

CUMBERLAND COMMUNITY OPTIONS, INC.

AUDITED FINANCIAL STATEMENTS

Year Ended June 30, 2006

**Nancy C. Crabtree
Certified Public Accountant**

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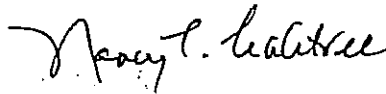
Independent Auditor's Report

Board of Directors
Cumberland Community Options, Inc.
Nashville, Tennessee

I have audited the accompanying statement of financial position of Cumberland Community Options, Inc. (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. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cumberland Community Options, Inc. 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.



Nashville, Tennessee
February 6, 2007

CUMBERLAND COMMUNITY OPTIONS, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2006

ASSETS

Current Assets:

Cash and cash equivalents	\$ 227898
Accounts receivable -- no allowance necessary	4102
Employees receivable	893
Due from the State of Tennessee	39810
Prepaid expenses	<u>278</u>

Total Current Assets \$ 272981

Property and Equipment:

Office furniture and equipment	\$ 36949
Less accumulated depreciation	<u>(22037)</u>

Total Property and Equipment \$ 14912

Total Assets \$ 287893

LIABILITIES AND NET ASSETS

Current Liabilities:

Accrued payroll expenses	\$ <u>56509</u>
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Total Current Liabilities /
Total Liabilities \$ 56509

Net Assets:

Unrestricted:

Operating	\$ 216472
Property and equipment	<u>14912</u>

Total Net Assets \$ 231384

Total Liabilities and Net Assets \$ 287893

See accompanying notes to the financial statements.

CUMBERLAND COMMUNITY OPTIONS, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Unrestricted</u>
Revenues and Other Support:	
Contracts with State of Tennessee	\$ 1432763
United Way allocation	19517
Donations	<u>2685</u>
Total Revenues and Other Support	<u>\$ 1454965</u>
 Expenses:	
Program Services:	
Support and Client Assistance	\$ 1134536
Support Services:	
Management and General	<u>250318</u>
Total Expenses	<u>\$ 1384854</u>
 Increase (decrease) in Net Assets	 \$ 70111
Net Assets at the beginning of the year	<u>161273</u>
Net Assets at the end of the year	<u>\$ 231384</u>

See accompanying notes to the financial statements.

CUMBERLAND COMMUNITY OPTIONS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2006

	Support & Client Assistance	Management & General	Total Expenses
Salaries	\$ 764661	\$ 111332	\$ 875993
Payroll taxes	56765	8517	65282
Fringe benefits	3457	5099	8556
Health insurance	55405	3957	59362
Rent	81631	33750	115381
Client set-up costs	8386		8386
Utilities	17389		17389
Travel / mileage	62731	10870	73601
Miscellaneous	27628	11223	38851
Training		685	685
Advertising		4334	4334
Equipment rental		5560	5560
Other insurance	32476	14521	46997
Fees & licenses		6074	6074
Professional fees		4850	4850
Communications	7976	12850	20826
Supplies		6535	6535
Staff appreciation		2466	2466
Consulting fees		665	665
Nursing assistance	16031		16031
Depreciation		7030	7030
Total	\$ 1134536	\$ 250318	\$ 1384854

See accompanying notes to the financial statements.

CUMBERLAND COMMUNITY OPTIONS, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006

Cash Flows from Operating Activities:	
Cash received from State of Tennessee contracts	\$ 1529791
Cash received from United Way allocation	19517
Cash received from revenues and support	8182
Cash paid to suppliers and employees	<u>(1367182)</u>
Net Cash Provided or (Used) by Operating Activities	<u>\$ 190308</u>
Cash Flows from Investing Activities:	
Acquisition of computer equipment	<u>\$(5500)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 184808
Cash and Cash Equivalents at the beginning of the year	<u>43090</u>
Cash and Cash Equivalents at the end of the year	<u>\$ 227898</u>

See accompanying notes to the financial statements.

CUMBERLAND COMMUNITY OPTIONS, INC.
 STATEMENT OF CASH FLOWS (continued)
 FOR THE YEAR ENDED JUNE 30, 2006

RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH
 PROVIDED (USED) BY OPERATING ACTIVITIES:

Increase in net assets	\$ 70111
Adjustments to reconcile change in net assets to net cash Provided (used) by operating activities:	
Depreciation	7030
(Increase) decrease in:	
Accounts receivable	4050
Employees receivable	1447
Due from State of Tennessee	97028
Prepaid expenses	2301
Increase (decrease) in:	
Accrued payroll expenses	8934
Accrued expenses	(593)
Net Cash Provided or (Used) by Operating Activities	<u>\$ 190308</u>

See accompanying notes to the 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.
4. Cash Equivalents. Cash equivalents consist of short-term, highly liquid investments which are readily convertible into cash within ninety days of purchase.
5. Revenue and Support. Cumberland Community Options, Inc. receives most of its income 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.

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

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.

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 five years. Equipment purchased during the year ended June 30, 2006 totaled \$ 5500.
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 \$ 8745 for the year ended June 30, 2006.

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, 2006. These receivables total \$ 39810 as of June 30, 2006.

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, 2006 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 \$ 3186, with increases in monthly payments each year. Annual lease payments totaled \$ 33750 for the year ended June 30, 2006. In addition, Cumberland Community Options, Inc. maintains a lease for a copier as of June 30, 2006, with monthly lease payments of \$ 325, but 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, 2007	\$ 38797
June 30, 2008	40153
June 30, 2009	41509
June 30, 2010	42865
June 30, 2011	<u>44221</u>
Total	<u>\$ 207545</u>

NOTE E - CONCENTRATION OF CREDIT RISK:

Financial instruments that potentially subject the Corporation to concentrations of credit risk consist of monies due from the State of Tennessee Department of Mental Health and Mental Retardation and accounts receivables. Account receivables 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. Monies due from the State of Tennessee represent concentration of credit risk to the extent that they are received from concentrated sources. The Corporation receives a substantial amount 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 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.