



SeniorCitizens^{INC.}

SENIOR CITIZENS, INC.

**AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004**

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SENIOR CITIZENS, INC.
AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Senior Citizens, Inc.
174 Rains Avenue
Nashville, TN 37203

I have audited the accompanying statement of financial position of Senior Citizens, Inc. (a nonprofit corporation) as of June 30, 2005 and 2004, and the related statements of activities, functional expenses, and cash flows for the years ended June 30, 2005 and 2004. These financial statements are the responsibility of Senior Citizen's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 audits provide 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 Senior Citizens, Inc. as of June 30, 2005 and 2004, 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*, I have also issued my report dated September 7, 2005, on my consideration of Senior Citizens, Inc.'s internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

My audit was performed for the purposes of forming an opinion on the basic financial statements of Senior Citizens, Inc. taken as a whole. The accompanying Schedules of Federal Awards and State Awards are presented for purposes of additional analysis as required by the US Office of Management and Budget Circular A-133., *Audits of States, Local Governments, and Non-Profit Organizations*, and are not a required part of the basic financial statements. The accompanying schedules of revenues, expenses, and changes in unrestricted net assets is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Joe Osterfeld, CPA
Columbia, Tennessee
September 7, 2005

SENIOR CITIZENS, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
<u>ASSETS</u>		
Cash - unrestricted	\$ 102,555	\$ 171,547
Cash - temporarily restricted	183,511	352,032
Total operating cash	<u>286,066</u>	<u>523,578</u>
Investments	103,095	96,641
Accounts receivable	142,927	132,589
Promises to give, current portion	574,580	801,358
Prepaid expenses	9,600	18,819
Total current assets	<u>1,116,268</u>	<u>1,572,985</u>
Land, building, and equipment	12,284,790	12,205,262
Accumulated depreciation	<u>(2,692,471)</u>	<u>(2,313,427)</u>
Net land, building, and equipment	<u>9,592,319</u>	<u>9,891,835</u>
Other assets: Conservator trust accounts	35,860	33,341
Pension plan intangible asset	157,216	166,946
Knowles Trust Fund cash	65,246	67,260
Knowles Trust Fund investments	1,936,201	1,860,533
Capital campaign cash accounts	395,696	291,827
Capital campaign investments	1,800,000	1,500,000
Long term portion of promises to give	<u>24,927</u>	<u>75,888</u>
Total assets	<u>\$ 15,123,733</u>	<u>\$ 15,460,615</u>
<u>LIABILITIES AND NET ASSETS</u>		
Accounts payable	\$ 84,224	\$ 78,495
Accrued expenses	80,299	70,315
Accrued pension plan liability	155,618	131,848
Deferred revenue	<u>15,756</u>	<u>21,760</u>
Total current liabilities	<u>335,897</u>	<u>302,418</u>
Conservator trust funds	<u>35,860</u>	<u>33,341</u>
Total liabilities	<u>371,757</u>	<u>335,759</u>
Net Assets:		
Undesignated	9,571,815	9,975,955
Board designated	<u>200,000</u>	<u>200,000</u>
Total unrestricted net assets	<u>9,771,815</u>	<u>10,175,955</u>
Temporarily restricted	2,978,714	3,021,108
Permanently restricted	<u>2,001,447</u>	<u>1,927,793</u>
Total net assets	<u>14,751,976</u>	<u>15,124,856</u>
Total liabilities and net assets	<u>\$ 15,123,733</u>	<u>\$ 15,460,615</u>

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

SENIOR CITIZENS, INC.
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

<u>PUBLIC SUPPORT AND REVENUE</u>	<u>2005</u>	<u>2004</u>
Special events	\$ 488,097	\$ 468,989
Contributions	1,047,831	493,845
Sub-total	<u>1,535,928</u>	<u>962,834</u>
United Way	27,340	20,627
Membership dues	126,023	122,228
In kind support	121,113	129,086
Service fees	513,692	468,990
Investment income	192,453	48,717
Gain on disposal	500	1,040
Other income	5,978	8,800
Net assets released from restrictions: Principal transfer	(73,654)	69,970
Transfer of unrestricted portion of gain		
Satisfaction of program restrictions: Awards	831,389	863,957
Satisfaction of timing restrictions: United Way	483,805	514,036
Senior Citizens Foundation	97,945	97,357
Capital Campaign	98,822	103,861
Sub-total of satisfaction of timing restrictions	<u>1,511,961</u>	<u>715,254</u>
Total public support and revenue	<u>3,961,334</u>	<u>3,411,503</u>
<u>EXPENSES</u>		
Program services	3,298,996	3,180,606
Support Services	1,066,478	997,719
Total expenses	<u>4,365,474</u>	<u>4,178,325</u>
Increase (decrease) in unrestricted net assets	(404,140)	(766,822)
Unrestricted net assets, beginning	10,175,955	10,942,777
Unrestricted net assets, end of year	<u>\$ 9,771,815</u>	<u>\$ 10,175,955</u>
<u>Temporarily restricted net assets:</u>		
Awards	\$ 831,389	\$ 863,957
United Way	473,629	483,805
Donations	288,554	419,653
Senior Citizens Foundation	112,847	130,000
Net assets released from restrictions:		
Satisfaction of program restrictions	(831,389)	(863,957)
Satisfaction of timing restrictions	(917,424)	(715,254)
Increase (decrease) in temporarily restricted net assets	(42,394)	318,204
Temporarily restricted net assets, beginning	3,021,108	2,702,904
Temporarily restricted net assets, end of year	<u>\$ 2,978,714</u>	<u>\$ 3,021,108</u>
<u>Permanently restricted net assets:</u>		
Principle transfer in (out)	\$ 73,654	\$ (69,970)
Increase (decrease) in permanently restricted net assets	73,654	(69,970)
Permanently restricted net assets, beginning	1,927,793	1,997,763
Permanently restricted net assets, end of year	<u>\$ 2,001,447</u>	<u>\$ 1,927,793</u>
Increase (decrease) in net assets	(372,880)	(518,588)
Net assets, beginning	15,124,856	15,643,444
Net assets, end of year	<u>\$ 14,751,976</u>	<u>\$ 15,124,856</u>

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

SENIOR CITIZENS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2005

	Program Services										Support Services				
	Foster														
	Adult	Grand	Living At		College		Hadley	Brent-wood	J.B. Knowles		Senior Citizens	Capital	Fund	Manage-	
	Daycare	Parents	Home *	RSVP	Grove	Donelson	Park	Martin	Hart Bldg	Madison	Foundation	Campaign	Raising **	Mgmt & General	Total Expenses
Salaries	\$110,584	\$59,676	\$429,545	\$131,412	\$71,322	\$134,826	\$42,015	\$75,271	\$108,594	\$122,628		\$20,285	\$115,131	\$410,149	\$1,831,438
Benefits	25,823	8,664	99,888	27,948	12,921	23,529	1,817	14,031	13,864	27,415		1,047	21,609	106,943	385,500
Payroll tax	8,337	4,430	31,601	9,924	5,360	10,030	3,206	4,983	8,227	9,243		1,542	8,616	32,910	138,409
Fees	1,051	473	27,945	1,649	11,041	59,476	971	4,507	5,835	7,056		28,523	8,898	35,639	193,063
Supplies	17,281	2,533	52,254	2,705	15,797	12,213	4,890	10,857	12,535	27,548		2,394	129,597	6,838	297,443
Telephone	1,753	1,240	9,569	2,810	2,484	13,234	971	12,551	3,457	4,866		939	845	5,774	60,494
Postage	859	797	3,268	1,030	2,248	4,028	438	1,655	758	3,555		166	15,236	13,349	47,386
Occupancy	7,525	1,910	23,988	7,221	49,648	54,944	8,690	38,095	64,399	107,903		4,902	3,301	17,621	390,148
Maintenance	654	301	2,437	708	3,853	4,263	258	1,142	339	1,404		59	310	1,282	17,008
Printing	670	216	3,525	840	839	1,377	1,037	566	3,407	3,297		671	13,741	32,691	62,877
Travel	24,346	1,905	21,906	3,279	4,482	9,729	2,253	2,523	4,264	6,425		24	361	3,849	85,344
Conferences	466	602	2,678	1,809	157	1,527	32	103	650	436		77	1,297	5,005	14,839
SCF Grant											93,042				93,042
Assistance	79	275,628	56,940	3,342	59	97	31	52	71	89		17	82	302	336,788
Dues	280	367	1,294	646	306	1,582	215	657	836	714		5,043	271	5,891	18,102
Recognition	318	2,105	1,983	2,767	160	620	71	274	960	487		52	601	2,155	12,554
Other	13		31		361	593	460	11	7	76		0	0	445	1,996
	200,039	360,846	768,850	198,090	181,038	332,070	67,355	167,277	228,203	323,142	93,042	65,741	319,895	680,842	3,986,429
Depreciation	12,564				7,405	72,758	3,155	111,933	135,637	35,593					379,044
Total	\$212,603	\$360,846	\$768,850	\$198,090	\$188,443	\$404,828	\$70,510	\$279,210	\$363,840	\$358,735	\$93,042	\$65,741	\$319,895	\$680,842	\$4,365,474

Note *: The Living At Home Program includes the following cost centers: Living At Home, Respite, VOCA, and Peer Counseling.

Note **: The Fund Raising support service includes \$126,782 of expenses for special events.

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

SENIOR CITIZENS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2004

	Program Services										Support Services				
	Adult	Foster	Living At		College		Hadley	Brent-	J.B.		Senior	Capital	Fund	Manage-	Total
	Daycare	Grand	Home *	RSVP	Grove	Donelson	Park	wood	Knowles	Madison	Citizens	Campaign	Raising **	ment &	Expenses
		Parents						Martin	Hart Bldg		Foundation			General	
Salaries	\$102,725	\$56,267	\$420,749	\$120,898	\$76,800	\$117,592	\$39,052	\$75,400	\$94,231	\$117,060	\$0	\$22,208	\$107,074	\$397,411	\$1,747,467
Benefits	20,905	7,399	95,119	22,912	11,333	17,143	2,970	13,490	14,865	28,764	0	1,076	19,095	98,746	353,817
Payroll tax	7,831	4,277	31,497	9,249	5,885	8,572	2,993	5,109	7,191	8,916	0	1,702	8,021	33,439	134,682
Fees	774	1,478	26,527	924	9,624	45,094	1,116	13,420	4,732	7,955	0	2,434	6,749	27,007	147,834
Supplies	12,456	1,285	52,843	3,332	15,814	14,371	3,303	14,998	12,016	19,263	0	1,749	113,730	7,546	272,706
Telephone	1,882	2,284	12,062	2,709	1,942	12,634	2,229	13,910	5,077	5,364	0	1,355	961	8,262	70,671
Postage	606	366	2,755	867	1,448	3,823	302	1,398	1,557	3,660	0	587	11,524	14,481	43,374
Occupancy	6,723	1,909	23,907	7,228	48,328	57,410	10,608	34,804	57,984	84,588	0	8,699	3,298	17,676	363,162
Maintenance	319	183	1,432	363	4,602	3,709	129	1,043	6,130	1,477	0	617	4,318	2,515	26,837
Printing	828	706	1,607	320	2,286	431	1,676	775	3,050	4,147	0	949	12,723	38,445	67,943
Travel	21,439	1,948	19,118	2,024	4,698	9,082	2,643	1,760	3,191	5,585	0	0	388	3,391	75,267
Conferences	402	1,697	4,131	3,525	384	2,181	59	274	1,440	1,167	0	179	1,061	3,906	20,406
Assistance	0	291,098	58,374	4,218	173	116	138	208	127	0	0	0	0	130	354,582
SCF Grant	0	0	0	0	0	0	0	0	0	0	76,482	0	0	0	76,482
Dues	517	219	1,705	590	578	1,004	116	544	700	1,118	0	2,810	596	8,362	18,859
Recognition	260	1,821	1,250	1,662	238	584	1,289	301	1,130	711	0	93	307	2,071	11,717
Other	-453	55	150	0	62	3	236	89	25	324	0	0	0	28	519
	177,214	372,992	753,226	180,821	184,195	293,749	68,859	177,523	213,446	290,099	76,482	44,458	289,845	663,416	3,786,325
Depreciation	12,424				7,939	73,130	4,646	111,378	139,832	42,651					392,000
Total	\$189,638	\$372,992	\$753,226	\$180,821	\$192,134	\$366,879	\$73,505	\$288,901	\$353,278	\$332,750	\$76,482	\$44,458	\$289,845	\$663,416	\$4,178,325

Note *: The Living At Home Program includes the following cost centers: Living At Home, Respite, VOCA, and Peer Counseling.

Note **: The Fund Raising support service includes \$109,379 of expenses for special events.

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

SENIOR CITIZENS, INC.
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Increase (decrease) in net assets	\$ (372,880)	\$ (518,588)
Adjustments to reconcile increase in net assets to net cash provided (used) by operations:		
Depreciation	379,044	392,000
Unrealized (gain) loss in value of investments	(15,568)	45,147
(Increase) decrease in:		
Accounts receivable	(10,337)	(17,659)
Promises to give	277,739	583,135
Prepaid expenses	9,219	(13,548)
Conservator trust funds	(2,518)	35,801
Pension plan intangible asset	9,730	(36,609)
Increase (decrease) in:		
Accounts payable	5,726	(30,397)
Accrued expenses	9,984	(2,852)
Accrued pension plan liability	23,770	72,284
Deferred revenue	(6,004)	12,989
Conservator trust funds	2,519	(35,801)
Total from operations	<u>310,424</u>	<u>485,902</u>
<u>INVESTING ACTIVITIES:</u>		
Land, building & equipment purchases	(79,528)	(82,474)
Proceeds from sale of investments	2,631	66,007
Purchase of investments	(369,184)	(3,178,350)
Total from investing	<u>(446,081)</u>	<u>(3,194,817)</u>
<u>FINANCING ACTIVITIES:</u>		
Knowles Trust Fund cash account proceeds	2,014	1,988,458
Capital campaign cash accounts proceeds	(103,869)	689,903
Total from financing	<u>(101,855)</u>	<u>2,678,361</u>
Increase (decrease) in cash	(237,512)	(30,554)
Beginning cash balance	523,578	554,132
Ending cash balance	<u>\$ 286,066</u>	<u>\$ 523,578</u>

The accompanying notes are an integral part of the financial statements

SENIOR CITIZENS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Senior Citizens, Inc. (the Agency), a Tennessee not-for-profit corporation, provides programs and services designed to keep seniors, 55 years of age or older, fit, healthy, and involved; and to provide social services to enable home bound seniors to remain independent in their own home as long as possible. Supportive services include fund raising, management and general expenses not directly identifiable to any program, but indispensable to these activities and to the Agency's existence. The Joseph B. Knowles Trust Fund (the Trust Fund) is a trust established to assist in paying for the operating expenses of the Agency's Knowles Senior Center. The Agency and the Trust Fund are governed by the same board of directors. See note 13 for further information on the Trust Fund.

Basis of Accounting

The consolidated financial statements of the Agency and the Fund have been prepared on the accrual basis of accounting and accordingly reflect all significant accounts receivable, accounts payable, and other liabilities. All significant inter company accounts and transactions have been eliminated.

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, Agency 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.

Accounts Receivable

Accounts receivable are stated at their net realizable value. It is the opinion of management that all accounts receivable at June 30, 2005 and 2004 are collectible.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents are defined as all cash on hand and deposited in FDIC insured bank accounts with a maturity of three months or less. Any cash or investments which the agency holds in a conservator trust are reported separately as other assets.

Deferred Revenue

Income from service fees are deferred and recognized over the periods to which the service fees relate.

Donated Assets

Marketable securities and other non cash donations are recorded as contributions at their estimated fair market values at the date of the donation.

SENIOR CITIZENS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

Donations of Property and Equipment

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how these long lived assets must be maintained, Agency reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Agency reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Donated Services

Agency records donated services when they create or enhance a non-financial asset or for specialized skills provided by entities or persons possessing those skills that would be purchased if they were not donated.

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. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Fair Values of Financial Instruments

Financial instruments of Agency include cash, short term trade accounts receivable, and trade accounts payable. Management estimates that the fair value of all financial instruments at June 30, 2005 and 2004 do not differ materially from the carrying values of the financial instruments recorded in the accompanying balance sheet.

Income Tax Status

Senior Citizens, Inc. is an organization which is not considered a private foundation and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes have been made.

Promises to Give

Unconditional promises to give are recognized as revenue or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Property and Equipment

Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed on a straight line basis over the estimated useful life of assets and is reflected as an expense in the Statement of Functional Expenses.

Use of Estimates

The preparation of 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.

SENIOR CITIZENS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

Restricted and Unrestricted Revenue and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a 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.

NOTE 2 - CASH AND CREDIT RISK

All cash and certificate of deposits of Senior Citizens, Inc. are deposited in FDIC insured banks and in brokerage money market accounts. The Agency had deposits exceeding the \$100,000 FDIC deposit insurance coverage. Due to the float on outstanding checks, the credit risk for these excess balances were \$1,498,922 and \$1,919,022 at June 30, 2005 and June 30, 2004, respectively. Consistent with the American Institute of Certified Public Accountants Audit and Accounting Guide for Not-for-Profit Organizations, cash in which is donor restricted for long term purposes is segregated as a non-current asset.

	<u>2005</u>	<u>2004</u>
Cash in banks and on hand	\$ 285,587	\$ 522,794
Money market funds	479	784
Operating cash	286,066	523,578
Cash	395,696	291,827
Money market funds	65,246	67,260
Total cash	<u>\$ 747,008</u>	<u>\$ 882,665</u>

NOTE 3 - INVESTMENTS

The Agency's investments consist of certificates of deposit in FDIC insured banks which mature in more than 3 months and mutual funds invested through brokerage accounts. These investments are carried at market value. The unrealized gains (losses) are \$15,568 and (\$45,147) at June 30, 2005 and June 30, 2004, respectively. The unrealized gains (losses) are reported as part of the investment income on the statement of Activities. The agency's cost basis in the investments are:

	<u>2005</u>	<u>2004</u>
Certificates of Deposit	\$ 1,800,000	\$ 1,995,901
Bonds	1,322,904	778,582
Common stock	613,297	459,766
Mutual Funds	103,094	243,442
Total Investments	<u>\$ 3,839,295</u>	<u>\$ 3,477,691</u>

NOTE 4 - CONSERVATOR TRUST FUNDS

As a result of a court order naming the Agency conservator, trust accounts are established for the purpose of receiving income and paying personal expenses of individuals that are the subject of the court order. All of the trust funds, except for one account which is in two brokerage accounts, are deposited in federally insured banks and credit unions. No individual bank accounts exceeded the \$100,000 FDIC deposit insurance coverage at June 30, 2005 and 2004.

SENIOR CITIZENS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

NOTE 5 - ACCOUNTS RECEIVABLE

Accounts receivable consist of:

	<u>2005</u>	<u>2004</u>
Grantor receivables	\$ 71,841	\$ 68,428
Service fees receivables	71,086	64,161
Total Receivables	<u>\$ 142,927</u>	<u>\$ 132,589</u>

NOTE 6 - PROMISES TO GIVE

Unconditional promises to give consist of:

	<u>2005</u>	<u>2004</u>
United Way Allocation	\$ 473,629	\$ 483,805
Senior Citizens Foundation	112,847	90,000
Capital Campaign Pledges	115,771	549,669
Gross promises to give	<u>702,247</u>	<u>1,123,474</u>
Less: Unamortized discount	(7,884)	(36,372)
Less: Allowance for doubtful pledges	<u>(94,856)</u>	<u>(209,856)</u>
Net promises to give	599,507	877,246
Less: Current portion	<u>(574,580)</u>	<u>(801,358)</u>
Long-term portion of promises to give	<u>\$ 24,927</u>	<u>\$ 75,888</u>

Promises to give due in more than one year are reflected at the present value of estimated future cash flows using a discount rate of 6%. The long term portion of the promises at June 30, 2005 are due during the fiscal year end 2006.

NOTE 7 - EMPLOYEE PENSION PLANS

The Agency has an IRS Section 403(b) tax sheltered annuity plan, a defined contribution money purchase pension plan, and a defined benefit pension plan. Employees may voluntarily contribute to the tax sheltered annuity plan. The Agency does not make any contributions to this plan.

Effective July 1, 1992, the agency established a defined contribution money purchase pension plan which is paid for by the employer. Eligibility for participation in the plan are attainment of age 21 and completion of one year of service in which 1,000 hours of service is completed. Participants become fully vested after 3 years of vesting service. During the first plan year, 4% of each eligible employee's compensation was contributed to the money purchase plan. The board of directors may change this funding level for future years but did not for the years ended June 30, 2005 and 2004. The Agency contributed \$58,277 and \$52,549 to this plan in the years ended June 30, 2005 and 2004.

In January of 1975, the Agency established an employer paid defined benefit pension plan. As a result of establishing the defined contribution plan discussed previously, participation in the defined benefit plan is limited to those employees employed prior to June 30, 1992. All participants and all benefits in the defined benefit are plan 100% vested. The benefits are based on an employee's years of service and annual pay. The funding of this defined benefit plan is based on an actuarial determination using the aggregate cost method which spreads the cost of projected benefits over the employees' aggregate projected future compensation.

SENIOR CITIZENS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

For employees who are participants in both the defined benefit plan and the defined contribution plan, any amount determined to be due to an employee under this defined benefit plan is determined as the minimum pension benefit. If the pension under the defined contribution plan exceeds the minimum pension benefit, then the employee will only receive the defined contribution plan benefit. If the defined contribution plan benefit is less than the minimum pension benefit, then the defined benefit pension plan makes up the difference so that the employee's pension plan is equal to the minimum pension benefit. Shown below is the funded status of the defined benefit plan and amounts recognized in the Agency's statement of activities at June 30, 2005 and June 30, 2004:

Disclosure information for the fiscal year ending:	<u>6/30/2005</u>	<u>6/30/2004</u>
<u>Components of Net Periodic Costs:</u>		
Service costs	\$ 8,011	\$ 8,861
Interest cost	34,983	35,604
Expected return on plan assets	(20,061)	(25,920)
Amortization of transition obligations	(5,033)	(5,040)
Amortization of net (gain) loss	15,680	22,090
Net periodic pension expense	<u>\$ 33,580</u>	<u>\$ 35,595</u>
Discount rate	6.50%	6.50%
Rate of return on assets	7.00%	7.00%
Salary increase	4.00%	4.00%
Measurement date	7/1/2004	7/1/2003
Accumulated benefit obligation	<u>\$ 516,976</u>	<u>\$ 498,219</u>
<u>Change in Projected Benefit Obligation:</u>		
Benefit obligation at beginning of year	\$ 565,327	\$ 501,691
Service cost	8,011	8,861
Interest cost	34,983	35,604
Actuarial (gain) loss	(14,831)	55,399
Benefit paid	(37,493)	(36,228)
Benefit obligation at end of year	<u>\$ 555,997</u>	<u>\$ 565,327</u>
<u>Change in Plan Assets:</u>		
Plan assets at beginning of year	\$ 378,790	\$ 388,489
Expected return on plan assets	25,094	25,920
Benefits paid	(37,493)	(36,228)
Gain (loss)	(5,033)	609
Plan assets at end of year	<u>\$ 361,358</u>	<u>\$ 378,790</u>
<u>Reconciliation of Funded Status:</u>		
Funded status at end of year	\$ (131,848)	\$ (59,564)
Pension expense	(33,580)	(35,595)
Unrecognized gain (loss)	9,810	(36,689)
(Accrued) prepaid benefit cost	<u>\$ (155,618)</u>	<u>\$ (131,848)</u>

SENIOR CITIZENS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

Disclosure information for the fiscal year ending:

	<u>2005</u>	<u>2004</u>
<u>Change in Unrecognized Gain/Loss:</u>		
Unrecognized (gain) loss at beginning of year	\$ 221,715	\$ 189,015
Recognized gain (loss)	(15,680)	(22,090)
(Gain) loss due to actuarial experience	(14,831)	55,399
(Gain) loss due to changes in actuarial assumptions	-	-
(Gain) loss due to assets	5,033	(609)
Unrecognized (gain) loss at end of year	<u>\$ 196,237</u>	<u>\$ 221,715</u>

NOTE 8 - LAND, BUILDING , AND EQUIPMENT

Useful lives are 10 to 40 years for buildings and improvements, and 5 to 10 years for furniture and equipment, and 5 years for vehicles. Land, building, and equipment consist of:

	<u>2005</u>	<u>2004</u>
Land	\$ 1,620,440	\$ 1,620,440
Building and improvements	9,200,990	9,198,522
Construction in progress	34,837	34,837
Furniture and equipment	1,163,356	1,112,173
Vehicles	265,167	239,290
	<u>12,284,790</u>	<u>12,205,262</u>
Less: Accumulated depreciation	(2,321,380)	(2,313,427)
Total	<u>\$ 9,963,410</u>	<u>\$ 9,891,835</u>

NOTE 9 - FINANCIAL DEPENDENCE

The Agency is substantially funded by grants from federal, state, and local government agencies and by annual contributions from United Way. A significant reduction in the level of this support, if this were to occur, may have an effect in the Agency's programs and activities. In addition, the grants prescribe allowable expenditure guidelines with which Agency must comply. The grants are received prospectively, subject to subsequent verification of the incurring of allowable expenditures or provision of qualifying services.

NOTE 10 - IN KIND SUPPORT

The Agency had an agreement effective October 1, 1991 with the J.B. Knowles Trust Fund to lease the J.B. Knowles Senior Citizens Center for \$1 per year for 25 years. The fair market value for rental of this facility is estimated to be \$40,000 per year. This use ended with the move of the Knowles Center to the Hart Building site in January 2004. See note 13. The Agency has an in kind agreement with the Metropolitan Government of Nashville and Davidson County to use the site where the Knowles Center Hart Building is located as a senior center for 40 years for \$1. The fair value of the use of the land for the forty years is estimated to be \$16,250 per year for a total of \$650,000. The Agency also has in kind agreements to use its College Grove and Hadley Park facilities. The fair market value of the rent of these facilities is estimated to be \$41,400 and \$9,000 per year respectively. During the year ended June 30, 2001 the Agency received a donation of land with a fair market value of \$375,000 from the City of Brentwood which is the site of the Martin Senior Center. The Agency has title to the land subject to a provision that if the Agency sells the land the City of Brentwood will receive part of the proceeds.

SENIOR CITIZENS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

The Agency also receives in kind support in the form of meals, uniforms, and medical services provided to its volunteers by other agencies involved in the programs. Also the Agency receives from time to time in kind professional services, supply, equipment, janitorial services, printing, legal, real estate consulting, and recognition donations. A summary of in kind support received and included in the financial statements is as follows:

	<u>2005</u>	<u>2004</u>
Rent and land use	\$ 64,850	\$ 57,400
Assistance	54,663	67,519
Professional services	376	2,860
Supplies	1,224	1,307
Total	<u>\$ 121,113</u>	<u>\$ 129,086</u>

NOTE 11 - DEFERRED REVENUE

Deferred revenue consists of payments for services which have not been earned.

NOTE 12 - BOARD DESIGNATED NET ASSETS

The Board of Directors for Senior Citizens, Inc. has designated \$150,000 in a capital reserve fund and \$50,000 in a special needs fund.

NOTE 13 - PERMANENTLY RESTRICTED NET ASSETS

The Agency became the trustee of the Knowles Trust during the fiscal year ended June 30, 2004. A court order approved the transfer of the Knowles Trust to Senior Citizens, Inc. from the former trustee the Mayor of Nashville. The principal in the Knowles Trust Fund is permanently restricted subject to the following provisions. Annually, the Agency has the unrestricted use of the Knowles Trust Fund's net investment income or 5% of the trust fund balance whichever is greater. If this annual amount is less than \$40,000, the Agency can encroach upon the principal balance up to a minimum of \$40,000. However, any encroachment which decreases the principal balance by more than 10% must be approved by the court. Based on these provisions, the initial balance that was transferred is reported as a restricted net asset. During the year ended June 30, 2005, based on the provisions discussed above, the Agency received \$100,000 from the Trust which is less than 5% of the trust fund balance.

NOTE 14 - SENIOR CITIZENS FOUNDATION, INC.

Senior Citizens Foundation, Inc. (the Foundation) is an independently governed organization that financially supports the activities of Senior Citizens, Inc. (the Agency). The Foundation is organized as a 501(c)(3) not for profit organization for the purpose of supporting activities of senior centers including the Agency but not limited to the Agency. The Agency does not control the decisions and activities of the Foundation and vice versa. The Agency has made grants to the Foundation as disclosed annually in the statement of functional expenses. The Agency is not required to make any grants to the Foundation. Annually, the Foundation makes an unconditional pledge to the Agency for support of the Agency's

SENIOR CITIZENS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

activities for the next fiscal year that is reported in the statement of activities. The Foundation's pledge is approximately 5% of the fair market value of the Foundation's investments of the Agency's grants. The Foundation is not required to make a pledge to the Agency of this or any other amount and has made different amounts of donations in the past. The Agency's cumulative grants to the Foundation are \$2,259,849, and the Foundation's cumulative pledges and donations to the Agency are \$1,008,010. Since the Agency does not have control over the Foundation's decisions and activities, the fair value of the assets held by the Foundation is not recognized as an asset of the Agency.

NOTE 15 - SENIOR CITIZENS FOR THE ARTS

On October 12, 2004, the board of directors approved the by-laws and board members for the Senior Citizens for the Arts, Inc. (SCA) a non-profit organization created to support art programs. SCI's board of directors will control and take an economic interest in SCA, therefore, it will be consolidated with SCI. SCA had no assets, liabilities, operating income or expenses in the year ended June 30, 2005.

SENIOR CITIZENS, INC.
SCHEDULE OF FEDERAL AWARDS
JUNE 30, 2005

<u>CFDA Number</u>	<u>State Grant Number</u>	<u>Grantor Agency and Program Name</u>	<u>Balance July 1, 2004</u>	<u>Grant Cash Receipts</u>	<u>Expenditures</u>	<u>Balance June 30, 2005</u>	
<u>US Department of Health and Human Services:</u>							
Passed Through the Tennessee Department of Human Services:							
93.667	Z05020322	Social Services Block Grant	\$ -	\$ 52,200	\$ 52,200	\$ -	
Passed Through the Greater Nashville Regional Council:							
93.044	2005-10	Title IIIB	-	69,476	82,100	(12,624)	(A)
93.043	2005-10	Title IIID	(899)	13,799	12,900	-	
Passed Through the Tennessee Department of Mental Health and Developmental Disabilities through: Centerstone Community Mental Health Centers, Inc.							
93.958	Centerstone	Peer Counseling	(4,026)	10,647	20,634	(14,013)	(A)
<u>US Department of Agriculture - Passed Through the Department of Human Services:</u>							
10.558	34740006001	Child & Adult Food Program	-	24,002	24,002	-	
<u>National Endowment for the Arts - Passed Through the Tennessee Arts Commission:</u>							
45.022	Z0301244500	Art program	-	1,250	1,250	-	
<u>US Department of Justice - Passed Through the Department of Human Services:</u>							
16.575	Z0009933701	Victims of Crime Act	(13,229)	71,630	58,401	-	
<u>Corporation for National & Community Service:</u>							
94.011	GH02SFSTN072	Foster Grandparents Program *	(25,246)	291,482	291,692	(25,456)	(A)
94.016	GH03SCSTN004	Respite Senior Companion Program *	(4,134)	53,505	53,938	(4,567)	(A)
94.002	GH02SRSTN068	Retired Senior Volunteer Program	(9,177)	110,160	110,164	(9,181)	(A)
Totals			(38,557)	455,147	455,794	(39,204)	
Total Grants Receivable			\$ (56,711)	\$ 698,151	\$ 707,281	\$ (65,841)	

(A): Amounts shown in brackets represents money due from the grantor.

(B): Advances due to the grantor if not used for program purposes.

* : Represents a major program for Single Audit Purposes.

This schedule is prepared on the same (accrual) basis of accounting as the financial statements.

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

SENIOR CITIZENS, INC.
SCHEDULE OF FEDERAL AWARDS
JUNE 30, 2004

CFDA Number	State Grant Number	Grantor Agency and Program Name	Balance July 1, 2003	Grant Cash Receipts	Expenditures	Balance June 30, 2004
<u>US Department of Health and Human Services:</u>						
Passed Through the Tennessee Department of Human Services:						
93.667	Z04015734	Social Services Block Grant	\$ -	\$ 52,200	\$ 52,200	\$ -
Passed Through the Greater Nashville Regional Council:						
93.044	2003-10	Title IIIB	(25,626)	25,626	-	-
93.044	2004-10	Title IIIB	-	88,100	88,100	-
93.043	2004-10	Title IIID	-	7,101	8,000	(899) (A)
Passed Through the Tennessee Department of Mental Health and Developmental Disabilities through:						
Centerstone Community Mental Health Centers, Inc.						
93.958	Centerstone	Peer Counseling	(5,130)	5,130	-	-
93.958	Centerstone	Peer Counseling	-	46,982	51,008	(4,026) (A)
<u>US Department of Agriculture - Passed Through the Department of Human Services:</u>						
10.558	34740006001	Child & Adult Food Program	(1,832)	1,832	-	-
10.558	34740006001	Child & Adult Food Program	-	21,081	21,081	-
<u>National Endowment for the Arts - Passed Through the Tennessee Arts Commission:</u>						
84.126	Z0301244500	Art program	-	2,500	2,500	-
<u>US Department of Justice - Passed Through the Department of Human Services:</u>						
16.575	Z0009400800	Victims of Crime Act	(3,298)	3,298	-	-
16.575	Z0009933701	Victims of Crime Act	-	41,141	54,370	(13,229) (A)
<u>Corporation for National & Community Service:</u>						
94.011	GH02SFSTN072	Foster Grandparents Program *	(23,652)	312,550	314,144	(25,246) (A)
94.016	GH01SCSTN020	Respite Senior Companion Program *	(2,957)	44,128	45,305	(4,134) (A)
94.002	GH01RSTN068	Retired Senior Volunteer Program	(5,560)	105,042	108,659	(9,177) (A)
Totals			(32,169)	461,720	468,108	(38,557)
Total Grant Receivable			\$ (68,055)	\$ 756,711	\$ 745,367	\$ (56,711)

(A): Amounts shown in brackets represents money due from the grantor.

(B): Advances due to the grantor if not used for program purposes.

* : Represents a major program for Single Audit Purposes.

This schedule is prepared on the same (accrual) basis of accounting as the financial statements.

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

SENIOR CITIZENS, INC.
SCHEDULE OF STATE AND LOCAL AWARDS
JUNE 30, 2005

<u>State Grant Number</u>	<u>Grantor Agency and Program Name</u>	<u>Balance July 1, 2004</u>	<u>Grant Cash Receipts</u>	<u>Expenditures</u>	<u>Balance June 30, 2005</u>	
<u>Tennessee Department of Mental Health and Developmental Disabilities:</u>						
GR051634800	Foster Grand Parents Program (Cloverbottom)	\$ (6,000)	\$ 6,000	\$ 6,000	\$ (6,000)	(A)
Not Issued	Foster Grand Parents Program	(5,717)	5,717		-	
<u>Tennessee Commission on Aging - Greater Nashville Regional Council:</u>						
2005-10	Senior Citizens Operations Grant	-	35,000	35,000	-	
State Totals		<u>\$ (11,717)</u>	<u>\$ 46,717</u>	<u>\$ 41,000</u>	<u>\$ (6,000)</u>	
<u>Williamson County:</u>						
	College Grove Center Grant	\$ -	\$ 16,858	\$ 16,858	\$ -	
	Brentwood Center Grant	-	16,250	16,250	-	
<u>Brentwood College Grove Grant:</u>						
	Local Government Totals	<u>\$ -</u>	<u>\$ 40,000</u>	<u>40,000</u>	<u>-</u>	
		<u>\$ -</u>	<u>\$ 73,108</u>	<u>\$ 73,108</u>	<u>\$ -</u>	

(A): Amounts shown in brackets represents money due from the grantor.

(B): Advances due to the grantor if not used for program purposes.

This schedule is prepared on the same (accrual) basis of accounting as the financial statements.

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

SENIOR CITIZENS, INC.
SCHEDULE OF STATE AND LOCAL AWARDS
JUNE 30, 2004

<u>State Grant Number</u>	<u>Grantor Agency and Program Name</u>	<u>Balance July 1, 2003</u>	<u>Grant Cash Receipts</u>	<u>Expenditures</u>	<u>Balance June 30, 2004</u>	
<u>Tennessee Department of Mental Health and Developmental Disabilities:</u>						
GR021403600	Foster Grand Parents Program (Cloverbottom)	\$ -	\$ -	\$ 6,000	\$ (6,000)	(A)
GR021437900	Foster Grand Parents Program	-	-	5,717	(5,717)	(A)
<u>Tennessee Commission on Aging - Greater Nashville Regional Council:</u>						
2002-10	Retired Senior Volunteer Program	(816)	816	-	-	
2002-10	Senior Citizens Operations Grant	-	35,000	35,000	-	
State Totals		<u>\$ (816)</u>	<u>\$ 35,816</u>	<u>\$ 46,717</u>	<u>\$ (11,717)</u>	
<u>Williamson County:</u>						
	College Grove Center Grant	\$ -	\$ 15,930	\$ 15,930	\$ -	
	Brentwood Center Grant	-	15,943	15,943	-	
<u>Brentwood College Grove Grant:</u>						
		-	40,000	40,000	-	
Local Government Totals		<u>\$ -</u>	<u>\$ 71,873</u>	<u>\$ 71,873</u>	<u>\$ -</u>	

(A): Amounts shown in brackets represents money due from the grantor.

(B): Advances due to the grantor if not used for program purposes.

This schedule is prepared on the same (accrual) basis of accounting as the financial statements.

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

Senior Citizens, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: unqualified.

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Reportable condition(s) identified that are not considered to be material weaknesses _____ yes X none reported

Type of auditor's report issued on compliance for major programs: unqualified.

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? _____ yes X no

Identification of major programs:

CFDA Number(s)

94.011

94.016

Name of Federal Program

Foster Grand Parents Program

Respite Senior Companion Program

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low risk? X yes _____ no

Section II - Financial Statement Findings

No matters were reported.

Section III - Federal Award Findings and Questioned Costs

No matters were reported.

SENIOR CITIZENS, INC.
SCHEDULE OF REVENUE, EXPENSES, AND CHANGES IN
UNRESTRICTED NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2005

<u>PUBLIC SUPPORT AND REVENUE</u>	Agency Operations	Capital Campaign	Total 2005
Special events	\$ 488,097	\$ -	\$ 488,097
Contributions	954,789	93,042	1,047,831
Sub-total	1,442,886	93,042	1,535,928
United Way	27,340	-	27,340
Membership dues	126,023	-	126,023
In kind support	121,113	-	121,113
Service fees	513,692	-	513,692
Investment income	192,453	-	192,453
Gain on disposal	500	-	500
Other income	5,978	-	5,978
Net assets released from restrictions:			
Principal transfer	(73,654)	-	(73,654)
Satisfaction of program restrictions: Awards	831,389	-	831,389
Satisfaction of timing restrictions:			
United Way	483,805	-	483,805
Senior Citizens Foundation	97,945	-	97,945
Capital Campaign	-	98,822	98,822
Sub-total of satisfaction of timing restrictions	581,750	98,822	680,572
Total public support and revenue	3,769,470	191,864	3,961,334
<u>EXPENSES</u>			
Program services *	3,205,954	93,042	3,298,996
Support Services	967,656	98,822	1,066,478
Total expenses	4,173,610	191,864	4,365,474
Increase (decrease) in unrestricted net assets	(404,140)	-	(404,140)
Unrestricted net assets, beginning	3,400,571	6,775,384	10,175,955
Unrestricted net assets, end of year	\$ 2,996,431	\$ 6,775,384	\$ 9,771,815

Capital Campaign reimbursement to operations consists of:

Transfer of endowment to Senior Citizens Foundation	\$ 93,042
Agency operating expenses	24,736
Capital Campaign direct expenses this year	65,741
Capital Campaign indirect expenses this year	8,345
Total Capital Campaign expenses this year	191,864
Capital Campaign capitalized expenditures this year	-
Total amount reimbursed to operations	\$ 191,864

Capital Campaign portion of ending unrestricted net assets consists of:

City of Brentwood in kind donation of land for center	\$ 375,000
Capital Campaign capitalized expenditures cumulative	6,400,384
Capital Campaign portion of ending unrestricted net assets	\$ 6,775,384

Note *: Operating program services expense includes \$121,113 in kind and \$379,044 depreciation expense.

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

SENIOR CITIZENS, INC.
SCHEDULE OF REVENUE, EXPENSES, AND CHANGES IN
UNRESTRICTED NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004

<u>PUBLIC SUPPORT AND REVENUE</u>	Agency Operations	Capital Campaign	Total 2004
Special events	\$ 468,989	\$ -	\$ 468,989
Contributions	417,363	76,482	493,845
Sub-total	886,352	76,482	962,834
United Way	20,627	-	20,627
Membership dues	122,228	-	122,228
In kind support	129,086	-	129,086
Service fees	468,990	-	468,990
Investment income	48,717	-	48,717
Gain on disposal	1,040	-	1,040
Other income	8,800	-	8,800
Net assets released from restrictions:			
Principal transfer	69,970	-	69,970
Satisfaction of program restrictions: Awards	863,957	-	863,957
Satisfaction of timing restrictions:			
United Way	514,036	-	514,036
Senior Citizens Foundation	97,357	-	97,357
Capital Campaign	-	103,861	103,861
Sub-total of satisfaction of timing restrictions	611,393	103,861	715,254
Total public support and revenue	3,231,160	180,343	3,411,503
<u>EXPENSES</u>			
Program services *	3,104,124	76,482	3,180,606
Support Services	893,858	103,861	997,719
Total expenses	3,997,982	180,343	4,178,325
Increase (decrease) in unrestricted net assets	(766,822)	-	(766,822)
Unrestricted net assets, beginning	4,167,393	6,775,384	10,942,777
Unrestricted net assets, end of year	\$ 3,400,571	\$ 6,775,384	\$ 10,175,955

Capital Campaign reimbursement to operations consists of:

Transfer of endowment to Senior Citizens Foundation	\$ 76,482
Agency operating expenses	50,000
Capital Campaign direct expenses this year	44,458
Capital Campaign indirect expenses this year	9,403
Total Capital Campaign expenses this year	180,343
Capital Campaign capitalized expenditures this year	-
Total amount reimbursed to operations	\$ 180,343

Capital Campaign portion of ending unrestricted net assets consists of:

City of Brentwood in kind donation of land for center	\$ 375,000
Capital Campaign capitalized expenditures cumulative	6,400,384
Capital Campaign portion of ending unrestricted net assets	\$ 6,775,384

Note *: Operating program services expense includes \$129,086 in kind and \$392,000 depreciation expense.

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

Joe Osterfeld, CPA

Certified Public Accountant

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Telephone: 931-388-7144 ~ Fax: 931-388-7239

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Senior Citizens, Inc.
174 Rains Avenue
Nashville, TN 37203

I have audited the financial statements of position of Senior Citizens, Inc. (a nonprofit corporation) as of and for the year ended June 30, 2005 and 2004, and have issued my report thereon dated September 7, 2005. I conducted my 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.

Compliance

As a part of obtaining reasonable assurance about whether Senior Citizens, Inc.'s financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing my audit, I considered Senior Citizens, Inc.'s internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of internal control over financial reporting would not necessarily disclose all matters of the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

This report is intended for the information of the Board of Directors; management; federal awarding agencies; the Comptroller of the Treasury, State of Tennessee, Division of Municipal Audit; and other grantors. However, this report is a matter of public record, and its distribution is not limited.



Joe Osterfeld, CPA
Columbia, Tennessee
September 7, 2005

Joe Osterfeld, CPA

Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH THE REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Senior Citizens, Inc.
174 Rains Avenue
Nashville, TN 37203

Compliance

I have audited the compliance of Senior Citizens, Inc. (a nonprofit corporation) with the types of compliance requirements described in the "US Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that are applicable to each of its major federal programs for the year ended June 30, 2005. Senior Citizens, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Senior Citizens, Inc.'s management. My responsibility is to express an opinion on Senior Citizens, Inc.'s compliance based upon my audit.

I have conducted my audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations". Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Senior Citizens, Inc.'s compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Senior Citizens, Inc.'s compliance with those requirements.

In my opinion, Senior Citizens, Inc. complied in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control over Compliance

The management of Senior Citizens, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered Senior Citizens, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a federal

program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance reporting and its operation that I consider to be material weaknesses.

This report is intended for the information of the Board of Directors; management; federal awarding agencies; the Comptroller of the Treasury, State of Tennessee, Division of Municipal Audit; and other grantors. However, this report is a matter of public record, and its distribution is not limited.

A handwritten signature in black ink that reads "Joe Osterfeld, CPA". The signature is written in a cursive, flowing style.

Joe Osterfeld, CPA
Columbia, Tennessee
September 7, 2005