



Financial Statements and Report of Independent  
Certified Public Accountants

**Horizons Specialized Services**

June 30, 2010



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Logan, Thomas & Johnson, LLC  
Certified Public Accountants

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors  
Horizons Specialized Services

We have audited the accompanying statement of financial position of Horizons Specialized Services (the Center) as of June 30, 2010, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Center's 2009 financial statements, and in our report dated November 20, 2009, we expressed an unqualified opinion on those financial statements.

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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Horizons Specialized Services as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

*Logan, Thomas & Johnson, LLC*

Broomfield, Colorado  
October 15, 2010

## *Financial Statements*

Horizons Specialized Services  
STATEMENT OF FINANCIAL POSITION  
June 30, 2010  
(With summarized financial information for June 30, 2009)

	2010	2009
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 750,365	\$ 345,477
Certificates of deposit	700,000	980,000
Accounts receivable		
Fees and grants from governmental agencies	378,250	638,208
Other	9,500	15,405
Accrued interest receivable	55,353	53,883
Prepaid expenses and other	109,695	33,011
Total current assets	2,003,163	2,065,984
Certificates of deposit	650,000	-
Investments	227,348	225,722
Charitable gift annuity investment	66,776	58,723
Deferred loan costs, net of accumulated amortization of \$9,387	17,433	19,221
Land, building and equipment, net	2,510,922	2,394,222
	\$ 5,475,642	\$ 4,763,872
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable	\$ 214,420	\$ 200,346
Accrued payroll and employee benefits	207,291	194,827
Deferred revenue	385,291	205,573
Current portion of long-term debt	186,812	240,644
Current portion of annuity obligation	5,913	5,913
Total current liabilities	999,727	847,303
Long-term debt		
Notes payable, net of current portion	855,196	899,310
Annuity obligation, net of current portion	25,668	31,581
	1,880,591	1,778,194
Net assets		
Unrestricted		
Board designated		
Operating reserve	779,746	779,746
Mill levy funds	517,846	282,050
Net investment in land, building and equipment	1,486,347	1,273,489
Undesignated	811,112	650,393
Total unrestricted	3,595,051	2,985,678
	\$ 5,475,642	\$ 4,763,872

The accompanying notes are an integral part of this statement.

Horizons Specialized Services  
STATEMENT OF ACTIVITIES

Year ended June 30, 2010

(With summarized financial information for the year ended June 30, 2009)

	Total unrestricted	
	2010	2009
Fees and grants from governmental agencies		
Fees for services		
State of Colorado		
State General Fund		
Comprehensive	\$ 6,936	\$ 9,530
Adult supported living	40,762	45,581
Children and families	297,742	276,906
Medicaid		
Comprehensive	2,925,183	2,739,956
Adult supported living	279,050	273,426
Part C	77,404	129,012
ARRA	50,541	-
Counties and cities	1,379,427	1,213,118
Grants and other		
Child find	5,304	18,720
Department of Housing and Urban Development	54,359	45,444
Total fees and grants from governmental agencies	5,116,708	4,751,693
Public support - contributions		
Individuals and foundations	72,432	78,421
Community organizations	35,951	22,663
	108,383	101,084
Residential room and board	343,476	322,495
In-kind donations	13,699	10,284
Other revenue	173,186	133,351
Total support and revenue	5,755,452	5,318,907
Expenses		
Program services		
Medicaid comprehensive	3,407,005	3,241,193
State adult supported living	31,495	28,347
Medicaid adult supported living	304,686	260,759
Early intervention	269,343	332,280
Family support	159,743	150,836
Case management	323,500	301,948
Total program services	4,495,772	4,315,363
Supporting services		
Management and general	650,307	620,166
Total expenses	5,146,079	4,935,529
CHANGE IN NET ASSETS	609,373	383,378
Net assets, beginning of year	2,985,678	2,602,300
Net assets, end of year	\$ 3,595,051	\$ 2,985,678

The accompanying notes are an integral part of this statement.

Horizons Specialized Services  
STATEMENT OF CASH FLOWS  
Year ended June 30, 2010  
(With summarized financial information for the year ended June 30, 2009)

	2010	2009
Cash flows from operating activities		
Change in net assets	\$ 609,373	\$ 383,378
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	172,616	186,526
Gain on sale of assets	(70,276)	(750)
Donated equipment and investments	-	(4,000)
Unrealized (gain) loss on investment	(9,679)	14,736
Change in assets and liabilities		
(Increase) decrease in accounts receivable	265,863	(255,003)
Increase in accrued interest receivable	(1,470)	(12,394)
Increase in prepaid expenses and other	(76,684)	(3,214)
Increase in accounts payable	14,074	50,533
Increase in accrued payroll and employee benefits	12,464	27,621
Increase (decrease) in deferred revenue	179,718	(65,859)
Decrease in annuity obligation	(5,913)	(5,913)
Net cash provided by operating activities	1,090,086	315,661
Cash flows from investing activities		
Purchase of land, building, and equipment	(311,434)	(538,401)
Proceeds from sale of land, building and equipment	94,182	750
Purchase of certificates of deposit	(550,000)	(700,000)
Proceeds from maturity of certificates of deposit	180,000	500,000
Net cash used in investing activities	(587,252)	(737,651)
Cash flows from financing activities		
Borrowings on notes payable	150,000	200,000
Payments on notes payable	(247,946)	(41,895)
Net cash provided by (used in) financing activities	(97,946)	158,105
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	404,888	(263,885)
Cash and cash equivalents, beginning of year	345,477	609,362
Cash and cash equivalents, end of year	\$ 750,365	\$ 345,477
Supplemental data		
Cash paid for interest	\$ 45,536	\$ 45,261
Noncash investing activities		
In-kind contribution of fixed assets	-	4,000

The accompanying notes are an integral part of this statement.

Horizons Specialized Services  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. *Summary of Business Activities*

Horizons Specialized Services 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 from mill levy revenue from Routt County.

2. *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 Individualized Plan. 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 Individualized Plan. For these purposes, "work schedule" is defined broadly to include adult and retirement activities such as education, training, community integration and employment.

Adult Supported Living (State and Medicaid) provides individualized living services for persons who are responsible for their own living arrangements in the community.

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.

Horizons Specialized Services  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. *Description of Services Provided (Continued)*

**Program Services or Supports (Continued)**

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 Individualized Plan, and the evaluation of results identified in the Individualized Plan.

**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.

3. *Basis of Accounting*

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

4. *Subsequent Events*

The Center has evaluated events and transactions occurring subsequent to the end of the fiscal year for potential recognition or disclosure through October 15, 2010, the date on which the financial statements were issued. The Center did not identify any events or transactions that would have a material impact on the financial statements.

5. *Use of Estimates*

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Horizons Specialized Services  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6. *Cash and Cash Equivalents*

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

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.

7. *Certificates of Deposit and Investments*

The Center records certificates of deposit at carrying value. Certificates of deposit consist of ten individual certificates with interest rates between 0.40% and 2.20%.

Investments consist of two United States Treasury notes, with interest rates of 3.00% and 2.50% maturing in July 2012 and July 2016, respectively. These investments and the charitable gift annuity investments are recorded at fair value in the statement of financial position.

8. *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 doubtful accounts is necessary. The Center writes off accounts receivable to bad debt expense after reasonable collection efforts have been made, and payments subsequently received on such receivables are recorded as revenue.

9. *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.

10. *Land, Building and Equipment*

Land, building and equipment are reported at cost for purchased assets greater than \$1,000 and at estimated value, at date of receipt, for donated property greater than \$1,000.

Horizons Specialized Services  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

10. *Land, Building and Equipment (Continued)*

Depreciation and amortization are provided on the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings and improvements	3–31
Administrative and other equipment	2–5
Program equipment	3–5
Transportation equipment	5

11. *Revenue Recognition*

Revenues are recognized when services are performed. The Center receives certain revenue that if all the revenue is not spent in the current year and the Center has met certain control points, it is allowed to recognize five percent of the total original revenue and the remaining excess revenue is deferred to the next year.

12. *Temporarily Restricted Revenue*

Donor restricted revenue, whose restrictions are currently satisfied in the same fiscal year, are reported as unrestricted revenue, rather than temporarily restricted. Donor restricted contributions whose restrictions are not currently met, are reflected as an increase to temporarily restricted net assets. In the current fiscal year, the Center has no donor restricted contributions whose restrictions were not currently met.

13. *In-kind Donations*

Contributions of property, materials and personal services are known as in-kind donations and are recorded at estimated value at date of receipt. These donations are included as program costs to properly reflect the total cost of the particular program.

14. *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, 2010.

Horizons Specialized Services  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

15. *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 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. Level 2 assets and liabilities include debt securities with quoted market prices that are traded less frequently than exchange-traded instruments. This category generally includes certain U.S. Government agency debt securities and corporate-debt securities.

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.

Horizons Specialized Services  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

16. *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 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, 2009, from which the summarized information was derived.

17. *Reclassifications*

Certain financial information as of and for the year ended June 30, 2009, has been reclassified to conform with the presentation for the current year

NOTE B – FEES AND GRANTS FROM GOVERNMENTAL AGENCIES AND OTHERS

Amounts receivable from governmental agencies and others are as follows at June 30, 2010:

Governmental agencies	
State of Colorado	
General Fund	\$ 29,197
Medicaid	308,175
Part C	6,450
ARRA	<u>34,428</u>
	\$ <u>378,250</u>

NOTE C – 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 related liability is calculated as the present value of future annuity payments based on the life expectancy of the donor and the current applicable federal rate. 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 3.3%. The total future obligation recorded at June 30, 2010 is \$31,581. The assets for the annuity are invested in growth mutual funds totaling \$66,776 at June 30, 2010. These investments are recorded at fair value in the statement of financial position.

Horizons Specialized Services  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

NOTE D – LAND, BUILDING AND EQUIPMENT

Land, building and equipment consist of the following at June 30, 2010:

Buildings and improvements	\$ 2,674,388
Administrative and other equipment	170,200
Program equipment	64,695
Transportation equipment	<u>403,376</u>
	3,312,659
Less accumulated depreciation and amortization	<u>1,665,476</u>
	1,647,183
Land	<u>863,739</u>
	\$ <u>2,510,922</u>

Depreciation expense was \$170,828 at June 30, 2010.

NOTE E – DEFERRED REVENUE

Deferred revenue of \$385,291 at June 30, 2010 consists of \$378,677 of unspent mill levy funds from Routt County, \$3,287 of unearned revenue for the family support program, and \$3,327 of unearned revenue for the State supported living services program.

NOTE F – 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 is 4.40% through March 2015 at which time the rate will be adjusted to the prevailing rate for ten year U.S. Treasury notes plus 2%, divided by 1.56% plus 0.28%. The loan is collateralized by certain real property. At June 30, 2010, the outstanding principal balance is \$899,309. This loan contains a debt service coverage ratio, which the Center met at June 30, 2010.

In November 2009, the Center entered into a loan agreement in the amount of \$150,000. The loan matures November 2010. The interest rate on the loan is 3.75% and is collateralized by a certificate of deposit. At June 30, 2010, the outstanding principal balance is \$142,699.

The Center incurred loan costs of \$26,820 which it is amortizing. Deferred loan costs at June 30, 2010, net of accumulated amortization, are \$17,433.

Horizons Specialized Services  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

NOTE F – NOTES PAYABLE (CONTINUED)

Interest expense for the year ended June 30, 2010 was \$45,536.

Future maturities for the notes payable at June 30, 2010, are as follows:

Year ending June 30,	
2011	\$ 186,812
2012	46,020
2013	48,218
2014	50,413
2015	52,709
Thereafter	<u>657,836</u>
	1,042,008
Less current portion	<u>186,812</u>
	<u>\$ 855,196</u>

NOTE G – LEASES

The Center rents several residences used primarily for the residential program. 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, 2010 was \$148,567.

Future minimum lease payments under noncancelable operating leases at June 30, 2010 are as follows:

Year ending June 30,	
2011	\$ 120,217
2012	44,487
2013	<u>3,223</u>
	<u>\$ 167,927</u>

NOTE H – RETIREMENT PLAN

The Center has adopted a profit sharing plan, which is a defined contribution pension plan. All full-time employees who have completed one full year of service and are age 18 or older are eligible to participate. Employees participating in the plan are 100% vested after six years of service. The Center contributions to the plan are discretionary. The Board of Directors approved a contribution of 3% of employees' salaries for the year ended June 30, 2010, which totaled \$75,716.

Horizons Specialized Services  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2010

NOTE I – RELATED PARTY TRANSACTIONS

The Center receives a substantial amount of revenue from the State of Colorado. The amount of receivables the Center has from the State of Colorado is disclosed in Note B and the Center has a payable to the State of Colorado in the amount of \$74,063 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.

The Center has two certificates of deposit, totaling \$250,000 as of June 30, 2010, at a bank in which a member of the board of directors is the owner.

NOTE J – FAIR VALUE MEASUREMENTS

The following table presents the Center’s fair value hierarchy for those assets measured at fair value as of June 30, 2010:

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial assets:				
U.S. Treasury Inflation- Protected Security	\$ 227,348	\$ -	\$ 227,348	\$ -
Mutual funds	<u>66,776</u>	<u>66,776</u>	<u>-</u>	<u>-</u>
	<u>\$ 294,124</u>	<u>\$ 66,776</u>	<u>\$ 227,348</u>	<u>\$ -</u>