



WHERE ABILITY MEETS OPPORTUNITY

**FINANCIAL REPORT**

**JUNE 30, 2016 AND 2015**



ASSURANCE, TAX & ADVISORY SERVICES

# **VERSABILITY RESOURCES, INC.**

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
VersAbility Resources, Inc.  
Hampton, Virginia

### **Report on the Financial Statements**

We have audited the accompanying financial statements of VersAbility Resources, Inc., which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, cash flows, and functional expenses for the years 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 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 financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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 from material misstatement.

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of VersAbility Resources, Inc. as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 11 to the financial statements, VersAbility Resources, Inc. restated the allocation of indirect costs previously reported for the year ended June 30, 2015 from management and general expenses to program expenses. Our opinion is not modified with respect to this matter.

*PB Mares, LLP*

Norfolk, Virginia  
January 17, 2017

## **FINANCIAL STATEMENTS**

**VERSABILITY RESOURCES, INC.****STATEMENTS OF FINANCIAL POSITION****June 30, 2016 and 2015**

	<b>2016</b>	2015
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 3,819,566	\$ 2,870,674
Accounts receivable, net	5,297,156	4,612,755
Account receivable - Medicaid	711,207	296,209
Pledges receivable, net	131,006	141,678
Grants receivable	15,000	105,547
Inventory	7,402	21,326
Advances to affiliates	14,897	14,959
Prepaid expenses	216,056	137,293
	<hr/>	<hr/>
<b>Total current assets</b>	<b>10,212,290</b>	8,200,441
	<hr/>	<hr/>
Property and Equipment, Net	7,704,301	7,972,635
	<hr/>	<hr/>
Other Assets		
Land held for sale	57,512	57,512
Investment in commercial software package	3,000	3,000
Intangible assets, net of amortization	-	36,242
Grants receivable, net of current portion	-	15,000
Deposits	93,584	45,284
Resident security deposits and custodial bank accounts	108,122	89,763
	<hr/>	<hr/>
<b>Total other assets</b>	<b>262,218</b>	246,801
	<hr/>	<hr/>
<b>Total assets</b>	<b>\$ 18,178,809</b>	\$ 16,419,877
	<hr/> <hr/>	<hr/> <hr/>

**VERSABILITY RESOURCES, INC.****STATEMENTS OF FINANCIAL POSITION (Continued)****June 30, 2016 and 2015**

	2016	2015
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Line of credit	\$ -	\$ 292,850
Current maturities of long-term debt	757,225	733,031
Accounts payable	1,769,533	1,625,911
Accrued expenses	2,027,510	1,574,850
Deferred revenue	70,001	77,123
	<hr/>	<hr/>
<b>Total current liabilities</b>	<b>4,624,269</b>	<b>4,303,765</b>
Long-Term Liabilities		
Long-term debt, less current maturities	3,556,941	3,459,361
Resident security deposits and custodial bank accounts	108,122	89,763
	<hr/>	<hr/>
<b>Total long-term liabilities</b>	<b>3,665,063</b>	<b>3,549,124</b>
	<hr/>	<hr/>
<b>Total liabilities</b>	<b>8,289,332</b>	<b>7,852,889</b>
Net Assets		
Unrestricted	8,740,504	7,348,747
Unrestricted, board designated	1,000,000	1,000,000
Temporarily restricted	148,973	218,241
	<hr/>	<hr/>
<b>Total net assets</b>	<b>9,889,477</b>	<b>8,566,988</b>
	<hr/>	<hr/>
<b>Total liabilities and net assets</b>	<b>\$ 18,178,809</b>	<b>\$ 16,419,877</b>

## VERSABILITY RESOURCES, INC.

### STATEMENT OF ACTIVITIES Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Total
<b>Operating Revenues and Other Support</b>			
Contract sales and commissions	\$ 28,002,418	\$ -	\$ 28,002,418
Fee revenues	11,636,612	-	11,636,612
State and local grants	238,592	-	238,592
Contributions	149,865	28,569	178,434
United Way of the Virginia Peninsula	-	102,437	102,437
Other	329,604	-	329,604
<b>Subtotal</b>	<b>40,357,091</b>	<b>131,006</b>	<b>40,488,097</b>
Net assets released from restriction			
Expiration of time restrictions	200,274	(200,274)	-
<b>Total operating revenues and other support</b>	<b>40,557,365</b>	<b>(69,268)</b>	<b>40,488,097</b>
<b>Expenses</b>			
Program expenses:			
Work programs	27,521,081	-	27,521,081
Non-work programs	2,409,052	-	2,409,052
Intermediate Care Facilities for Individuals with Intellectual Disabilities (ICF/IID)	7,664,876	-	7,664,876
<b>Total program expenses</b>	<b>37,595,009</b>	<b>-</b>	<b>37,595,009</b>
Supporting services:			
Management and general expenses	1,246,756	-	1,246,756
Fundraising	176,901	-	176,901
<b>Total supporting services expenses</b>	<b>1,423,657</b>	<b>-</b>	<b>1,423,657</b>
<b>Total expenses</b>	<b>39,018,666</b>	<b>-</b>	<b>39,018,666</b>
<b>Change in net assets from operations</b>	<b>1,538,699</b>	<b>(69,268)</b>	<b>1,469,431</b>
<b>Other Changes</b>			
Interest	2,282	-	2,282
Loss on disposal of property and equipment	(149,224)	-	(149,224)
<b>Total other changes</b>	<b>(146,942)</b>	<b>-</b>	<b>(146,942)</b>
<b>Change in net assets</b>	<b>1,391,757</b>	<b>(69,268)</b>	<b>1,322,489</b>
Net Assets			
Beginning	8,348,747	218,241	8,566,988
Ending	\$ 9,740,504	\$ 148,973	\$ 9,889,477

**VERSABILITY RESOURCES, INC.**

**STATEMENT OF ACTIVITIES**

**Year Ended June 30, 2015**

	Unrestricted	Temporarily Restricted	Total
<b>Operating Revenues and Other Support</b>			
Contract sales and commissions	\$ 25,368,724	\$ -	\$ 25,368,724
Fee revenues	11,405,452	-	11,405,452
State and local grants	62,514	43,596	106,110
Contributions	68,481	9,135	77,616
United Way of the Virginia Peninsula	-	114,044	114,044
Other	362,989	-	362,989
<b>Subtotal</b>	<b>37,268,160</b>	<b>166,775</b>	<b>37,434,935</b>
Net assets released from restriction			
Expiration of time restriction	167,775	(167,775)	-
<b>Total operating revenues and other support</b>	<b>37,435,935</b>	<b>(1,000)</b>	<b>37,434,935</b>
<b>Expenses</b>			
Program expenses:			
Work programs	26,984,785	-	26,984,785
Non-work programs	2,394,415	-	2,394,415
Intermediate Care Facilities for Individuals with Intellectual Disabilities (ICF/IID)	6,926,071	-	6,926,071
<b>Total program expenses</b>	<b>36,305,271</b>	<b>-</b>	<b>36,305,271</b>
Supporting services:			
Management and general expenses	1,213,665	-	1,213,665
Fundraising	64,132	-	64,132
<b>Total supporting services expenses</b>	<b>1,277,797</b>	<b>-</b>	<b>1,277,797</b>
<b>Total expenses</b>	<b>37,583,068</b>	<b>-</b>	<b>37,583,068</b>
<b>Change in net assets from operations</b>	<b>(147,133)</b>	<b>(1,000)</b>	<b>(148,133)</b>
<b>Other Changes</b>			
Interest	2,677	-	2,677
Unrealized loss on investment	(97,000)	-	(97,000)
Gain on disposal of property and equipment	1,172	-	1,172
<b>Total other changes</b>	<b>(93,151)</b>	<b>-</b>	<b>(93,151)</b>
<b>Change in net assets</b>	<b>(240,284)</b>	<b>(1,000)</b>	<b>(241,284)</b>
<b>Net Assets</b>			
Beginning	8,589,031	219,241	8,808,272
Ending	\$ 8,348,747	\$ 218,241	\$ 8,566,988

## VERSABILITY RESOURCES, INC.

### STATEMENTS OF CASH FLOWS Years Ended June 30, 2016 and 2015

	2016	2015
Cash Flows From Operating Activities		
Change in net assets	\$ 1,322,489	\$ (241,284)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	840,166	859,941
Provision for bad debts	9,147	(30,665)
Impairment loss on investment	-	97,000
Loss (gain) on disposal of property and equipment	149,224	(1,172)
Changes in assets and liabilities:		
Accounts receivable	(693,548)	1,704,860
Account receivable - Medicaid	(414,998)	33,832
Pledges receivable, net	10,672	16,596
Grants receivable	105,547	(57,547)
Inventory	13,924	35,264
Advances to affiliates	62	(4,187)
Prepaid expenses	(78,763)	267,895
Deposits	(48,300)	300
Accounts payable	143,622	(541,238)
Accrued expenses	452,660	(69,293)
Deferred revenue	(7,122)	44,764
<b>Net cash provided by operating activities</b>	<b>1,804,782</b>	<b>2,115,066</b>
Cash Flows From Investing Activities		
Purchases of property and equipment	(336,746)	(685,641)
Proceeds from sale of property and equipment	12,607	13,130
Purchase of intangible assets	-	(16,200)
<b>Net cash used in investing activities</b>	<b>(324,139)</b>	<b>(688,711)</b>
Cash Flows From Financing Activities		
Draws on line of credit, net	204,053	292,850
Principal payments on long-term debt	(735,804)	(1,147,662)
<b>Net cash used in financing activities</b>	<b>(531,751)</b>	<b>(854,812)</b>
<b>Net increase in cash and cash equivalents</b>	<b>948,892</b>	<b>571,543</b>

**VERSABILITY RESOURCES, INC.**

**STATEMENTS OF CASH FLOWS (Continued)**  
**Years Ended June 30, 2016 and 2015**

	<b>2016</b>	2015
Cash and Cash Equivalents		
Beginning	<u>\$ 2,870,674</u>	<u>\$ 2,299,131</u>
Ending	<u>\$ 3,819,566</u>	<u>\$ 2,870,674</u>
Supplemental Cash Flow Disclosures		
Cash paid for interest	<u>\$ 176,801</u>	<u>\$ 185,151</u>
Supplemental Disclosures of Non-Cash Activities		
Property and equipment purchased with issuance of debt	<u>\$ 360,675</u>	<u>\$ 373,000</u>
Line of credit balance refinanced to term debt	<u>\$ 496,903</u>	<u>\$ -</u>
Disposal of fully depreciated fixed assets	<u>\$ 364,704</u>	<u>\$ 112,939</u>

**VERSABILITY RESOURCES, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**  
**Year Ended June 30, 2016**

	<b>Programs</b>			<b>Supporting Services</b>		<b>Total</b>
	<b>Work Programs</b>	<b>Non-Work Programs</b>	<b>ICF/IID</b>	<b>Management and General</b>	<b>Fundraising</b>	
Direct costs						
Personnel costs	\$ 13,613,466	\$ 1,710,044	\$ 4,782,879	\$ 2,119,318	\$ 99,149	\$ 22,324,856
Staff development	34,114	2,126	13,217	66,403	2,789	118,649
Subcontractors	9,267,640	4,232	22,727	-	157	9,294,756
Facility expenses	237,595	56,418	231,153	287,990	-	813,156
Equipment and supplies	1,271,407	151,070	591,054	271,383	5,361	2,290,275
Professional fees	101,558	819	167,462	392,162	-	662,001
Interest expense	28,301	8,245	56,337	83,243	-	176,126
Telephone and communication	175,431	20,215	36,706	212,854	450	445,656
ICF/IID assessment expense	-	-	360,913	-	-	360,913
Contract administration fees	822,138	-	-	-	-	822,138
Other	984,833	46,029	168,162	442,121	68,995	1,710,140
<b>Total direct costs</b>	<b>26,536,483</b>	<b>1,999,198</b>	<b>6,430,610</b>	<b>3,875,474</b>	<b>176,901</b>	<b>39,018,666</b>
Indirect costs						
Allocation of management and general expenses	984,598	409,854	1,234,266	(2,628,718)	-	-
<b>Total costs</b>	<b>\$ 27,521,081</b>	<b>\$ 2,409,052</b>	<b>\$ 7,664,876</b>	<b>\$ 1,246,756</b>	<b>\$ 176,901</b>	<b>\$ 39,018,666</b>

**VERSABILITY RESOURCES, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**  
**Year Ended June 30, 2015**

	<b>Programs</b>			<b>Supporting Services</b>		<b>Total</b>
	<b>Work Programs</b>	<b>Non-Work Programs</b>	<b>ICF/ID</b>	<b>Management and General</b>	<b>Fundraising</b>	
Direct costs						
Personnel costs	\$ 14,452,013	\$ 1,664,685	\$ 4,220,399	\$ 2,042,659	\$ -	\$ 22,379,756
Staff development	41,776	6,956	26,178	84,319	-	159,229
Subcontractors	8,623,284	-	-	-	-	8,623,284
Facility expenses	233,341	46,511	238,900	298,307	-	817,059
Equipment and supplies	1,349,683	156,304	598,731	258,660	-	2,363,378
Professional fees	335,379	213	181,570	284,215	-	801,377
Interest expense	39,264	14,635	43,748	88,179	-	185,826
Telephone and communication	136,468	18,372	30,770	215,302	-	400,912
ICF/ID assessment expense	-	-	341,713	-	-	341,713
Contract administration fees	669,620	-	-	-	-	669,620
Other	249,226	32,583	124,456	370,517	64,132	840,914
<b>Total direct costs</b>	<b>26,130,054</b>	<b>1,940,259</b>	<b>5,806,465</b>	<b>3,642,158</b>	<b>64,132</b>	<b>37,583,068</b>
Indirect costs						
Allocation of management and general expenses	854,731	454,156	1,119,606	(2,428,493)	-	-
<b>Total costs</b>	<b>\$ 26,984,785</b>	<b>\$ 2,394,415</b>	<b>\$ 6,926,071</b>	<b>\$ 1,213,665</b>	<b>\$ 64,132</b>	<b>\$ 37,583,068</b>

## VERSABILITY RESOURCES, INC.

### NOTES TO FINANCIAL STATEMENTS

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#### Note 1. Nature of Organization and Significant Accounting Policies

**Nature of organization:** VersAbility Resources, Inc. (“VersAbility”) is a non-profit, non-stock corporation founded in 1953. VersAbility has a proud history of service to individuals with disabilities and their families. VersAbility’s mission is “To support people with disabilities in leading productive and fulfilling lives.” VersAbility serves nearly 1,400 individuals with disabilities annually in employment, day support, community living, and early childhood programs. Services range from providing developmental screenings for children to developing partnerships that create jobs for people with disabilities while helping businesses thrive. VersAbility’s service area includes the entire Hampton Roads region, as well as the 10 counties on the Middle Peninsula and Northern Neck. VersAbility has 13 government contracts, two of which are national in scope, which employ individuals with disabilities around the globe.

**Basis of presentation:** Financial statement presentation follows the recommendations of FASB Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. Under ASC 958, the organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

**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.

**Cash and cash equivalents:** For purposes of these financial statements, VersAbility considers all highly liquid investments purchased with a maturity of three months or less, to be cash equivalents.

**Accounts receivable:** Accounts receivable represents revenues earned pursuant to various contracts or other agreements entered into by VersAbility and are stated at the amount management expects to collect from outstanding balances. VersAbility does not accrue finance charges on outstanding accounts receivable. Most accounts receivable are due from governmental bodies, which pay VersAbility interest at a variable rate if the account is not settled within 30 days of the invoice date. VersAbility records this interest income as received.

Accounts receivable are considered past due based on the payment terms of the various contracts and agreements. Receivables past due 90 or more days totaled \$345,503 and \$266,445 as of June 30, 2016 and 2015, respectively. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The allowance amount as of June 30, 2016 and 2015 was \$221,320 and \$212,173, respectively.

**Pledges and grants receivable:** Pledges and grants receivable are recognized when the donor or grantor makes a promise to give to VersAbility that is, in substance, unconditional. Pledges and grants that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire or are otherwise satisfied in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions.

## VERSABILITY RESOURCES, INC.

### NOTES TO FINANCIAL STATEMENTS

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#### **Note 1. Nature of Organization and Significant Accounting Policies (Continued)**

The pledges receivable represent amounts due from the United Way expected to be received in the next fiscal year. These amounts are temporarily restricted.

Grants receivable are awards restricted by the grantors for specific purposes or future periods, and are temporarily restricted.

**Inventory:** Inventory consists of consumable equipment and raw materials used in work programs. Inventory is stated at the lower of cost (first-in, first-out method) or market.

**Investment:** VersAbility owns an investment representing a 15% ownership interest in future sales of a commercial software package designed for use in digitizing x-ray film, which was recorded at cost and adjusted to fair value on the date of the statement of financial position. The fair value of this interest is based on the approximate selling price of the software in the industrial marketplace.

Investment income, gains, and losses are reported as a change in unrestricted net assets in the reporting period in which the income, gains, or losses are recognized.

**Property and equipment:** Property and equipment are stated at cost. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets, which range from three to thirty-nine years.

Maintenance and repairs, including replacement of minor items of physical properties, are charged to expense; major additions are capitalized. VersAbility follows the practice of capitalizing all expenditures for property and equipment in excess of \$5,000.

**Intangible assets:** Intangible assets consist of franchise fees and franchise application fees. Franchise fees are amortized over the life of the franchise agreements. Application fees are expensed when the franchise operation begins.

**Land held for sale:** VersAbility holds a vacant parcel of land at its Hampton location that is being actively marketed.

**Resident security deposits and custodial bank accounts:** VersAbility holds security deposits for individuals living in residential homes as well as custodial bank accounts for participants in VersAbility's programs.

**Functional allocation of expenses:** Functional expenses have been allocated between programs and supporting services expenses based on an analysis of personnel time, space, supplies and equipment utilized for the related activities.

**Donated materials and services:** Contributed property and equipment are recorded at fair value at date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, or in the event that stipulations are met in the year of donation, contributions of property and equipment are recorded as unrestricted support.

## VERSABILITY RESOURCES, INC.

### NOTES TO FINANCIAL STATEMENTS

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#### Note 1. Nature of Organization and Significant Accounting Policies (Continued)

VersAbility recognizes the estimated fair value of contributed services that meet the following criteria:

- The services rendered either create or enhance non-financial assets.
- The services received require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by contribution.

Although a number of volunteers donate significant amounts of time to VersAbility, no services meeting these criteria were donated.

**Income taxes:** VersAbility is exempt from income taxes under Internal Revenue Code Section 501(c)(3). Furthermore, it is classified as a publicly supported charitable organization under Section 509(a)(1) of the Internal Revenue Code and qualifies for the maximum charitable contribution deduction for its donors. VersAbility is subject to income taxes on profits, if any, from unrelated business activities.

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The organization's management has evaluated the impact of this guidance on its financial statements. The organization is not aware of any material uncertain tax positions, and has not accrued the effect of any uncertain tax positions as of June 30, 2016 and 2015. With few exceptions, the organization is no longer subject to income tax examinations by federal, state or local tax authorities for years before 2012.

The organization's policy is to classify income tax related interest and penalties, if any, as interest expense and other expenses, respectively.

**Fee revenues:** Fee revenues include the estimated net realizable amounts from third party payers, consumers and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are recorded on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

**Advertising:** Advertising costs are expensed when incurred and totaled \$72,522 and \$40,114 for 2016 and 2015, respectively.

**Contributions and net assets:** The organization reports information regarding financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The financial statements report amounts separately by class of asset, when applicable, as follows:

Unrestricted amounts are those currently available for use at the discretion of the organization's Board of Directors and are used for operations. The Board of Directors has designated \$1,000,000 for operating reserves at June 30, 2016 and 2015.

## VERSABILITY RESOURCES, INC.

### NOTES TO FINANCIAL STATEMENTS

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#### Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Temporarily restricted amounts are those which are stipulated by donors for specific operating purposes or future years. 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. Temporarily restricted net assets consist of amounts restricted for future years and amounts for use in specific programs.

Permanently restricted amounts are restricted to investments in perpetuity, the income from which is expendable in accordance with the conditions of each specific donation. The organization has no permanently restricted net assets.

**Reclassifications:** Certain accounts for the year ended June 30, 2015 have been reclassified to conform to the current year presentation. The reclassifications had no effect on the change in net assets as previously reported.

#### Note 2. Pledges Receivable

The pledges receivable are unconditional and are as follows:

	<b>2016</b>	2015
Receivable in less than one year	\$ 131,006	\$ 142,532
Less allowance for uncollectable pledges receivable	-	(854)
Net unconditional pledges receivable	<b>\$ 131,006</b>	<b>\$ 141,678</b>

#### Note 3. Fair Value Measurements

VersAbility has established and documented processes and methodologies for determining the fair value of investments on a recurring basis in accordance with FASB ASC 820, *Fair Value Measurement*. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Under FASB ASC 820, a financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of valuation hierarchy established by FASB ASC 820 are defined as follows:

- Level 1** Valuation is based on quoted prices in active markets for identical assets and liabilities.
- Level 2** Valuation is based on observable inputs including quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in less active markets, and model-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the market.
- Level 3** Valuation is based on unobservable inputs that are significant to the fair value measurement.

A description of the valuation techniques applied to VersAbility's investment measured at fair value on a recurring basis follows.

## VERSABILITY RESOURCES, INC.

### NOTES TO FINANCIAL STATEMENTS

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#### Note 3. Fair Value Measurements (Continued)

##### *Investment in commercial software package*

The investment's fair value is based on conservative estimates of the sales price of x-ray digitization software developed by NanoArk Corporation, the designer and patent-holder of the software in whose future sales VersAbility acquired a 15% ownership interest. One of the benefits of x-ray digitization is the reduction of destruction risks by converting x-rays to computer files that could be easily duplicated and sorted for easy retrieval. Another benefit is the recovery of silver from the x-rays for sale on the commodity market to cover the cost of digitization and extraction. VersAbility has an employment program contract to digitize x-rays.

However, the commodity price of silver has decreased approximately 50% from the price at the date of VersAbility's initial investment. The decrease in silver prices has reduced, if not eliminated, demand for digitization of x-rays because the cost of digitization is no longer self-funded. There is also risk of technological obsolescence for the digitization software if support from the developer, or for the required equipment and operating platform were no longer available.

Management has estimated a 99% decline in the value of its investment in the commercial software package, because the sustained decrease in silver prices since initial investment affects the organization's ability to earn contract revenue, in addition to its ability to earn investment income from marketing and sales of the software. During the year ended June 30, 2015, VersAbility determined that the carrying amount of its interest in the software package exceeded its projected future cash flows from sales of the product and its fair value. Accordingly, VersAbility recognized an impairment loss of \$97,000 during the year ended June 30, 2015.

The investment in this commercial software package is classified within Level 3 of the valuation hierarchy defined above.

The following table is a roll forward of the statement of financial position amounts for the investment classified within Level 3 of the valuation hierarchy as of June 30:

	<b>2016</b>	2015
Fair value, beginning of year	\$ 3,000	\$ 100,000
Impairment loss	-	(97,000)
Fair value, end of year	<u>\$ 3,000</u>	<u>\$ 3,000</u>

## VERSABILITY RESOURCES, INC.

### NOTES TO FINANCIAL STATEMENTS

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#### Note 4. Property and Equipment

As of June 30, 2016 and 2015, major classes of property and equipment consisted of the following:

	<u>2016</u>	<u>2015</u>
Land	\$ 853,176	\$ 847,292
Land and leasehold improvements	427,720	558,847
Buildings	7,458,221	6,972,879
Vehicles	2,080,903	1,709,270
Furniture and fixtures	2,163,479	2,439,324
Construction in progress	43,360	328,361
	<u>13,026,859</u>	<u>12,855,973</u>
Less accumulated depreciation	(5,322,558)	(4,883,338)
	<u>\$ 7,704,301</u>	<u>\$ 7,972,635</u>

Depreciation expense for the years ended June 30, 2016 and 2015 was \$803,924 and \$857,613, respectively.

#### Note 5. Accounts Receivable/Payable – Medicaid

In accordance with its reimbursement agreement and as determined in its year-end cost report, VersAbility has recorded \$711,207 and \$296,209 as a receivable from Medicaid at June 30, 2016 and 2015, respectively.

#### Note 6. Line of Credit

VersAbility has a \$2,500,000 line of credit with Wells Fargo Bank, N.A which expires August 1, 2016. Draws against the line were collateralized by a security interest and a lien on the organization's equipment, deposit accounts and other personal property outlined in the security agreement with the financial institution. Interest accrued on the unpaid balance of each draw at a rate equal to the greater of 1-month LIBOR plus 2.25%, or 2.434%. VersAbility had no outstanding balance on this line of credit at June 30, 2016.

In September 2016, the lender approved renewal of this line of credit to October 1, 2017.

VersAbility also established a line of credit with Old Point National Bank for use in construction of an intermediate care facility, allowing for borrowings up to \$590,000 due on demand with a maturity date of May 7, 2016. Interest was payable monthly at a rate equal to the Wall Street Journal U.S. Prime Rate plus 0.50%. The balance on this line of credit was \$292,850 at June 30, 2015. On April 21, 2016, VersAbility converted the line of credit to a term loan, as disclosed in Note 7.

## VERSABILITY RESOURCES, INC.

### NOTES TO FINANCIAL STATEMENTS

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#### Note 7. Long-Term Debt

Long-term debt at June 30, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Old Point National Bank, installment notes, secured by deeds of trust, due monthly at \$657 to \$14,162 including interest at 4.12% to 4.50%, interest rates are subject to a review every 60 months, maturing December 2019 through July 2034	\$ 2,478,251	\$ 2,680,080
Old Point National Bank, installment note, secured by deed of trust and collateralized by furniture, fixtures, equipment and vehicles, due monthly at \$3,162 including interest at 4.12%, maturing May 2021	496,414	-
Chesapeake Bank, installment note, secured by deed of trust, interest of 4.5% due monthly at \$7,993, maturing May 2019	261,460	336,727
TowneBank, promissory notes, secured by vehicles, due monthly at \$429 to \$1,739 including interest from 4.43% to 4.70%, maturing through June 2021	599,589	340,745
TowneBank, promissory notes, secured by vehicles and equipment, due monthly at \$386 to \$448 including interest at 6.50% to 6.60%, maturing through November 2016	2,171	10,889
Bank of America, promissory notes, secured by vehicles and equipment, due monthly at \$18,085 including interest at 3.26%, maturing in April and August 2018	404,192	587,990
Various vehicle loans financed through auto dealerships, secured by underlying vehicles, due monthly at \$3,870 including interest at 0% to 4.74%, maturing April 2017 through September 2018	72,089	112,772
BB&T, promissory note, secured by furniture, vehicles and equipment, due monthly at \$4,348 including interest at 2.75%, retired November 2015	-	51,565
Bank of America, promissory note, secured by equipment, due monthly at \$18,024 including interest at 3.15%, retired November 2015	-	71,624
	<u>4,314,166</u>	<u>4,192,392</u>
Less current maturities	<u>757,225</u>	<u>733,031</u>
	<u>\$ 3,556,941</u>	<u>\$ 3,459,361</u>

## VERSABILITY RESOURCES, INC.

### NOTES TO FINANCIAL STATEMENTS

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#### Note 7. Long-Term Debt (Continued)

Future principal maturities of long-term debt are as follows:

2017	\$	757,225
2018		703,032
2019		494,008
2020		540,654
2021		728,844
Thereafter		1,090,403
	\$	<u>4,314,166</u>

#### Note 8. Retirement Plan

VersAbility sponsors a 401(k) profit sharing plan that covers most employees. Eligible employees may elect to have their compensation deferred up to 100% of gross pay. VersAbility matches up to 5% of each eligible employee's gross salary. For the years ended June 30, 2016 and 2015, VersAbility's matching contribution was \$172,346 and \$220,937, respectively. In addition, VersAbility sponsors a 457(b) deferred compensation plan that covers a select group of management.

Effective May 1, 2015, VersAbility adopted a 403(b) plan for employees who are not eligible for the 401(k). VersAbility does not make matching contributions to either the 457(b) or 403(b) plans.

#### Note 9. Participation in Multi-Employer Pension Plan

VersAbility recorded contributions to a multi-employer pension plan for employees subject to a collective bargaining agreement (the Plan), totaling \$69,040 and \$67,541 for the years ended June 30, 2016 and June 30, 2015, respectively. The Plan requires VersAbility to maintain a fringe benefit account for each employee with priority of disbursement going towards medical insurance (1<sup>st</sup>) for those choosing policy coverage. The balance (if any) is then dispersed (in order until totally depleted) to pension contributions (2<sup>nd</sup>), bonus pay (3<sup>rd</sup>) and any balance thereafter can go into (lastly) a 401(k) plan at the employee direction and in the employee name.

VersAbility's total cost of employee-elected coverage, including insurance, pension, bonus and 401(k) contributions is generally based on the health and welfare payment rate provided by the government to VersAbility as stated in the U.S. Department of Labor Wage Determination Rate for the Norfolk, Virginia region which was \$4.27 per hour and \$4.02 per hour during the years ended June 30, 2016 and 2015, respectively. Included in the health and welfare payment rate is the central pension fund contribution rate of \$1.80 per hour worked for full-time employees and \$0.75 per hour worked for part-time employees. As a result of the employee right to decide how much of his or her health and welfare funds are spent on medical insurance premiums, the pension contribution may or may not be fully funded at the maximum allowed amount.

## VERSABILITY RESOURCES, INC.

### NOTES TO FINANCIAL STATEMENTS

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#### Note 9. Participation in Multi-Employer Pension Plan (Continued)

The risks of participating in a multi-employer plan are different from the risks of participating in a single-employer plan in the following aspects:

1. Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.
2. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
3. If VersAbility chooses to stop participating in the Plan, VersAbility may be required to pay the Plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

VersAbility's participation in the Plan for the annual periods ended June 30, 2016 and 2015 is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employee Identification Number (EIN) and the three-digit plan number, if applicable. Unless otherwise noted, the most recent Pension Protection Act (PPA) zone status available in 2016 and 2015 is for the Plan year beginning February 1, 2015 and 2014, respectively. The zone status is based on information that VersAbility received from the Plan and is certified by the Plan's actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. The last column lists the expiration date of the collective bargaining agreement (CBA) to which the Plan is subject. There have been no significant changes that affect the comparability of 2016 and 2015 contributions.

Pension Fund	EIN Pension/ Plan Number	Pension Protection Act Zone Status		FIP/RP Status Pending/ Implemented	Contributions of VersAbility			Surcharge Imposed?	Expiration Date of CBA
		2016	2015		2016	2015	2014		
Central Pension Fund of the International Union of Operating Engineers and Participating Employers	36-6052390/001	Green	Green	No	\$ 69,040	\$ 67,541	\$ 74,267	No	9/30/2019

No participating employers contributed more than 5% of the total contributions to the Plan.

#### Note 10. Related Party Transactions

VersAbility has management agreements for three HUD homes for very low-income people with disabilities. These agreements provide for a management fee of 13.7% - 14.75% of rents collected to be paid to VersAbility. Management fees were \$12,030 for each of the years ended June 30, 2016 and 2015. Advances to affiliates represent operating advances to three affiliated corporations that were established with capital grants from the U. S. Department of Housing and Urban Development to operate these residential homes.

## VERSABILITY RESOURCES, INC.

### NOTES TO FINANCIAL STATEMENTS

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#### Note 10. Related Party Transactions (Continued)

Some of VersAbility's board members are executives of banks or corporations with which VersAbility conducts business. Several of the organization's secured loans, mainly mortgages, are held by a bank which has a representative on the board of directors. These loans totaled \$2,879,643 at June 30, 2016 and \$2,680,080 at June 30, 2015.

An executive of a publicly held manufacturing corporation is also a board member, and VersAbility has a significant work program contract with this corporation. The organization had receivables of approximately \$565,600 and \$687,000 from this corporation as of June 30, 2016 and 2015, respectively, and revenues of approximately \$1.9 million and \$2.8 million under this contract for the years then ended. The subject contract was due to expire in December 2015, but was renegotiated and extended through July 2017.

#### Note 11. Allocation of Indirect Costs

Management discovered errors in the allocation of indirect costs previously reported for the year ended June 30, 2015. Accordingly, the statement of activities and statement of functional expenses for the year then ended were restated to adjust the allocation of management and general expenses to programs.

The changes in indirect costs allocated to programs were:

	Previously reported	Restated
Work programs	\$ 1,362,200	\$ 854,731
Non-work programs	603,875	454,156
ICF/IID	1,502,238	1,119,606
	<u>\$ 3,468,313</u>	<u>\$ 2,428,493</u>

This restatement had no effect on the change in net assets or net assets as previously reported.

#### Note 12. Concentrations and Contingencies

Financial instruments that potentially subject VersAbility to concentrations of credit risk include cash and cash equivalents, accounts receivable, Medicaid reimbursement receivable and pledges receivable.

All cash and cash equivalents are deposited with various financial institutions. Each bank's collected balances are insured in the aggregate by the Federal Deposit Insurance Corporation. VersAbility had cash deposits in excess of insured amounts of \$2,436,875 and \$1,602,745 at June 30, 2016 and 2015, respectively.

Government contract revenue is a significant component of the revenues of certain employment programs of VersAbility. In the normal course of business, VersAbility provides credit to these customers under standard terms without collateral. A substantial portion of VersAbility's accounts receivables were from these contracts at June 30, 2016 and 2015.

## VERSABILITY RESOURCES, INC.

### NOTES TO FINANCIAL STATEMENTS

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#### Note 12. Concentrations and Contingencies (Continued)

Other program activities such as ICF/IID and supported and sheltered employment are dependent on third party reimbursement arrangements. VersAbility is subject to review by the Department of Medical Assistance Services with regard to revenues in the ICF/IID programs. This has resulted in paybacks and reimbursements in the past and may result in subsequent revenue adjustments. VersAbility does not believe these adjustments will be material to the organization.

During the years ended June 30, 2016 and 2015, 11% of VersAbility's employees were subject to a collective bargaining agreement (CBA) signed with the International Union of Operating Engineers (IUOE). The CBA extension expired March 31, 2015. A new collective bargaining agreement was signed June 2015 for the period April 1, 2015 through March 31, 2016, and extended to September 30, 2019.

During the years ended June 30, 2016 and 2015, a number of VersAbility employees comprising 3% in 2016 and 2015 of the workforce were subject to a CBA with the International Association of Machinists and Aerospace Workers (IAMAW). This CBA expired February 28, 2015. A new agreement was signed for the period March 1, 2015 through February 28, 2018.

#### Note 13. Rental Revenue

The Organization leases warehouse and retail space to two unrelated businesses under non-cancelable operating leases and to one business on a month-to-month basis. Total rents received for the years ended June 30, 2016 and 2015 were \$802,844 and \$87,368, respectively.

Minimum future rentals on non-cancelable tenant operating leases at June 30, 2016 are as follows:

2017	\$	679,505
2018		683,874
2019		690,015
2020		681,966
2021		239,019
Thereafter		-
	\$	<u>2,974,379</u>

#### Note 14. Lease Commitments

In June 2011, VersAbility entered into a five year, five month operating agreement to lease a facility for use in its operations associated with Norfolk Ship Provisioning. The lease is non-cancellable as long as VersAbility has a valid government contract in force. The initial lease term ended November 2016, but was extended. The extended lease agreement will expire in November 2019.

In September 2012, VersAbility entered into a ten-year operating agreement to lease premises for use as an adult day care facility. On January 7, 2015, the ten-year lease was modified to substantially increase the leased square footage and extend the lease term. The revised lease agreement will expire in March 2025.

## VERSABILITY RESOURCES, INC.

### NOTES TO FINANCIAL STATEMENTS

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#### Note 14. Lease Commitments (Continued)

In July 2015, VersAbility entered a five year, seven month operating lease agreement for a facility for use in its operations.

Rental expense totaled \$856,812 and \$158,103 for the years ended June 30, 2016 and June 30, 2015, respectively.

Minimum future rentals on non-cancelable operating leases at June 30, 2016 are as follows for each fiscal year:

2017	\$	753,935
2018		775,223
2019		797,121
2020		780,296
2021		516,545
Thereafter		566,019
	\$	<u>4,189,139</u>

#### Note 15. Subsequent Events

VersAbility has evaluated all events subsequent to the statement of financial position date of June 30, 2016 through January 17, 2017, which is the date these financial statements were available to be issued. VersAbility has determined that there are no subsequent events that require disclosure pursuant to the FASB Accounting Standards Codification except as disclosed in Notes 6, 10, 12 and 14.