,757 | - | 105,757 |
| Net assets released from restrictions | 226,142 | (226,142) | - |
| Total revenue, support and gains | 47,507,677 | 82,469 | 47,590,146 |
| Expenses | | | |
| Program services | | | |
| Case management | 6,374,929 | - | 6,374,929 |
| Support services | 25,620,397 | - | 25,620,397 |
| Quality assurance | 3,795,271 | - | 3,795,271 |
| Total program services | 35,790,597 | - | 35,790,597 |
| Supporting services | | | |
| Management and general | 5,442,301 | - | 5,442,301 |
| Fundraising and development | 18,036 | - | 18,036 |
| Total supporting services | 5,460,337 | - | 5,460,337 |
| Total expenses | 41,250,934 | - | 41,250,934 |
| Change in net assets | 6,256,743 | 82,469 | 6,339,212 |
| Net Assets, Beginning of Year | 29,173,852 | 1,028,160 | 30,202,012 |
| Net Assets, End of Year | \$ 35,430,595 | \$ 1,110,629 | \$ 36,541,224 |

Developmental Pathways, Inc. and Affiliate
Consolidated Statement of Functional Expenses
Year Ended June 30, 2021

| | Program services | | | Supporting services | | Total |
|----------------------------------|---------------------|----------------------|---------------------|------------------------|-----------------------------|----------------------|
| | Case Management | Support Services | Quality Assurance | Management and General | Fundraising and Development | |
| Salaries, benefits, and taxes | \$ 5,329,046 | \$ 6,618,779 | \$ 3,178,963 | \$ 247,630 | \$ - | \$ 15,374,418 |
| Client assistance and activities | - | 9,520,664 | - | - | - | 9,520,664 |
| Professional services | 35,657 | 7,981,135 | 251,860 | 255,125 | 14,076 | 8,537,853 |
| Management fee | - | - | - | 4,410,452 | - | 4,410,452 |
| Occupancy | 254,154 | 202,018 | 165,507 | 193,292 | - | 814,971 |
| Depreciation and amortization | 208,688 | 203,507 | 126,529 | 177,293 | - | 716,017 |
| Community outreach | - | 623,882 | - | - | - | 623,882 |
| Other | 325,082 | 151,810 | 1,605 | 3,383 | 1,413 | 483,293 |
| Office expenses | 77,231 | 179,712 | 52,804 | 2,519 | 2,547 | 314,813 |
| Information technology | 134,742 | 104,788 | 11,542 | 19,617 | - | 270,689 |
| Insurance | 3,412 | 4,508 | 1,603 | 94,076 | - | 103,599 |
| Dues and subscriptions | 345 | 699 | 244 | 36,548 | - | 37,836 |
| Staff development and travel | 3,361 | 26,323 | 2,536 | - | - | 32,220 |
| Maintenance | 3,211 | 2,572 | 2,078 | 2,366 | - | 10,227 |
| Total expenses by function | <u>\$ 6,374,929</u> | <u>\$ 25,620,397</u> | <u>\$ 3,795,271</u> | <u>\$ 5,442,301</u> | <u>\$ 18,036</u> | <u>\$ 41,250,934</u> |

Developmental Pathways, Inc. and Affiliate

Consolidated Statement of Cash Flows

Year Ended June 30, 2021

| | |
|-------------------------------------------------------------------------------------|-----------------------------|
| Operating Activities | |
| Change in net assets | \$ 6,339,212 |
| Adjustments to reconcile change in net assets to net cash from operating activities | |
| Depreciation and amortization | 716,017 |
| Deferred compensation expense | 18,477 |
| Realized and unrealized gain on investments | (3,021,177) |
| Endowment net investment return | (273,793) |
| Change in operating assets and liabilities | |
| Accounts receivable | (483,753) |
| Prepaid expenses and other assets | 38,381 |
| Accounts payable and accrued liabilities | (209,687) |
| Deferred compensation liability | (209,523) |
| Settlement liability | (495,000) |
| Deferred revenue | 320,150 |
| Net Cash from Operating Activities | <u>2,739,304</u> |
| Investing Activities | |
| Purchases of investments | (1,859,280) |
| Proceeds from sales of investments | 1,394,745 |
| Principal payments on note receivable | 23,906 |
| Purchases of property and equipment | (305,306) |
| Proceeds from sales of property and equipment | 13,353 |
| Withdrawal from endowment | 198,759 |
| Net Cash used for Investing Activities | <u>(533,823)</u> |
| Financing Activities | |
| Principal payments on capital leases | (31,936) |
| Net Cash used for Financing Activities | <u>(31,936)</u> |
| Net Change in Cash and Cash Equivalents | 2,173,545 |
| Cash, Cash Equivalents, and Restricted Cash, Beginning of Year | <u>12,189,904</u> |
| Cash and Cash Equivalents, End of Year | <u><u>\$ 14,363,449</u></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.

We conduct our activities in cooperation with, and assistance from Youth Housing Colorado (YHC), the entity established to provide a housing option for those in need of out-of-home placements, and in which DPI has both control and economic interest. Subsequent to year end, DPI made the decision to dissolve YHC in fiscal year 2022 in light of the fact that the organization is moving towards compliance with Conflict Free Case Management, under which we will no longer be able to provide delivery of services (Note 11). The consolidated financial statements include the accounts of this affiliate. 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, we provide 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 which was primarily delivered using Telehealth.

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.

COVID-19 Impact

The coronavirus had an impact on the means in which we deliver services. With facility closures, we were forced to perform services largely remotely for the second consecutive year. As COVID restrictions eased slightly throughout the year, we were able to restore certain limited in-person services. However, the majority of services are still being performed in a remote capacity. Our information technology infrastructure enabled our staff to continue to provide necessary services to the individuals we serve in a remote capacity with limited impact on revenue. The virus has not posed a significant impact on business operations during this fiscal year. The economic recession brought on by the pandemic may have an impact on future funding of services due to State budget constraints. We continue to monitor evolving economic and general business conditions and the actual and potential impacts on our financial position, results of operations, and cash flows.

Cash and Cash Equivalents

We consider all cash and highly liquid financial instruments with original maturities of three months or less to be cash and cash equivalents.

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 receivables are uncollateralized patient and third-party payor obligations, primarily amounts due from the State of Colorado for services provided to individuals under Medicaid. The allowance for uncollectable accounts receivable is determined based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivables are written off when deemed uncollectable. As of June 30, 2021, the allowance for uncollectible accounts was \$37,050.

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.

The carrying values of property and equipment are reviewed 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, 2021.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of restrictions imposed by donors or grantors. 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 family engagement and capacity building (Note 9).

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor (or grantor) 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 conditional and unconditional contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Revenue Recognition

Revenue is reported at the amount that reflects the consideration to which we expect to be entitled in exchange for providing services. 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. Generally, we bill individuals and third-party payors several days after the services are performed. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided. Revenue for performance obligations satisfied over time is recognized based on when related services are performed. We believe that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Revenues from the State of Colorado, service fees, and other program income relate to program services that are paid by Medicaid and other payors. We determine the transaction price based on standard charges for services provided, which are set by the State. Program revenue received in advance, which consists primarily of mill levy revenue, is deferred to the applicable period in which the related services are performed. These deferred revenues will be recognized in the periods in which the related services are performed. Rental income from tenants is recognized in the month in which it is earned rather than received.

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, that is, those with a measurable performance or other barrier, and a right of return, 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. There were no significant contributions of donated services or goods during the year ended June 30, 2021.

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 and depreciation and amortization, which are allocated on a square footage basis, as well as salaries, benefits, and taxes, professional services, office expenses, information technology, insurance, staff development and travel, and other, which are allocated on the basis of estimates of time and effort.

Income Taxes

Developmental Pathways, Inc. 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. We have determined we are not subject to unrelated business income tax and have not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

We believe that each entity 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 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 entities' 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 2018.

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 and note receivables are considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from governmental agencies and affiliated organizations. 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.

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 | \$ 14,351,127 |
| Investments | 12,870,439 |
| Accounts receivable | 6,040,023 |
| Note receivable due in one year | 24,449 |
| | <u>\$ 33,286,038</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 9. 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.

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, 2021:

| | Fair Value Measurements at Reporting Date Using | | | | Investments Measured at NAV |
|------------------------------|-------------------------------------------------|----------------------------------------------------------------|-----------------------------------------------|-------------------------------------------|-----------------------------|
| | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | |
| Investments | | | | | |
| Money market (at cost) | \$ 84,852 | \$ - | \$ - | \$ - | \$ - |
| Bond funds | 2,225,747 | 2,225,747 | - | - | - |
| Domestic equity funds | 10,246,598 | 10,246,598 | - | - | - |
| International equity funds | 313,242 | 313,242 | - | - | - |
| Multi-strategy hedge fund | 2,167,280 | - | - | - | 2,167,280 |
| | <u>\$ 15,037,719</u> | <u>\$ 12,785,587</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,167,280</u> |
| Endowment investments | | | | | |
| Money market (at cost) | \$ 3,509 | \$ - | \$ - | \$ - | \$ - |
| Bond funds | 194,314 | 194,314 | - | - | - |
| Domestic equity funds | 870,970 | 870,970 | - | - | - |
| International equity funds | 29,514 | 29,514 | - | - | - |
| | <u>\$ 1,098,307</u> | <u>\$ 1,094,798</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, 2021. 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, 2021, the amount receivable under the note is \$768,987.

Note 5 - Property and Equipment

Property and equipment at June 30, 2021 consists of the following:

| | |
|------------------------------------------------|---------------------|
| Land | \$ 1,075,909 |
| Buildings and improvements | 7,036,498 |
| Vehicles | 190,510 |
| Furniture and fixtures | 256,054 |
| Computers and equipment | <u>1,222,682</u> |
| | 9,781,653 |
| Less accumulated depreciation and amortization | <u>(4,199,512)</u> |
| | <u>\$ 5,582,141</u> |

Note 6 - Leases

During the year ended June 30, 2019, we entered into a lease agreement expiring in 2027 for 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 2028.

Future minimum lease payments are as follows:

| <u>Years Ending June 30,</u> | <u>Capital Leases</u> | <u>Operating Leases</u> |
|-----------------------------------|---------------------------|-----------------------------|
| 2022 | \$ 34,416 | \$ 374,061 |
| 2023 | 11,472 | 360,080 |
| 2024 | - | 359,040 |
| 2025 | - | 359,040 |
| 2026 | - | 359,040 |
| Thereafter | - | 532,576 |
| Total minimum lease payments | <u>45,888</u> | <u>\$ 2,343,837</u> |
| Less amount representing interest | <u>(1,275)</u> | |
| Capital lease obligations | <u>\$ 44,613</u> | |

Rent expense for the year ended June 30, 2021 totaled \$409,492.

Leased property under capital leases at June 30, 2021 includes:

| | |
|-------------------------------|------------------|
| Copiers | \$ 156,249 |
| Less accumulated amortization | <u>(114,582)</u> |
| | <u>\$ 41,667</u> |

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 the endowment fund 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 fund, unless there are explicit donor stipulations to the contrary. At June 30, 2021, 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

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.

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.

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). We have interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law.

Developmental Pathways, Inc. and Affiliate

Notes to Consolidated Financial Statements

June 30, 2021

Changes in endowment net assets for the year ended June 30, 2021 are as follows:

| | With Donor Restrictions |
|-----------------------------------------|----------------------------|
| Endowment net assets, beginning of year | \$ 1,012,738 |
| Net investment return | 284,329 |
| Appropriation of endowment earnings | (198,760) |
| Endowment net assets, end of year | \$ 1,098,307 |

Note 8 - Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods at June 30, 2021:

| | |
|-----------------------------------------------------------------------------------------------------------|--------------|
| Subject to expenditure for specified purpose: | |
| Community outreach | \$ 7,138 |
| Education | 4,392 |
| Early intervention | 792 |
| | 12,322 |
| Endowments: | |
| Accumulated investment gains subject to appropriation and expenditure when specified event occurs: | |
| Restricted by donors for medical and dental expenditures | 190,344 |
| Perpetual in nature, earnings from which are subject to appropriation for Medical and dental expenditures | 907,963 |
| | 1,098,307 |
| | \$ 1,110,629 |

Net assets were released from restrictions by incurring expenses satisfying the restricted purpose as follows during the year ended June 30, 2021:

| | |
|------------------------------------------------|------------|
| Satisfaction of purpose restrictions: | |
| Medical and dental | \$ 198,760 |
| Community outreach | 15,198 |
| Program quality | 10,000 |
| Early intervention | 2,058 |
| 3+ initiative (support for children ages 3-21) | 126 |
| | \$ 226,142 |

Note 9 - Net Assets Without Donor Restrictions

At June 30, 2021, our Board of Directors has designated certain net assets without donor restrictions for the following purposes:

| | <u>Community Engagement</u> | <u>Capacity Building</u> | <u>Total</u> |
|--------------------------------------------|-----------------------------|--------------------------|---------------------|
| Board designated assets, beginning of year | \$ 1,245,319 | \$ 1,632,077 | \$ 2,877,396 |
| Additions | 2,000,000 | - | 2,000,000 |
| Withdrawals | <u>(1,028,463)</u> | <u>(185,468)</u> | <u>(1,213,931)</u> |
| Board designated assets, end of year | <u>\$ 2,216,856</u> | <u>\$ 1,446,609</u> | <u>\$ 3,663,465</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, 2021, our 4% contributions to the plan totaled \$322,674; there were no discretionary contributions.

We evaluated overall benefits for key employees and decided to dissolve the 457(f) deferred compensation plan as of June 30, 2021. Participants of the plan were paid out the vested portion of the deferred compensation benefit at dissolution.

Note 11 - Subsequent Events

In an effort to remain a good steward of the resources entrusted to us, we have made the decision to sell the office building that has served as our primary headquarters - referred to as the Inverness building. We own this building outright with no debt, and it has served as our primary office space for many years. However, due to the recurring low utilization of this space by staff and community members over the past two years as a result of COVID-induced remote-work, it no longer makes good fiscal sense to maintain this building. Upkeep and maintenance costs are significant, and we believe these dollars could be better spent serving our community. In September of 2021, in preparation for this sale, we shifted our corporate headquarters to a smaller existing leased office space nearby (Note 6). This reflects our decreased requirements for in-person office space while at the same time still maintaining a physical footprint that meets the needs of both the community and staff. As of the date of the issuance of these financial statements, the Inverness sale has not yet been completed, but the building is currently on the market.

YHC's main asset, a group home, sold in October 2021, at which time it was marketed to other service providers within the community who will still be able to continue to support the ongoing housing needs of individuals with developmental disabilities. No significant gain or loss was recognized upon the sale. The remaining cash will be transferred to DPI upon dissolution in fiscal year 2022.

We have evaluated subsequent events through December 16, 2021, the date the financial statements were available to be issued.