

**COMMUNITY RESIDENCES, INC.**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2009**  
*(Together With Independent Auditors' Report)*

**BERT SMITH**  
*& Co.*

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**Certified Public Accountants and Management Consultants**

**COMMUNITY RESIDENCES, INC.**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

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**REPORT OF INDEPENDENT AUDITORS'**

Board of Directors  
Community Residences, Inc.

We have audited the accompanying statement of financial position of *Community Residences, Inc.*, as of June 30, 2009 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of *Community Residences, Inc.*'s management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from *Community Residences, Inc.*'s 2008 financial statements and in our report dated December 18, 2008 we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of *Community Residences Inc.*'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We have also audited in accordance with auditing standards generally accepted in the United States of America, the consolidated statements of financial position of *Community Residences, Inc. and Financially Interrelated Affiliates* as of June 30, 2009 and the related consolidated statements of activities and cash flows for the year then ended (none of which is presented herein), and we expressed an unqualified opinion on those financial statements. Such consolidated financial statements are the general purpose financial statements of *Community Residences, Inc. and Financially Interrelated Affiliates*.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of *Community Residences, Inc.*, as of June 30, 2009, and the changes in its net assets and its cash flows for the year ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Bert Smith &amp; Co." with a stylized flourish at the end.

Washington, D.C.  
November 25, 2009

Member, American Institute of Certified Public Accountants - Private Companies Practice Section

**COMMUNITY RESIDENCES, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2009**  
*(With Comparative Totals for 2008)*

	<b>2009</b>	<b>2008</b>
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 928,278	\$ 651,707
Accounts receivable – net	1,594,353	1,575,492
Prepaid expenses	97,489	92,876
Due from affiliates and managed properties	86,326	18,789
Due from DMAS	333,903	967,760
<b>Total current assets</b>	<b>3,040,349</b>	<b>3,306,624</b>
<b>Deposits held in trust - fund:</b>		
Cash – restricted	77,987	84,928
<b>Total deposits held in trust – fund</b>	<b>77,987</b>	<b>84,928</b>
<b>Restricted deposits and funded reserves:</b>		
Residual receipts and escrowed deposits	7,036	21,157
Replacement reserves and other restricted funds	11,105	4,853
<b>Total restricted deposits and funded reserves</b>	<b>18,141</b>	<b>26,010</b>
<b>Property and equipment:</b>		
Land	111,519	111,519
Residences and improvements	232,816	232,816
Vehicles and equipment	2,098,986	2,067,399
<b>Total property and equipment</b>	<b>2,443,321</b>	<b>2,411,734</b>
Less - accumulated depreciation	(1,879,838)	(1,890,602)
<b>Total property and equipment – net</b>	<b>563,483</b>	<b>521,132</b>
<b>Other assets:</b>		
Loans receivable from affiliates	35,440	35,440
Security deposits	9,485	11,783
Startup costs	5,149	6,733
Other assets	-	3,214
Loan costs - net of accumulated amortization	13,128	20,328
<b>Total other assets</b>	<b>63,202</b>	<b>77,498</b>
<b>Total assets</b>	<b>\$ 3,763,162</b>	<b>\$ 4,016,192</b>

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

**COMMUNITY RESIDENCES, INC.**  
**STATEMENT OF FINANCIAL POSITION** *(Continued)*  
**JUNE 30, 2009**  
*(With Comparative Totals for 2008)*

	<b>2009</b>	<b>2008</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	\$ 782,132	\$ 758,721
Accrued wages, withholding, and payroll taxes	582,717	545,613
Accrued vacation	361,362	315,113
Due to clients	76,216	84,928
Due to affiliates	-	70,389
Due to Department of Medical Assistance Services	583,626	283,914
Mortgage payable - current portion	7,663	7,042
Line of Credit	-	400,000
Notes payable - current portion	123,605	93,223
Deferred revenue	141,567	91,826
Tenant security deposits	4,721	5,019
<b>Total current liabilities</b>	<b>2,663,609</b>	<b>2,655,788</b>
<b>Long - term liabilities:</b>		
Notes payable - less current portion	137,094	121,330
Mortgage payable - less current portion	175,407	183,016
<b>Total long - term liabilities</b>	<b>312,501</b>	<b>304,346</b>
<b>Total liabilities</b>	<b>2,976,110</b>	<b>2,960,134</b>
<b>Net assets:</b>		
Unrestricted	787,052	1,056,058
<b>Net assets unrestricted and liabilities</b>	<b>\$ 3,763,162</b>	<b>\$ 4,016,192</b>

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

**COMMUNITY RESIDENCES, INC.**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2009**  
*(With Comparative Totals for 2008)*

	<u>2009</u>	<u>2008</u>
<b>Revenue:</b>		
Medicaid funds	\$ 14,966,149	\$ 14,737,410
County funds	3,405,221	3,542,233
Consumer rent and services fees	1,104,774	1,023,178
Supportive Housing Program (SHP) funds	-	224,097
Tenant assistance payments (Section 8)	57,984	56,934
Other revenue	64,160	31,288
Taste of Arlington	7,000	143,845
Program management reimbursements	14,023	15,159
Interest and investment income	78	12
Grant from affiliate	63,944	61,042
	<u>19,683,333</u>	<u>19,835,198</u>
<b>Public support:</b>		
Contributions and donations	<u>71,442</u>	<u>113,677</u>
	<u>19,754,775</u>	<u>19,948,875</u>
<b>Expenses:</b>		
Program services:		
Personnel	11,930,351	10,934,522
Contract services	2,590,444	2,640,438
Equipment and supplies	923,079	1,038,234
Facility	1,486,805	1,620,988
Interest	49,671	58,126
Depreciation and amortization	197,015	188,619
Travel and related expenses	236,811	233,540
Miscellaneous	51,058	53,491
Bad debt expense	100,000	151,862
Fundraising	105,621	300,066
	<u>17,670,855</u>	<u>17,219,886</u>
Program support service:		
Administrative	<u>2,352,926</u>	<u>2,618,188</u>
	<u>20,023,781</u>	<u>19,838,074</u>
<b>Change in net assets</b>	(269,006)	110,801
<b>Net assets - beginning of year</b>	<u>1,056,058</u>	<u>945,257</u>
<b>Net assets excess - end of year</b>	<u>\$ 787,052</u>	<u>\$ 1,056,058</u>

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

**COMMUNITY RESIDENCES, INC.**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED JUNE 30, 2009**  
*(With Comparative Totals for 2008)*

	<b>2009</b>	<b>2008</b>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ (269,006)	\$ 110,801
<i>Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:</i>		
Depreciation and amortization	197,015	188,619
Changes in:		
Accounts receivable	(18,861)	(247,976)
Prepaid expenses	(4,613)	64,782
Due from DMAS	633,856	(426,006)
Other assets	10,414	7,732
Security deposit	2,298	4,768
Deferred revenue	49,741	91,326
Accounts payable and accrued expenses	98,052	330,982
Due to DMAS	299,712	(441,606)
Tenant security deposits	(298)	(23)
Advances from affiliates	(67,537)	272,681
Deposits held in trust - fund	6,941	(14,088)
Due to affiliates	(70,389)	(7,771)
<b>Net cash (used in) provided by operating activities</b>	<b>867,327</b>	<b>(65,779)</b>
<b>Cash flows from investing activities:</b>		
Purchase of improvements and equipment	(331,559)	(134,444)
Net transfer of vehicles and equipment	93,777	-
Transfers to (withdrawals from) restricted deposits and funded reserves	7,870	12,120
<b>Net cash (used in) investing activities</b>	<b>(229,912)</b>	<b>(122,324)</b>
<b>Cash flows from financing activities:</b>		
Principal payments on mortgages	(6,988)	(6,422)
Borrowings on line of credit	7,800,000	7,400,000
Repayments on line of credit	(8,200,000)	(7,000,000)
Principal payments on notes payable	(114,931)	(84,554)
Proceeds from notes payable	161,075	82,062
<b>Net Cash (used in) provided by financing activities</b>	<b>(360,844)</b>	<b>391,086</b>
<b>Net change in cash and cash equivalents</b>	276,571	202,981
<b>Cash and cash equivalents - beginning of year</b>	651,707	448,726
<b>Cash and cash equivalents - end of year</b>	<b>\$ 928,278</b>	<b>\$ 651,707</b>
<b>Supplemental disclosure of cash flow information</b>		
Interest Paid	<b>\$ 47,999</b>	<b>\$ 58,126</b>
Equipment purchased with notes payable	<b>\$ 161,075</b>	<b>\$ 82,062</b>

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

**COMMUNITY RESIDENCES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

**NOTE 1      NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**

■ ***Organization and Nature of Activities***

Community Residences, Inc. (Organization) was incorporated on October 17, 1975 in the Commonwealth of Virginia as a non-stock, non-profit organization. The primary purpose of the Organization is to establish, manage and operate assisted living facilities for those mentally and physically disabled individuals served by the Organization.

The primary sources of revenue include funding from the State's Department of Medical Assistance Services for Intermediate Care Facilities, Medwaiver and State Plan Option programs. The Organization also receives revenue from other Federal, State and County governments, consumer rent and services fees, contributions and donations obtained from the general public and other revenue sources. The Organization presently has a contractual arrangement to provide these services with the Arlington County Mental Health and Mental Retardation Services Board and with other local governments. The Organization is affiliated through common ownership and control with Community Havens, Inc. (CH) which provides assisted living quarters for those mentally and physically disabled; Community Residences Foundation, Inc. (Foundation) which provides financial security support for the programs; and Community Residences of Arlington, Inc. (CRAI) which operates two U.S. Department of Housing and Urban Development housing projects for the mentally disabled.

■ ***Basis of Accounting***

These financial statements 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 reports information regarding its financial position and activities under standards for not-for-profit organizations issued by the Financial Accounting Standards Board. Under these standards, the Organization is required to report information regarding its financial position and activities in three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Net assets of the Program and changes therein are classified and reported as follows:

... **Unrestricted Net Assets** are those currently available at the discretion of the Organization's Board of Directors for use in the Organization's operations and those resources invested in property or equipment.

... **Temporarily Restricted Net Assets** are those that are stipulated by donors for specific operating purposes, purchases of equipment or capital improvements. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. There were no temporarily restricted net assets at June 30, 2009.

... **Permanently Restricted Net Assets** are restricted by the donor and are to be maintained permanently by the Organization, the related income is expendable in accordance with the conditions of each specific donation. There were no permanently restricted net assets at June 30, 2009.

**■ *Cash and Cash Equivalents***

The Organization considers all cash and investment accounts with original maturities of three months or less to be cash equivalents.

**■ *Medicaid Funds Revenue***

Medicaid Funds Revenue is reported at the estimated net realizable amounts from residents and third-party payors for service rendered.

**■ *Income Taxes***

The Organization is a qualifying non-profit organization as defined in §501(c)(3) of the internal Revenue Code and, therefore, is exempt from federal and state income taxes. Thus, no provisions have been made for taxes in the financial statements.

**■ *Credit Risk and Concentrations***

Financial instruments which potentially subject the Organization to concentrations of credit risk consist of temporary cash investments, restricted deposits and funded reserves held by the mortgagor and accounts receivable due from the Medicaid reimbursement program, the Medicaid waiver program, certain county governments and the U.S. Department of Housing and Urban Development (HUD). Most of the balances due are owed by local, state, and federal government entities that have historically made timely payments of those amounts. The Organization places its temporary cash investments, restricted deposits and fund reserves with various high credit quality financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000; balances may at times exceed this limit. The uninsured balance was \$802,120 and \$738,112 at June 30, 2009 and 2008, respectively.

**■ *Property and Equipment***

Property and equipment are stated at cost or, for donated assets, at fair market value at the date of the gift. Depreciation of buildings, improvements, vehicles and equipment is provided for by the straight-line method over the various asset lives as recommended by the American Hospital Association. The Organization capitalizes all property and equipment valued over \$2,500. Assets useful lives range from 3 to 10 years. Depreciation and amortization expense totaled \$197,015 and \$188,619 at June 30, 2009 and 2008, respectively.

**■ *Estimates***

The preparation of financial statements in conformity 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 disclosures of contingent assets and liabilities at the date of the financial statements. Accordingly, actual results could differ from those estimates and assumptions.

**■ *Reclassifications***

Certain comparative figures have been reclassified to conform to the current year financial statement presentation.

**■ *Comparative Totals***

The 2009 financial statements include certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2008 from which the summarized information was derived.

**NOTE 2: ACCOUNTS RECEIVABLE**

Accounts receivable consist principally of amounts due from state Medicaid programs, county contracts and consumers, net of potentially uncollectible amounts at June 30, 2009 and 2008, respectively. Management considers the reserve adequate to cover those balances determined to be uncollectible. Accounts receivable consist of the following:

	<u>2009</u>	<u>2008</u>
Billed Accounts Receivables	\$ 1,739,409	\$ 1,697,749
Less: Allowance for Uncollectible Accounts	<u>(145,056)</u>	<u>(122,257)</u>
<b>Total</b>	<u>\$ 1,594,353</u>	<u>\$ 1,575,492</u>

**NOTE 3: CONCENTRATION IN STATE MEDICAID PROGRAM**

The Organization's Intermediate Care Facilities and Medwaiver programs are funded under the state's Medicaid program. Medicaid programs represent 76 percent of the Organization's revenue at June 30, 2009 and 74 percent at June 30, 2008. As such, budgetary cuts for Medicaid funding by the Federal and State governments could have an impact on the operations of the Organization.

**NOTE 4: DUE TO/FROM DEPARTMENT OF MEDICAL ASSISTANCE SERVICES**

Medical care and services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Organization is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Organization and audits thereof by the Medicaid fiscal intermediary. As a result, the Organization believes that the recorded estimates will change upon final settlement of the cost reports. As of June 30, 2009 and 2008, amounts due from (to) DMAS to the Intermediate Care Facilities are as follows:

	<b>Due From</b>	<u>2009</u>	<u>2008</u>
Lake Jackson		\$ -	\$ 107,457
N. 16 <sup>th</sup> Street		-	278,021
Reservoir		47,637	71,180
Queen Elizabeth		-	212,530
Greenville		23,825	213,505
Minerva Fisher		186,520	78,707
Oak Street		-	6,360
Jackson Street		67,655	-
Riverside		8,266	-
<b>Total</b>		<u>\$ 333,903</u>	<u>\$ 967,760</u>
	<b>Due To</b>		
McKinley Road		\$ (20,465)	\$ (69,602)
Lake Jackson		(236,600)	-
Jackson Street		-	(214,312)
Oak Street		(67,038)	-
16 <sup>th</sup> Street		(189,079)	-
Queen Elizabeth		(48,668)	-
Other		<u>(21,776)</u>	-
<b>Total</b>		<u>\$ (583,626)</u>	<u>\$ (283,914)</u>

**NOTE 5: THIRD PARTY RATE ADJUSTMENTS AND REVENUE**

Revenue from the Medicaid program accounted for approximately 76 percent for the year ended June 30, 2009, and 74 percent for the year ended June 30, 2008, of the Organization's net patient revenue. Laws and regulations governing the Medicaid program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates may change upon final settlements.

**NOTE 6: DUE FROM (TO) MANAGED PROPERTIES AND AFFILIATES**

During the normal course of business, the Organization makes and receives temporary, non-interest bearing cash advances to and from affiliates and other organizations that are engaged in residential programs. The amount due from Managed Properties was fully reserved with an allowance for uncollectible accounts totaling \$184,260. As of June 30, 2009 and 2008, amounts due from (to) the affiliates and managed properties are as follows:

	<u>2009</u>	<u>2008</u>
<b>Due From</b>		
<b>Affiliates:</b>		
Community Residences of Arlington, Inc.	\$ 38,360	\$ 18,320
Community Residences Foundation, Inc.	23,926	469
Community Havens	24,040	-
<b>Total</b>	<u>\$ 86,326</u>	<u>\$ 18,789</u>
<b>Due To</b>		
<b>Affiliates:</b>		
Community Havens, Inc.	\$ -	\$ (70,389)
<b>Total</b>	<u>\$ -</u>	<u>\$ (70,389)</u>

**NOTE 7: RESTRICTED DEPOSITS AND FUNDED RESERVES**

Restricted deposits and funded reserves identified in the financial statements consist of the following at June 30:

	<u>2009</u>	<u>2008</u>
Residual receipt deposits as required by the Department of Housing and Urban Development	\$ 11,105	\$ 21,157
Replacement reserves as required by the Department of Housing and Urban Development	7,036	4,853
<b>Total</b>	<u>\$ 18,141</u>	<u>\$ 26,010</u>

**NOTE 8: RELATED PARTY TRANSACTIONS**

The Organization is involved in related party transactions with Community Havens, Inc. (Havens), Community Residences Foundation, Inc. (Foundation) and Community Residences of Arlington, Inc. (CRAI). During the fiscal year, the Organization provided services to its affiliates which include personnel, rental and other facility costs, and equipment and supplies.

