

**SHENANDOAH VALLEY COMMUNITY RESIDENCES, INC.**

**AUDITED FINANCIAL STATEMENTS**

**June 30, 2018**

**Officers**

Matthew Bradley, President  
Mary Hall, 1<sup>st</sup> Vice President  
Melody Schwartzman, 2<sup>nd</sup> Vice President/Acting Secretary  
A. Katherine Gregg, Treasurer  
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**Directors**

Ann Lamanna  
Patricia Taylor

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Joel Friedman  
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## INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
Shenandoah Valley Community Residences, Inc.

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, 2018, 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, 2018, 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 this matter.

*Cundiff & Associates, CPA P.C*

Cundiff & Associates, CPA, P.C.  
Certified Public Accountants  
Winchester, Virginia  
November 13, 2018

## SHENANDOAH VALLEY COMMUNITY RESIDENCES, INC.

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

June 30, 2018

## ASSETS

<b>Current Assets:</b>	
Cash and Cash Equivalents	\$ <u>328,651</u>
<b>Total Current Assets</b>	<b>\$ 328,651</b>
<b>Property and Equipment, net of</b> accumulated depreciation of \$603,545	1,338,370
<b>Other Assets:</b>	
Time Share	\$ 7,500
Monies on Deposit	994
Investments	<u>581,046</u>
<b>Total Other Assets</b>	<u>589,540</u>
<b>Total Assets</b>	<b>\$ <u>2,256,561</u></b>

## LIABILITIES AND NET ASSETS

<b>Current Liabilities:</b>	
Accrued Paid Time Off	\$ 53,392
Current Portion of Long-Term Debt	<u>23,250</u>
<b>Total Current Liabilities</b>	<b>\$ 76,642</b>
<b>Long-Term Liabilities:</b>	
Long-Term Debt	<u>\$ 81,125</u>
<b>Total Long-Term Liabilities</b>	<u>81,125</u>
<b>Total Liabilities</b>	<b>\$ 157,767</b>
<b>Net Assets:</b>	
Unrestricted	<u>2,098,794</u>
<b>Total Liabilities and Net Assets</b>	<b>\$ <u>2,256,561</u></b>

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, 2018

**Revenue and Support:**

## Program Income:

Government Funding	\$ 1,854,103
Organizational Funding	61,611
Client Fees	282,525
Contributions	21,462
Rental Income	23,573
In-Kind Contributions	22,230
Interest/Dividends	31,820
Unrealized Gains/(Losses) on Investments	<u>24,574</u>

**Total Revenue and Support** \$ 2,321,898

**Expenses:**

Activities	\$ 4,328
Depreciation	59,589
Dues and Subscriptions	1,225
Employee Benefits	328,042
Insurance	12,640
Interest	6,000
Lodging and Travel	2,632
Other	8,006
Paid Time Off Expense	53,392
Payroll Taxes	95,832
Postage and Shipping	798
Professional Fees	9,543
Rent	22,171
Repairs and Maintenance	50,181
Salaries and Wages	1,214,702
Staff Training and Conferences	4,433
Supplies	121,811
Telephone	6,160
Utilities	40,917
Vehicle Expenses	<u>23,318</u>

**Total Expenses** 2,065,720

**Other Income/(Expenses):**

Gain/(Loss) on Disposal of Assets	<u>(1,258)</u>
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**Change in Unrestricted Net Assets** \$ 254,920

**Net Assets - Unrestricted, beginning of year** 1,843,874

**Net Assets - Unrestricted, end of year** \$ 2,098,794

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, 2018

<b>Cash Flows from Operating Activities:</b>	
Change in Net Assets	\$ 254,920
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation	59,589
Unrealized (Gains)/Losses	(24,574)
In-Kind Contributions	(12,200)
Loss on Disposal of Fixed Assets	1,258
(Increase)/Decrease in Monies on Deposit	1,968
Increase/(Decrease) in Accrued Paid Time Off	(9,752)
Increase/(Decrease) in Accrued Payroll Taxes	<u>12,080</u>
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>\$ 283,289</b>
<b>Cash Flows from Investing Activities:</b>	
Purchase of Fixed Assets	\$ (69,676)
Purchase of Investments	<u>(31,369)</u>
<b>Net Cash Provided by (Used in) Investing Activities</b>	<b>(101,045)</b>
<b>Cash Flows from Financing Activities:</b>	
Repayment of Long-Term Debt	<u>(35,625)</u>
<b>Net Increase (Decrease) in Cash</b>	<b>\$ 146,619</b>
<b>Cash and Cash Equivalents, beginning of year</b>	<u>182,032</u>
<b>Cash and Cash Equivalents, end of year</b>	<b><u>\$ 328,651</u></b>
<b>Supplemental Cash Flow Information:</b>	
Noncash Investing and Financing Transactions:	
Cost of Fixed Assets	\$ 82,500
Long-Term Debt Obligation Assumed	(82,500)
Capital Lease Obligation Relinquished	3,000
Cash Paid for Interest	-
Cash Paid for Income Taxes	-

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



**SHENANDOAH VALLEY COMMUNITY RESIDENCES, INC.****NOTES TO FINANCIAL STATEMENTS****June 30, 2018****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, 2018 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. Amounts held in cash and cash equivalent investment accounts may, at times, exceed SIPC limits. 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, 2018

## I. 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. The Organization has elected to reflect donor-restricted contributions and grants whose restrictions are met in the same reporting period as unrestricted support.

*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, 2015 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, 2018

**2. PROPERTY AND EQUIPMENT:**

Property and equipment consisted of the following:

Land	\$	310,231
Buildings and Improvements		1,303,566
Automobiles		234,272
Furniture & Fixtures		55,184
Equipment		<u>38,662</u>
Total Cost	\$	1,941,915
Less: Accumulated Depreciation		<u>(603,545)</u>
Undepreciated Cost	\$	<u>1,338,370</u>

Depreciation expense for the year ended June 30, 2018 was \$59,589.

**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, 2018.

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, 2018

## 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, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash Equivalents:				
Institutional Money Market Funds	\$ 96,637	\$ -	\$ -	\$ 96,637
Investments:				
Mutual Funds	581,046	-	-	581,046
Total	\$ 677,683	\$ -	\$ -	\$ 677,683

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, 2018 are summarized as follows:

	<u>Market Value</u>	<u>Cumulative Unrealized Gain/(Loss)</u>
Mutual Funds	\$ 581,046	\$ 67,953
Money Market Funds	96,637	-
Total Investments	\$ 677,683	\$ 67,953

Interest and dividends earned during fiscal year June 30, 2018 from the investment account amounted to \$31,820.

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 \$217,654 and \$140,694 respectively. The interest rate is based on the Wall Street Journal prime rate. The line-of-credit matures on March 28, 2019. At June 30, 2018 the revolving line-of-credit had a zero balance.

## SHENANDOAH VALLEY COMMUNITY RESIDENCES, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

**6. LONG-TERM DEBT:**

The Organization's long-term debt consisted of the following at June 30, 2018:

KOVAR Corporation secured mortgage, free of interest but imputed at 5.25%, due monthly, principal due in full in May 2020, secured by property located at Wickham Terrace.	\$	28,750
KOVAR Corporation secured mortgage, free of interest but imputed at 5.25%, due monthly, principal due in full in August 2028, secured by property located at Forrest Drive.	\$	75,625

The carrying amount of the buildings which serve as collateral for the mortgages are \$309,910 for the Wickham Terrace property and \$122,195 for the Forrest Drive property at June 30, 2018.

For periods ending after June 30, 2018, the long-term debt maturities under present arrangements are as follows:

June 30, 2019	\$	23,250
June 30, 2020		22,000
June 30, 2021		8,250
June 30, 2022		8,250
June 30, 2023		8,250
Thereafter		34,375

**7. 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.

**8. RETIREMENT PLAN:**

The Organization has a SIMPLE IRA retirement plan. The Organization contributed \$19,027 to the plan for the year ended June 30, 2018.

**9. INTEREST:**

The Organization expenses all interest as incurred.

**10. RENTAL LEASE AGREEMENT:**

The Organization is currently leasing two apartments for clients from The Arc of the Northern Shenandoah Valley, Inc. The terms of the agreement are month-to-month and call for rents to be paid monthly in the amount of \$1,200 (\$600 per apartment). Subsequent to year-end, the Organization purchased these two apartments.

## SHENANDOAH VALLEY COMMUNITY RESIDENCES, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

**10. RENTAL LEASE AGREEMENT, Continued:**

The Organization is 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, 2018 is \$5,676. The lease runs through December 31, 2020. 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, 2019	\$	5,854
June 30, 2020		6,044
June 30, 2021		3,070

The Organization is leasing copiers under an operating lease agreement. The amount charged to rent for these leases for the year ended June 30, 2018 is \$2,295. The leases expire between September 2022 and March 2023. Future minimum lease payments under the operating leases are as follows:

June 30, 2019	\$	3,780
June 30, 2020		3,780
June 30, 2021		3,780
June 30, 2022		3,780
June 30, 2023		1,935

**11. PROGRAM EXPENSES:**

Total program costs are as follows:

Activities	\$	3,462
Depreciation		59,589
Dues and Subscriptions		1,200
Employee Benefits		278,115
Insurance		2,552
Interest		6,000
Lodging and Travel		2,215
Other		2,012
Paid Time Off Expense		40,274
Payroll Taxes		76,967
Postage and Shipping		11
Professional Fees		-
Rent		15,135
Repairs and Maintenance		49,460
Salaries and Wages		979,348
Staff Training and Conferences		2,965
Supplies		105,289
Telephone		4,393
Utilities		40,917
Vehicle Expense		<u>23,151</u>
Total Program Costs	\$	<u>1,693,055</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, 2018.

**SHENANDOAH VALLEY COMMUNITY RESIDENCES, INC.****NOTES TO FINANCIAL STATEMENTS****June 30, 2018****12. RELATED PARTY TRANSACTIONS:**

The executive director is a board member of The Arc of Northern Shenandoah Valley (Arc). The Organization pays rents to the Arc (see Note 10). Also, during the year ended June 30, 2018, the Organization purchased real estate from the Arc which it was previously renting. The sale price was \$110,000 and an in-kind contribution was recognized for \$12,200 in relation to the purchase of the real estate.

**13. CASH FLOW SUPPLEMENTAL:**

Cash payments for interest and income taxes for the year ended June 30, 2018 were zero. Interest is imputed on the KOVAR loans at five and one quarter percent (see Note 6), 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 13, 2018 the date the financial statements were available to be issued.

In July 2018, the Organization purchased two pieces of real estate which it was previously renting (see Note 10) and assumed two new loans from KOVAR Corporation related to the purchases. The statement of assets, liabilities and net assets – modified cash basis does not reflect these capitalized assets, nor does it reflect the assumption of the long-term debt due to the fact that these transaction occurred in the subsequent fiscal year.