PARK CENTER

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

June 30, 2006

PARK CENTER
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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Park Center
Nashville, Tennessee

We have audited the accompanying statement of financial position of Park Center (a nonprofit organization) as of June 30, 2006, 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.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Park Center as of June 30, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Frasier, Dean & Howard, PLLC

October 20, 2006

PARK CENTER
STATEMENT OF FINANCIAL POSITION
June 30, 2006

Assets

Current assets:	
Cash and cash equivalents	$ 885,005
Investments	2,780
Accounts receivable, net	320,267
Contributions receivable	36,000
Prepaid expenses	69,022
Total current assets	1,313,074
Property and equipment, net	2,996,528
Other assets	3,588
Total assets	$ 4,313,190

Liabilities and Net Assets

Current liabilities:	
Accounts payable	$ 41,118
Accrued expenses	146,817
Line of credit	12,612
Current portion of long-term debt	37,044
Total current liabilities	237,591
Long-term debt, less current portion	243,184
Total liabilities	480,775
Net assets:	
Unrestricted:	
Undesignated	3,028,068
Board designated	387,579
Total unrestricted	3,415,647
Temporarily restricted	416,768
Total net assets	3,832,415
Total liabilities and net assets	$ 4,313,190

See accompanying notes.

PARK CENTER
STATEMENT OF ACTIVITIES
For the year ended June 30, 2006

	Unrestricted	Temporarily Restricted	Total
Public support and revenues:			
Public support:			
Grants and contracts	$ 2,656,500	$ -	$ 2,656,500
Contributions	203,862	36,000	239,862
United Way	51,980	-	51,980
Total public support	2,912,342	36,000	2,948,342
Revenues:			
Rental income	294,073	-	294,073
Food service fees	42,142	-	42,142
Other	25,413	-	25,413
Investment and interest income	7,860	-	7,860
Net assets released from restrictions	64,622	(64,622)	-
Total revenues	434,110	(64,622)	369,488
Total public support and revenues	3,346,452	(28,622)	3,317,830
Expenses:			
Program services:			
Park Center South	637,520	-	637,520
Case management	684,805	-	684,805
Park Center East	249,209	-	249,209
Housing	1,586,991	-	1,586,991
Housing support	83,698	-	83,698
Total program services	3,242,223	-	3,242,223
Supporting services:			
Management and general	64,518	-	64,518
Fundraising	93,055	-	93,055
Total supporting services	157,573	-	157,573
Total expenses	3,399,796	-	3,399,796
Change in net assets	(53,344)	(28,622)	(81,966)
Net assets - beginning of year	3,468,991	445,390	3,914,381
Net assets - end of year	$ 3,415,647	$ 416,768	$ 3,832,415

See accompanying notes.

PARK CENTER
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2006

	Program Services						Supporting Services		
	Park Center South	Case Management	Park Center East	Housing	Housing Support	**Total Program Services**	Management and General	Fundraising	**Total Expenses**
Personnel services	$ 285,738	$ 479,288	$ 112,780	$ 886,921	$ 8,957	$ 1,773,684	$ 37,183	$ 48,359	$ 1,859,226
Fringe benefits	32,407	32,542	9,564	47,569	16,337	138,419	2,824	-	141,243
Payroll taxes	24,254	35,652	8,709	68,059	908	137,582	2,808	-	140,390
Total personnel costs	342,399	547,482	131,053	1,002,549	26,202	2,049,685	42,815	48,359	2,140,859
Utilities	41,232	9,670	9,776	90,342	5,636	156,656	-	-	156,656
Contract services	33,189	16,881	8,598	45,305	6,962	110,935	2,264	-	113,199
Food and beverage	55,389	566	24,793	25,951	5,972	112,671	-	-	112,671
Rental assistance	-	3,700	-	106,756	-	110,456	-	-	110,456
Insurance	19,968	14,716	13,167	39,791	11,719	99,361	3,073	-	102,434
Rental and maintenance	13,958	4,037	3,815	48,173	287	70,270	709	-	70,979
Professional fees	5,726	3,015	1,893	56,936	1,666	69,236	1,413	-	70,649
Conferences and meetings	2,702	42,622	1,019	4,000	950	51,293	2,137	-	53,430
Telephone	17,928	11,338	5,705	12,722	1,847	49,540	149	-	49,689
Office supplies	7,900	10,132	3,931	22,733	961	45,657	1,655	-	47,312
Miscellaneous	6,106	-	7,906	31,461	887	46,360	-	-	46,360
Fundraising - special events	-	-	-	-	-	-	-	44,696	44,696
Janitorial supplies	16,888	2,911	4,118	11,948	754	36,619	-	-	36,619
Program services	8,195	7,544	5,020	2,885	186	23,830	-	-	23,830
Printing and publications	6,183	5,627	2,525	3,125	330	17,790	1,545	-	19,335
Vehicle expense	1,870	580	1,248	7,531	1,856	13,085	267	-	13,352
Interest	2	-	-	3,905	708	4,615	8,202	-	12,817
Small equipment purchases	1,008	1,361	342	8,938	367	12,016	-	-	12,016
Taxes and licenses	1,326	823	619	7,098	607	10,473	-	-	10,473
Certifications and accreditations	1,755	1,099	308	3,137	434	6,733	-	-	6,733
Postage and shipping	1,924	701	499	707	-	3,831	289	-	4,120
Total expense before depreciation	585,648	684,805	226,335	1,535,993	68,331	3,101,112	64,518	93,055	3,258,685
Depreciation	51,872	-	22,874	50,998	15,367	141,111	-	-	141,111
Total expenses	$ 637,520	$ 684,805	$ 249,209	$ 1,586,991	$ 83,698	$ 3,242,223	$ 64,518	$ 93,055	$ 3,399,796

See accompanying notes.

PARK CENTER
STATEMENT OF CASH FLOWS
For the year ended June 30, 2006

Cash flows from operating activities:	
Change in net assets	$ (81,966)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	141,111
Gain on disposal of assets	(8,103)
Changes in operating assets and liabilities:	
Accounts receivable	(139,059)
Contributions receivable	(29,950)
Prepaid expenses	(28,829)
Other assets	6,474
Accounts payable	41,118
Accrued expenses	19,050
Net cash used in operating activities	(80,154)
Cash flows from investing activities:	
Proceeds from disposal of assets	8,103
Purchase of property and equipment	(28,344)
Net cash used in investing activities	(20,241)
Cash flows from financing activities:	
Payments on long-term debt	(38,102)
Net cash used in financing activities	(38,102)
Net decrease in cash and cash equivalents	(138,497)
Cash and cash equivalents - beginning of year	1,023,502
Cash and cash equivalents - end of year	$ 885,005
Supplemental disclosure:	
Interest paid	$ 12,817

See accompanying notes.

PARK CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

General

Park Center (the "Center") is a not-for-profit organization that provides psychosocial and vocational rehabilitation services and housing to emotionally and mentally ill individuals in Davidson County, Tennessee.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards ("SFAS") No. 117, *Financial Statements of Not-for-Profit Organizations*. Accordingly, net assets of the Center, and changes therein are classified and reported as follows:

> **Unrestricted net assets** – Net assets that are not subject to donor-imposed stipulations.
>
> **Temporarily restricted net assets** – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Center and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Center considers all highly liquid investments available for current use with a maturity of three months or less when purchased to be cash equivalents.

Investments

In accordance with SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities as unrestricted revenues or expenses, unless specified by the donor.

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unconditional Promises to Give

Contributions are recognized when the donor makes a promise to give to the Center that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire 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.

The Center uses the allowance method to determine uncollectible unconditional promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made. Management believes that unconditional promises to give are fully collectible as of June 30, 2006. As a result, no allowance for uncollectible accounts has been provided.

Donated Services

Amounts are reported in the financial statements for voluntary donations of services only when those services create or enhance non-financial assets or require specialized skills provided by individuals possessing those skills and which would typically be purchased if not provided by donation. Volunteers donate significant amounts of their time in the Center's program services and its fund-raising efforts that have not been reported in the accompanying financial statements because the services do not create or enhance non-financial assets and no objective basis is available to measure the value of such donations.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Salaries and related expenses are allocated to the various program and supporting services based on actual or estimated time employees spend on each function. The remaining expenses are specifically allocated whenever practical. Management and general expenses include those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the Center.

The Center's major activities are as follows:

1. Park Center South – The Center offers food service, clerical, and vocational rehabilitation programs at its 801 12th Avenue South location.
2. Case Management – The Center operates a continuous mental health facility and provides other services to consumers diagnosed with mental illnesses.
3. Park Center East – The Center offers vocational and rehabilitation services programs at its 948 Woodland Street location.

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expense Allocation (Continued)

4. Housing – The Center offers housing to consumers with a diagnosed mental illness through its eight owned and eleven managed locations. Housing is offered to consumers in independent, assisted and supported living styles.

5. Housing Support – The Center offers a housing support program similar to the Housing program at its 4501 Gallatin Road location.

Estimates

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

Income Taxes

The Center is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation. Accordingly, no provision for income tax has been made.

NOTE 2 – PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost at the date of purchase or fair market value at date of gift. Depreciation of buildings and equipment is provided over the estimated useful lives of the respective assets (ranging from three to thirty years) on a straight-line basis. The Center generally capitalizes an asset if its life is estimated to be one year or greater and the cost is $500 or greater.

The balances of the major classes of property and equipment are as follows at June 30, 2006:

Land and land improvements	$ 453,478
Buildings and building improvements	3,455,466
Equipment	304,140
Vehicles	69,593
Furniture	50,661
Land and land improvements restricted for housing program	22,000
	4,355,338
Less: accumulated depreciation	(1,358,810)
	$ 2,996,528

NOTE 2 – PROPERTY AND EQUIPMENT (Continued)

In January 1989, the Center entered into an agreement with the Metropolitan Development and Housing Agency, the Tennessee Department of Mental Health and Developmental Disabilities, the Tennessee Department of Human Services, and the U.S. Department of Housing and Urban Development, whereby funds were made available to the Center by those governmental agencies to purchase and renovate four houses to be used by the Center to provide housing for the homeless mentally ill. Under the agreement, the Center is committed to operate the housing program for twenty to thirty years or be liable for repaying the prorated amounts of the original funds back to the governmental agencies which provided them. Management currently plans to operate the program for the specified terms of the agreement. The net book value of the houses and land in the amount of $373,453 at June 30, 2006 is included as temporarily restricted net assets.

NOTE 3 – ACCRUED EXPENSES

Employees of the Center are granted vacation and sick leave in varying amounts. In the event of termination, an employee is paid for accumulated vacation, but not for accumulated sick leave. Accordingly, vacation pay is accrued and recognized as an expense in the period earned by employees. Accrued vacation pay included in accrued expenses was $70,691 at June 30, 2006.

NOTE 4 – LINE OF CREDIT

The Center has available a $35,000 revolving line of credit with Nashville Housing Fund. This loan is used to offset start-up costs of Haley's Park, an entity related to the Center. The agreement states that interest on outstanding balances will be 0% with a maturity date of August 2006. Borrowings outstanding under the agreement at June 30, 2006 total $12,612.

NOTE 5 – LONG-TERM DEBT

Long-term debt is as follows:

Mortgage note payable to bank in monthly principal and interest installments of $1,638, secured by land, interest at 4.5%, maturing July 2008.	$ 36,004
Mortgage note payable to an organization in monthly principal and interest installments of $1,960, secured by land, interest at 4.0%, maturing April 2010.	235,806

NOTE 5 – LONG-TERM DEBT (Continued)

Installment note payable to finance company in monthly principal and interest installments of $319, secured by a vehicle, interest at 0%, maturing July 2008.	8,418
	280,228
Less amount shown as current	(37,044)
Long-term debt, non-current	$ 243,184

Annual principal maturities of the above obligation are as follows:

Year Ending June 30,	
2007	$ 37,044
2008	37,104
2009	16,931
2010	189,149
	$ 280,228

NOTE 6 – PENSION PLAN

The Center has a non-contributory pension and retirement plan covering substantially all of its employees. The plan is a tax-deferred annuity plan with its participants owning all amounts held in their individual accounts. Pension expense for the year ended June 30, 2006 was $46,505.

NOTE 7 – IN-KIND CONTRIBUTIONS

The Center received in-kind contributions in the amount of $30,480 for fundraising events during the year ended June 30, 2006. This is included with contributions in the statement of activities.

NOTE 8 – RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purposes or periods at June 30, 2006:

Property for housing program	$ 373,453
Unconditional promises to give for future periods	36,000
First-time homebuyer's counseling and outreach grant	7,315
	$ 416,768

NOTE 8 – RESTRICTIONS ON NET ASSETS (Continued)

Designated net assets of the Center are available for the following purposes at June 30, 2006:

Clubhouse	$ 155,213
Safe Havens	232,366
	$ 387,579

NOTE 9 – LEASE COMMITMENT

The Center has entered into lease agreements for office equipment that have been accounted for as operating leases. At June 30, 2006, future minimum annual lease payments under noncancelable lease obligations are as follows:

Year Ending June 30,	
2007	$ 9,568
2008	7,394
2009	870
2010	870
2011	653
	$ 19,355

Rent expense amounted to $9,865 during the year ended June 30, 2006.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

The Center receives a substantial amount of its support from a TennCare Behavioral Health Organization. In the event of a significant reduction in the level of this support, the Organization's programs and activities could be adversely affected.

NOTE 11 – CONCENTRATIONS OF CREDIT RISK

During the fiscal year, the Center's cash and cash equivalent balances exceeded federally insured limits. In management's opinion, the risk relating to the deposits is minimal.

NOTE 12 – CHARITABLE TRUST

The Center has been named as a beneficiary of a charitable remainder trust. Amounts to be received from the trust are not presently determinable. As a result, no amounts have been recorded in the accompanying financial statements related to the charitable remainder trust.