

A Grace Place Adult Care Center

Financial Statements

June 30, 2010



Meadows Urquhart Acree & Cook, LLP
Certified Public Accountants



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Independent Auditor's Report

To the Board of Directors
A Grace Place Adult Care Center

We have audited the accompanying statements of financial position of A Grace Place Adult Care Center (hereafter the "Organization") as of June 30, 2010 and 2009, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 A Grace Place Adult Care Center as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Meadows Urquhart Acree + Cook, LLP

September 23, 2010

A Grace Place Adult Care Center

Statements of Financial Position
June 30, 2010 and 2009

	2010	2009
Assets		
Current Assets		
Cash and cash equivalents	\$ 306,158	\$ 307,409
Accounts receivable, less allowance for doubtful accounts of \$22,000 for 2010 and \$12,000 for 2009	288,907	297,704
Unconditional promises to give	59,426	58,825
Investments	7,242	6,465
Prepaid rent	19,096	18,339
Prepaid expenses	41,855	28,129
Total current assets	<u>722,684</u>	<u>716,871</u>
Property and Equipment		
Furniture and office equipment	289,791	298,714
Leasehold improvements	852,614	851,708
Vehicles	266,078	266,078
	<u>1,408,483</u>	<u>1,416,500</u>
Less accumulated depreciation and amortization	<u>(1,110,882)</u>	<u>(1,020,484)</u>
	<u>297,601</u>	<u>396,016</u>
Total assets	<u><u>\$ 1,020,285</u></u>	<u><u>\$ 1,112,887</u></u>

See Notes to Financial Statements.

	2010	2009
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 27,160	\$ 32,018
Accrued payroll, payroll taxes, withholdings and benefits	109,730	88,345
Accrued vacation	111,707	108,543
Deferred rent	11,925	12,341
Total current liabilities	<u>260,522</u>	<u>241,247</u>
Deferred Rent	13,710	25,635
Total liabilities	<u>274,232</u>	<u>266,882</u>
Net Assets		
Unrestricted		
Board designated	47,295	46,304
Undesignated	634,332	733,750
Total unrestricted net assets	<u>681,627</u>	<u>780,054</u>
Temporarily restricted	64,426	65,951
Total net assets	<u>746,053</u>	<u>846,005</u>
Total liabilities and net assets	<u><u>\$ 1,020,285</u></u>	<u><u>\$ 1,112,887</u></u>

A Grace Place Adult Care Center

Statements of Activities

Years ended June 30, 2010 and 2009

	2010		
	Unrestricted	Temporarily Restricted	Total
Program Service Revenue:			
Medicaid reimbursements	\$ 2,065,002	\$ -	\$ 2,065,002
Other state and local government reimbursements	616,268	-	616,268
	2,681,270	-	2,681,270
Other Revenue and Support:			
United Way	46,183	59,426	105,609
Program service fees	121,864	-	121,864
Other contributions	208,323	-	208,323
Donated services and goods	61,525	-	61,525
Interest and other income	13,362	-	13,362
	451,257	59,426	510,683
Total program service revenue and other revenue and support	3,132,527	59,426	3,191,953
Net assets released from restrictions	60,951	(60,951)	-
Net program service revenue and other revenue and support	3,193,478	(1,525)	3,191,953
Expenses:			
Program services:			
Adult Day Care	873,707	-	873,707
Day Support	1,875,195	-	1,875,195
Transportation	88,197	-	88,197
Supporting services:			
Fundraising	106,620	-	106,620
Administrative	348,186	-	348,186
Total expenses	3,291,905	-	3,291,905
Change in net assets	(98,427)	(1,525)	(99,952)
Net assets, beginning of year	780,054	65,951	846,005
Net assets, end of year	\$ 681,627	\$ 64,426	\$ 746,053

See Notes to Financial Statements.

2009		
Unrestricted	Temporarily Restricted	Total
\$ 2,140,704	\$ -	\$ 2,140,704
568,030	-	568,030
2,708,734	-	2,708,734
63,756	58,825	122,581
173,045	-	173,045
168,965	2,126	171,091
45,084	-	45,084
9,645	-	9,645
460,495	60,951	521,446
3,169,229	60,951	3,230,180
82,785	(82,785)	-
3,252,014	(21,834)	3,230,180
860,692	-	860,692
1,956,438	-	1,956,438
82,007	-	82,007
99,539	-	99,539
368,155	-	368,155
3,366,831	-	3,366,831
(114,817)	(21,834)	(136,651)
894,871	87,785	982,656
\$ 780,054	\$ 65,951	\$ 846,005

A Grace Place Adult Care Center

Statement of Functional Expenses

Year ended June 30, 2010

	Program Services			Supporting Services		Total
	Adult Day Care	Day Support	Transportation	Fundraising	Administrative	
Salaries	\$ 454,707	\$ 1,138,511	\$ 29,416	\$ 59,907	\$ 132,568	\$ 1,815,109
Occupancy	126,567	98,997	-	11,000	47,811	284,375
Employee health and retirement benefits	56,045	158,132	6,242	5,459	35,053	260,931
Travel	9,529	116,012	24,392	59	687	150,679
Supplies	67,821	60,807	232	1,781	8,475	139,116
Payroll taxes	33,825	84,848	2,129	4,439	9,608	134,849
Insurance	38,883	67,235	5,352	3,696	9,991	125,157
Depreciation and amortization	5,731	73,824	18,433	305	6,853	105,146
Professional fees	27,240	31,462	1,387	3,430	40,840	104,359
Donated services	30,815	18,470	-	1,740	10,500	61,525
Conferences, conventions, and meetings	4,182	5,725	43	10,664	6,046	26,660
Equipment maintenance	5,903	7,587	467	1,397	9,545	24,899
Telephone	604	7,590	104	-	15,020	23,318
Other	2,463	2,525	-	874	9,814	15,676
Bad debts	9,104	3,035	-	-	-	12,139
Printing	278	435	-	1,605	2,206	4,524
Postage and shipping	10	-	-	264	3,079	3,353
Interest	-	-	-	-	90	90
	<u>\$ 873,707</u>	<u>\$ 1,875,195</u>	<u>\$ 88,197</u>	<u>\$ 106,620</u>	<u>\$ 348,186</u>	<u>\$ 3,291,905</u>

See Notes to Financial Statements.

A Grace Place Adult Care Center

Statement of Functional Expenses

Year ended June 30, 2009

	Program Services			Supporting Services		Total
	Adult Day Care	Day Support	Transportation	Fundraising	Administrative	
Salaries	\$ 442,075	\$ 1,161,704	\$ 27,912	\$ 61,151	\$ 135,321	\$ 1,828,163
Occupancy	124,260	99,834	-	11,093	47,167	282,354
Employee health and retirement benefits	47,927	151,515	6,726	7,962	36,731	250,861
Travel	10,817	152,991	20,748	-	253	184,809
Supplies	80,661	96,812	231	4,107	4,918	186,729
Payroll taxes	32,389	85,652	2,130	4,656	9,091	133,918
Insurance	39,318	62,582	5,959	3,152	9,864	120,875
Depreciation and amortization	2,721	66,230	16,075	(4,370)	31,160	111,816
Professional fees	37,357	42,353	1,610	3,888	41,924	127,132
Donated services	19,429	12,764	-	-	10,450	42,643
Conferences, conventions, and meetings	3,750	4,451	51	1,475	6,320	16,047
Equipment maintenance	5,454	6,544	436	1,761	8,668	22,863
Telephone	653	6,286	129	-	15,151	22,219
Other	2,662	2,580	-	986	7,303	13,531
Bad debts	9,443	3,148	-	-	-	12,591
Printing	274	42	-	2,514	300	3,130
Postage and shipping	10	-	-	1,164	3,496	4,670
Interest	-	-	-	-	38	38
Contributed goods	1,492	950	-	-	-	2,442
	<u>\$ 860,692</u>	<u>\$ 1,956,438</u>	<u>\$ 82,007</u>	<u>\$ 99,539</u>	<u>\$ 368,155</u>	<u>\$ 3,366,831</u>

See Notes to Financial Statements.

A Grace Place Adult Care Center

Statements of Cash Flows

Years ended June 30, 2010 and 2009

	2010	2009
Cash Flows From Operating Activities		
Change in net assets	\$ (99,952)	\$ (136,651)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	105,146	111,816
Deferred rent	(12,341)	(16,426)
Unrealized loss (gain) on investments	(777)	2,495
Loss on sale of property and equipment	144	1,811
Bad debts, net	10,000	(8,693)
Decrease (increase) in assets:		
Accounts receivable	(1,203)	(78,867)
Unconditional promises to give	(601)	18,017
Prepaid rent	(757)	122
Prepaid expenses	(13,726)	4,686
Increase (decrease) in liabilities:		
Accounts payable	(4,858)	(16,036)
Accrued payroll, payroll taxes, withholdings and benefits	21,385	42,348
Accrued vacation	3,164	11,948
Net cash provided by (used in) operating activities	<u>5,624</u>	<u>(63,430)</u>
Cash Flows From Investing Activities		
Purchases of property and equipment	(6,875)	(4,315)
Proceeds from sale of property and equipment	-	75
Net cash used in investing activities	<u>(6,875)</u>	<u>(4,240)</u>
Net decrease in cash and cash equivalents	(1,251)	(67,670)
Cash and cash equivalents, beginning of year	<u>307,409</u>	<u>375,079</u>
Cash and cash equivalents, end of year	<u>\$ 306,158</u>	<u>\$ 307,409</u>
Supplemental Disclosures of Cash Flow Information:		
Interest paid	<u>\$ 90</u>	<u>\$ 38</u>

See Notes to Financial Statements.

A Grace Place Adult Care Center

Notes to Financial Statements

Note 1—Nature of Activities and Significant Accounting Policies

Nature of activities: A Grace Place Adult Care Center (the Organization) is a non-stock, non-profit corporation, formed in Virginia on October 9, 1969, to provide various programs of support, education, training, rehabilitation and recreation for adults with disabilities and age-related conditions. The Organization has two divisions, Adult Day Care and Day Support (referred to as "Connections").

A summary of the Organization's significant accounting policies follows:

Basis of accounting: The financial statements of the Organization are prepared under the accrual method of accounting. Under this accounting method, income is recorded as earned and expenses are recorded as incurred.

Basis of presentation: The Organization's financial statement presentation follows the provisions of Financial Accounting Standards Board Codification 958, *Not-for-Profit Entities* (ASC 958). Under ASC 958, 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.

Unrestricted net assets are net assets that are neither permanently restricted nor temporarily restricted by donor-imposed restrictions.

Temporarily restricted net assets result from contributions whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to these stipulations. Net assets may be restricted for various purposes, such as use in future periods or for specified purposes.

Permanently restricted net assets result from contributions that must be maintained by the Organization in perpetuity. The Organization has no permanently restricted net assets.

Functional allocation of expenses: The costs of providing various programs and activities have been summarized on a functional basis in the accompanying statements of activities. Accordingly, certain costs have been allocated among the applicable programs.

Cash equivalents: The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Accounts receivable: Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts, and receivables are written-off when deemed uncollectible. Recoveries of receivables previously written-off are recorded when collected. Substantially all of the Organization's accounts receivable are due from Medicaid.

A Grace Place Adult Care Center

Notes to Financial Statements

Note 1—Nature of Activities and Significant Accounting Policies (Continued)

Financial credit risk: The Organization maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts, and the Organization believes it is not exposed to any significant financial risk on cash.

Unconditional promises to give: Promises to give are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. At June 30, 2010 and 2009, all promises to give are considered collectible within one year.

Valuation of investments, at fair value: In accordance with GAAP, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date.

In determining fair value, the Organization uses various valuation approaches. In accordance with GAAP, a fair value hierarchy for inputs is used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Organization. Unobservable inputs reflect the Organization’s assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors including, the type of security, whether the security is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the securities existed. Accordingly, the degree of judgment exercised in determining fair value is greatest for securities categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement in its entirety falls, is determined based on the lowest level input that is significant to the fair value measurement.

A Grace Place Adult Care Center

Notes to Financial Statements

Note 1—Nature of Activities and Significant Accounting Policies (Continued)

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Organization's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. The Organization uses prices and inputs that are current as of the measurement date, including periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many securities. This condition could cause a security to be reclassified to a lower level within the fair value hierarchy. All Organization investment assets have been categorized as Level 1 at June 30, 2010 based on the criteria in GAAP.

The investments held at June 30, 2010 and 2009 were as follows:

	<u>2010</u>	<u>2009</u>
I-Shares TR S&P 500 Index Fund (70 shares)		
Cost	\$ 10,027	\$ 10,027
Fair value	<u>7,242</u>	<u>6,465</u>
Unrealized loss	<u>\$ (2,785)</u>	<u>\$ (3,562)</u>

The change in unrealized gain (loss) on the aforementioned investments of \$777 and \$(2,495) for the years ended June 30, 2010 and 2009, respectively, is reflected in the accompanying statements of activities in "interest and other income".

Property and equipment: Property and equipment are capitalized according to original cost or, if donated, at fair value. Depreciation is computed using the straight-line method over estimated useful lives of the depreciable assets, as follows:

	<u>Years</u>
Furniture and office equipment	3 - 8
Leasehold improvements	10 - 15
Vehicles	7

Capitalized leased equipment and leasehold improvements are amortized over the shorter of their estimated useful lives or the term of the lease. Amortization of leased property and equipment is included in depreciation and amortization. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in the statement of activities for the period. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized.

A Grace Place Adult Care Center

Notes to Financial Statements

Note 1—Nature of Activities and Significant Accounting Policies (Continued)

Valuation of long-lived assets: The Organization accounts for the valuation of long-lived assets under Financial Accounting Standards Board Codification 360, *Accounting for the Impairment or Disposal of Long-Lived Assets* (ASC 360). ASC 360 requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of carrying amount or fair value, less cost to sell.

Deferred rent: The Organization records rent related to its operating leases in accordance with Financial Accounting Standards Board Codification 840, *Accounting for Leases* (ASC 840), that requires rent expense to be recorded on a straight-line basis over the life of the lease. Rent expense in excess of rental payments is recognized as deferred rent.

Donated labor and materials: The Organization received \$61,525 and \$42,643 in donated labor from volunteers for the years ended June 30, 2010 and 2009, respectively. The Organization received \$2,442 in donated supplies for the year ended June 30, 2009. The Organization did not receive donated supplies for the year ended June 30, 2010. The Organization uses market hourly rates to determine the value of donated labor and values donated supplies at fair market value. During 2010 and 2009, respectively, the Organization also received approximately 370 and 756 hours of service from volunteers, which do not meet the requirements for recognition in the accompanying financial statements.

Revenue and support: The Organization received substantially all of its public support from the Richmond metropolitan community and is substantially dependent on continued government reimbursement programs. All revenue is recognized when earned.

Program service revenue is recorded at the Organization's established rates with contractual adjustments deducted, if any, to arrive at program service revenue. The Organization has agreements with third-party payers which provide for reimbursement to the Organization at amounts different from its established rates. The primary program is Medicaid, which accounted for approximately 65% and 66% of total program service revenue and other revenue and support for the years ended June 30, 2010 and 2009, respectively.

Contributions received with donor-imposed restrictions that are met in the same year in which the contributions are received are classified as unrestricted contributions.

Income taxes: The Organization is generally exempt from federal and state income taxes under Section 501 (c)(3) of the Internal Revenue Code as evidenced in its IRS determination letter dated January 18, 2001.

The Organization adopted the provisions of Financial Accounting Standards Board Codification 740, *Accounting for Uncertainty in Income Taxes* (ASC 740 - formerly FIN 48), on July 1, 2009. As a result of implementation of ASC 740, the Organization has concluded that they do not have any unrecognized tax benefits for the year ended June 30, 2010.

The Organization is subject to examination by federal and state tax authorities for the fiscal years ended June 30, 2007 through June 30, 2009. The Association is not currently under tax examination for any of these periods.

A Grace Place Adult Care Center

Notes to Financial Statements

Note 1—Nature of Activities and Significant Accounting Policies (Continued)

Use of estimates: The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and reported amount of revenues and expenses during the reported period. Actual results could differ from those estimates and assumptions.

Note 2— Lines of Credit

The Organization has a \$100,000 line of credit with a commercial bank at an interest rate of Prime (3.25% at June 30, 2010). There was no outstanding balance on this line of credit as of June 30, 2010 and 2009.

Note 3—Temporarily Restricted Net Assets

As of June 30, 2010 and 2009, net assets were temporarily restricted for the following purposes:

	2010	2009
Time restriction to be used for operations during the years ending June 30, 2010 and 2009, respectively	\$ 59,426	\$ 58,825
Restricted for capital expansion	5,000	5,000
Other temporarily restricted net assets	-	2,126
	<u>\$ 64,426</u>	<u>\$ 65,951</u>

Note 4—Net Assets Released From Restrictions

During the years ended June 30, 2010 and 2009, net assets released from restrictions were as follows:

	2010	2009
Expiration of time restrictions	\$ 58,825	\$ 76,843
Satisfaction of art program restrictions	-	4,808
Satisfaction of other restrictions	2,126	1,134
	<u>\$ 60,951</u>	<u>\$ 82,785</u>

A Grace Place Adult Care Center

Notes to Financial Statements

Note 5—Retirement Plans

The Organization provides a tax deferred annuity arrangement (the 403(b) Plan) qualified under Internal Revenue Code Section 403(b), which covers all eligible, regular full-time, and eligible part-time employees. Participants may elect to defer a portion of their salary to the 403(b) Plan in accordance with annual limitations. Additionally, after the first year of employment, the Organization may elect to match the employees' contribution based upon the lesser of 2% of each participant's base wages or 50% of the employee's voluntary contributions to the Plan. During fiscal year 2009-2010, the Plan was amended to include eligible participants who were both age 50 or older and had been participating in the Pension Plan and some key managers of the Organization. During the year ended June 30, 2010 and 2009, the Organization contributed \$16,871 and \$29,315, respectively, to the 403(b) Plan in matching contributions.

The Organization also participates in an affiliated agency noncontributory multi-employer pension plan, sponsored and administered by the United Way of Greater Richmond (the Pension Plan). Effective July 1, 2008, participants in the Pension Plan were limited to those employees over 50 years of age. The actuarial present value of vested and non-vested accumulated plan benefits and net assets available for benefits are not determined for the affiliated participating agencies.

Effective December 31, 2008, the Organization received notification that the Administrator of the Pension Plan will freeze all future benefit accruals for those who are current active plan participants. In addition, the Administrator is developing a strategy to terminate the plan as soon as possible. For the years ended June 30, 2010 and 2009, the Organization accrued contributions of \$54,467 and \$34,237, respectively, to the Pension Plan.

Note 6—Operating Leases

The Organization leases space under operating lease agreements that expire in July 2012. The leases are subject to rent increases annually. The Organization also leases two copiers under operating lease agreements that expire in July 2011 and November 2013.

Future minimum annual rent payments for all operating leases are as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2011	\$ 237,450
2012	\$ 240,216
2013	\$ 63,779
2014	\$ 4,632

Total rent expense for 2010 and 2009 was \$212,379 and \$203,385, respectively, and is included in the accompanying statements of functional expenses in "Occupancy". Total equipment rent expense was \$10,617 and \$10,108 for each of the years ended June 30, 2010 and 2009, respectively, and is included in the accompanying statements of functional expenses in "Equipment maintenance".

A Grace Place Adult Care Center

Notes to Financial Statements

Note 7—Subsequent Events

Subsequent events were evaluated through the date the financial statements were available to be issued which was September 23, 2010.