Community Residences, Inc. and Financially Interrelated Affiliates

Consolidated Financial Statements as of and for the
Year Ended June 30, 2015, and
Independent Auditors' Report

DHG
DIXON HUGHES GOODMAN LLP

Community Residences, Inc. and Financially Interrelated Affiliates

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DIXON HUGHES GOODMAN LLP

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Community Residences, Inc. and Financially Interrelated Affiliates

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of **Community Residences, Inc. and Financially Interrelated Affiliates**, which comprise the consolidated statement of financial position as of June 30, 2015, and the related consolidated statements of activities 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 consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

DIXON HUGHES GOODMAN LLP

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of **Community Residences, Inc. and Financially Interrelated Affiliates** as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Dixon Hughes Goodman LLP

Richmond, Virginia
January 21, 2016

Community Residences, Inc. and
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Consolidated Statement of Financial Position

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Community Residences, Inc. and Financially Interrelated Affiliates

Consolidated Statement of Financial Position

June 30, 2015

Assets

Current assets	
Cash	$ 1,452,670
Accounts receivable, net	2,324,400
Note receivable - current portion	45,784
Prepaid expenses	77,620
Due from Department of Medical Assistance Services	178,074
Total current assets	4,078,548
Restricted deposits and cash	
Restricted endowment cash	44,715
Reserve for replacements	76,155
Residual receipts	1,633
Tenant security deposits	60,518
Deposits held in trust	176,884
Total restricted deposits	359,905
Investments	2,639,734
Note receivable - less current portion	187,800
Property and equipment - net	
Land	3,645,606
Buildings	10,852,681
Improvements	3,600,113
Construction in progress	3,500
Computer software	2,520
Vehicles and equipment	3,206,662
Total property and equipment	21,311,082
Less: accumulated depreciation	(8,517,521)
Total property and equipment - net	12,793,561
Other assets	
Deferred loan costs, net	176,435
Other assets	348
Security deposits	27,504
Start-up costs	13,128
Total other assets	217,415
Total assets	$ 20,276,963

Liabilities and Net Assets

Current liabilities	
Accounts payable and accrued expenses	$ 3,281,198
Due to Department of Medical Assistance Services	933,548
Client funds payable	272,109
Accrued interest payable	5,211
Deferred Revenue	96,166
Line of Credit	105,236
Notes payable - current portion	82,229
Mortgage payable - current portion	123,106
Bond payable - current portion	352,088
Capital lease payable - current portion	16,452
Total current liabilities	5,267,343
Long-term liabilities	
Tenant security deposits	65,758
Notes payable - less current portion	931,486
Mortgage payable - less current portion	3,583,115
Bond payable - less current portion	8,428,684
Capital lease payable - less current portion	29,893
Total long-term liabilities	13,038,936
Total liabilities	18,306,279
Net assets	
Unrestricted	1,669,269
Temporarily restricted	225,355
Permanently restricted	76,060
Total net assets	1,970,684
Total liabilities and net assets	$ 20,276,963

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

Community Residences, Inc. and Financially Interrelated Affiliates

Consolidated Statement of Activities

Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support				
Net consumer service revenue - medicaid	$ 22,962,980	-	-	$ 22,962,980
Net consumer service revenue - county funds	4,983,019	-	-	4,983,019
Net resident service and rent revenue - consumers	1,375,447	-	-	1,375,447
Rent income	547,085	-	-	547,085
Tenant assistance payments	217,490	-	-	217,490
Grant revenue	137,137	-	-	137,137
Contributions	162,875	41,646	-	204,521
Program management revenue	48,267	-	-	48,267
Gain on sale of property	19,768	-	-	19,768
Net unrealized gain on investments	55,707	1,360	-	57,067
Net realized gain on investments	233,380	5,695	-	239,075
Other revenue	(565)	565	-	-
Net assets released from restrictions	45,575	(45,575)	-	-
Total revenue and support	30,788,165	3,691	-	30,791,856
Expenses				
Program Services				
Personnel	18,453,230	-	-	18,453,230
Facility	802,684	-	-	802,684
Contract services	3,634,787	-	-	3,634,787
Equipment and supplies	1,217,408	-	-	1,217,408
Travel	327,485	-	-	327,485
Miscellaneous	1,221,023	-	-	1,221,023
Depreciation and amortization	707,673	-	-	707,673
Bad debts	35,443	-	-	35,443
Interest	375,849	-	-	375,849
Total program services	26,775,582	-	-	26,775,582
Supporting Services				
Administrative	3,620,108	-	-	3,620,108
Fundraising	212,169	-	-	212,169
Total supporting services	3,832,277	-	-	3,832,277
Total expenses	30,607,859	-	-	30,607,859
Change in net assets	180,306	3,691	-	183,997
Net assets - beginning of year	1,488,963	221,664	76,060	1,786,687
Net assets - end of year	$ 1,669,269	$ 225,355	$ 76,060	$ 1,970,684

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

Community Residences, Inc. and Financially Interrelated Affiliates

Consolidated Statement of Cash Flows

Year Ended June 30, 2015

Cash flows from operating activities	
Change in net assets	$ 183,997
Adjustments to reconcile to net cash from operating activities:	
Depreciation and amortization	707,673
Bad debt expense/provision	35,443
Net unrealized and realized gains on investments	(296,142)
Gain on sale of property and equipment	(19,768)
Change in:	
Accounts receivable	(342,001)
Prepaid expenses	17,913
Due from\to Department of Medical Assistance Services	(450,842)
Other assets	(1,369)
Tenant security deposits	322
Deposits held in trust	771
Accounts payable and accrued expenses	487,481
Deferred revenue	96,166
Client funds payable	(6,855)
Net cash from operating activities	412,789
Cash flows from investing activities	
Proceeds from restricted cash	66,232
Purchase of property and equipment	(268,441)
Proceeds from sales and maturities of investments	474,514
Proceeds from sale of property and equipment	607,406
Purchase of investments	(586,353)
Transfers from replacement for reserves	(5,522)
Net cash from investing activities	287,836
Cash flows from financing activities	
Proceeds from line of credit	3,000,000
Payments on line of credit	(2,894,764)
Proceeds from mortgage payable	722,437
Principal payments on mortgage payable	(789,257)
Proceeds from note payable	25,099
Principal payments on notes payable	(124,986)
Principal payments on bond payable	(902,181)
Proceeds from capital leases	51,470
Net cash from financing activities	(912,182)
Net change in cash and cash equivalents	(211,557)
Cash and cash equivalents - beginning of year	1,664,227
Cash and cash equivalents - end of year	$ 1,452,670
Supplemental disclosure of noncash investing and financing activities	
Vehicles purchases with notes payable	$ 308,515
Supplemental disclosure	
Interest expense paid	$ 407,167

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

1. Organization and Nature of Activities

Community Residences, Inc. and Affiliates (CRI) 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.

These consolidated financial statements include the amounts of **Community Residences, Inc. and Financially Interrelated Affiliates** hereafter referred to as the "Organization." The accompanying consolidated financial statements consist of Community Residences, Inc. (CRI), Community Havens, Inc. (CH), which provides assisted living facilities for those with mental illness and are intellectually disabled; Community Residences Foundation, Inc. (Foundation), which provides financial security support for the programs; Community Residences of Arlington, Inc. (CRAI), which operates two U.S. Department of Housing and Urban Development housing projects for the intellectually disabled; and Residential Youth Services, Inc. (RYS), which operated two youth homes and operates an independent living program. All significant inter-company balances and transactions have been eliminated.

The primary sources of revenue include funding from the Virginia's Department of Medical Assistance Services (DMAS) for Intermediate Care Facilities (ICF/ID), Medwaiver, and State Plan Option programs. The Organization also receives revenue from Federal governmental agencies, the State of Maryland, and various County governments, consumer rent and services fees, contributions and donations obtained from the general public and other revenue sources.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying policies of the Organization are in accordance with accounting principles generally accepted in the United States of America applied on a basis consistent with that of the preceding years. The Organization reports information regarding its financial position and activities under standards for not-for-profit organizations issued by the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC).

Basis of Accounting

These consolidated financial statements are prepared under the accrual basis of accounting. Under this accounting method, income is recorded as earned and expenses are recorded as incurred.

Estimates

The preparation of the consolidated 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.

These estimates also affect the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Accordingly, actual results could differ from those estimates and assumptions.

Classification of Net Assets

Under the standards for not-for-profit organizations issued by the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC), the Organization is required to report information regarding its financial position and activities in three classes of net assets 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.
>
> **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. If a donation restriction expires in the same reporting period, the Organization reports the contribution as unrestricted. There were temporarily restricted net assets of $225,355 at June 30, 2015.
>
> **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 permanently restricted net assets of $76,060 at June 30, 2015.

Cash and Cash Equivalents

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

Restrictions on Cash

The Organization has cash and cash equivalents totaling $44,715 in 2015, which have been restricted by donor endowments.

Deposits Held in Trust

The Organization acts as a representative payee/trustee on behalf of consumer personal funds. Withdrawals from the funds are used strictly to cover the patient pay obligations and consumers authorized spending as determined/approved by the Virginia Department of Social Services. The balance of deposits held in trust as of June 30, 2015 was $176,884.

The Organization collects security deposits from tenants upon their moving into the projects. These deposits are held in a separate cash account which is not available for general use by the Organization. These deposits are placed in an interest-bearing account, and interest earned on these funds accrues to the tenants and is paid when the tenant vacates the project.

Investments

Investments are reported at fair value. Investment income, including realized and unrealized gains and losses, as well as interest and dividends, are reported in the statement of activities as increases and decreases in the unrestricted net assets, unless their use is temporarily or permanently restricted by the donor.

Medicaid Revenue

Medicaid revenue is reported at the estimated net realizable amounts. Laws and regulations governing the Medicaid program are extremely complex and subject to interpretation. As result, there is at least a reasonable possibility that recorded estimates may change by a material amount in the near term. Since the determination of reimbursement settlements of amounts earned in prior years is based on reasonable estimation the difference in any year between the originally estimated amount and the final determination is reported in the year of final settlement.

The 2015 net consumer service revenue – Medicaid decreased approximately $8,000 due to prior-year settlement adjustments in excess of amounts previously estimated for the Organization's ICF/ID facilities.

Rent Increases and Tenant Assistance Payments

Under the regulatory agreement, the Organization's projects may not increase rents charged to tenants without HUD approval.

A portion of the Organization's rental income is received from HUD. The reduction or elimination of this income could have a negative impact on the Organization's ability to continue those projects.

Deferred Revenue

Revenue received in advance is recorded as deferred until the earning process is completed.

Concentrations of Credit Risk

The Organization places its cash with high credit quality financial institutions which, at times, may exceed the federally insured limit during the year. The Organization has not experienced any losses as a result of the concentration and management believes it is not exposed to any significant credit risk.

The Organization's Intermediate Care Facilities and Medwaiver programs are funded under the state Medicaid program. The Medicaid programs represent 77 percent of the Organization's revenue at June 30, 2015. As such, budgetary cuts for Medicaid funding by the Federal and State governments could have an impact on the operations of the Organization.

Property and Equipment

Property and equipment are stated at cost or, for donated assets, at fair value at date of gift. The assets are depreciated using the straight-line method over the assets estimated useful. Asset useful lives range from 3 to 30 years. The Organization capitalizes all property and equipment valued over $2,500. The Organization records depreciation expense in program services and program support services. Depreciation and amortization expense totaled $783,635 at June 30, 2015.

Impairment of Long-Lived Assets

The Organization reviews asset carrying amounts whenever events or circumstances indicate that such carrying amounts may not be recoverable. When considered impaired, the carrying amount of the asset is reduced, by a charge to the statement of activities, to its current fair value.

Deferred Loan Costs

Deferred loan costs, which totaled $249,145, are amortized using the straight-line method over the loan term. Amortization expense for the year ended June 30, 2015 totaled $8,305. Accumulated amortization was $72,710 at June 30, 2015.

Income Tax Status

Community Residences, Inc. (CRI), Community Havens, Inc. (CH), Community Residences Foundation, Inc., and Residential Youth Services, Inc. (RYS) are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Community Residences of Arlington, Inc. (CRAI) is exempt from federal income taxes under Section 501(c)(4) of the Internal Revenue Code, except to the extent of any unrelated business income. Accordingly, the accompanying financial statements do not reflect a provision or liability for federal and state income taxes. The Organization has determined that it does not have any material unrecognized tax benefits or obligations as of June 30, 2015. Fiscal years ending on or after June 30, 2012 remain subject to examination by federal and state tax authorities.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through January 21, 2016, the date the financial statements were available to be issued.

3. Accounts Receivable

Accounts receivable consist principally of amounts due from state Medicaid programs, county contracts and consumers, net of an allowance for potentially uncollectible amounts. Management considers the allowance adequate to cover those balances determined to be uncollectible. The allowance is based on historical collection experience and management's review of the current status of existing receivables.

Accounts receivable consist of the following as of June 30, 2015:

Billed accounts receivable	$	2,743,015
Less: allowance for uncollectible accounts		(418,615)
Net accounts receivable	$	2,324,400

4. Department of Medical Assistance Services Estimated Settlements

Services rendered to the Medicaid program beneficiaries that are residents of the ICF/ID facilities are reimbursed under a cost based 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 program.

In the opinion of management, adequate provision has been made for adjustments, if any, that may result from final settlements.

As of June 30, 2015, estimated settlement amounts due from / to DMAS to the ICF/ID facilities are as follows:

Due From DMAS:		
Other	$	36,744
Oak		12,442
Queen		45,741
Parliament		10
Burke		83,137
Total	$	178,074
Due To DMAS:		
16th Street	$	(19,312)
Brambleton		(237,687)
Jackson Street		(107,740)
Lake Jackson		(19,501)
McKinley		(32,892)
Minerva		(21,031)
Oak Street		(18,750)
Other		(15,580)
Park Road		(67,103)
Parliament		(34,252)
Queen Elizabeth		(18,797)
Reservoir		(185,848)
Riverside		(32,750)
Snowflake		(122,305)
Total		(933,548)
Net	$	(755,474)

5. Investments

Investments consisted of the following:

Common stocks	$	2,588,756
Agency balanced fund		50,978
		2,639,734

Investment return consisted of the following:

Interest and dividends	$	26,032
Realized and unrealized gains		296,142
	$	322,174

6. Fair Value Measurements

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures,* provides the framework for measuring and reporting financial assets and liabilities at fair value. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The codification establishes a three-level disclosure hierarchy to indicate the level of judgment used to estimate fair value measurements:

Level 1 - quoted prices in active markets for identical assets or liabilities as of the reporting date;

Level 2 - quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and inputs other than quoted prices (such as interest rate and yield curves);

Level 3 - uses inputs that are unobservable, supported by little or no market activity and reflect significant management judgment.

The asset 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 following is a description of the valuation methodologies used for asset measurements at fair value. There have been no changes in the methodologies used at June 30, 2015.

Common stock: Valued at the closing price reported in the active market in which individual securities are traded.

Agency Balanced Fund: Valued at price provided by trust sponsor.

The table below summarizes investments, by level, for items measured at fair value on a recurring basis at June 30, 2015:

	Level 1	Level 2	Level 3	Total
Common stock				
Communications	$ 131,396	$ -	$ -	$ 131,396
Consumer discretionary	766,568	-	-	766,568
Energy	166,149	-	-	166,149
Financials	756,398	-	-	756,398
Industrials	98,058	-	-	98,058
Materials	145,503	-	-	145,503
Real Estate	90,424	-	-	90,424
Technology	227,700	-	-	227,700
Utilities	206,560	-	-	206,560
Agency balanced fund	-	-	50,978	50,978
	$ 2,588,756	$ -	$ 50,978	$ 2,639,734

Level 3 - Agency Balanced Fund

The fair values assigned to the Organization's investments in the agency balanced fund is based on available information and do not necessarily represent amounts which might ultimately be realized. Due to the absence of readily-determinable fair values and the inherent uncertainty of valuations, the estimated fair values of the Organization's investments in the agency balanced fund may differ significantly from values that would have been used had a ready market for such investments existed, and the differences could be material. Disclosure of unobservable inputs to fair value measurement has not been included for the agency balanced fund because quantitative unobservable inputs are not developed by the Foundation when measuring fair value and have not been made available to the Organization by the trust sponsor.

The table below sets forth a summary of changes in the fair value of the Organization's agency balanced fund for 2015.

	Agency balanced fund
Balance – beginning of year	$ -
Purchases	50,000
Dividends/Interest	2,064
Net unrealized loss	(611)
Expenses	(475)
Balance – end of year	$ 50,978

7. Reserve for Replacements and Residual Receipts

The Organization is required to make total monthly deposits to the replacement reserves for their three HUD projects. The Organization is also required to deposit any surplus cash amounts into the residual receipts account within 60 days after fiscal year end in accordance with the HUD regulatory agreements. The funds in each of the replacement reserves and residual receipts accounts are required to be held in a separate FDIC insured bank account and generally are not available for operating purposes. Funds from these accounts may be released to the Organization with the approval of HUD. At June 30, 2015, replacement reserves were $76,155 and residual receipts were $1,633.

8. Capital Lease Obligations

During 2014, the Organization had capital lease contractual agreements for a vehicle and an IT Server. During 2015, the Organization returned the vehicle and ceased its lease obligation. As of June 30, 2015, the asset and liability under the capital lease has been recorded at the fair value of $51,470. The asset is depreciated over its estimated useful productive life. Accumulated depreciation as of June 30, 2015 was $5,130. Depreciation expense associated with the lease was $4,985. The net book value for June 30, 2015 is $46,340.

Future minimum lease payments are as follows:

		2015
Future minimum lease payments	$	52,300
Less – amount representing interest over the remaining term of the lease		(5,955)
		46,345
Less – current portion		(16,452)
	$	29,893

9. Long-Term Debt

Long-term debt consisted of the following at June 30:

U.S. Department of Housing and Urban Development, mortgage note, interest at 9.25 percent, collateralized by the respective property, payable in monthly installments of $2,027, including principal and interest, plus a monthly escrow deposit of $154, final payment due June 2022.	$	125,022
Various vehicles notes payable, interest rates ranging between 4.50 percent and 6.00 percent, collateralized by the respective vehicles, payable in monthly installments of $11,147 principal and interest, various maturity dates through December 2017.		129,868
Virginia Housing Development Authority (VHDA) Mortgage Note Payable, interest at 3.458 percent, collateralized by real property, payable in monthly installments of $3,538, final payment due January 2031.		510,988
Virginia Housing Development Authority (VHDA) Mortgage Note Payable, interest at 1 percent, collateralized by real property, payable in monthly installments of $531, final payment due May 2044.		159,465
Virginia Housing Development Authority (VHDA) Mortgage Note Payable, interest at 1 percent, collateralized by real property, payable in monthly installments of $498, final payment due June 2044.		150,154
Virginia Housing Development Authority (VHDA) Mortgage Note Payable, interest at 1 percent, collateralized by real property, payable in monthly installments of $418, final payment due July 2044.		126,265
Virginia Housing Development Authority (VHDA) Mortgage Note Payable, interest at 1 percent, collateralized by real property, payable in monthly installments of $412, final payment due July 2044.		124,323
United Bank, mortgage note payable, interest at 6 percent, collateralized by real property, payable in monthly installments of $3,381, final payment due September 2024.		459,056

Virginia Housing Development Authority (VHDA), mortgage note payable, interest at prime (3.25 percent at June 30, 2015), plus ½ percent floating, collateralized by real property, payable monthly, principal due at maturity, October 2044.	928,898
United Bank, mortgage note payable, interest at 6 percent, collateralized by real property, payable in monthly installments of $1,195, final payment due November 2024.	162,729
United Bank, mortgage note payable, interest at 5 percent, collateralized by real property, payable in monthly installments of $824, final payment due February 2017.	129,862
United Bank, mortgage note payable, interest at 4.25 percent, collateralized by real property, payable monthly, final payment due February 2018.	325,380
Community Development Block Grant note payable to Fairfax County Redevelopment and Housing Authority, secured by residential real estate. The agreement states that the note payable will bear no interest and will not be required to be repaid as long as the housing remains available to eligible residents as affordable housing for low and moderate income persons for a period of 30 years. If the residential real estate is not maintained as affordable housing for a period of 30 years from its project completion date, the entire amount will be payable, plus 26 percent equity in the residential real estate.	300,000
Community Development Block Grant note payable to Fairfax County Redevelopment and Housing Authority, secured by residential real estate. The agreement states that the note payable will bear no interest and will not be required to be repaid as long as the housing remains available to eligible residents as affordable housing for low and moderate income persons for a period of 30 years. If the residential real estate is not maintained as affordable housing for a period of 30 years from its project completion date, the entire amount will be payable, plus 31 percent equity in the residential real estate.	105,232
Community Development Block Grant note payable to Fairfax County Redevelopment and Housing Authority, secured by residential real estate. The agreement states that the note payable will bear no interest and will not be required to be repaid as long as the housing remains available to eligible residents as affordable housing for low and moderate income persons for a period of 30 years. If the residential real estate is not maintained as affordable housing for a period of 30 years from its project completion date, the entire amount will be payable, plus 26.1 percent equity in the residential real estate.	55,000

Community Development Block Grant note payable to Fairfax County Redevelopment and Housing Authority, secured by residential real estate. The agreement states that the note payable will bear no interest and will not be required to be repaid as long as the housing remains available to eligible residents as affordable housing for low and moderate income persons for a period of 30 years. If the residential real estate is not maintained as affordable housing for a period of 30 years from its project completion date, the entire amount will be payable, plus 25 percent equity in the residential real estate.	55,000
Community Development Block Grant note payable to Fairfax County Redevelopment and Housing Authority, secured by residential real estate. The agreement states that the note payable will bear no interest and will not be required to be repaid as long as the housing remains available to eligible residents as affordable housing for low and moderate income persons for a period of 30 years. If the residential real estate is not maintained as affordable housing for a period of 30 years from its project completion date, the entire amount will be payable, plus 31 percent equity in the residential real estate.	60,000
Community Development Block Grant note payable to Fairfax County Redevelopment and Housing Authority, secured by residential real estate. The agreement states that the note payable will bear no interest and will not be required to be repaid as long as the housing remains available to eligible residents as affordable housing for low and moderate income persons for a period of 30 years. If the residential real estate is not maintained as affordable housing for a period of 30 years from its project completion date, the entire amount will be payable, plus 34 percent equity in the residential real estate.	70,000
Home Investment Partnerships Program (HOME) note payable to Fairfax County Redevelopment and Housing Authority, secured by residential real estate. The agreement states that the note payable will bear no interest and will not be required to be repaid as long as the housing remains available to eligible residents as affordable housing for extremely low-income persons for a period of 30 years. If the residential real estate is not maintained as affordable housing for a period of 30 years from its project completion date, the entire amount will be payable, plus 69 percent equity in the residential real estate.	232,080
U.S. Department of Housing and Urban Development (HUD) Mortgage Note Payable, interest at 8.375 percent, collateralized by real property, payable in monthly installments of $2,236, final payment due January 2031.	233,107
U.S. Department of Housing and Urban Development (HUD) Mortgage Note Payable, interest at 9 percent, collateralized by real property, payable in monthly installments of $2,478, final payment due June 2030.	270,972

Vehicle notes payable, interest at 4.5 percent, collateralized by the respective vehicle, payable in monthly installments of $1,104, final payment due December 2015.	6,535
	4,719,936
Less – current maturities of mortgages payable	(123,106)
Less – current maturities of notes payable	(82,229)
	$ 4,514,601

Principal maturities of long-term debt for future years ending June 30 are as follows:

2016	$ 205,335
2017	300,892
2018	435,639
2019	128,752
2020	646,727
Thereafter	3,002,591
	$ 4,719,936

Interest expense on this and other debt was $375,849 for the year ended June 30, 2015.

10. Bonds Payable Obligations

On September 26, 2006, Community Havens, Inc. (CHI) refinanced its bonds payable along with certain notes and mortgage payable. The bond refinancing totaled $12,000,000. The refinancing involved a new Series 2006A Bond which is exempt from all federal and Commonwealth of Virginia income taxes and a Series 2006B Bond which is taxable.

The interest rate for Series 2006A bond is at 1.16 percent per annum and is readjusted every five years at 120 percent of the rate published from time to time by the Federal Reserve Board and in effect on the Reset Dates, as the “Five Year U.S. Treasury Constant.” The Series A bond is payable over thirty years. The interest rate for the Series 2006B Bond is fixed at 3.72 percent at the rate published from time to time by the Federal Reserve Boards and in effect on the Reset Date, as the “Five Year U.S. Treasury Constant,” plus 275 basis points. The Series 2006B Bond matures on September 26, 2016, at which time the entire principal balance, accrued and unpaid interest, plus other applicable fees and charges will be due and payable.

CRI and Community Havens (CHI) are co-borrowers and are jointly liable for these obligations. The Series 2006A and Series 2006B bonds are recorded in the financial statements of CHI. The debt is collateralized by a first deed of trust on various commercial and residential property owned by CHI as well as a perfected first lien security interest in all of CRI’s and CHI’s assets. The outstanding balance of bonds payable on the books of CHI at June 30, 2015 was $5,883,994 for the Series 2006A Bond and $2,896,778 for the Series 2006B Bond.

Estimated future maturities of the bond for future years ending June 30 are as follows:

2016	$ 352,088
2017	3,570,532
2018	251,046
2019	254,015
2020	256,866
Thereafter	4,096,225
	$ 8,780,772

11. Line of Credit

Community Residences, Inc. (CRI) is a co-borrower with the Community Havens, Inc. (CHI), an affiliated company on a $2,500,000 line. Interest is payable monthly at *The Wall Street Journal* rate of prime plus one-half percent (3.75 percent) with principal due on demand. The line is collateralized by a first security interest in all business assets, including all accounts receivable and various real properties owned by the Organization and CHI.
Subsequent to year end CRI has refinanced the line of credit to mature on August 25, 2025. The outstanding balance on CRI's books at June 30, 2015 was $105,236. There was no outstanding balance on CRI's books at June 30, 2014.

12. Retirement Plan

The Organization has a defined contribution plan 403(b) retirement plan (Plan) for the benefit of its employees. Employees may elect to defer up to the IRS maximum of compensation into the Plan. The Organization contributes four percent of the eligible compensation for each employee to the Plan after one year of vesting service. In addition, for employees who have been employed for two or more years, the Organization matches 50 percent of each employee's deferred amount up to a maximum of two percent of the eligible compensation.

During 2015, the Organization used $25,666 in forfeiture credits to offset its contributions to the Plan. For the year ended June 30, 2015, the Organization contributed $602,434 to the Plan.

13. Functional Allocation of Expenses

The costs of the Organization have been summarized on a natural classification basis. For functional expense purposes, costs have been allocated among the program and supporting services as follows for the years ended June 30, 2015.

Program Services	$ 26,775,582
Support Services – Administrative Support	3,620,108
Support Services – Fundraising	212,169
	$ 30,607,859

14. Donor Restricted Endowment Funds

The Organization received several donor restricted endowments that required the principal be permanently maintained. At June 30, 2015, the endowments were valued at $141,483.

Interpretation of Relevant Law

The Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of a donor-restricted fund, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classified as permanently restricted net assets (a) the original value of gifts donated to a permanent endowment, (b) the original value of subsequent gifts to a permanent endowment, and (c) accumulations to a permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted funds that is not classified in permanently restricted net assets is classified as temporarily restricted net assets with the standard of prudence prescribed by UPMIFA.

Return Objectives and Risk Parameters

Endowment funds are invested as long-term funds under the Organization's investment policies and are managed to preserve capital, provide liquidity and optimize the investment return within the constraints of the policy. The primary objective is long-term goal of maximizing returns without exposure to undue risk. The primary concern is the long-term appreciation of the assets and consistency of total return on the portfolio.
The Organization utilizes diversified investment classes that provide the opportunity to achieve the return objectives without exposing the funds to unnecessary risk.

Spending Policy and How the Investment Objectives Relate to Spending Policy

Annually, amounts are appropriated for expenditure based upon the interest and dividends derived from endowment investments. Generally, the investment return derived from endowment investments is available without restriction to provide support to meet the financial needs of the Organization.

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

- The duration and preservation of the fund
- The purposes of the Organization and the donor-restricted fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization

The table below summarizes the changes in endowment net assets for the year ended June 30, 2015:

	Donor Temporarily Restricted	Donor Permanently Restricted	Total
Endowment Net Assets – Beginning of Year	$ 57,803	$ 76,060	$ 133,863
Investment Return			
Investment Income	565	-	565
Net Realized and Unrealized Gains	7,055	-	7,055
Total Investment Return	7,620	-	7,620
Appropriation of Endowment Assets for Expenditure	-	-	-
Endowment Net Assets – End of Year	$ 65,423	$ 76,060	$ 141,483

15. Temporarily Restricted Net Assets

At June 30, 2015 temporarily restricted net assets were available for the following purposes:

Arlington Fund	$ 2,000
Professional Staff Development	10,750
Mental Health	2,117
16th Street House Fund	2,800
Consumers	1,684
Security Education	30,996
Group Home Landscaping	9,757
Life Services	69,122
Lincoln Street	10,600
Susan’s Place	18,129
Oak Street	20,000
Living Independently for Tomorrow	3,000
16th Street	5,000
The Wellness and Opportunity Fund	39,400
	$ 225,355

16. Permanently Restricted Net Assets

At June 30, 2015 permanently restricted net assets were available for the following purposes:

Life Services	$ 48,670
Mental Health	2,390
Consumers	10,000
Independently for Tomorrow	15,000
	$ 76,060

17. Commitments and Contingencies

CRAI owns two projects that are funded by the U.S. Department of Housing and Urban Development. The projects are comprised of a total of 14 units. The projects operations are concentrated in the multifamily real estate market. In addition, the projects operate in a heavily regulated environment. The operations of the projects are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an Act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

The Organization is subject to legal proceedings and claims which arise in the ordinary course of providing health care services. The Organization maintains malpractice insurance on a claims-made basis ($1,000,000 per claim and $3,000,000 in the aggregate) for claims made during the terms of the policy. In management's opinion, adequate provision has been made for amounts expected to be paid under the policy's deductible limits for asserted and unasserted claims. In addition, management is not aware of any asserted or unasserted claims not covered by the policy or any other insured liability. However, the outcome of such claims cannot be estimated. The Organization carries excess coverage through a commercial general liability policy up to $5,000,000 per occurrence.

Regulatory Contingencies

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, and government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

18. Subsequent Events

Community Residences, Inc. (CRI) has elected to retire early, Bond B, which has a current maturity date of September 2016. On November 13, 2015, CRI entered into an agreement with United Bank to refinance Bond B utilizing a mortgage loan. This mortgage loan is in the amount of up to $2,950,000 and is secured by second Deeds of Trust on 20 residential properties and 1 commercial property. The maturity date is ten years from the settlement date and amortization is over 21 years. Interest is charged at 4.15% per annum, fixed for 5 years and resetting to a new 5 year fixed rate equal to the current 5 year U.S. Treasury rate plus 2.8%, but not less than 4.15%. CRI incurred a commitment fee of $5,000.