



Consolidated Financial Statements
June 30, 2022

**Developmental Pathways, Inc.
and Affiliate**

Developmental Pathways, Inc. and Affiliate

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Developmental Pathways, Inc., and Affiliate, which comprise the consolidated statement of financial position as of June 30, 2022, 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).

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the consolidated financial position of Developmental Pathways, Inc. and Affiliate as of June 30, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities of the Audit of the Financial Statements section of our report. We are required to be independent of Developmental Pathways, Inc. and Affiliate and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Developmental Pathways, Inc. and Affiliate's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities of the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Developmental Pathways, Inc. and Affiliate's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Developmental Pathways, Inc. and Affiliate's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated December 15, 2022 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 15, 2022

Developmental Pathways, Inc. and Affiliate

Consolidated Statement of Financial Position

June 30, 2022

Assets	
Cash and cash equivalents	\$ 22,824,200
Investments	13,559,703
Accounts receivable, net	5,645,558
Grant advances	771,525
Prepaid expenses and other assets	522,087
Note receivable	746,596
Property and equipment, net	1,137,015
Endowment investments	908,489
Total assets	\$ 46,115,173
Liabilities and Net Assets	
Accounts payable and accrued liabilities	\$ 2,930,547
Deferred revenue	4,492,197
Deferred lease arrangements	455,669
Total liabilities	7,878,413
Net Assets	
Without donor restrictions	
Undesignated	29,940,048
Board designated	6,242,607
Invested in property and equipment, net	1,137,015
	37,319,670
With donor restrictions	
Purpose restrictions	9,127
Perpetual in nature	907,963
	917,090
Total net assets	38,236,760
Total liabilities and net assets	\$ 46,115,173

Developmental Pathways, Inc. and Affiliate

Consolidated Statement of Activities

Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Support, and Gains			
State of Colorado - Medicaid	\$ 8,073,935	\$ -	\$ 8,073,935
State of Colorado - other	15,791,536	-	15,791,536
Mill levy	19,894,398	-	19,894,398
Service fees and other program income	1,216,301	-	1,216,301
Rental income and other	313,703	-	313,703
Contributions and grants	113,093	20,069	133,162
In-kind contributions	182,780	-	182,780
Gain on sale of assets	2,138,216	-	2,138,216
Net assets released from restrictions	96,766	(96,766)	-
Total revenue, support, and gains	47,820,728	(76,697)	47,744,031
Expenses and Losses			
Program services			
Case management	10,285,284	-	10,285,284
Support services	27,880,537	-	27,880,537
Total program services	38,165,821	-	38,165,821
Supporting services			
Management and general	6,281,896	-	6,281,896
Fundraising and development	147,966	-	147,966
Total supporting services	6,429,862	-	6,429,862
Total expenses	44,595,683	-	44,595,683
Net investment loss	1,335,970	116,842	1,452,812
Total expenses and losses	45,931,653	116,842	46,048,495
Change in net assets	1,889,075	(193,539)	1,695,536
Net Assets, Beginning of Year	35,430,595	1,110,629	36,541,224
Net Assets, End of Year	\$ 37,319,670	\$ 917,090	\$ 38,236,760

Developmental Pathways, Inc. and Affiliate
Consolidated Statement of Functional Expenses
Year Ended June 30, 2022

	<u>Program services</u>		<u>Supporting services</u>		<u>Total</u>
	<u>Case Management</u>	<u>Support Services</u>	<u>Management and General</u>	<u>Fundraising and Development</u>	
Salaries, benefits, and taxes	\$ 9,047,694	\$ 6,549,877	\$ 111,016	\$ 321	\$ 15,708,908
Client assistance and activities	-	10,454,767	41	-	10,454,808
Professional services	157,771	7,637,379	324,773	15,435	8,135,358
Management fee	-	-	5,091,393	-	5,091,393
Community outreach	-	2,439,971	-	-	2,439,971
Occupancy	302,403	143,617	243,846	-	689,866
Depreciation and amortization	231,944	141,100	286,448	-	659,492
Other	215,008	239,958	15,186	127,824	597,976
Office expenses	170,755	121,767	16,098	4,361	312,981
Information technology	145,948	95,678	18,664	-	260,290
Insurance	239	499	123,097	-	123,835
Staff development and travel	8,595	44,025	1,508	25	54,153
Dues and subscriptions	210	9,808	41,832	-	51,850
Maintenance	4,459	1,938	7,329	-	13,726
Interest	258	153	665	-	1,076
Total expenses by function	<u>\$ 10,285,284</u>	<u>\$ 27,880,537</u>	<u>\$ 6,281,896</u>	<u>\$ 147,966</u>	<u>\$ 44,595,683</u>

Developmental Pathways, Inc. and Affiliate

Consolidated Statement of Cash Flows

Year Ended June 30, 2022

Operating Activities	
Change in net assets	\$ 1,695,536
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation and amortization	659,492
Realized and unrealized loss on investments	1,903,764
Endowment net investment loss	116,842
Contribution of equipment received	(182,780)
Gain on sale of property	(2,138,216)
Change in operating assets and liabilities	
Accounts receivable, net	394,465
Grant advances	(771,525)
Prepaid expenses and other assets	(333,351)
Accounts payable and accrued liabilities	739,742
Deferred revenue	690,296
Net Cash from Operating Activities	<u>2,774,265</u>
Investing Activities	
Purchases of investments	(1,053,763)
Proceeds from sales of investments	700,991
Principal payments on note receivable	22,391
Purchases of property and equipment	(297,432)
Proceeds from sales of property and equipment	<u>6,358,912</u>
Net Cash from Investing Activities	<u>5,731,099</u>
Financing Activities	
Principal payments on capital leases	<u>(44,613)</u>
Net Cash used for Financing Activities	<u>(44,613)</u>
Net Change in Cash and Cash Equivalents	8,460,751
Cash, Cash Equivalents, and Restricted Cash, Beginning of Year	<u>14,363,449</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 22,824,200</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 conducted 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. During the year ended June 30, 2022, DPI made the decision to dissolve YHC 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. As discussed in Note 11, dissolution of YHC occurred in October of 2021.

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 three 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 matters 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 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/loss 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 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 receivable are written off when deemed uncollectable. As of June 30, 2022, the allowance for uncollectable accounts was \$31,386. Receivables from contracts with customers are reported as accounts receivable in the accompanying consolidated statement of financial position. At July 1, 2021, the accounts receivable balance was \$6,040,023.

Grants and Grant Commitments

We recognize grants as expenses at the time recipients are entitled to receive them. Generally, this occurs when the Board of Directors approves a specific grant, or when management, pursuant to grant-authorization policies, approves a grant. Unconditional grants approved but not yet disbursed are included with accounts payable and accrued liabilities in the statement of financial position. We had no grants payable at June 30, 2022. Conditional grants issued but contingent upon fulfillment of certain specified conditions by the grantee and a right of release are recorded as grant advances in the statement of financial position until the conditions have been met.

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 ten 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, 2022.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor 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) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for community engagement and capacity building (Note 9).

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) 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 restrictions are perpetual in nature, where the donor stipulates the resources be maintained in perpetuity. We report 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. We report conditional contributions restricted by donors as increases in net assets without donor restrictions if the restrictions and conditions expire simultaneously in the reporting period. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are released when the assets are placed in service.

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. Contract liabilities are presented as deferred revenue in the accompany statement of financial position. At July 1, 2021 deferred revenue was \$3,801,901.

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. 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. Our federal and state contracts and grants are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses.

In-Kind Contributions

As of July 1, 2021, we adopted the provisions of Accounting Standards Update (ASU) 2020-07, *Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The standard requires enhanced presentation and disclosure of contributed nonfinancial assets. Management has adopted the amendments of this update on a retrospective basis because it provides increased and more transparent disclosure around contributed nonfinancial assets.

In-kind contributions include donated professional services, donated equipment, and other in-kind contributions which are recorded at the respective fair values of the goods or services received. We do not sell donated gifts-in-kind. In addition to in-kind contributions, volunteers contribute significant amounts of time to program services, administration, and fundraising and development activities; however, the consolidated financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. For the year ended June 30, 2022, in-kind contributions recognized within the consolidated statement of activities include \$182,780 of IT equipment from a third party. The contribution was valued based on market prices of similar assets and used in operations.

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. YHC has filed its final report with the IRS upon dissolution.

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.

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.

Subsequent Events

We have evaluated subsequent events through December 15, 2022, 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	\$ 22,832,801
Investments	11,365,517
Accounts receivable, net	5,645,558
Note receivable due in one year	25,004
	<u>39,868,880</u>
	<u>\$ 39,868,880</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.

Developmental Pathways, Inc. and Affiliate

Notes to Consolidated Financial Statements

June 30, 2022

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, 2022:

	<u>Fair Value Measurements at Reporting Date Using</u>				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)	\$ 66,125	\$ -	\$ -	\$ -	\$ -
Bond funds	2,163,208	2,163,208	-	-	-
Domestic equity funds	8,860,068	8,860,068	-	-	-
International equity funds	276,116	276,116	-	-	-
Multi-strategy hedge fund	2,194,186	-	-	-	2,194,186
	<u>\$ 13,559,703</u>	<u>\$ 11,299,392</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,194,186</u>
Endowment investments					
Money market (at cost)	\$ 1,546	\$ -	\$ -	\$ -	\$ -
Bond funds	90,320	90,320	-	-	-
Domestic equity funds	796,851	796,851	-	-	-
International equity funds	19,772	19,772	-	-	-
	<u>\$ 908,489</u>	<u>\$ 906,943</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The multi-strategy hedge 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. No capital commitments remain at June 30, 2022.

Note 4 - Note Receivable

We have a note receivable from a third party 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, 2022, the amount receivable under the note is \$746,596, all of which was repaid subsequent to year end.

Note 5 - Property and Equipment

Property and equipment at June 30, 2022 consists of the following:

Leasehold improvements	\$ 1,195,819
Vehicles	190,510
Furniture and fixtures	44,535
Computers and equipment	<u>929,007</u>
	2,359,871
Less accumulated depreciation and amortization	<u>(1,222,856)</u>
	<u><u>\$ 1,137,015</u></u>

During 2022, in an effort to remain a good steward of the resources entrusted to us, we made the decision to sell our primary headquarters - referred to as the Inverness building. Due to the recurring low utilization of this space by staff and community members over the past several years as a result of COVID-induced remote-work, it no longer made good fiscal sense to maintain this building. Upkeep and maintenance costs were significant, and we believe these dollars will be better spent serving our community. In September of 2021, 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. The sale of the Inverness building occurred in May 2022 and we realized a gain of approximately \$2.1 million in the consolidated statement of activities.

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 was transferred to DPI upon dissolution during fiscal year 2022.

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 operating lease agreements expiring at various dates through 2027.

Future minimum lease payments are as follows:

<u>Years Ending June 30,</u>	<u>Operating Leases</u>
2023	\$ 464,895
2024	389,387
2025	389,387
2026	389,387
2027	<u>227,142</u>
Total minimum lease payments	<u>\$ 1,860,198</u>

Rent expense for the year ended June 30, 2022 totaled \$407,800.

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, 2022, 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, 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.

We 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. We consider 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 allow spending from underwater endowments in accordance with prudent measures required under law, but we chose to suspend full spending to prevent this.

Changes in endowment net assets for the year ended June 30, 2022 are as follows:

	<u>With Donor Restrictions</u>
Endowment net assets, beginning of year	\$ 1,098,307
Net investment loss	(116,842)
Appropriation of endowment earnings	<u>(72,976)</u>
Endowment net assets, end of year	<u>\$ 908,489</u>

Note 8 - Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods at June 30, 2022:

Subject to expenditure for specified purpose:

Community outreach	\$ 8,601
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Endowments:

Accumulated investment gains subject to appropriation and expenditure when specified event occurs:

Restricted by donors for medical and dental expenditures	526
Perpetual in nature, earnings from which are subject to appropriation for Medical and dental expenditures	<u>907,963</u>

908,489

\$ 917,090

Net assets were released from restrictions by incurring expenses satisfying the restricted purpose as follows during the year ended June 30, 2022:

Satisfaction of purpose restrictions:

Medical and dental	\$ 72,976
Program quality	15,218
Community outreach	<u>8,572</u>

\$ 96,766

Note 9 - Net Assets Without Donor Restrictions

At June 30, 2022, 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 net assets, beginning of year	\$ 2,216,856	\$ 1,446,609	\$ 3,663,465
Additions	3,700,000	600,000	4,300,000
Withdrawals	<u>(1,412,639)</u>	<u>(308,219)</u>	<u>(1,720,858)</u>
Board designated net assets, end of year	<u>\$ 4,504,217</u>	<u>\$ 1,738,390</u>	<u>\$ 6,242,607</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, 2022, our 4% contributions to the plan totaled \$323,204; there were no discretionary contributions.