

**INTERLUDE, INC.**

**JUNE 30, 2009**

**INTERLUDE, INC.**

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## Independent Auditors' Report

To the Board of Directors  
Interlude, Inc.  
Danbury, Connecticut

We have audited the accompanying statements of financial position of Interlude, Inc. (Interlude) as of June 30, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Interlude's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Interlude's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the 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 Interlude as of June 30, 2009 and 2008, 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 a report dated October 13, 2009 on our consideration of Interlude's internal control over financial reporting and on 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 conjunction with this report in considering the results of our audit.

*Blum, Shapiro & Company, P.C.*

October 13, 2009

Blum, Shapiro & Company, P.C.

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**INTERLUDE, INC.**

**STATEMENTS OF FINANCIAL POSITION**

**JUNE 30, 2009 AND 2008**

	<u><b>2009</b></u>	<u><b>2008</b></u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 269,879	\$ 392,263
Investments	213,977	225,554
Client receivables	1,124	2,951
Other receivables	2,000	-
Prepaid expenses	9,071	9,947
Total current assets	<u>496,051</u>	<u>630,715</u>
<b>Property and Equipment</b>		
Operating property and equipment, net	384,384	366,507
Rental property, net	407,395	433,732
Net equipment	<u>791,779</u>	<u>800,239</u>
<b>Other Assets</b>		
Deposits	<u>12,900</u>	<u>15,820</u>
<b>Total Assets</b>	<u><u>\$ 1,300,730</u></u>	<u><u>\$ 1,446,774</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Current portion of mortgages payable	\$ 43,661	\$ 37,112
Accounts payable and accrued expenses	70,806	70,262
Security deposits	37,197	39,733
Total current liabilities	<u>151,664</u>	<u>147,107</u>
<b>Long-Term Liabilities</b>		
Mortgages payable, less current portion	<u>620,517</u>	<u>668,300</u>
Total liabilities	<u>772,181</u>	<u>815,407</u>
<b>Net Assets</b>		
Unrestricted net assets:		
Designated	62,860	186,699
Undesignated	445,689	414,768
	<u>508,549</u>	<u>601,467</u>
Temporarily restricted net assets	20,000	29,900
Total net assets	<u>528,549</u>	<u>631,367</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 1,300,730</u></u>	<u><u>\$ 1,446,774</u></u>

The accompanying notes are an integral part of the financial statements

**INTERLUDE, INC.**

**STATEMENTS OF ACTIVITIES**

**FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>Changes in Unrestricted Net Assets</b>		
Support and revenue:		
State grants	\$ 901,038	\$ 904,118
Other grants	276,500	245,000
Client fees and rental income	283,019	278,140
Contributions	14,264	112,732
Fundraising	24,701	24,802
Investment income	15,083	21,134
Loss on investments	(18,053)	(11,688)
Gain on sale of property	-	143,898
	<u>1,496,552</u>	<u>1,718,136</u>
Net assets released from restrictions	37,040	66,418
Total unrestricted support and revenue	<u>1,533,592</u>	<u>1,784,554</u>
 Expenses:		
Program services	1,383,249	1,343,331
Management and general	232,722	218,361
Fundraising	10,539	8,055
Total expenses	<u>1,626,510</u>	<u>1,569,747</u>
 Increase (decrease) in unrestricted net assets	<u>(92,918)</u>	<u>214,807</u>
 <b>Changes in Temporarily Restricted Net Assets</b>		
Support and revenue:		
Grants and contributions	27,140	90,780
Net assets released from restrictions	<u>(37,040)</u>	<u>(66,418)</u>
Increase (decrease) in temporarily restricted net assets	<u>(9,900)</u>	<u>24,362</u>
 <b>Change in Net Assets</b>	 (102,818)	 239,169
 <b>Net Assets - Beginning of Year</b>	 <u>631,367</u>	 <u>392,198</u>
 <b>Net Assets - End of Year</b>	 <u>\$ 528,549</u>	 <u>\$ 631,367</u>

The accompanying notes are an integral part of the financial statements

**INTERLUDE, INC.**

**STATEMENTS OF CASH FLOWS**

**FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

	<b>2009</b>	<b>2008</b>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ (102,818)	\$ 239,169
Adjustments to reconcile the change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	60,249	68,633
Loss on investments	18,053	11,688
Gain on sale of property	-	(143,898)
(Increase) decrease in operating assets:		
Client receivables	1,827	4,350
Prepaid expenses	876	8,662
Deposits	2,920	(2,920)
Other receivables	(2,000)	-
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	544	25,801
Security deposits	(2,536)	(4,625)
Net cash provided by (used in) operating activities	(22,885)	206,860
<b>Cash Flows from Investing Activities</b>		
Purchases of investments	(11,176)	-
Proceeds from sale of investments	4,700	-
Proceeds from sale of property	-	168,450
Purchase of property and equipment	(51,789)	(37,131)
Net cash provided by (used in) investing activities	(58,265)	131,319
<b>Cash Flows from Financing Activities</b>		
Principal payments on mortgages payable	(41,234)	(44,861)
Net cash used in financing activities	(41,234)	(44,861)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(122,384)	293,318
<b>Cash and Cash Equivalents - Beginning of Year</b>	392,263	98,945
<b>Cash and Cash Equivalents - End of Year</b>	\$ 269,879	\$ 392,263

The accompanying notes are an integral part of the financial statements

## INTERLUDE, INC.

### NOTES TO FINANCIAL STATEMENTS

#### Note 1 - Summary of Significant Accounting Policies:

**Organization and Nature of Activities** - Interlude, Inc. (Interlude) is a nonprofit corporation that provides residential support services, including daily living skills training to adults with emotional and mental disabilities. Interlude's primary sources of revenue include state and local grants, client fees and client rental income.

**Basis of Accounting and Presentation** - Interlude's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. Accordingly, Interlude reports information regarding its financial position and activities according to the following classes of net assets:

**Unrestricted Net Assets** - Unrestricted net assets represent available resources other than donor-restricted contributions. Included in unrestricted net assets are state grants that may be earmarked for specific purposes. The Board of Directors has designated a portion of unrestricted net assets for various purposes as discussed in Note 5.

**Temporarily Restricted Net Assets** - These assets represent resources that have donor-imposed restrictions as to purpose or time of expenditure.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain amounts and disclosures in the financial statements. Actual results could differ from these estimates.

**Cash and Cash Equivalents** - Cash and cash equivalents include cash in banks and certain highly liquid investments with maturities of three months or less. Interlude maintains deposits in financial institutions that may, at times, exceed federal depository insurance limits. Management believes that Interlude's deposits are not subject to significant credit risk.

**Investments** - Investments in equity securities with readily determinable fair values and investments in debt securities are carried at fair value in the statements of financial position. The fair values of all investments are determined using quoted prices in active markets for identical assets (Level 1, as defined in Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*). Investments consist of mutual funds investing in bonds.

**Equipment** - Equipment acquisitions and substantial improvements thereon that individually exceed \$500 are capitalized at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the related assets. Repairs and maintenance are charged to expense as incurred.

**Compensated Absences** - The liability for compensated absences cannot be reasonably estimated as Interlude's vacation policy is based on each employee's anniversary date. Accordingly, a liability for compensated absences has not been recognized in the accompanying financial statements.

**Grants and Contracts** - Governmental grants and contracts are generally considered to be exchange transactions in which the grantor requires the performance of specified activities. Entitlement to cost reimbursement grants and contracts is based on the expenditure of funds in accordance with grant and contract restrictions, and, therefore, revenue is recognized to the extent of grant and contract expenditures. Grant and contract receipts in excess of revenue recognized are presented as deferred grant revenue.

**Contributions** - Contributions are defined as voluntary, nonreciprocal transfers. Unrestricted and unconditional contributions are recognized as support when received or pledged, if applicable. Contributions are reported as temporarily restricted support if they are received with donor stipulations that limit their use. When a donor restriction expires, that is, when a stipulated time restriction ends or 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. Temporarily restricted contributions that are received and released in the same period are presented with unrestricted contributions. Contributions received whose use is contingent on the occurrence of a future event are presented as deferred support until such conditions are substantially met, at which time they are recognized as support.

Interlude reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions on how the assets are to be used and gifts of cash or other assets that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations about how long those assets must be maintained, Interlude reports expirations of donor restrictions when the assets are placed in service.

Interlude recognizes donated services at their estimated fair value if they create or enhance nonfinancial assets or require specialized skills and would typically be purchased if not provided by donation. General volunteer services do not meet these criteria for recognition. No donated services have been recognized in the accompanying financial statements.

**Expenses by Function** - The costs of providing various programs have been summarized on a functional basis in the accompanying statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Income Taxes** - Interlude is exempt from federal and state income taxes as a public charity under Section 501(c)(3) of the Internal Revenue Code. Consequently, no provision for income taxes has been made in the accompanying financial statements.

**Reclassifications** - Certain amounts from the prior year have been reclassified to conform to the current year presentation.

**Subsequent Events** - In preparing these financial statements, management has evaluated subsequent events through October 13, 2009, which represents the date the financial statements were available to be issued.

Note 2 - **Revenue Concentrations:**

Interlude receives a significant portion of its total support from a state grant. As with all government funding, this grant is subject to reduction or termination in future years. Any significant reduction in this grant could have an adverse effect on Interlude's program services.

Note 3 - **Property and Equipment:**

The following is a summary of operating property and equipment as of June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Land	\$ 118,447	\$ 118,447
Buildings	304,950	279,878
Vehicles	80,613	84,852
Furniture and fixtures	12,392	12,392
Office equipment	<u>26,172</u>	<u>32,254</u>
	542,574	527,823
Less accumulated depreciation and amortization	<u>158,190</u>	<u>161,316</u>
Net Property and Equipment	<u>\$ 384,384</u>	<u>\$ 366,507</u>

The following is a summary of rental property and equipment as of June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Land	\$ 42,289	\$ 42,289
Buildings	875,080	867,611
Furniture and fixtures	<u>69,999</u>	<u>68,819</u>
	987,368	978,719
Less accumulated depreciation and amortization	<u>579,973</u>	<u>544,987</u>
Net Property and Equipment	<u>\$ 407,395</u>	<u>\$ 433,732</u>

Depreciation expense totaled \$60,249 and \$68,633 for the years ended June 30, 2009 and 2008, respectively.

Note 4 - **Mortgages Payable:**

Mortgages payable as of June 30, 2009 and 2008, consist of the following:

	<u>2009</u>	<u>2008</u>
Mortgage payable to bank, in monthly installments of \$4,705, including interest at 6.375% through September 30, 2022, secured by real estate	\$ 502,254	\$ 525,876
Mortgage payable to bank, in monthly installments of \$2,446, including interest at 6.75% through September 1, 2016, secured by real estate	<u>161,924</u>	<u>179,536</u>
	664,178	705,412
Less current portion	<u>43,661</u>	<u>37,112</u>
Noncurrent Portion	<u>\$ 620,517</u>	<u>\$ 668,300</u>

Aggregate principal maturities of mortgages payable in subsequent years are as follows:

**Year Ending June 30**

2010	\$ 43,661
2011	46,884
2012	50,041
2013	53,412
2014	57,010
Thereafter	<u>413,170</u>
	<u>\$ 664,178</u>

Interest expense totaled \$44,585 and \$52,864 for the years ended June 30, 2009 and 2008, respectively.

Note 5 - **Board Designations:**

The Board of Directors has designated a portion of unrestricted net assets for the following purposes as of June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Staff salary restructuring	\$ 60,860	\$ 121,720
Funds functioning as endowment	-	50,000
Client fund	2,000	10,000
West Street construction	<u>-</u>	<u>4,979</u>
	<u>\$ 62,860</u>	<u>\$ 186,699</u>

Note 6 - **Temporarily Restricted Net Assets:**

Temporarily restricted net assets were released from restrictions during the years ended June 30, 2009 and 2008, by satisfying the following purpose or time restrictions:

	<u>2009</u>	<u>2008</u>
Passage of time	\$ 25,000	\$ 62,573
Purpose restrictions:		
Client materials	-	855
Equipment acquisition	<u>12,040</u>	<u>2,990</u>
Total Net Assets Released from Restrictions	<u>\$ 37,040</u>	<u>\$ 66,418</u>

Temporarily restricted net assets as of June 30, 2009 and 2008, are available for future periods or purposes as follows:

	<u>2009</u>	<u>2008</u>
Passage of time	\$ 20,000	\$ 25,000
Purpose restriction:		
Equipment acquisition	<u>-</u>	<u>4,900</u>
Total Temporarily Restricted Net Assets	<u>\$ 20,000</u>	<u>\$ 29,900</u>

Note 7 - **Operating Leases:**

**Interlude as Lessee** - Interlude leases residential and commercial real estate under various operating leases expiring through 2012. Rent expense totaled \$117,360 and \$102,155 for the years ended June 30, 2009 and 2008, respectively.

Future minimum lease payments under these leases are as follows:

**Year Ending June 30**

2010	\$ 103,680
2011	91,440
2012	<u>25,200</u>
Total Minimum Lease Payments	<u>\$ 220,320</u>

**Interlude as Lessor** - Interlude rents apartments to clients and another nonprofit organization. Most of the leases expire within one year from the statement of financial position date.

Future minimum lease receipts under leases extending beyond one year from the statement of financial position date are as follows:

**Year Ending June 30**

2010	\$ 46,458
2011	21,417
2012	19,140
2013	<u>3,190</u>
Total Minimum Lease Payments	<u>\$ 90,205</u>

Note 8 - **Cash Flows:**

**Additional Cash Flow Information** - Interlude paid interest of \$44,608 and \$52,915 for the years ended June 30, 2009 and 2008, respectively.