

**CIRCLE CENTER ADULT DAY SERVICES
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011**

CIRCLE CENTER ADULT DAY SERVICES

JUNE 30, 2012

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Board of Directors
Circle Center Adult Day Services
Richmond, Virginia

We have audited the accompanying consolidated statements of financial position of Circle Center Adult Day Services as of June 30, 2012 and 2011 and the related consolidated statements of activities, cash flows and functional expenses for the years then ended. These consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Circle Center Adult Day Services as of June 30, 2012 and 2011 and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Smith & Eggleston, P.C.

November 12, 2012

CIRCLE CENTER ADULT DAY SERVICES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2012 AND 2011

| | <u>2012</u> | <u>2011</u> |
|--|---------------------|---------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash | \$ 611,855 | \$ 518,256 |
| Accounts receivable | 30,441 | 35,974 |
| Prepaid expenses | 3,726 | 1,031 |
| Note receivable | 2,839 | - |
| Total Current Assets | <u>\$ 648,861</u> | <u>\$ 555,261</u> |
| PROPERTY AND EQUIPMENT: (Note 1) | | |
| Land | \$ 281,384 | \$ 378,524 |
| Building | 3,030,097 | 3,557,272 |
| Equipment | 80,699 | 79,182 |
| Furniture and fixtures | 116,190 | 108,120 |
| | <u>\$ 3,508,370</u> | <u>\$ 4,123,098</u> |
| Less: Accumulated depreciation | 370,056 | 357,496 |
| Total Property and Equipment | <u>\$ 3,138,314</u> | <u>\$ 3,765,602</u> |
| OTHER ASSETS: | | |
| Note receivable | \$ 92,408 | \$ - |
| | <u>\$ 92,408</u> | <u>\$ -</u> |
| Total Assets | <u>\$ 3,879,583</u> | <u>\$ 4,320,863</u> |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 2,841 | \$ 20,991 |
| Accrued compensated absences | 20,525 | 19,073 |
| Current portion of long-term debt (Note 7) | 80,918 | 84,739 |
| Prepaid rental income | 9,708 | 9,708 |
| Employee withholding | 37 | - |
| Total Current Liabilities | <u>\$ 114,029</u> | <u>\$ 134,511</u> |
| LONG-TERM DEBT (Note 7) | <u>\$ 1,100,366</u> | <u>\$ 1,594,331</u> |
| Total Liabilities | <u>\$ 1,214,395</u> | <u>\$ 1,728,842</u> |
| NET ASSETS | | |
| Unrestricted: | | |
| Building fund | \$ 2,210,488 | \$ 2,210,488 |
| General unrestricted | 330,490 | 314,909 |
| | <u>\$ 2,540,978</u> | <u>\$ 2,525,397</u> |
| Temporarily restricted | 124,210 | 66,624 |
| Total Net Assets | <u>\$ 2,665,188</u> | <u>\$ 2,592,021</u> |
| Total Liabilities and Net Assets | <u>\$ 3,879,583</u> | <u>\$ 4,320,863</u> |

See Notes To Financial Statements

CIRCLE CENTER ADULT DAY SERVICES

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2012 AND 2011

| | <u>2012</u> | <u>2011</u> |
|--|---------------------|---------------------|
| CHANGES IN UNRESTRICTED NET ASSETS: | | |
| Support: | | |
| Program services | \$ 383,240 | \$ 364,211 |
| Fees and grants from governmental agencies (Note 2) | 379,235 | 407,343 |
| Contributions (Note 2) | 107,648 | 111,664 |
| Special event income | 35,049 | 36,922 |
| Interest income | 3,416 | 805 |
| | <u>\$ 908,588</u> | <u>\$ 920,945</u> |
| Net Assets Released from Restrictions: (Note 3) | | |
| United Way funding for the year: | | |
| Community Care | 84,313 | 61,055 |
| Other | 187,974 | 336,579 |
| Total Unrestricted Revenues and Support | <u>\$ 1,180,875</u> | <u>\$ 1,318,579</u> |
| Expenses: | | |
| Program service | \$ 932,926 | \$ 854,185 |
| Management and general | 159,536 | 218,226 |
| Fundraising/Participant development | 99,422 | 142,023 |
| | <u>\$ 1,191,884</u> | <u>\$ 1,214,434</u> |
| | <u>\$ (11,009)</u> | <u>\$ 104,145</u> |
| Other income (expense): | | |
| Loss on sale of building | \$ (25,438) | \$ - |
| Net rental income (Note 6) | 52,028 | 37,043 |
| | <u>\$ 26,590</u> | <u>\$ 37,043</u> |
| | <u>\$ 15,581</u> | <u>\$ 141,188</u> |
| CHANGES IN TEMPORARILY RESTRICTED NET ASSETS: | | |
| Designated contributions for next year | \$ 7,854 | \$ 7,115 |
| Restricted fund contributions (Note 8) | 322,019 | 341,864 |
| Net assets released from restrictions (Note 3): | | |
| Expiration of time restrictions on designated funding | (7,854) | (7,115) |
| Purchase of fixed assets and other assets | (12,811) | - |
| Staff enrichment expenditures | (356) | - |
| Capital Campaign expenses | - | (157,170) |
| Marketing | - | (4,439) |
| Scholarships and tuition subsidy | (251,266) | (228,910) |
| Increase (Decrease) in Temporarily Restricted Net Assets | <u>\$ 57,586</u> | <u>\$ (48,655)</u> |
| | <u>\$ 73,167</u> | <u>\$ 92,533</u> |
| NET ASSETS - BEGINNING OF YEAR | <u>2,592,021</u> | <u>2,499,488</u> |
| NET ASSETS - END OF YEAR | <u>\$ 2,665,188</u> | <u>\$ 2,592,021</u> |

See Notes To Financial Statements

CIRCLE CENTER ADULT DAY SERVICES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 AND 2011

| | <u>2012</u> | <u>2011</u> |
|---|--------------------------|--------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Increase in net assets | \$ 73,167 | \$ 92,533 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | | |
| Depreciation | \$ 114,111 | \$ 108,122 |
| Loss on sale of building | 25,438 | - |
| (Increase) decrease in operating assets: | | |
| Accounts receivable | 5,533 | 2,030 |
| Prepaid expenses | (2,695) | 11,534 |
| Note receivable | 4,753 | - |
| Other assets | - | 3,076 |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable | (18,150) | 20,991 |
| Accrued compensated absences | 1,452 | 2,179 |
| Prepaid rental income | - | 9,708 |
| Employee withholding | 37 | (1,568) |
| Accrued interest | - | (5,310) |
| Total Adjustments | <u>\$ 130,479</u> | <u>\$ 150,762</u> |
| Net Cash Provided by Operating Activities | <u>\$ 203,646</u> | <u>\$ 243,295</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of property and equipment | <u>\$ (17,184)</u> | <u>\$ (7,535)</u> |
| Net Cash (Used in) Investing Activities | <u>\$ (17,184)</u> | <u>\$ (7,535)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Mortgage loans curtailments | <u>\$ (92,863)</u> | <u>\$ (159,390)</u> |
| Net Cash (Used in) Financing Activities | <u>\$ (92,863)</u> | <u>\$ (159,390)</u> |
| Net Increase in Cash | \$ 93,599 | \$ 76,370 |
| CASH - BEGINNING OF YEAR | 518,256 | 441,886 |
| CASH - END OF YEAR | <u><u>\$ 611,855</u></u> | <u><u>\$ 518,256</u></u> |
| SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION: | | |
| Cash paid during the year for interest | \$ 61,306 | \$84,087 |
| SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITIES: | | |
| Sale of 2111 Spencer Road: | | |
| Sales price | \$ 565,000 | |
| Settlement charges | \$ (60,077) | |
| Loan payoffs | \$ (404,923) | |
| Purchase money note receivable | \$ 100,000 | |

See Notes To Financial Statements

CIRCLE CENTER ADULT DAY SERVICES

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2012 AND 2011

| | Program Service | Management and General | Fundraising/ Participant Development | Total | |
|---|--------------------|------------------------------|--|---------------------|---------------------|
| | | | | 2012 | 2011 |
| Salaries and wages - net of reimbursements | \$ 554,768 | \$ 89,944 | \$ 78,613 | \$ 723,325 | \$ 698,871 |
| Payroll taxes | 40,842 | 7,196 | 6,289 | 54,327 | 51,800 |
| Employee benefits | 30,455 | 8,749 | 9,507 | 48,711 | 60,039 |
| Retirement plan | 19,098 | 4,028 | 4,372 | 27,498 | 32,857 |
| Total Personnel Costs | \$ 645,163 | \$ 109,917 | \$ 98,781 | \$ 853,861 | \$ 843,567 |
| Mortgage interest | \$ 28,419 | \$ 2,248 | \$ - | \$ 30,667 | \$ 61,949 |
| Taxes | 18,906 | 1,495 | - | 20,401 | 20,940 |
| Custodial and waste services | 16,720 | 1,323 | - | 18,043 | 19,497 |
| Electricity | 19,691 | 1,557 | - | 21,248 | 18,384 |
| Gas | 1,629 | 129 | - | 1,758 | 6,193 |
| Water and sewer | 2,880 | 228 | - | 3,108 | 2,889 |
| Rent | 1,354 | 107 | - | 1,461 | 1,278 |
| Total Occupancy Costs | \$ 89,599 | \$ 7,087 | \$ - | \$ 96,686 | \$ 131,130 |
| Strategic planning & development consulting | - | - | - | - | 42,970 |
| Meals and snacks | \$ 45,013 | \$ - | \$ - | \$ 45,013 | \$ 42,153 |
| Insurance | 16,923 | 1,880 | - | 18,803 | 21,188 |
| Marketing | 14,626 | 1,625 | - | 16,251 | 9,452 |
| Professional fees | 2,386 | 7,156 | - | 9,542 | 9,448 |
| Janitorial supplies | 9,458 | 498 | - | 9,956 | 9,302 |
| Telephone | 9,152 | 187 | - | 9,339 | 8,668 |
| Equipment rental/repair | 14,897 | 1,655 | - | 16,552 | 7,503 |
| Printing | 994 | 993 | - | 1,987 | 6,568 |
| Special event - anniversary & gathering | - | - | 498 | 498 | 5,810 |
| Office supplies | 3,232 | 3,232 | - | 6,464 | 4,396 |
| Local transportation - program participants | 2,700 | - | - | 2,700 | 3,240 |
| Postage | 480 | 1,440 | - | 1,920 | 2,710 |
| Program supplies | 3,023 | - | - | 3,023 | 2,316 |
| Conferences and meetings | 3,602 | - | - | 3,602 | 1,856 |
| Bank merchant charges | 1,321 | 330 | 143 | 1,794 | 1,404 |
| Staff enrichment | 1,232 | - | - | 1,232 | 954 |
| Staff travel | - | 833 | - | 833 | 932 |
| Nursing supplies | 941 | - | - | 941 | 538 |
| Membership dues | 296 | 74 | - | 370 | 306 |
| Total Expenses Before Depreciation | \$ 865,038 | \$ 136,907 | \$ 99,422 | \$ 1,101,367 | \$ 1,156,411 |
| Depreciation | 67,888 | 22,629 | - | 90,517 | 58,023 |
| Total Expenses | \$ 932,926 | \$ 159,536 | \$ 99,422 | \$ 1,191,884 | \$ 1,214,434 |

See Notes To Financial Statements

CIRCLE CENTER ADULT DAY SERVICES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization

The Organization is a non-stock Virginia corporation that is licensed as a day care center for adults by the Virginia Department of Social Services. It provides services for older adults living in the Richmond, Virginia metropolitan area. Such services are designed to meet the following goals: (1) prevent inappropriate or premature institutionalization, (2) provide on-going health support services; (3) provide appropriate relief for family caregivers, and (4) improve the quality of life of frail and impaired older adults.

The Organization is supported primarily through fees and grants from governmental agencies, private payment for program services, donor grants and contributions and the United Way.

Principals of Consolidation

The consolidated financial statements include the accounts of the Organization and its wholly-owned subsidiary, Circle Center, LLC, which was formed as a single member limited liability company in order to purchase, own, renovate and operate the Organization's operating facility. All material intercompany accounts and transactions have been eliminated in consolidation.

Financial Statement Presentation

The Organization has adopted Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, 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. In addition, the Organization is required to present a statement of cash flows. The Organization does not use fund accounting.

Contributions

The Organization also adopted SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.

Depreciation

It is the Organization's policy to capitalize property and equipment over \$500. Property and equipment is stated at cost. Depreciation is recorded on the straight-line method over the estimated useful lives of the assets, ranging from five to forty years.

Statement of Cash Flows

For purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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.

CIRCLE CENTER ADULT DAY SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

Income Taxes

The Organization qualifies as a tax-exempt corporation under Section 501(c)(3) of the Internal Revenue Code and is not classified as a private foundation. Accordingly, any excess receipts over disbursements are not subject to federal or state income taxes.

Gifts-In-Kind

Donated materials and equipment are reflected as contributions at their estimated values at date of receipt. No amounts have been included in these financial statements for contributed services, inasmuch as no objective basis is available to measure the value of such services; however, a substantial number of volunteers have donated significant amounts of their time in the Organization's program services and in its fund-raising campaigns.

Promises to Give

Unconditional promises to give are recognized as revenues in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

NOTE 2: PUBLIC SUPPORT:

Contributions

Unrestricted contributions are received for use in the general day-to-day operations of the Organization. A summary of contributions received during the year follows:

| Source | 2012 | 2011 |
|--------------------------|------------|------------|
| Special appeal | \$ 63,920 | \$ 68,719 |
| Memorial and furnishings | 5,073 | 3,069 |
| Other | 38,655 | 39,876 |
| | \$ 107,648 | \$ 111,664 |

Fees and Grants from Governmental Agencies

Fees and grants from governmental agencies include funds received as third party reimbursements for serving specific qualified participants. A summary of fees and grants received during the year follows:

| Source | 2012 | 2011 |
|--------------------|------------|------------|
| Medicaid | \$ 358,826 | \$ 380,570 |
| Senior Connections | 20,409 | 26,773 |
| | \$ 379,235 | \$ 407,343 |

CIRCLE CENTER ADULT DAY SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 3: NET ASSETS RELEASED FROM RESTRICTIONS:

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors during the years ended June 30, 2012 and 2011. Such funds received and released from United Way totaled \$84,313 and \$61,055 for the years ended June 30, 2012 and 2011, respectively. Such funds received and released were as follows:

| Fund | 2012 | 2011 |
|---|-------------------|-------------------|
| Scholarships and tuition subsidy | \$ 251,266 | \$ 228,910 |
| Capital Campaign | - | 157,170 |
| Designated funds | 7,854 | 7,115 |
| Marketing | - | 4,439 |
| Purchase of fixed assets and other assets | 12,811 | - |
| Staff enrichment | 356 | - |
| | <u>\$ 272,287</u> | <u>\$ 397,634</u> |

NOTE 4: FUNCTIONAL ALLOCATION OF EXPENSES:

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NOTE 5: RETIREMENT PLAN:

The Organization has a qualified defined contribution retirement plan for the benefit of its employees. Employees were eligible to receive a contribution after the later of 3 months or 501 hours of service. A 4% contribution was made to eligible participants for 2012 and 2011 and the retirement plan expense totaled \$27,498 and \$32,857 for those years, respectively. The plan may be amended or terminated by the board of directors at any time.

NOTE 6: NET RENTAL INCOME:

Net rental income consists of the following:

| | 2012 | 2011 |
|--------------------------------------|-------------------|-------------------|
| Rental income - Spencer Road | \$ - | \$ 7,554 |
| Rental income - West Marshall Street | 116,497 | 116,497 |
| | <u>\$ 116,497</u> | <u>\$ 124,051</u> |

| | | |
|-------------------|------------------|------------------|
| Depreciation | \$ 23,313 | \$ 50,098 |
| Mortgage interest | 30,640 | 16,828 |
| Utilities | 2,038 | 4,073 |
| Real estate taxes | 8,478 | 10,937 |
| Repairs | - | 4,434 |
| Other occupancy | - | 205 |
| Insurance | - | 433 |
| | <u>\$ 64,469</u> | <u>\$ 87,008</u> |

| | | |
|-------------------|------------------|------------------|
| Net rental income | <u>\$ 52,028</u> | <u>\$ 37,043</u> |
|-------------------|------------------|------------------|

CIRCLE CENTER ADULT DAY SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 7: LONG-TERM DEBT:

Long-term debt consists of the following:

Term loan for the renovation of the West Marshall Street property. Interest accrues at the LIBOR rate plus 2.25%, with a minimum and maximum rate of 4% and 7%, respectively. Interest only payments were due through June 5, 2011, at which time scheduled monthly payments began in the amount of \$10,558, including principal and interest, with a final balloon payment due on June 5, 2016. The loan is secured by the real property and a security agreement with the organization.

| 2012 | 2011 |
|-----------|-----------|
| 1,181,284 | 1,439,228 |

Twenty-three month balloon mortgage loan with final payment due August 5, 2012. Interest accrues at the Bank's Prime Rate plus 0.5% with a minimum rate of 4.5% and monthly payments of principal and interest total \$1,435. The loan is secured by a deed of trust and the guarantee of Circle Center Adult Day Services.

| | |
|---|---------|
| - | 239,842 |
|---|---------|

Less: Current maturities

| | |
|--------------|--------------|
| \$ 1,181,284 | \$ 1,679,070 |
| 80,918 | 84,739 |
| \$ 1,100,366 | \$ 1,594,331 |

Scheduled maturities of long-term debt are as follows:

| Year Ending June 30, | |
|----------------------|--------------|
| 2013 | \$ 80,918 |
| 2014 | 84,215 |
| 2015 | 87,646 |
| 2016 | 928,505 |
| | \$ 1,181,284 |

CIRCLE CENTER ADULT DAY SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 8: RESTRICTED FUNDS:

A summary of restricted funds contributions received during the year follows:

| | 2012 | 2011 |
|--|-------------------|-------------------|
| Anonymous donor | \$ 100,000 | \$ - |
| United Way Community Care | 63,569 | 63,570 |
| Altria Companies Employee Community Fund | 50,000 | 50,000 |
| Jenkins Foundation | 25,000 | 30,000 |
| Sheltering Arms Fund | 25,000 | 20,000 |
| Genworth Foundation | 15,000 | 7,500 |
| Capital Campaign | 14,000 | 157,170 |
| Harrison Foundation | 10,000 | 10,000 |
| UPS Foundation | 10,000 | - |
| Dominion Foundation | 5,000 | - |
| Gammons Foundation | 2,000 | 1,000 |
| Other fund | 1,950 | 1,500 |
| Bon Air Rotary Club | 500 | 1,000 |
| Staff enrichment fund | - | 124 |
| | <u>\$ 322,019</u> | <u>\$ 341,864</u> |

NOTE 9: SUBSEQUENT EVENTS:

Management has evaluated subsequent events through November 12, 2012, the date on which the financial statements were available to be issued.