

SHENANDOAH VALLEY COMMUNITY RESIDENCES, INC.

AUDITED FINANCIAL STATEMENTS

June 30, 2017

Officers

Matthew Bradley, President
Mary Hall, 1st Vice President
Melody Schwartzman, 2nd Vice President
A. Katherine Gregg, Treasurer
Kathy Duncan, Secretary
David Stegmaier, Assistant Treasurer
Ellen Murphy, Immediate Past President

Directors

Patricia Taylor

Honorary Members

Ralph Combs, Jr.
Joel Friedman
Stacey Umbenour

CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR’S REPORT	1
FINANCIAL STATEMENTS:	
Statement of Assets, Liabilities and Net Assets – Modified Cash Basis.....	2
Statement of Revenues, Expenses and Changes in Net Assets – Modified Cash Basis.....	3
Statement of Cash Flows.....	4
NOTES TO FINANCIAL STATEMENTS	5

CUNDIFF & ASSOCIATES, CPA, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

WWW.CUNDIFFCPAS.COM

321 S. LOUDOUN STREET
WINCHESTER, VIRGINIA 22601
(540) 667-0441 • FAX: (540) 667-2643



9275 CORPORATE CIRCLE
MANASSAS, VIRGINIA 20110
(703) 368-7435 • FAX: (703) 366-3116

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Shenandoah Valley Community Residences, Inc.
Winchester, Virginia

We have audited the accompanying financial statements of Shenandoah Valley Community Residences, Inc. (a nonprofit organization), which comprise the statement of assets, liabilities and net assets – modified cash basis as of June 30, 2017, and the related statements of revenues, expenses and changes in net assets – modified cash basis and cash flows for the year then ended, and the related notes to the 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 the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditors Responsibilities

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

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 risk 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 assets, liabilities and net assets of Shenandoah Valley Community Residences, Inc. as of June 30, 2017, and its support, revenue, and expenses for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Cundiff & Associates, CPA, P.C.

Cundiff & Associates, CPA, P.C.
Certified Public Accountants
Winchester, Virginia
November 14, 2017

SHENANDOAH VALLEY COMMUNITY RESIDENCES, INC.

STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS - MODIFIED CASH BASIS

June 30, 2017

ASSETS

Current Assets:	
Cash and Cash Equivalents	\$ <u>182,032</u>
Total Current Assets	\$ 182,032
Property and Equipment , net of accumulated depreciation of \$607,319	1,237,841
Other Assets:	
Time Share	\$ 7,500
Monies on Deposit	2,962
Investments	<u>525,103</u>
Total Other Assets	<u>535,565</u>
Total Assets	\$ <u><u>1,955,438</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities:	
Accrued Paid Time Off	\$ 41,312
Current Portion of Long-Term Debt	28,750
Current Portion of Lease Payable	1,800
Accrued Payroll Taxes and Related Liabilities	<u>9,752</u>
Total Current Liabilities	\$ 81,614
Long-Term Liabilities:	
Long-Term Debt	\$ 28,750
Lease Payable	<u>1,200</u>
Total Long-Term Liabilities	<u>29,950</u>
Total Liabilities	\$ 111,564
Net Assets:	
Unrestricted	<u>1,843,874</u>
Total Liabilities and Net Assets	\$ <u><u>1,955,438</u></u>

The accompanying notes are an integral part of these financial statements.

SHENANDOAH VALLEY COMMUNITY RESIDENCES, INC.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - MODIFIED CASH BASIS

For the year ended June 30, 2017

Revenue and Support:

Program Income:	
Government Funding	\$ 1,695,266
Organizational Funding	65,493
Client Fees	266,656
Contributions	8,224
Rental Income	23,559
In-Kind Contributions	8,100
Interest/Dividends	18,273
Unrealized Gains/(Losses) on Investments	42,143
	<hr/>
Total Revenue and Support	\$ 2,127,714

Expenses:

Activities	\$ 4,754
Depreciation	58,214
Dues and Subscriptions	2,730
Employee Benefits	321,037
Insurance	11,184
Interest	5,100
Lodging and Travel	3,326
Other	4,451
Paid Time Off Expense	41,312
Payroll Taxes	93,358
Postage and Shipping	833
Printing	576
Professional Fees	10,363
Rent	28,789
Repairs and Maintenance	38,461
Salaries and Wages	1,184,239
Staff Training and Conferences	7,338
Supplies	112,648
Telephone	5,830
Utilities	45,669
Vehicle Expenses	24,638
	<hr/>
Total Expenses	2,004,850

Other Income/(Expenses):

Gain/(Loss) on Disposal of Assets	<hr/> (513)
-----------------------------------	-------------

Change in Unrestricted Net Assets \$ 122,351

Net Assets - Unrestricted, beginning of year 1,721,523

Net Assets - Unrestricted, end of year \$ 1,843,874

The accompanying notes are an integral part of these financial statements.

SHENANDOAH VALLEY COMMUNITY RESIDENCES, INC.

STATEMENT OF CASH FLOWS

For the year ended June 30, 2017

Cash Flows from Operating Activities:	
Change in Net Assets	\$ 122,351
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:	
Depreciaton	58,214
Unrealized (Gains)/Losses	(42,143)
Loss on Disposal of Fixed Assets	888
(Increase)Decrease in Monies on Deposit	(1,300)
Increase(Decrease) in Accrued Paid Time Off	1,103
Increase(Decrease) in Accrued Payroll Taxes	<u>8,241</u>
Net Cash Provided by (Used in) Operating Activities	\$ 147,354
Cash Flows from Investing Activities:	
Purchase of Fixed Assets	\$ (21,958)
Purchase of Investments	<u>(18,257)</u>
Net Cash Provided by (Used in) Investing Activities	(40,215)
Cash Flows from Financing Activities:	
Repayment of Long-Term Debt	<u>(31,800)</u>
Net Increase (Decrease) in Cash	\$ 75,339
Cash and Cash Equivalent, beginning of year	<u>106,693</u>
Cash and Cash Equivalent, end of year	<u><u>\$ 182,032</u></u>

The accompanying notes are an integral part of these financial statements.

SHENANDOAH VALLEY COMMUNITY RESIDENCES, INC.**NOTES TO FINANCIAL STATEMENTS****June 30, 2017****ORGANIZATION AND NATURE OF ACTIVITIES:**

Shenandoah Valley Community Residences, Inc. (Organization) is a non-stock, not-for-profit organization that provides education, training, and services to intellectually disabled citizens of the Commonwealth. The Organization's mission is to promote the quality of life of people with intellectual disabilities and their families by establishing, operating and maintaining community-integrated residential settings and associated support services for persons with an intellectual disability who choose to live in the Northern Shenandoah Valley Planning District. The Organization's income is primarily through Medicaid waiver payments, client fees and other organizational funding for services provided.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**Basis of Accounting and Financial Statement Presentation:**

The Organization prepares its financial statements on the modified cash basis of accounting which includes depreciation on capitalized fixed assets, fair value of investments in debt and equity securities, liabilities associated with payroll and current and long-term debt. Under this basis, revenues are recognized when collected rather than when earned and expenses are recognized when paid rather than when incurred. Consequently, amounts of reimbursements receivable and amount due to vendors and suppliers at June 30, 2017 are not included in the financial statements.

Cash and Cash Equivalents:

For purposes of the statement of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. The Organization maintains its cash in bank deposit accounts and investment accounts. The amounts held in bank deposit accounts may, at times, exceed FDIC limits and amounts held in investment accounts are not covered by FDIC; however, the Organization has not experienced any losses in such accounts.

Property and Equipment:

Property and equipment are recorded at cost for items with a useful life of more than one year and that have an original cost of \$1,000 or more. Depreciation is provided on the straight-line method over the assets estimated useful lives, ranging from 5 – 40 years. Maintenance and repairs are charged to operations and major improvements are capitalized. When items of property or equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in operations.

Improvements or repairs to real estate owned or leased by the Organization are considered for capitalization based on whether the property's assessment has been increased or only maintained. Items are capitalized where the useful life of the fixed asset is extended or the general assessment of the real estate is determined to have increased. Any other improvements or repairs are charged to operations.

Investments in Securities:

The Organization records investments in marketable equity securities with readily determinable market values at their fair market value. Unrealized gains and losses are recorded in the change in net assets in the accompanying statement of revenues, expenses and changes in net assets – modified cash basis.

SHENANDOAH VALLEY COMMUNITY RESIDENCES, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued:

Accrued Paid Time Off:

The Organization offers paid time off to full time employees only. Full time employees are considered to be administrative employees based on a forty-hour work week and direct service employees based on a minimum of thirty-five hours a week or seventy hours within a two-week period of time. Paid time off is accrued weekly based on regular rates of pay per employee. The accrual is based on 120 hours for eligible employees with 0 – 3 years of service, 144 hours for eligible employees with 4 – 8 years of service, and 168 hours for eligible employees with 9 or more years of service. Paid time off can only be carried over from the immediate preceding year, all other paid time off is forfeited.

Classification of Net Assets:

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Net assets are reduced by liabilities and are reported in the financial statements in three classes: unrestricted net assets, temporarily restricted net assets, or permanently restricted net assets, based on the absence or existence of donor-imposed restrictions.

Permanently restricted net assets generally result from assets donated for a specific purpose with a donor stipulation that the assets be preserved and not be sold, or from assets donated with donor stipulations that they be invested to provide a permanent source of income, e.g., endowment funds.

Temporarily restricted net assets are those assets donated for (a) support of particular operating activities, (b) temporary investment for a specified term, (c) use in a specified future period, or (d) acquisition and use of long-lived assets.

Unrestricted net assets generally result from receipt of unrestricted contributions, grants, revenues from providing services, producing and delivering goods, raising contributions, and performing administrative functions. The only limitations on the use of unrestricted net assets are broad limits resulting from the nature of the entity, the environment in which it operates, the purposes specified in the articles of incorporation or bylaws, limits from contractual agreements with suppliers and creditors, and self-imposed limits such as voluntary resolutions by the Board to designate unrestricted net assets to function as an endowment.

Income Taxes:

The Organization is a not-for-profit entity that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and has been determined to be a charitable organization which qualifies contributions, bequests, and legacies as deductions by the donor for income, estate and gift tax purposes. Tax years ending on or after June 30, 2013 are still open for inspection by the Internal Revenue Service.

Use of Estimates:

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, net assets, and 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.

SHENANDOAH VALLEY COMMUNITY RESIDENCES, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

2. PROPERTY AND EQUIPMENT:

Property and equipment consisted of the following:

Land	\$	258,231
Buildings and Improvements		1,231,724
Automobiles		241,266
Furniture & Fixtures		59,888
Equipment		<u>54,051</u>
Total Cost	\$	1,845,160
Less: Accumulated Depreciation		<u>(607,319)</u>
Undepreciated Cost	\$	<u>1,237,841</u>

Depreciation expense for the year ended June 30, 2017 was \$58,214.

3. FAIR VALUE MEASUREMENT:

Guidance provided by the FASB defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When measuring a fair value, a fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy are described below:

Level 1: Unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access at the measurable date. The type of investments included in Level 1 includes listed equities and listed derivatives.

Level 2: Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Inputs that are unobservable for the asset or liability and includes situations where there is little, if any, market activity for the asset or liability.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The valuation methods used may produce a fair value calculation that may not be indicative of the net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no changes in the methodologies used at June 30, 2017 .

All securities are valued at the closing price reported on the active or observable market on which the individual securities are traded.

SHENANDOAH VALLEY COMMUNITY RESIDENCES, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

3. FAIR VALUE MEASUREMENT, Continued:

The following table sets forth by level, within the fair value hierarchy, the Organization's assets and liabilities at fair value as of June 30, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash Equivalents:				
Institutional Money Market Funds	\$ <u>44,187</u>	\$ _____ -	\$ _____ -	\$ <u>44,187</u>
Investments:				
Mutual Funds	<u>525,103</u>	_____ -	_____ -	<u>525,103</u>
Total	<u>\$ 569,290</u>	<u>\$ _____ -</u>	<u>\$ _____ -</u>	<u>\$ 569,290</u>

The institutional money market fund amount in the previous table is included in cash and cash equivalents on the statement of assets, liabilities and net assets – modified cash basis. The investment amounts in the previous table are reported as investments under the other assets section of the statement of assets, liabilities and net assets – modified cash basis.

4. INVESTMENTS IN MARKETABLE DEBT AND EQUITY SECURITIES:

Investments in marketable securities at their fair market values at June 30, 2017 are summarized as follows:

	<u>Market Value</u>	<u>Cumulative Unrealized Gain/(Loss)</u>
Mutual Funds	\$ 525,103	\$ 43,275
Money Market Funds	<u>44,187</u>	_____ -
Total Investments	<u>\$ 569,290</u>	<u>\$ 43,275</u>

Interest and dividends earned during fiscal year June 30, 2017 from the investment account amounted to \$18,273.

Realized gains/losses on investments are recognized based on the historical cost basis and sales price, when securities are sold. The current year unrealized gains/losses are adjusted for prior recognition of unrealized gains/losses.

5. REVOLVING LINE-OF-CREDIT:

The Organization has an open-ended line-of-credit with Bank of Clarke County. It is secured by the first credit line deed of trust on the property located at 100 Fortress Drive, Winchester, Virginia and 210 Beechcroft Road, Winchester, Virginia, which have current carrying values of \$224,917 and \$146,734 respectively. The interest rate is based on the Wall Street Journal prime rate. The line-of-credit matures on March 9, 2018. At June 30, 2017 the revolving line-of-credit had a zero balance.

SHENANDOAH VALLEY COMMUNITY RESIDENCES, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

6. LONG-TERM DEBT:

The Organization's long-term debt consisted of the following at June 30, 2017:

KOVAR Corporation secured mortgage, free of interest but imputed at 6.00%, due monthly, principal due in full in May 2020, secured by property located at Wickham Terrace.	\$	43,750
KOVAR Corporation secured mortgage, free of interest but imputed at 6.00%, due monthly, principal due in full in May 2018, secured by property located at Chelsea Drive.	\$	13,750

The carrying amount of the buildings which serve as collateral for the mortgages are \$317,454 for the Wickham Terrace property and \$394,743 for the Chelsea Drive property at June 30, 2017.

For periods ending after June 30, 2017, the long-term debt maturities under present arrangements are as follows:

June 30, 2018	\$	28,750
June 30, 2019		15,000
June 30, 2020		13,750

7. CAPITAL LEASE OBLIGATION:

In December 2013, the Organization purchased a new copier under a capital lease agreement expiring in February 2019. The following is a summary of the equipment held under capital lease at June 30, 2017.

Toshiba e-Studio 2550c	\$	9,450
Less Accumulated Depreciation		<u>6,615</u>
	\$	<u>2,835</u>

Future minimum lease payments under the capital lease obligation as of June 30, 2017 were as follows:

June 30, 2018	\$	1,800
June 30, 2019		1,200

8. CONCENTRATIONS:

The Organization receives a large amount of reimbursements through the Medicaid waiver program. Changes in the calculation of the reimbursement rates or other changes to the program could lead to a decrease in program income for the Organization.

9. RETIREMENT PLAN:

The Organization has a SIMPLE IRA retirement plan. The Organization contributed \$15,767 to the plan for the year ended June 30, 2017.

10. INTEREST:

The Organization expenses all interest as incurred.

SHENANDOAH VALLEY COMMUNITY RESIDENCES, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

11. RENTAL LEASE AGREEMENT:

The Organization is currently leasing three apartments for clients from The Arc of the Northern Shenandoah Valley, Inc. The terms of the agreement call for rents to be paid monthly in the amount of \$1,800 (\$600 per apartment). Subsequent to year-end, the Organization purchased one of the apartments and extended the existing lease terms for the other two apartments for one additional year, which runs through May 31, 2018. The lease can be terminated by the lessee with ninety (90) days written notice at any time if funds for the continued use of the facility are no longer available or if the programs housed therein are substantially eliminated. Future minimum lease payments under the agreement are as follows:

June 30, 2018	\$ 13,200
---------------	-----------

The Organization is also currently leasing office space from Our Health, Inc. The Organization pays its pro rata share of the operating costs of the facility based on square footage occupied. The amount charged to rent for this lease for the year ended June 30, 2017 is \$5,514. The lease runs through December 31, 2017. The lease can be terminated by the lessee at the end of its term by giving ninety (90) day advance written notice. Future minimum lease payments under the agreement are as follows:

June 30, 2018	\$ 2,729
---------------	----------

12. PROGRAM EXPENSES:

Total program costs are as follows:

Activities	\$ 4,010
Depreciation	56,324
Dues and Subscriptions	1,081
Employee Benefits	276,554
Insurance	2,412
Interest	5,100
Lodging and Travel	2,970
Other	922
Paid Time Off Expense	29,498
Payroll Taxes	75,360
Postage and Shipping	10
Printing	46
Professional Fees	-
Rent	21,600
Repairs and Maintenance	37,763
Salaries and Wages	956,385
Staff Training and Conferences	6,682
Supplies	96,851
Telephone	3,946
Utilities	45,669
Vehicle Expense	<u>24,623</u>
Total Program Costs	<u>\$ 1,647,806</u>

Differences between amounts reported on the statement of revenues, expenses and changes in net assets – modified cash basis and those presented in the table above represent the management and general expenses of the Organization for the year ended June 30, 2017.

SHENANDOAH VALLEY COMMUNITY RESIDENCES, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

13. RELATED PARTY TRANSACTIONS:

The executive director is a board members of The Arc of Northern Shenandoah Valley. The Organization pays rents to the Arc. See Note 11 above for more details.

14. CASH FLOW SUPPLEMNTAL:

Cash payments for interest and income taxes for the year ended June 30, 2017 were zero. Interest is imputed on the KOVAR loans at six percent (see note 6 relating to these loans), but an offsetting noncash contribution is recorded for the interest imputed.

15. CONTRIBUTED SERVICES:

The Organization receives contributed services from its Board of Directors for the management, control, maintenance, and operation of the Organization. No amounts have been recognized as income related to contributed services.

16. SUBSEQUENT EVENTS:

The Organization has evaluated all subsequent events through November 14, 2017, the date the financial statements were available to be issued. The Organization has determined there are no subsequent events that require recognition or disclosure.