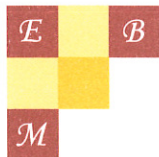


**RUTHERFORD COUNTY ADULT
ACTIVITY CENTER, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2011 AND 2010**

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FINANCIAL STATEMENTS
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INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2011 AND 2010**

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Edmondson, Betzler & Montgomery, PLLC
(Certified Public Accountants)

INDEPENDENT AUDITORS' REPORT

Members of the Board of Directors
Rutherford County Adult Activity Center

We have audited the accompanying statements of financial position of the Rutherford County Adult Activity Center, Inc. as of June 30, 2011 and 2010, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the management of the Rutherford County Adult Activity Center, Inc. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of 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 overall financial statement presentation. We believe that our audits provide 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 the Rutherford County Adult Activity Center, Inc. as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 14, 2011, on our consideration of Rutherford County Adult Activity Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Edmondson, Betzler & Montgomery, PLLC

October 14, 2011

RUTHERFORD COUNTY ADULT ACTIVITY CENTER, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2011 AND 2010

ASSETS

	<u>2011</u>	<u>2010</u>
Current assets:		
Cash	\$ 717,842	\$ 742,569
Accounts receivable	336,851	420,501
Deposits	10,532	10,853
Prepaid expenses	6,140	19,748
Total current assets	<u>1,071,365</u>	<u>1,193,671</u>
Capital assets less accumulated depreciation	<u>413,880</u>	<u>445,395</u>
Total assets	<u><u>\$ 1,485,245</u></u>	<u><u>\$ 1,639,066</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable	\$ 11,531	\$ 14,136
Accrued leave payable	136,547	136,547
Other accrued expenses	101,704	89,829
Advance - State of TN	122,533	145,944
Client trust accounts	55,109	71,729
Total current liabilities	<u>427,424</u>	<u>458,185</u>
Long-term liabilities:		
Advance - State of TN	<u>-</u>	<u>145,899</u>
Total long-term liabilities	<u>-</u>	<u>145,899</u>
Total liabilities	<u>427,424</u>	<u>604,084</u>
Net Assets:		
Unrestricted net assets	<u>1,057,821</u>	<u>1,034,982</u>
Total liabilities and net assets	<u><u>\$ 1,485,245</u></u>	<u><u>\$ 1,639,066</u></u>

The accompanying notes are an integral part of these financial statements.

RUTHERFORD COUNTY ADULT ACTIVITY CENTER, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Unrestricted support and revenues		
Tennessee Division of Mental Retardation Services	\$ 3,933,253	\$ 4,266,527
Tennessee Department of Human Services-		
Division of Rehabilitation Services	11,664	10,000
Rutherford County	32,000	32,000
United Way	101,000	91,476
Workshop contracts	72,345	115,467
Client rent	48,375	39,886
Contributions	18,999	18,411
Gain on disposal of fixed assets	1,300	2,548
Interest income	3,412	4,006
Miscellaneous	946	1,126
Total unrestricted support and revenues	<u>4,223,294</u>	<u>4,581,447</u>
Expenses		
Program services:		
Day services	1,022,120	1,077,891
Residential services	<u>2,633,720</u>	<u>2,738,351</u>
Total program services expense	3,655,840	3,816,242
Supporting services:		
Management and general	<u>544,615</u>	<u>506,398</u>
Total expenses	<u>4,200,455</u>	<u>4,322,640</u>
Change in unrestricted net assets	22,839	258,807
Net assets, beginning of year	<u>1,034,982</u>	<u>776,175</u>
Net assets, end of year	<u><u>\$ 1,057,821</u></u>	<u><u>\$ 1,034,982</u></u>

The accompanying notes are an integral part of these financial statements.

RUTHERFORD COUNTY ADULT ACTIVITY CENTER, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2011 AND 2010

	Program Services		Total Program Services	Supporting Services	Totals	
	Residential Services	Day Services			2011	2010
Salaries	\$ 2,001,444	\$ 541,906	\$ 2,543,350	\$ 276,126	\$ 2,819,476	\$ 2,958,689
Fringe benefits	429,670	151,381	581,051	57,261	638,312	669,989
Total salaries and fringe benefits	<u>2,431,114</u>	<u>693,287</u>	<u>3,124,401</u>	<u>333,387</u>	<u>3,457,788</u>	<u>3,628,678</u>
Travel	3,532	2,418	5,950	2,292	8,242	7,804
Communications	25,541	14,022	39,563	5,911	45,474	48,349
Utilities	28,644	26,933	55,577	7,017	62,594	52,074
Professional fees	37,117	-	37,117	26,738	63,855	43,320
Contracted services	830	1,052	1,882	64,002	65,884	61,828
Client wages & workshop expenses	-	54,715	54,715	-	54,715	85,043
Medical supplies	83	4,906	4,989	1,267	6,256	5,196
Office supplies	373	8,462	8,835	21,383	30,218	25,683
Food	30,505	3,517	34,022	9,760	43,782	17,330
Repairs & maintenance - building	25,861	1,478	27,339	4,174	31,513	17,589
Vehicle expenses	-	94,306	94,306	5,563	99,869	90,318
Fuel	-	82,537	82,537	9,967	92,504	89,252
Rent	5,636	7,937	13,573	2,937	16,510	16,604
Insurance	14,925	10,288	25,213	8,468	33,681	29,967
Postage	-	-	-	1,477	1,477	1,192
Seminars	20	-	20	2,681	2,701	1,585
Dues & subscriptions	-	-	-	8,155	8,155	7,024
Taxes & licenses	280	39	319	3,372	3,691	303
Bank charges	-	-	-	171	171	97
Client supplements	5,028	-	5,028	50	5,078	10,381
Client strap	-	-	-	-	-	3,517
Advertising	-	-	-	500	500	1,699
Background expense	-	-	-	3,989	3,989	8,053
Depreciation	24,292	16,223	40,515	16,554	57,069	65,766
Miscellaneous	(61)	-	(61)	4,800	4,739	3,988
Total expenses	<u>\$ 2,633,720</u>	<u>\$ 1,022,120</u>	<u>\$ 3,655,840</u>	<u>\$ 544,615</u>	<u>\$ 4,200,455</u>	<u>\$ 4,322,640</u>

The accompanying notes are an integral part of these financial statements.

RUTHERFORD COUNTY ADULT ACTIVITY CENTER, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Change in net assets	\$ 22,839	\$ 258,807
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	57,069	65,766
Gain on disposal of equipment	(1,300)	(2,548)
Changes in current assets and liabilities:		
Decrease in accounts receivable	83,650	15,068
(Increase) decrease in deposits	321	(900)
(Increase) decrease in prepaid expenses	13,608	6,315
Decrease in accounts payable	(2,605)	(10,447)
Increase (decrease) in other accrued expenses	11,875	(51,448)
Decrease in advance - State of TN	(169,310)	(145,944)
Increase (decrease) in payables to clients	<u>(16,620)</u>	<u>5,754</u>
Net cash provided by (used in) operating activities	<u>(473)</u>	<u>140,423</u>
Cash flows from investing activities		
Proceeds from sale of fixed assets	1,300	5,200
Fixed assets purchased	<u>(25,554)</u>	<u>(18,811)</u>
Net cash used in investing activities	<u>(24,254)</u>	<u>(13,611)</u>
Net increase (decrease) in cash	(24,727)	126,812
Cash at beginning of year	<u>742,569</u>	<u>615,757</u>
Cash at end of year	<u><u>\$ 717,842</u></u>	<u><u>\$ 742,569</u></u>

The accompanying notes are an integral part of these financial statements.

RUTHERFORD COUNTY ADULT ACTIVITY CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Rutherford County Adult Activity Center, Inc. is a private, nonprofit agency established in 1974 to provide independent living and vocational training services to adults with mental retardation who live in Rutherford County. Currently, approximately 89 adults are served by the program. The Center operates one group home and seventeen companion homes in addition to its sheltered workshop.

A major portion of funding is provided by the Division of Intellectual Disabilities under a five year contract expiring December 31, 2014. A major reduction in these funds, should this occur, could have a significant effect upon future operations.

Basis of Presentation

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.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting. The accrual basis of accounting recognizes revenues when earned. Expenses are recorded when incurred.

Revenues

Grants and other contributions of cash are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

RUTHERFORD COUNTY ADULT ACTIVITY CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Tax-Exempt Status

The Rutherford County Adult Activity, Inc. is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and, accordingly, no provision for income taxes is included in the accompanying financial statements. It is chartered as a not-for-profit corporation by the State of Tennessee.

Events Occurring After Reporting Date

Rutherford County Adult Activity Center, Inc. has evaluated events and transactions that occurred between June 30, 2011 and October 14, 2011, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE 2 - CASH AND CASH EQUIVALENTS

For the statement of cash flows, the management considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at each June 30:

	2011	2010
State of Tennessee	\$ 329,969	\$ 399,684
Workshop Activities and other	6,882	20,817
Total	<u>\$ 336,851</u>	<u>\$ 420,501</u>

RUTHERFORD COUNTY ADULT ACTIVITY CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 4 - FIXED ASSETS AND DEPRECIATION

Property and equipment acquisitions with a per-unit cost in excess of \$500 are capitalized at cost. Depreciation is taken on the straight-line method using estimated useful lives as follows:

	<u>Life in years</u>		
Buildings	25	\$ 285,196	\$ 285,196
Building improvements	25	21,166	21,166
Leasehold improvements	15 - 25	550,133	550,133
Furniture and fixtures	5 - 7	89,526	72,867
Transportation equipment	5	374,100	420,622
		<u>\$ 1,320,121</u>	<u>\$ 1,349,984</u>
Less accumulated depreciation		926,036	924,384
		394,085	425,600
Land		19,795	19,795
		<u>\$ 413,880</u>	<u>\$ 445,395</u>

NOTE 5 - ADVANCE – STATE OF TENNESSEE

In July, 2007, the State of Tennessee advanced the Center \$583,731 for advanced funding of fiscal year 2007 – 2008 operations. The advance is to be repaid, interest free, over 48 months in equal installments of \$12,162. In December 2010, the monthly repayment was accelerated to \$15,500. The repayment of the advance will be withheld by the State from the monthly remittances for services to the State. At June 30, 2011 the remaining balance on the advance was \$122,533.

NOTE 6 - LINE OF CREDIT

The Center has a \$200,000 line of credit with FirstBank. There were no amounts drawn on the line of credit at June 30 of 2011 and 2010. Interest is payable monthly at prime. The line matures on October 1, 2011.

NOTE 7 - OPERATING LEASES

The Center leases 7 automobiles used in its day services. All automobiles are leased under 36 month terms with maturity dates ranging from September 2011 through June 2014. Minimum lease payments under these leases for years ending June 30, 2012, 2013, and 2014 are expected to be \$29,805, \$21,573, and \$6,205, respectively. For June 30, 2011 and 2010, lease expenses of \$35,717 and \$38,891 have been included in the statements of functional expenses as vehicle expenses.

RUTHERFORD COUNTY ADULT ACTIVITY CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 7 - OPERATING LEASES (CONTINUED)

The Center leases its office under a month to month lease with Rutherford County. For both June 30, 2011 and 2010, lease expense of \$9,600 has been included in the statements of functional expenses as rent expense.

NOTE 8 - FUNCTIONAL ALLOCATION OF EXPENSES

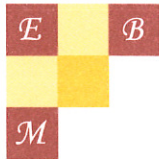
The costs of providing the organization's various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NOTE 9 - CONCENTRATIONS OF CREDIT RISK

The Center maintains deposits a local financial institution. The deposits in this institution, at times, exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation (FDIC). The Center believes that there is no significant risk with respect to these deposits.

NOTE 10 - LITIGATION

The Center is subject to claims from two lawsuits that occurred in the normal course of business. Both lawsuits have been turned over to the Center's insurance carrier. The Center currently carries liability insurance to cover \$1,000,000 for a single claim and \$3,000,000 in the aggregate. The Center's management is unable to estimate the outcome of these lawsuits.



Edmondson, Betzler & Montgomery, PLLC
(Certified Public Accountants)

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Rutherford County Adult Activity Center, Inc.

We have audited the financial statements of Rutherford County Adult Activity Center, Inc. (a nonprofit organization) as of and for the year ended June 30, 2011, and have issued our report thereon dated October 14, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Rutherford County Adult Activity Center, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rutherford County Adult Activity Center, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A deficiency in internal controls exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the organization's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rutherford County Adult Activity Center Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS (CONTINUED)**

This report is intended solely for the information and use of the Board of Directors, management, others within the organization, and the State of Tennessee Division of Municipal Audit, and is not intended to be and should not be used by anyone other than these specified parties.

Edmonson, Butler & Montgomery, PLLC
October 14, 2011