

CUMBERLAND COMMUNITY OPTIONS, INC.

FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

(With Independent Auditors' Report Thereon)

CUMBERLAND COMMUNITY OPTIONS, INC.
COMPARATIVE STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 239,045	\$ 293,240
Accounts receivable State of Tennessee contract	269,185	8,713
Accounts receivable clients	7,817	5,956
Employee receivable	4,077	925
Prepaid expense	4,115	291
	<hr/>	<hr/>
Total Current Assets	524,239	309,125
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PROPERTY AND EQUIPMENT		
Furniture and equipment	38,237	37,455
Less accumulated depreciation	30,898	27,535
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Total Property and Equipment	7,339	9,920
	<hr/>	<hr/>
Total Assets	<u>\$ 531,578</u>	<u>\$ 319,045</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accrued expenses	\$ 58,137	\$ 52,663
Due to State of Tennessee	100,000	-
	<hr/>	<hr/>
Total Current Liabilities	158,137	52,663
	<hr/>	<hr/>
NET ASSETS		
Unrestricted	370,054	263,846
Board restricted funds	3,387	2,536
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Total Net Assets	373,441	266,382
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Total Liabilities and Net Assets	<u>\$ 531,578</u>	<u>\$ 319,045</u>

See notes to financial statements.

CUMBERLAND COMMUNITY OPTIONS, INC.
COMPARATIVE STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Changes in unrestricted net assets:		
Support and revenue		
State of Tennessee contract revenue	\$ 1,459,872	\$ 1,403,726
United Way	20,331	16,743
Donations	4,554	7,130
	<u>1,897</u>	<u>769</u>
Total support and revenue	<u>1,486,654</u>	<u>1,428,368</u>
Expenses:		
Program Services		
Support and client assistance	1,134,799	1,129,206
Management and General	244,796	264,164
Total expenses	<u>1,379,595</u>	<u>1,393,370</u>
Increase (decrease) in unrestricted net assets	107,059	34,998
Net assets, beginning of year	<u>266,382</u>	<u>231,384</u>
Net assets, end of year	<u>\$ 373,441</u>	<u>\$ 266,382</u>

See notes to financial statements.

CUMBERLAND COMMUNITY OPTIONS, INC.
COMPARATIVE STATEMENTS OF FUNCTIONAL EXPENSE
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008			2007		
	Support & Client Assistance	Management & General	Total	Support & Client Assistance	Management & General	Total
Salaries	\$ 729,092	118,689	847,781	742,800	117,525	860,325
Payroll taxes	55,155	8,979	64,134	58,562	7,665	66,227
Employee benefits	87,283	23,100	110,384	77,780	21,129	98,909
Bank charges	-	461	461	-	683	683
Professional services	4,338	8,649	12,985	5,018	8,609	13,627
Supplies	-	4,248	4,248	-	7,402	7,402
Communications	4,096	11,795	15,890	4,861	12,891	17,752
Client setup costs	1,845	-	1,845	8,287	-	8,287
Rent	99,288	42,262	141,551	98,882	38,800	137,682
Insurance	24,300	8,466	32,766	26,734	13,905	40,639
Travel / vehicle expense	75,678	4,759	80,437	70,846	7,073	77,919
Training	14,226	-	14,226	-	5,235	5,235
Equipment lease	-	5,221	5,221	-	5,097	5,097
Equipment repairs and maintenance	11,637	-	11,637	19,336	-	19,336
Advertising	-	892	892	-	578	578
License and permits	-	2,840	2,840	-	2,550	2,550
Utilities	18,707	-	18,707	16,100	-	16,100
Back ground checks	339	-	339	-	-	-
Fundraising	-	75	75	-	-	-
Miscellaneous	8,815	996	9,811	-	1,458	1,458
Depreciation	-	3,363	3,363	-	6,788	6,788
	1,134,799	244,796	1,379,595	1,129,206	264,164	1,393,370

See notes to financial statements.

CUMBERLAND COMMUNITY OPTIONS, INC.
COMPARATIVE STATEMENTS OF CASH FLOW
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
Cash Flows From Operating Activities		
Increase (decrease) in net assets	\$ 107,059	\$ 34,998
Adjustments to reconcile increase (decrease) in net assets to cash provided (used) by operating activities:		
Depreciation	3,363	6,776
(Increase) decrease in contract receivable	(260,472)	31,097
(Increase) decrease in accounts receivable	(5,012)	(1,886)
(Increase) decrease in prepaid expense	(3,824)	(13)
Increase (decrease) in accrued liabilities	5,474	(3,846)
Total adjustments	(260,472)	32,128
Net Cash Provided (Used) by Operating Activities	(153,413)	67,126
Cash Flows From Investing Activities		
Acquisition of plant, property, and equipment	(782)	(1,784)
Net Cash Used by Investing Activities	(782)	(1,784)
Cash Flows From Financing Activities		
Borrowings	169,000	-
Repayments	(69,000)	-
Net Cash Provided by Financing Activities	100,000	-
Increase (decrease) in cash	(54,195)	65,342
Cash, beginning of year	293,240	227,898
Cash, end of year	\$ 239,045	\$ 293,240
Supplemental disclosures:		
Cash paid for interest	\$ -	\$ -

See notes to financial statements.

CUMBERLAND COMMUNITY OPTIONS, INC.
NOTES TO THE FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements follow:

1. Nature of Organization. Cumberland Community Options, Inc. is a nonprofit corporation chartered by State of Tennessee for the purpose of assisting people with mental retardation and other disabilities to live in the community in such a way that there is an acceptable balance between their opportunities to experience a lifestyle meaningful to themselves and the risks that occur with ordinary living. The Corporation provides services to persons with mental retardation and other disabilities in the areas of supported living, specialized equipment and supplies, personal assistance, transportation, and adaptation to everyday living.
2. Basis of Presentation. Cumberland Community Options, Inc. reports information regarding its financial position and activities in accordance with the Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, the Corporation 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, based upon the existence or absence of donor-imposed restrictions. (The Corporation has no assets which meet the definition of temporarily or permanently restricted net assets.) In addition, the Corporation reports information regarding contributions in accordance with Statement of Financial Accounting Standards (SFAS) No. 116, Accounting for Contributions Received and Contributions Made. In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. The Corporation has not received any contributions with donor-imposed restrictions that would result in temporarily or permanently restricted net assets.
3. Basis of Accounting. The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Cash Equivalents. Cash equivalents consist of short-term, highly liquid investments which have an initial maturity of ninety days or less
5. Revenue and Support. Cumberland Community Options, Inc. receives most of its income, approximately 98%, from contract services paid by the State of Tennessee Department of Mental Health and Mental Retardation. The Corporation records income due from the State in the period that the applicable expenditures were incurred by the Corporation.
6. Contributions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net assets classes. When a temporary 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 restriction is fulfilled in the same period in which the contribution is received, the Corporation reports the support as unrestricted. Promises to give in the future are recognized as temporarily restricted assets and revenues and support in the period promised if the promise is unconditional or the possibility that a condition will not be met is remote.

CUMBERLAND COMMUNITY OPTIONS, INC.
NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

7. Property and Equipment. Property and equipment are carried at cost. Donated furniture and equipment has not been recorded, as Cumberland Community Options, Inc. have no reasonable basis for valuation. This donated property was being discarded from other agencies and no value was assigned for their contribution. Depreciation on purchased property is computed using the straight-line method over the estimated lives of the assets, presently three to seven years. During the year ended June 30, 2007 the outgoing Executive Director was given the laptop computer he used as a gift in appreciation of his service. The book value of this equipment that was given to the Executive Director was \$1,790.
8. Donated Services. Unpaid volunteers make contributions of time in various administrative, fund-raising, and program functions. The value of contributed time is not reflected in the financial statements as it is not susceptible to an objective measurement or valuation.
9. Functional Allocation of Expenses. The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.
10. Estimates. The preparation of the 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.
11. Income Taxes. Cumberland Community Options, Inc. is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision for federal income taxes have been made in the accompanying financial statements.
12. Pension Plan. Cumberland Community Options, Inc. maintains a 403(b) retirement plan for employees who are eligible for the plan after one year of employment. Cumberland Community Options contributes 5% of gross wages per employee after one year of employment and enrollment in the plan. Contributions to the plan are based on the participant's salary. The costs of this plan are charged to benefits expense and total \$7,976 and \$8,884 for the years ended June 30, 2008 and 2007 respectively.

NOTE B – DUE FROM THE STATE OF TENNESSEE:

Cumberland Community Options, Inc. is due monies from the State of Tennessee Department of Mental Health and Mental Retardation for contract services performed as of June 30, 2008 and 2007. These receivables total \$269,184 and \$8,713 for the years ended June 30, and 2008 and 2007 respectively. The large increase in this receivable is due to the state discontinuing an interim payment for year end June 30, 2008 and owing the Corporation for two months of services at June 30, 2008.

CUMBERLAND COMMUNITY OPTIONS, INC.
NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE C – QUESTIONED COSTS / CONTINGENCIES:

Questioned costs are those amounts charged to a funded program that may not be in compliance with requirements set forth in contracts, statutes, and regulations governing allowability or eligibility. A questioned cost may not be reimbursed by the State or the State agency may require that the funds already expended be refunded back to the State. These amounts can be “questioned” by the State for the specific grant to which they apply. The determination as to whether such costs will be allowed or disallowed under the grants will be made by the individual grantor agencies at a later date. No liability is needed as of June 30, 2008 and 2007 for these costs as no determination has been made by the grantor agencies as to any amount for any grant.

NOTE D – COMMITMENTS:

Cumberland Community Options, Inc. leases its office space under a lease that requires a monthly payment of \$3,340, with increases in monthly payments each year. In addition, Cumberland Community Options, Inc. maintains a lease for a copier as of June 30, 2008 and 2007, with monthly lease payments of \$325, this lease is not considered a capital lease under FASB Statement 13. Future minimum rental payments for leases with initial lease terms exceeding one year for each of the next five years are:

<u>Year Ended</u>	<u>Amount</u>
June 30, 2009	41,509
June 30, 2010	42,865
June 30, 2011	44,221
June 30, 2012	<u>45,577</u>
Total	<u>\$ 174,172</u>

NOTE E - CONCENTRATION OF CREDIT RISK:

Financial instruments that potentially subject the Corporation to concentrations of credit risk consist of money due from the State of Tennessee Department of Mental Health and Mental Retardation and other accounts receivable. Accounts receivable consist of monies due from clients for reimbursement of living expenses paid by the Corporation. These receivables are widely dispersed over many persons and mitigate credit risk. Money due from the State of Tennessee represents a concentration of credit risk to the extent that it is received from concentrated sources. The Corporation receives a substantial amount, (approximately 98%), of its support from the State of Tennessee. A significant reduction in the levels of this support, if this was to occur, could have an adverse effect on the Corporation's programs and activities. Based on the upcoming fiscal year's budget, the funding is expected to continue for the current year.

The Corporation's cash is held in two financial institutions. The Federal Deposit Insurance Corporation (FDIC) insures aggregate deposits up to \$100,000 per bank per depositor. At June 30, 2008 and 2007 deposits exceeded this limit by approximately \$39,000 and \$93,000 respectively. Subsequent to June 30, 2008 the FDIC increased its coverage of aggregate deposits to \$250,000.