

Residential Living Options, Inc.

Years Ended December 31, 2007 and 2006

**ROBERT C. BEZGIN
CERTIFIED PUBLIC ACCOUNTANT**

Residential Living Options, Inc.

Years Ended December 31, 2007 and 2006

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Board of Directors
Residential Living Options, Inc.
Downingtown, Pennsylvania

Independent Auditor's Report

I have audited the accompanying statements of financial position of Residential Living Options, Inc. ("RLO") as of December 31, 2007 and 2006, and the related statements of activities and functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the RLO's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

The financial statements include certain prior year summarized comparative information in total but not by functional expenses. Generally accepted accounting principles require comparative information to be presented in detail similar to current year information. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended December 31, 2006, from which the summarized information was derived.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of RLO as of December 31, 2007 and 2006 and the changes in its net assets, its functional expenses 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 November 7, 2008 on my consideration of RLO's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of my 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 read in conjunction with this report in considering the results of my audit.

Robert C. Bezgin, CPA

November 7, 2008

Residential Living Options, Inc.
Statement of Financial Position
December 31, 2007 and 2006

	<u>12/31/2007</u>	<u>12/31/2006</u>
<u>Assets</u>		
Current assets:		
Cash	\$33,123	\$15,197
Accounts receivable	<u>51,026</u>	<u>44,450</u>
Total current assets	84,149	59,647
Fixed assets - at cost (net of accumulated depreciation)	1,276	2,139
Other assets - security deposit	<u>1,800</u>	<u>1,800</u>
Total assets	<u><u>87,225</u></u>	<u><u>63,586</u></u>
 <u>Liabilities</u>		
Current liabilities:		
Accounts payable		379
Accrued payroll and payroll taxes	<u>6,821</u>	<u>6,860</u>
Total current liabilities	<u>6,821</u>	<u>7,239</u>
 <u>Net assets</u>		
Unrestricted net assets	57,904	56,347
Temporarily restricted net assets	<u>22,500</u>	<u> </u>
Total net assets	<u>80,404</u>	<u>56,347</u>
Total liabilities and net assets	<u><u>\$87,225</u></u>	<u><u>\$63,586</u></u>

Residential Living Options, Inc.
Statement of Activities and Functional Expenses
For the years ended December 31, 2007 and 2006

	Delaware County	Chester County	Self- Determination Housing Project	Chester County Home Modification Program	Lifestyles	General Administrative and Fundraising	Memorandum Only 12/31/2007 Total	Memorandum Only 12/31/2006 Total
Unrestricted net assets:								
Support								
Contributions						\$3,500	\$3,500	\$14,275
Program services			101,308	8,332		9	109,650	54,466
Fundraising						13,553	13,553	16,719
United Way						8,296	8,296	5,254
Interest income						197	197	19
Governmental agencies	23,560	46,594			38,231		108,385	104,634
Total unrestricted revenues	23,560	46,594	101,308	8,332	38,231	25,555	243,581	195,367
Expenses:								
Personnel expense	20,199	38,698	80,193	6,625	25,493	17,746	188,954	143,397
Insurance	180	315	540	135	240	90	1,499	1,484
Staff development			1,170				1,170	1,913
Contracted personnel						1,263	1,263	285
Occupancy	1,530	2,840	6,635	533	1,880	1,294	14,713	10,252
Telephone	687	896	2,149	143	607	349	4,832	6,044
Advertising	17	34	135	7	38	15	247	94
Printing	88	184	250	51	73	88	734	319
Dues and subscriptions	28	49	135	21	38	38	309	312
Postage	94	171	423	26	113	457	1,284	1,273
Administrative supplies	168	553	1,120	49	219	509	2,618	1,504
Accounting and legal	280	498	1,734		403	285	3,200	3,025
Program supplies and food	67	20	647			64	799	1,979
Office equipment rental and supplies	233	453	877	94	251	238	2,147	2,327
Staff travel	896	1,143	5,523	157	429	305	8,453	4,910
Miscellaneous expense						679	679	700
Fundraising expenses						7,736	7,736	1,023
Reimbursable program expense	250	275					525	1,095
Child abuse clearance								10
Depreciation	92	171	390	35	112	63	863	913
Total expenses	24,810	46,299	101,922	7,877	29,897	31,219	242,024	182,859
Total increase (decrease) in net assets	(\$1,250)	\$295	(\$613)	\$456	\$8,334	(\$5,664)	\$1,557	\$12,508
Net assets beginning of year							56,347	43,839
Increase in temporarily restricted assets								
Contribution							22,500	
Net assets end of year							<u>\$80,404</u>	<u>\$56,347</u>

Residential Living Options, Inc.
Statement of Cash Flows
For the year ended December 31, 2007 and 2006

	<u>12/31/2007</u>	<u>12/31/2006</u>
Cash flows from operating activities:		
Increase in net assets	\$24,057	\$12,508
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	863	913
(Increase) in accounts receivable	(6,577)	(18,909)
Increase (decrease) in accounts payable	(378)	34
Increase (decrease) in accrued payroll	(39)	2,201
Net cash provided by (used in) operating activities	<u>17,926</u>	<u>(3,253)</u>
Net cash used in investing activities:		
Purchase of office equipment	<u> </u>	<u>(1,139)</u>
Increase (decrease) in cash	17,926	(4,392)
Cash, beginning of year	<u>15,197</u>	<u>19,589</u>
Cash, end of year	<u><u>\$33,123</u></u>	<u><u>\$15,197</u></u>

Residential Living Options, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2007 and 2006

1. Description of the organization and significant accounting policies:

Description of organization:

Residential Living Options, Inc. ("RLO") was incorporated on March 11, 1998 under the laws of the Commonwealth of Pennsylvania. RLO's mission is to provide an atmosphere promoting creativity, collaboration and incentive for people with disabilities and their families to pursue housing options based on their individual dreams and goals.

The primary funding source is provided by contracts from the Offices of Housing and Community Development of Chester County and Delaware County. Funds are also raised through fund raising activities as well as private donations.

Summary of significant accounting policies:

The financial statements of RLO have been prepared on the accrual basis.

Contributions are recognized when the donor makes a promise to give to RLO that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

During the years ended December 31, 2007 and 2006, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded. In addition, many individuals volunteer their time and perform a variety of tasks that assist RLO throughout the year.

For purposes of the statement of cash flows, RLO considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Program services:

Chester County - Funds received from a contract with Chester County are used to provide assistance for permanent housing to developmentally disabled residents of Chester County.

Delaware County - Funds received from a contract with Delaware County are used to provide intensive counseling assistance to individuals with developmental disabilities to enable them to purchase homes through the County's existing Homeownership First program.

Residential Living Options, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2007 and 2006

Self Determination Housing Project - RLO was appointed as the Southeastern regional housing coordinator for this program funded by the Pennsylvania Department of Public Welfare to provide technical assistance and form corroborations in order to combine funding and resources from the housing and disabilities communities.

Chester County Home Modification Program - Contract with Housing Partnership Development Corporation. Program offers comprehensive services for people with physical disabilities requiring home modifications.

Lifestyles - Funds are received from Chester County Department of Community and Economic Development to provide housing counseling and case management for people with disabilities to establish housing of their choice in the community.

General and Administrative - These funds include unrestricted resources raised through contributions, governmental donations and fund raising activities. Funds are used for general operations and expenditures not reimbursed in other program services.

Income taxes:

RLO is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. RLO is exempt from state income and capital stock taxes of the Commonwealth of Pennsylvania under Commonwealth Act of May 5, 1933 (Nonprofit Corporation Law).

Fixed assets:

Furniture and equipment is recorded at cost less depreciation. Depreciation is accounted for on the straight-line method based on estimated useful asset lives.

	<u>12/31/2007</u>	<u>12/31/2006</u>
Furniture and equipment (3 to 5 years)	\$14,268	\$14,268
Less accumulated depreciation	<u>(12,992)</u>	<u>(12,129)</u>
Furniture and equipment, net	<u>\$1,276</u>	<u>\$2,139</u>

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.

Residential Living Options, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2007 and 2006

2. Lease commitments:

RLO has entered into a month to month lease with Caln East Commercial for office space located in Downingtown, PA. Monthly payments are \$1,000 per month. RLO received sublet income of \$160 a month through October 31, 2006 from Independent Monitoring, Inc.

RLO has entered into a 36 month lease with Ricoh Customer Finance Corporation for a copy machine. The lease provides for monthly rental of \$106. Yearly rental payments for the next year is \$636.

3. Line of Credit:

RLO has a demand line of credit available in the amount of \$10,000 from M&T Bank. The line is secured by a UCC on business assets consisting of accounts receivable and fixed assets. Interest is payable monthly at the prime rate plus 2.5% as announced by M&T Bank. As of December 31, 2007, the line of credit was paid in full.

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Board of Directors
Residential Living Options, Inc.
Downingtown, Pennsylvania

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS

I have audited the financial statements of Residential Living Options, Inc. ("RLO") as of December 31, 2007, and have issued my report thereon dated November 7, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered RLO's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of RLO's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of RLO's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. I consider the deficiency described as follows and response to be a significant deficiency in internal control over financial reporting.

RLO prepares and manages its accounting records in a general ledger system that enables management to timely record and report transactions on a monthly basis in the form of financial statements that are prepared on the cash basis of accounting to the Board of Directors. The financial statements prepared do not purport to represent generally accepted accounting principles of the entire entity and its program services but instead the management and general operations of RLO. Accordingly, RLO relies upon the auditor to prepare the financial statements in accordance with generally accepted accounting principles on an annual basis when the results are more useful to the Board of Directors. Management believes this to be the most cost efficient way to prepare the financial statements without incurring

substantial accounting costs that would outweigh the benefits derived from having financial statements prepared monthly in accordance with generally accepted accounting principles.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the entity's internal control. My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, I believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether RLO's financial statements are free of 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 on noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the management, Board of Directors, and the Offices of Housing and Community Development of Chester and Delaware County, and is not intended to be and should not be used by anyone other than these specified parties.

Robert C. Bezgin, CPA

November 7, 2008