

The Arc of the Piedmont, Inc.
Financial Statements
Year Ended December 31, 2002

ROBINSON, FARMER, COX ASSOCIATES

A Professional limited liability company
Certified Public Accountants

Charlottesville ♦ Christiansburg ♦ Richmond ♦ Staunton



The Arc of the Piedmont, Inc.

Financial Statements

Year Ended December 31, 2002

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ROBINSON, FARMER, COX ASSOCIATES

Certified Public Accountants

A Professional Limited Liability Company

INDEPENDENT AUDITORS' REPORT

**Board of Directors
The Arc of The Piedmont, Inc.
Charlottesville, Virginia**

We have audited the accompanying statements of financial position of The Arc of the Piedmont, Inc. (a non-profit organization), as of December 31, 2002 and the related statements of activities, functional expenses and cash flows for the year 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 audit. The prior year summarized comparative information has been derived from the Organization's 2001 financial statements and, in our report dated March 29, 2002, we expressed an unqualified opinion on those financial statements.

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 The Arc of the Piedmont, Inc., as of December 31, 2002, and functional expenses and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
April 8, 2003

Financial Statements

The Arc of the Piedmont, Inc.
Statement of Financial Position
At December 31, 2002
(With Comparative Totals for 2001)

| | 2002 | 2001 |
|---|------------------|------------------|
| <u>ASSETS</u> | | |
| Cash | \$ 66,437 | \$ 17,418 |
| Restricted cash - funds held in escrow | 20,661 | 31,598 |
| Funds held in escrow with Virginia Housing Development Authority | - | 144,850 |
| Marketable securities | 184 | 243 |
| Marketable securities - restricted | 8,364 | 10,582 |
| Accounts receivable | 133,293 | 167,983 |
| Other Assets-Refinancing Costs, less accumulated amortization of \$ 5,164 - 2002 and \$3,098 -2001 | 15,492 | 17,558 |
| Fixed Assets, less accumulated depreciation of \$546,945 -2002 and \$467,436 - 2001 | 1,751,913 | 1,641,008 |
| Total assets | \$ 1,996,344 | \$ 2,031,240 |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | \$ 92,737 | \$ 112,231 |
| Short term lines of credit | 98,766 | 89,266 |
| Short term loan | 16,874 | - |
| Mortgages payable | 1,804,644 | 1,886,216 |
| Unexpended grant funds | 1,927 | 8,817 |
| Total liabilities | \$ 2,014,948 | \$ 2,096,530 |
| Net assets: | | |
| Unrestricted: | | |
| Undesignated | \$ (34,448) | \$ (81,134) |
| Restricted: | | |
| Permanently restricted | 15,844 | 15,844 |
| Total net assets | \$ (18,604) | \$ (65,290) |
| Total liabilities and net assets | \$ 1,996,344 | \$ 2,031,240 |

The accompanying notes to financial statements are an integral part of this statement.

The Arc of the Piedmont, Inc.

Statement of Activities
Year Ended December 31, 2002
(With Comparative Totals for 2001)

| | Un- restricted | Temporarily Restricted | Permanently Restricted | Totals | |
|--|-------------------|---------------------------|---------------------------|--------------|--------------|
| | | | | 2002 | 2001 |
| Revenues, gains and other support: | | | | | |
| Contributions | \$ 12,883 | \$ - | \$ - | \$ 12,883 | \$ 11,370 |
| Special events | 15,260 | - | - | 15,260 | 15,679 |
| United Way | 97,674 | - | - | 97,674 | 98,533 |
| Grants | - | 102,646 | - | 102,646 | 74,229 |
| Region 10 purchase of services | 27,235 | - | - | 27,235 | 29,262 |
| Program service fees | 2,086,251 | - | - | 2,086,251 | 1,608,625 |
| Rental income | 185,590 | - | - | 185,590 | 150,409 |
| Interest | 544 | - | - | 544 | 684 |
| Interest on reserve | 773 | - | - | 773 | 310 |
| Reimbursed expenses | 50,665 | - | - | 50,665 | 19,025 |
| Net realized and unrealized gains and losses on securities | (2,398) | - | - | (2,398) | (1,436) |
| Net gains and losses on disposal of equipment and property | 102,786 | - | - | 102,786 | - |
| Miscellaneous | 2,241 | - | - | 2,241 | 5,251 |
| Net assets released from restrictions: | | | | | |
| Satisfaction of program restrictions | 102,646 | (102,646) | - | - | - |
| Total revenues, gains and other support | \$ 2,682,150 | \$ - | \$ - | \$ 2,682,150 | \$ 2,011,941 |
| Expenses: | | | | | |
| Program Services: | | | | | |
| Adult Activities Center | \$ 340,343 | \$ - | \$ - | \$ 340,343 | \$ 359,313 |
| Infant Development Project | 115,798 | - | - | 115,798 | 124,461 |
| Community Living | 2,112,427 | - | - | 2,112,427 | 1,422,054 |
| Total program services | \$ 2,568,568 | \$ - | \$ - | \$ 2,568,568 | \$ 1,905,828 |
| Support Services: | | | | | |
| Management and general | 66,896 | - | - | 66,896 | 57,599 |
| Total expenses | \$ 2,635,464 | \$ - | \$ - | \$ 2,635,464 | \$ 1,963,427 |
| Change in net assets | \$ 46,686 | \$ - | \$ - | \$ 46,686 | \$ 48,514 |
| Net assets, beginning of year | (81,134) | - | 15,844 | (65,290) | (113,804) |
| Net assets, end of year | \$ (34,448) | \$ - | \$ 15,844 | \$ (18,604) | \$ (65,290) |

The accompanying notes to financial statements are an integral part of this statement.

The Arc of the Piedmont, Inc.

Statement of Cash Flows
For the Year Ended December 31, 2002
(With Comparative Totals for 2001)

| | <u>2002</u> | <u>2001</u> |
|--|-------------------------|-------------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 46,686 | \$ 48,514 |
| Adjustments to reconcile change in net assets to cash used in operating activities: | | |
| Depreciation | 79,510 | 53,753 |
| Amortization Expense | 2,066 | 2,066 |
| Unrealized (gain) loss on securities | 2,277 | 1,314 |
| Net (gain) loss on disposal of equipment and property | (102,786) | - |
| Changes in assets and liabilities: | | |
| (Increase) decrease in: | | |
| Restricted assets - funds held in escrow | 10,937 | (28,160) |
| Funds held in escrow by VHDA | 144,850 | 184,825 |
| Accounts receivable | 34,689 | (52,304) |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | (19,494) | 25,347 |
| Unexpended grant funds | (6,890) | 5,996 |
| Net cash from operating activities | <u>\$ 191,845</u> | <u>\$ 241,351</u> |
| Cash flows from investing activities: | | |
| Purchase of property, equipment, improvements, etc. | \$ (190,414) | \$ (201,734) |
| Proceeds from the sale of property | <u>102,786</u> | <u>-</u> |
| Net cash to investing activities | <u>\$ (87,628)</u> | <u>\$ (201,734)</u> |
| Cash flows from capital and related financing activities: | | |
| Proceeds from (payments on) lines of credit | \$ 9,500 | \$ 70,691 |
| Principal payment on long-term debt | (89,698) | (112,845) |
| Proceeds from debt issuance | <u>25,000</u> | <u>-</u> |
| Net cash from capital and related financing activities | <u>\$ (55,198)</u> | <u>\$ (42,154)</u> |
| Net increase in cash and cash equivalents | \$ 49,019 | \$ (2,537) |
| Cash and cash equivalents, beginning of year | <u>\$ 17,418</u> | <u>\$ 19,955</u> |
| Cash and cash equivalents, end of year | <u><u>\$ 66,437</u></u> | <u><u>\$ 17,418</u></u> |

The accompanying notes to financial statements are an integral part of this statement.

The Arc of the Piedmont, Inc.

Statement of Functional Expenses
For the Year Ended December 31, 2002
(With Comparative Totals for 2001)

| | Program Expenses | | | | | | Total | |
|-------------------------------------|------------------|------------|--------------|--------------|--------------|--------------|--------------|--------|
| | Adult | Infant | Community | Total | Management & | 2002 | 2001 | |
| | Activities | Develop- | | | | | | Living |
| Center | ment | | | | | | | |
| | | Project | | | | | | |
| Salaries | \$ 222,453 | \$ 78,769 | \$ 1,392,724 | \$ 1,693,946 | \$ 11,133 | \$ 1,705,079 | \$ 1,259,672 | |
| Employee benefits | 21,529 | 11,497 | 135,605 | 168,631 | 1,170 | 169,801 | 120,804 | |
| Payroll taxes | 16,318 | 5,711 | 101,949 | 123,978 | 1,761 | 125,739 | 98,915 | |
| Total salaries and related expenses | \$ 260,300 | \$ 95,977 | \$ 1,630,278 | \$ 1,986,555 | \$ 14,064 | \$ 2,000,619 | \$ 1,479,391 | |
| Professional fees | 6,397 | 987 | 29,602 | 36,986 | 4,488 | 41,474 | 35,154 | |
| Supplies | 14,354 | 3,028 | 84,475 | 101,857 | 1,648 | 103,505 | 89,261 | |
| AAC Social | 2,824 | - | 8,171 | 10,995 | - | 10,995 | 4,937 | |
| Telephone | 2,371 | 1,474 | 17,472 | 21,317 | 996 | 22,313 | 17,510 | |
| Postage | 446 | 400 | 2,029 | 2,875 | 410 | 3,285 | 3,794 | |
| Insurance | 4,740 | 1,266 | 44,453 | 50,459 | 1,267 | 51,726 | 14,080 | |
| Outside services | 1,350 | - | 1,030 | 2,380 | - | 2,380 | 2,299 | |
| Rent | - | - | 11,433 | 11,433 | - | 11,433 | - | |
| Utilities | 7,784 | 690 | 39,091 | 47,565 | 628 | 48,193 | 42,595 | |
| Property tax | 348 | 19 | 14,986 | 15,353 | 42 | 15,395 | 14,250 | |
| Repairs | 11,125 | 1,035 | 43,302 | 55,462 | 1,835 | 57,297 | 48,815 | |
| Mortgage Interest | 5,026 | 1,180 | 71,759 | 77,965 | 1,263 | 79,228 | 86,796 | |
| Equipment | 1,304 | 1,421 | 6,748 | 9,473 | 2,619 | 12,092 | 11,029 | |
| Printing and reproduction | 1,282 | 314 | 3,666 | 5,262 | 384 | 5,646 | 4,074 | |
| Subscriptions/ books | - | 52 | 232 | 284 | 529 | 813 | 2,158 | |
| Travel | 514 | 7,000 | 16,938 | 24,452 | 659 | 25,111 | 9,975 | |
| Auto expenses | 3,185 | - | 1,772 | 4,957 | - | 4,957 | 6,055 | |
| Conference/ education | 197 | 203 | 782 | 1,182 | 1,019 | 2,201 | 6,084 | |
| Fundraising | - | - | - | - | 12,226 | 12,226 | 7,350 | |
| Miscellaneous | 1,453 | 752 | 24,095 | 26,300 | 16,699 | 42,999 | 22,001 | |
| Amortization Expense | - | - | 2,066 | 2,066 | - | 2,066 | 2,066 | |
| Depreciation | 15,343 | - | 58,047 | 73,390 | 6,120 | 79,510 | 53,753 | |
| Total expenses | \$ 340,343 | \$ 115,798 | \$ 2,112,427 | \$ 2,568,568 | \$ 66,896 | \$ 2,635,464 | \$ 1,963,427 | |

The accompanying notes to financial statements are an integral part of this statement.

The Arc of the Piedmont, Inc.

Notes to Financial Statements
As of December 31, 2002

NOTE 1—NATURE OF PROGRAMS AND SERVICES PROVIDED

The Association's mission is to improve the quality of life of persons with or at risk of mental retardation or developmental disabilities through service, advocacy, and education. The Association serves the City of Charlottesville and the counties of Albemarle, Nelson, Fluvanna, Louisa and Greene. The Adult Activity Center is a day support program for adults with mental retardation and provides individualized training designed to enable individuals to achieve their highest potential in independence and participation in the community. The Infant Development Project serves families with children, ages birth to three, with disabilities, developmental delays, or who are at risk of developing delays, with the goal of preventing or reducing the severity of developmental delay in infants. "Community Living Programs provide a wide range of in-home family and residential support services to individuals with mental retardation to support families and to enhance the quality of community living." The Arc of the Piedmont, Inc. also provides education and advocacy to increase public understanding of the nature of mental retardation and developmental disabilities, and the unique benefits that people who are disabled can contribute to the community.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Basis of Accounting and Presentation

The Association has adopted the accrual basis of accounting. Consequently, revenue is recognized when earned rather than when received, and expenditures are recognized when incurred rather than when paid.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*, and No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 116, the Organization reports gifts of cash and other assets as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. When a donor temporary restriction expires (that is, when a stipulated time restriction ends or purposed restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. 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.

B. Allocated Expenses

Expenses by function have been allocated among program and supporting services classification on the basis of time records and on estimates made by the organizations management.

The Arc of the Piedmont, Inc.

Notes to Financial Statements
As of December 31, 2002

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

C. Expendable Restricted Resources

Current and fixed asset funds restricted by the donor, grantor or other outside party for particular operating purposes or fixed asset acquisitions are deemed to be earned and reported as revenues of current funds or additions to fixed asset funds, respectively, when the Association has incurred expenditures in compliance with the specific restrictions. Such amounts received, but not yet earned are reported as restricted deferred amounts. At December 31, 2002 there were no restricted deferred amounts.

D. Investments

Investments consist of stock and mutual fund accounts, and are reported at market. Market value at December 31, 2002 are summarized as follows:

| | <u>Quoted Market Value</u> |
|----------------------------------|--------------------------------|
| Designated net assets | |
| Stock - General Motors | \$ 184 |
| Restricted net assets | |
| Mutual funds-Vanguard | <u>8,364</u> |
| Total | <u><u>\$ 8,548</u></u> |

The fair market value is determined by quotes in nationally distributed publications.

E. Land, Building and Equipment

Property and equipment purchased by The Arc of the Piedmont, Inc. are stated at cost and include expenditures which improve and extend their useful lives. Donated equipment is stated at the estimated fair market value on the date of the gift. Depreciation expense is computed by the straight-line method over the estimated useful lives of the related assets, ranging from five years to twenty years for equipment and furniture and thirty years for buildings. Depreciation expense for the year ended December 31, 2002 was \$79,510.

F. Cash and Cash Equivalents

For purpose of reporting cash flows, cash and cash equivalents consist of all cash on hand and in banks, and highly liquid investments. Escrow funds held by mortgagors are not included in cash and cash equivalents.

G. Other Matters

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Membership dues and support assessments are recorded as they become due and payable, and allowances are provided for amounts estimated to be uncollectible. Dues and assessments, which are received, but not yet due, are recorded as deferred amounts. At December 31, 2002 there were no deferred dues.

The Arc of the Piedmont, Inc.

Notes to Financial Statements
As of December 31, 2002

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

H. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

I. Comparative Totals

Totals for the prior year are presented for comparative purposes and additional analysis.

NOTE 3—LAND, BUILDING AND EQUIPMENT:

Property, furniture and equipment and related depreciation are as follows:

| | <u>Balance January 1, 2002</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance December 31, 2002</u> |
|--------------------------------------|--|-------------------|-------------------|--|
| Land* | \$ 293,755 | \$ - | \$ 67,269 | \$ 226,486 |
| Buildings & Improvements | 1,377,068 | 469,780 | - | 1,846,848 |
| Furniture and fixtures | 104,407 | 8,840 | - | 113,247 |
| Construction in Progress | 283,062 | 182,841 | 465,903 | 0 |
| Transportation & equipment | <u>50,152</u> | <u>62,125</u> | <u>-</u> | <u>112,277</u> |
| Total | <u>\$ 2,108,444</u> | <u>\$ 723,586</u> | <u>\$ 533,172</u> | \$ 2,298,858 |
| Less: Accumulated depreciation | | | | <u>(546,945)</u> |
| | | | | <u>\$ 1,751,913</u> |

NOTE 4—MORTGAGES PAYABLE:

Mortgages payable at December 31, 2002 consist of six separate financial agreements for the properties operated as residences for persons with mental retardation located in Charlottesville, Crozet, Louisa and Lovingston, Virginia and are secured by deeds of trust on the land and improvements thereon. Terms of these agreements and balances due at December 31, 2002 are as follows:

The Arc of the Piedmont, Inc.

Notes to Financial Statements
As of December 31, 2002

NOTE 4—MORTGAGES PAYABLE:

Amounts required to amortize long-term debt are as follows:

| Year Ended | 1100 Locust Ave VHDA | Louisa/ JPC VHDA | 1014 Locust Ave/ Jarman's GAP VHDA | 515 Park St. Bank of America | Steven Varnum's VHDA | Total |
|------------|----------------------------|------------------------|--|---------------------------------------|----------------------------|---------------------|
| 2003 | \$ 13,133 | \$ 13,312 | \$ 29,607 | \$ 11,497 | \$ 14,572 | 82,121 |
| 2004 | 13,805 | 13,993 | 30,204 | 12,298 | 15,015 | 85,315 |
| 2005 | 14,511 | 14,709 | 30,814 | 13,154 | 15,472 | 88,660 |
| 2006 | 15,253 | 15,462 | 31,436 | 14,070 | 15,943 | 92,164 |
| 2007 | 16,034 | 16,253 | 32,070 | 15,050 | 16,428 | 95,835 |
| Thereafter | <u>21,200</u> | <u>291,712</u> | <u>470,378</u> | <u>301,887</u> | <u>275,372</u> | <u>1,360,549</u> |
| Total | <u>\$ 93,936</u> | <u>\$ 365,441</u> | <u>\$ 624,509</u> | <u>\$ 367,956</u> | <u>\$ 352,802</u> | <u>\$ 1,804,644</u> |

Details of Mortgages Payable:

| | |
|---|---------------------|
| \$156,750 first lien deed of trust, secured by 1100 Locust Avenue real estate payable to Virginia Housing Development Authority, due in monthly payment of \$1,461 applied first to interest and then to principal through March 1, 2009, interest at 5.00% | \$ 93,936 |
| \$395,000 first lien deed of trust, secured by Louisa and Jefferson Park Circle real estate payable to Virginia Housing Development Authority, due in monthly payments of \$2,607 applied first to interest and then to principal through July 1, 2020, interest at 5.00% | 365,441 |
| \$689,000 first lien deed of trust, secured by 1014 Locust Avenue and Jarman's Gap real estate payable to Virginia Housing Development Authority, due in monthly payments of \$3,485 applied first to interest and then to principal through September 1, 2015, interest at 2.00% | 624,509 |
| \$379,926 loan payable to Bank of America due in monthly installments of \$3,015 of principal and interest through September 8, 2020, interest at 6.750% | 367,956 |
| \$375,000 first lien deed of trust, secured by Steven Varnum's house real estate payable to Virginia Housing Development Authority, due in monthly payments of \$2,080 applied first to interest and then to principal through May 1, 2021, interest at 3.00% | <u>352,802</u> |
| Total mortgages payable | <u>\$ 1,804,644</u> |

The Arc of the Piedmont, Inc.

Notes to Financial Statements
As of December 31, 2002

NOTE 5—LINES OF CREDIT:

Lines of credit were obtained from Bank of America for operations and to purchase group homes. They are secured by real estate owned by The Arc of the Piedmont, Inc.

Lines of credit with current interest rates consist of the following at December 31, 2002:

Bank of America - Operations, interest at 4.25% \$ 98,766

NOTE 6—SHORT-TERM LOAN:

Amounts required to amortize the short-term loan is as follows:

| <u>Year Ended</u> | <u>Principal</u> | <u>Interest</u> |
|-------------------|------------------|-----------------|
| 2003 | \$ 10,023 | \$ 369 |
| 2004 | <u>6,851</u> | <u>77</u> |
| Total | \$ <u>16,874</u> | \$ <u>446</u> |

Details of short-term loan:

\$25,000 loan payable to Don Fritz due in monthly installments of \$866.01 principal and interest through August 25, 2004, interest at 3% \$ 16,874

NOTE 7—DEFERRED REVENUE:

Unexpended Grant Funds:

Deferred revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the accrual basis of accounting, such amounts are measurable, and available. Unexpended grant funds totaling \$1,927 are comprised of Hut Foundation funds.

The Arc of the Piedmont, Inc.

Notes to Financial Statements
As of December 31, 2002

NOTE 8—TEMPORARILY RESTRICTED ASSETS:

The following net assets were released from grantor restrictions by incurring expenditures satisfying the restricted purposes of the grants.

| | | |
|---|----|----------------|
| Perry Foundation Grant | \$ | 15,000 |
| Children Youth & Family Services | | 20,757 |
| Rotary Grant | | 6,889 |
| KOVAR | | 30,000 |
| Bama Works Fund of the Dave Matthews Band | | <u>30,000</u> |
| Total | \$ | <u>102,646</u> |

NOTE 9—FEDERAL INCOME TAX:

The Arc of the Piedmont, Inc. is an organization exempt from federal income taxes under Section 501 (c) (3) of the Internal Revenue Code. While the Association is generally exempt from income taxes, it is subject to taxes on unrelated trade or business income and on excess lobbying expense. For the year ended December 31, 2002, The Arc of the Piedmont, Inc. did not incur taxes for unrelated trade or business income.

NOTE 10—NET ASSETS DEFICIT:

The Arc of the Piedmont, Inc. has not realized sufficient revenues to completely offset costs and deficits in net assets carried over from prior years. Deficit net assets equal \$18,604.

NOTE 11—RELATED PARTY AND CONTINGENT LIABILITY:

During the fiscal year ended December 31, 2002 the Board of Directors of the Arc of the Piedmont, Inc were appointed as the Board of Directors of Wiseman House, Inc. The Arc made payments for rental of space to the Wiseman House in the amount of \$5,000.

Furthermore due to the appointment of the Board to Wiseman House the Arc is morally obligated to HUD for the existing mortgage on the Wiseman House. The terms and conditions (deed of trust against identified property) secures the obligation.