

MID-TN SUPPORTED LIVING, INC.

FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

(With Independent Auditors' Report Thereon)

FARMER & ASSOCIATES, PLLC

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Independent Auditors' Report

To the Board of Directors
Mid-TN Supported Living, Inc.

We have audited the accompanying statement of financial position of Mid-TN Supported Living, Inc. as of June 30, 2008 and the related statements of activities, changes in net assets, 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 audits. The financial statements of Mid-TN Supported Living, Inc. as of June 30, 2007 were audited by another auditor who has ceased operations. The auditor expressed an unqualified opinion on those financial statements in their report dated December 13, 2007.

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 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 presents fairly, in all material respects, the financial position of Mid-TN Supported Living, Inc. as of June 30, 2008, 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.

Farmer & Associates, PLLC

January 26, 2009
Franklin, Tennessee

MID-TN SUPPORTED LIVING, INC.
COMPARATIVE STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2008 AND 2007

	2008	2007
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 359,218	\$ 703,840
Accounts receivable State of Tennessee contract	363,110	40,597
Accounts receivable	4,368	776
	726,697	745,213
Total Current Assets	726,697	745,213
PROPERTY AND EQUIPMENT		
Furniture and equipment	41,103	32,237
Less accumulated depreciation	25,561	20,740
	15,542	11,497
Total Property and Equipment	15,542	11,497
Total Assets	\$ 742,239	\$ 756,710
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accrued expenses	\$ 41,834	\$ 41,502
	41,834	41,502
Total Current Liabilities	41,834	41,502
NET ASSETS		
Unrestricted	700,405	715,208
	700,405	715,208
Total Net Assets	700,405	715,208
Total Liabilities and Net Assets	\$ 742,239	\$ 756,710

See notes to financial statements.

MID-TN SUPPORTED LIVING, INC.
COMPARATIVE STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
Changes in unrestricted net assets:		
Support and revenue		
State of Tennessee contract revenue	\$ 2,301,553	\$ 2,253,025
United Way	82,568	71,555
Contributions	3,868	2,563
Interest	12,017	10,584
Miscellaneous	708	350
	2,400,714	2,338,077
Total support and revenue		
Expenses:		
Program Services		
Support and client assistance	2,093,235	1,939,328
Management and General	322,282	319,396
Total expenses	2,415,517	2,258,724
Increase (decrease) in unrestricted net assets	(14,803)	79,353
Net assets, beginning of year	715,208	635,855
Net assets, end of year	\$ 700,405	\$ 715,208

See notes to financial statements.

MID-TN SUPPORTED LIVING, 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	\$ 1,496,172	164,809	1,660,981	1,376,111	152,982	1,529,093
Employee benefits	208,449	23,161	231,610	177,093	31,964	209,057
Payroll taxes	112,067	12,452	124,519	104,125	11,703	115,828
Bank charges	-	119	119	-	-	-
Professional services	399	7,250	7,649	1,380	5,979	7,359
Supplies	-	10,947	10,947	-	11,421	11,421
Communications	7,652	12,904	20,556	7,230	13,350	20,580
Printing	-	176	176	-	246	246
Postage and delivery	-	984	984	-	823	823
Rent	105,733	40,623	146,356	93,014	32,798	125,812
Insurance	-	7,408	7,408	-	10,919	10,919
Unemployment claims	-	-	-	-	8,020	8,020
Establishment expense	-	-	-	24,570	-	24,570
Travel / vehicle expense	97,078	9,866	106,944	76,035	10,220	86,255
Training	6,037	-	6,037	1,225	-	1,225
Equipment lease	-	4,212	4,212	-	3,408	3,408
Equipment repairs and maintenance	-	4,826	4,826	-	5,962	5,962
Advertising	-	1,488	1,488	-	4,872	4,872
License and permits	-	2,015	2,015	-	2,402	2,402
Utilities	17,719	-	17,719	19,922	-	19,922
Back ground checks	893	-	893	1,305	-	1,305
Loss from theft and fraud	-	4,671	4,671	-	-	-
Miscellaneous	19,986	9,549	29,536	39,076	8,778	47,854
United Way Collaborative	21,049	-	21,049	18,242	-	18,242
Depreciation	-	4,821	4,821	-	3,549	3,549
	<u>2,093,235</u>	<u>322,282</u>	<u>2,415,517</u>	<u>1,939,328</u>	<u>319,396</u>	<u>2,258,724</u>

See notes to financial statements.

MID-TN SUPPORTED LIVING, INC.
COMPARATIVE STATEMENTS OF CASH FLOW
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Cash Flows From Operating Activities		
Increase (decrease) in net assets	\$ (14,803)	\$ 79,353
Adjustments to reconcile increase (decrease) in net assets to cash provided (used) by operating activities:		
Depreciation	4,821	3,549
(Increase) decrease in contract receivable	(322,513)	(4,882)
(Increase) decrease in accounts receivable	(3,592)	15,541
Increase (decrease) in accrued liabilities	332	1,311
	<u>(320,952)</u>	<u>15,519</u>
Total adjustments		
Net Cash Provided (Used) by Operating Activities	<u>(335,755)</u>	<u>94,872</u>
Cash Flows From Investing Activities		
Acquisition of plant, property, and equipment	<u>(8,867)</u>	<u>(9,366)</u>
Net Cash Used by Investing Activities	<u>(8,867)</u>	<u>(9,366)</u>
Increase (decrease) in cash	(344,622)	85,506
Cash, beginning of year	<u>703,840</u>	<u>618,334</u>
Cash, end of year	<u>\$ 359,218</u>	<u>\$ 703,840</u>
Supplemental disclosures:		
Cash paid for interest	<u>\$ -</u>	<u>\$ -</u>

See notes to financial statements.

MID – TN SUPPORTED LIVING, 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. Mid – TN Supported Living, Inc. is a nonprofit corporation chartered by the 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. Mid – TN Supported Living, 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 that 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 have an initial maturity of ninety days or less.
5. Revenue and Support. Mid – TN Supported Living, 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. 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.

MID – TN SUPPORTED LIVING, INC.
NOTES TO THE FINANCIAL STATEMENTS (continued)

7. Property and Equipment. Property and equipment are carried at cost. Donated furniture and equipment has not been recorded, as Mid – TN Supported Living, Inc. has 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.
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. Mid – TN Supported Living, 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. Mid – TN Supported Living, Inc. maintains a 403(b) retirement plan for employees who are eligible for the plan after one year of employment. Mid –TN Supported Living, Inc. contributes 5 % of gross wages per employee after one year of employment. The costs of this plan are charged to fringe benefits and total \$26,298 for the year ended June 30, 2007.

NOTE B – DUE FROM THE STATE OF TENNESSEE:

Mid – TN Supported Living, Inc. is due monies from the State of Tennessee Department of Finance and Administration, Division of Mental Retardation Services for contract services performed during the year. These receivables total \$363,110 and \$40,597 as of June 30, 2008 and 2007 respectively. The \$322,513 increase in receivables is due to the discontinuation of the year end interim payment program and May as well as June invoices were outstanding.

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.

MID – TN SUPPORTED LIVING, INC.
NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE D – COMMITMENTS:

Mid – TN Supported Living, Inc. leases its office space under a lease that requires a monthly payment of \$3,256. This lease is effective through November 30, 2009. Annual lease payments totaled \$32,798 for the year ended June 30, 2007. In addition, Mid-TN Supported Living, Inc. leases a copier at a cost of \$284 per month, 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, 2009	\$ 39,380
June 30, 2010	<u>16,500</u>
Total	<u>\$ 55,880</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, 96% for 2008 and 2007. 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 that year.

All of 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 deposits exceeded this limit by approximately \$100,000 at one bank and \$56,000 in the other. Subsequent to June 30, 2008 the FDIC increased the coverage to \$250,000 per bank per depositor.