

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

RUTHERFORD COUNTY ADULT
ACTIVITY CENTER, INC.

June 30, 2006



DEMPSEY VANTREASE & FOLLIS PLLC

INDEPENDENT AUDITORS' REPORT

Members of the Board of Directors
Rutherford County Adult Activity Center
P. O. Box 733
Murfreesboro, Tennessee 37133

We have audited the accompanying statements of financial position of the Rutherford County Adult Activity Center, Inc. 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 management of the Rutherford County Adult Activity Center, Inc. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Rutherford County Adult Activity Center, Inc. as of June 30, 2005, were audited by other auditors whose report dated January 11, 2006, expressed an unqualified opinion on those statements.

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 overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2006 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, 2006, and the changes in its net assets and its cash flows for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

Dempsey Vantrease & Follis PLLC

Murfreesboro, Tennessee
December 20, 2006

Certified Public Accountants & Consultants

Information Technology & Network Systems Consulting

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RUTHERFORD COUNTY ADULT ACTIVITY CENTER, INC.
Statements of Financial Position
June 30, 2006 and 2005

Assets

	<u>2006</u>	<u>2005</u>
Current assets		
Cash	\$ 288,513	\$ 39,142
Accounts receivable	47,433	582,945
Deposits	9,372	9,456
Prepaid insurance	40,786	-
Total current assets	<u>386,104</u>	<u>631,543</u>
Capital assets less accumulated depreciation	<u>651,964</u>	<u>702,446</u>
Total assets	<u><u>\$ 1,038,068</u></u>	<u><u>\$ 1,333,989</u></u>

Liabilities and Net Assets

Current liabilities		
Bank overdraft	\$ -	\$ 53,212
Accounts payable	18,186	71,119
Accrued salaries	66,288	88,458
Accrued leave payable	91,190	96,397
Other accrued expenses	46,941	163,782
Line of credit	-	81,248
Client trust accounts	45,923	34,833
Total current liabilities	<u>268,528</u>	<u>589,049</u>
Net Assets		
Unrestricted Net Assets	<u>769,540</u>	<u>744,940</u>
Total Liabilities and Net Assets	<u><u>\$ 1,038,068</u></u>	<u><u>\$ 1,333,989</u></u>

RUTHERFORD COUNTY ADULT ACTIVITY CENTER, INC.

Statements of Activities

For the Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Unrestricted support and revenues		
Tennessee Division of Mental Retardation Services	\$ 4,322,348	\$ 4,182,089
Tennessee Department of Human Services-		
Division of Rehabilitation Services	15,489	14,700
Tennessee Department of Transportation	-	40,941
Rutherford County Court	24,570	24,570
United Way	70,122	62,711
Workshop contracts	95,300	89,977
Client rent	42,963	38,982
Contributions	9,750	654
Gain on disposal of assets	14,467	500
Miscellaneous	5,911	8,250
Total unrestricted support and revenues	<u>4,600,920</u>	<u>4,463,374</u>
Expenses		
Program services:		
Day services	1,247,702	1,393,033
Residential services	2,864,127	2,606,585
Total program services expense	<u>4,111,829</u>	<u>3,999,618</u>
Supporting services:		
Management and general	464,491	504,383
Total expenses	<u>4,576,320</u>	<u>4,504,001</u>
Increase (decrease) in net assets	24,600	(40,627)
Net assets, beginning of year	<u>744,940</u>	<u>785,567</u>
Net assets, end of year	<u><u>\$ 769,540</u></u>	<u><u>\$ 744,940</u></u>

See Notes to Financial Statements

RUTHERFORD COUNTY ADULT ACTIVITY CENTER, INC.
Statements of Functional Expenses
For the Years Ended June 30, 2006 and 2005

	Program Services			Supporting Services	Totals	
	Residential Services	Day Services	Total Program Services	Management and General	2006	2005
Salaries	\$ 2,143,045	\$ 761,991	\$ 2,905,036	\$ 224,336	\$ 3,129,372	\$ 3,116,723
Fringe benefits	425,673	146,294	571,967	43,350	615,317	581,783
Total salaries and fringe benefits	2,568,718	908,285	3,477,003	267,686	3,744,689	3,698,506
Travel	11,843	2,845	14,688	958	15,646	8,209
Communications	24,972	9,371	34,343	8,585	42,928	34,595
Utilities	13,982	23,033	37,015	5,182	42,197	41,656
Professional fees	-	-	-	14,755	14,755	15,367
Contracted services	593	6,859	7,452	34,259	41,711	24,045
Client wages & workshop expenses	-	103,607	103,607	-	103,607	65,481
Client benefits	2,986	-	2,986	-	2,986	1,792
Medical supplies	944	3,741	4,685	855	5,540	16,595
Office supplies	522	7,515	8,037	26,651	34,688	35,484
Food	68,207	3,539	71,746	4,523	76,269	75,789
Repairs & maintenance - building	20,821	3,291	24,112	1,123	25,235	20,938
Repairs & maintenance - vehicles	11,413	41,233	52,646	-	52,646	59,746
Fuel	23,921	82,696	106,617	-	106,617	81,272
Rent	26,073	10,213	36,286	4,395	40,681	57,587
Insurance	19,949	14,566	34,515	26,377	60,892	45,386
Postage	-	-	-	1,541	1,541	1,680
Seminars	298	-	298	387	685	4,243
Dues & subscriptions	200	-	200	7,647	7,847	5,882
Taxes & licenses	-	-	-	2,062	2,062	2,363
Bank charges	-	-	-	4,821	4,821	4,147
Client supplements	12,494	63	12,557	-	12,557	15,041
Client strap	13,590	-	13,590	-	13,590	15,020
Establishment	4,574	-	4,574	-	4,574	35,299
Interest expense	-	-	-	9,675	9,675	16,476
Advertising	1,911	976	2,887	2,329	5,216	8,051
Background expense	-	-	-	12,670	12,670	11,228
Penalty	-	-	-	175	175	11,708
Depreciation	35,768	25,761	61,529	24,227	85,756	85,700
Miscellaneous	348	108	456	3,608	4,064	4,714
Total expenses	\$ 2,864,127	\$ 1,247,702	\$ 4,111,829	\$ 464,491	\$ 4,576,320	\$ 4,504,000

See Notes to Financial Statements

RUTHERFORD COUNTY ADULT ACTIVITY CENTER, INC.
Statements of Cash Flows
For the Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities		
Increase (decrease) in net assets	\$ 24,600	\$ (40,627)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	85,756	85,700
Changes in current assets and liabilities		
(Increase) decrease in accounts receivable	535,512	(105,622)
(Increase) decrease in deposits	84	(85)
(Increase) decrease in prepaid insurance	(40,786)	16,574
Increase (decrease) in accounts payable	(52,933)	16,061
Decrease in accrued salaries	(22,170)	(35,620)
Increase (decrease) in accrued leave payable	(5,207)	11,079
Increase (decrease) in other accrued expenses	(116,841)	127,474
Increase in payables to clients	<u>11,090</u>	<u>1,684</u>
Net cash provided by operating activities	419,105	76,618
Cash flows from investing activities		
Fixed assets purchased	<u>(35,274)</u>	<u>(49,262)</u>
Net cash used in investing activities	(35,274)	(49,262)
Cash flows from financing activities		
Net payments on line of credit	(81,248)	-
Payments on long-term debt	<u>-</u>	<u>(6,687)</u>
Net cash provided by (used in) financing activities	<u>(81,248)</u>	<u>(6,687)</u>
Net increase in cash	302,583	20,669
Cash at beginning of year	<u>(14,070)</u>	<u>(34,739)</u>
Cash at end of year	<u><u>\$ 288,513</u></u>	<u><u>\$ (14,070)</u></u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u><u>\$ 9,675</u></u>	<u><u>\$ 10,216</u></u>

See Notes to Financial Statements

Rutherford County Adult Activity Center, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A - 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 110 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 Tennessee Division of Mental Retardation Services under a five year contract expiring December 31, 2009. A major reduction in these funds, should this occur, could have a significant effect upon future operations.

Basis of Presentation

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." Under SFAS No. 117, 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.

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.

Rutherford County Adult Activity Center, Inc.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

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.

Reclassifications

Certain reclassifications have been made to the June 30, 2005 statements to conform to the current year presentation.

NOTE B - 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 C - ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at each June 30:

	2006	2005
State of Tennessee	\$ 25,407	\$ 543,728
Workshop Activities	14,517	25,747
Establishments	3,600	2,139
Clients	3,909	11,331
Total	<u>\$ 47,433</u>	<u>\$ 582,945</u>

NOTE D - 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:

	Life in years	
Buildings	25	\$ 285,196
Building improvements	25	12,017
Leasehold improvements	15 - 25	550,133
Furniture and fixtures	5 - 7	131,329
Transportation equipment	5	477,651
		<u>\$ 1,456,326</u>
Less accumulated depreciation		824,157
		632,169
Land		19,795
		<u>\$ 651,964</u>

Rutherford County Adult Activity Center, Inc.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE E - LINE OF CREDIT

The Center has a \$150,000 line of credit with Bank of America. At June 30, 2006, no amounts had been drawn on the line of credit. Subsequent to June 30, 2006, the Center moved its line to First Bank.

NOTE F - 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. According, certain costs have been allocated among the programs and supporting services benefited.

NOTE G - CONCENTRATIONS OF CREDIT RISK

The Center maintains deposits in a financial institution that at times exceeds 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.