

PACESETTERS, INCORPORATED

FINANCIAL STATEMENTS

Years Ended

June 30, 2011 and 2010

PACESETTERS, INCORPORATED

FINANCIAL STATEMENTS

June 30, 2011

CONTENTS

	<u>PAGE</u>
Independent Auditor's Report.....	1
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Notes to Financial Statements	6
Additional Information:	
Schedules of Indirect Cost.....	12
Schedule of Expenditures of Federal Awards.....	13
Report on Internal Control over Financial Reporting	14



Independent Auditor's Report

To the Board of Directors of
Pacesetters, Incorporated

We have audited the accompanying statements of financial position of Pacesetters, Incorporated as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization'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. 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 the 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 Pacesetters, Incorporated as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of indirect cost and the schedule of expenditures of federal awards are presented for purposes of additional analysis and are not a required part of the financial statements of the Organization. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records

used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Duncan, Wheeler : Wilkerson, P.C.

February 6, 2012
Cookeville, TN

PACESETTERS, INCORPORATED
STATEMENTS OF FINANCIAL POSITION
June 30, 2011 and 2010

	<u>Assets</u>	
	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 1,464,536	\$ 1,026,475
Short-term investments	1,384,035	1,381,617
Grants and contracts receivable	1,144,803	926,968
Prepaid expenses	52,284	115,409
Other current assets	4,816	5,180
Current assets	<u>4,050,474</u>	<u>3,455,649</u>
Property, plant and equipment:		
Land	377,037	362,037
Building	2,892,660	2,711,876
Furniture and fixtures	353,084	274,560
Transportation equipment	1,591,992	1,292,528
	<u>5,214,773</u>	<u>4,641,001</u>
Less: Accumulated depreciation	<u>(2,618,353)</u>	<u>(2,366,262)</u>
	<u>2,596,420</u>	<u>2,274,739</u>
Unemployment tax reserve	<u>76,571</u>	<u>-</u>
Total assets	<u>\$ 6,723,465</u>	<u>\$ 5,730,388</u>
	<u>Liabilities & Net Assets</u>	
Deferred revenue	\$ 1,106	\$ 1,124
Current portion of capital lease obligations	27,249	21,751
Current portion of notes payable	76,000	76,000
Accounts payable	124,787	63,949
Accrued payroll expenses	675,896	556,525
Current liabilities	<u>905,038</u>	<u>719,349</u>
Capital leases, less current portion	96,434	74,861
Notes payable, less current portion	177,333	253,333
Total liabilities	<u>1,178,805</u>	<u>1,047,543</u>
Net assets:		
Unrestricted	5,337,077	4,554,759
Temporarily restricted	207,583	128,086
Total net assets	<u>5,544,660</u>	<u>4,682,845</u>
Total liabilities and net assets	<u>\$ 6,723,465</u>	<u>\$ 5,730,388</u>

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

PACESETTERS, INCORPORATED
STATEMENTS OF ACTIVITIES
For the years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
UNRESTRICTED NET ASSETS		
Revenues:		
Work activity	\$ 134,420	\$ 135,443
Contributions	54,090	59,090
Interest	20,988	11,077
Client fees	277,822	262,404
Expiration of time restrictions - TDOT	61,488	37,198
Gain (loss) on sale of assets	12,365	(9,313)
Rent subsidy	13,266	15,020
Dept. of Human Services	28,729	29,603
Food stamps	73,858	32,478
Other	31,759	25,980
Division of Intellectual Disabilities Services	<u>10,770,298</u>	<u>10,607,565</u>
	<u>11,479,083</u>	<u>11,206,545</u>
Expenses:		
Salaries	7,317,750	7,586,855
Fringe benefits	<u>1,272,610</u>	<u>1,442,009</u>
Personnel cost	8,590,360	9,028,864
Client wages	111,251	113,806
Family support	346,266	315,474
Supplies	188,075	195,322
Utilities and fuel	127,858	117,344
Insurance	50,769	51,092
Food	92,137	49,005
Communications and printing	172,425	179,816
Repairs and maintenance	73,511	61,337
Travel	68,384	66,682
Motor vehicle operations	332,326	316,810
Interest	10,967	16,687
Depreciation and amortization	267,208	223,084
Training	23,518	18,824
Professional and contract	215,608	195,463
Rentals	23,091	21,853
Bad debt	<u>3,011</u>	<u>-</u>
	<u>10,696,765</u>	<u>10,971,463</u>
Increase in unrestricted net assets	782,318	235,082
TEMPORARILY RESTRICTED NET ASSETS		
Contributions - TDOT	140,985	134,754
Decrease in assets with time restrictions	<u>(61,488)</u>	<u>(37,198)</u>
Change in net assets	861,815	332,638
Net assets, beginning of year	<u>4,682,845</u>	<u>4,350,207</u>
Net assets, end of year	<u>\$ 5,544,660</u>	<u>\$ 4,682,845</u>

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

PACESETTERS, INCORPORATED
STATEMENTS OF CASH FLOWS
For the years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Change in net assets	\$ 861,815	\$ 332,638
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	267,208	223,084
(Gain) loss on sale of assets	(12,365)	9,313
(Increase) decrease in grants and contracts receivable	(217,835)	59,921
Decrease in prepaid expenses	63,125	7,337
(Increase) decrease in other current assets	364	(2,681)
(Increase) in unemployment reserve	(76,571)	-
(Decrease) in unearned revenue	(18)	(314)
Increase (decrease) in accounts payable	60,838	(32,838)
Increase in accrued payroll expenses	119,371	6,653
	<u>1,065,932</u>	<u>603,113</u>
Net cash provided by operating activities		
Cash flows from investing activities:		
Purchase of short-term investments	(2,418)	(1,381,617)
Purchase of property and equipment	(540,899)	(231,215)
Proceeds from sale of assets	13,931	27,417
	<u>(529,386)</u>	<u>(1,585,415)</u>
Net cash (used in) investing activities		
Cash flows from financing activities:		
Principal payments on capital leases	(22,485)	(42,601)
Principal payments on notes payable	(76,000)	(150,667)
	<u>(98,485)</u>	<u>(193,268)</u>
Net cash (used in) financing activities		
Increase (decrease) in cash	438,061	(1,175,570)
Cash and cash equivalents - beginning of year	<u>1,026,475</u>	<u>2,202,045</u>
Cash and cash equivalents - end of year	<u>\$ 1,464,536</u>	<u>\$ 1,026,475</u>
Supplemental disclosure of cash flows:		
Interest paid	\$ 10,967	\$ 16,687
Noncash investing and financing activities:		
Transportation equipment acquired with long-term capital lease	\$ 49,556	\$ 63,381

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

PACESETTERS, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Pacesetters, Incorporated is organized under the laws of the State of Tennessee to provide both residential and day care services for developmentally disabled individuals in the Upper Cumberland Region. The Organization's major source of revenue is a fee-for-service reimbursement from a State of Tennessee contract. As of and for the years ended June 30, 2011 and 2010, these contracts represented 87% (2011) and 90% (2010) of the organization's revenue and 78% (2011) and 90% (2010) of the organization's accounts receivable. A major change in the fee-for-service contract could have a dramatic effect on the Organization's operations.

Basis of Accounting

The Organization maintains its accounts on the accrual basis, recognizing income when earned and expenses when incurred.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. All expenditures which substantially improve the property are capitalized and routine maintenance is charged to expense when incurred. Depreciation of fixed assets is computed by the straight-line method over the estimated useful lives of the assets. Depreciation expense was \$267,208 (2011) and \$223,084 (2010), which includes amortization of capital leases.

Grants and Contracts Receivable

Grants and contracts receivable are stated at the amount management expects to collect from outstanding balances, and all doubtful accounts have been written off. Management has elected to record bad debts using the direct write-off method. The effect of the use of the direct write-off method is not materially different from the results that would have been obtained had the allowance method been followed. Accounts are written off when they are deemed uncollectible by management. Accounts are considered to be past due if they have not been collected according to contractual terms.

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 in the near term.

Donations

Donations are recorded when the donor makes an unconditional promise to give to the Organization. Donations 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 on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Statement of Cash Flows

For purposes of the statement of cash flows, cash is comprised of cash on hand and in time and demand deposits in banks with original maturities of less than ninety days.

Subsequent Events

The Company has evaluated events for recognition and disclosure through February 6, 2012, which is the date the financial statements were available to be issued.

NOTE 2 - ACQUISITION OF EQUIPMENT:

Pacesetters, Incorporated receives equipment contributions from various sources, including state agencies. Donations of property and equipment are recorded as contributions at their estimated fair value. Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted net assets depending on the existence or nature of donor restrictions. The Organization reclassifies temporarily restricted net assets to unrestricted net assets as donor restrictions are satisfied. Pacesetters, Incorporated's accounting policy for fixed assets allows items costing less than \$2,500 to be expensed. The Organization implies no time restrictions on long-lived assets received.

Total transportation equipment under capital leases at June 30, 2011 and 2010 was \$171,506 and \$175,415 and related accumulated depreciation was \$62,850 and \$80,530, respectively.

NOTE 3 - LONG-TERM DEBT:

Notes payable are comprised of the following at June 30:

	<u>2011</u>	<u>2010</u>
Note payable to bank, interest at 30 day LIBOR plus a margin, payable monthly, principal and interest through 2015, secured by certificate of deposit.	253,333	329,333
Less-current portion	<u>(76,000)</u>	<u>(76,000)</u>
Total notes payable	<u>\$ 177,333</u>	<u>\$ 253,333</u>

Annual maturities of long-term debt 2012 through 2015 are as follows:

2012	\$ 76,000
2013	76,000
2014	76,000
2015	25,333

NOTE 4 - INTERNAL REVENUE CODE STATUS:

Pacesetters, Incorporated is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

NOTE 5 - CONCENTRATION OF CREDIT RISK:

The Organization maintains its cash balances in two financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Organization's uninsured cash balances totaled \$2,434,016 at June 30, 2011.

NOTE 6 - SHORT-TERM INVESTMENTS:

Short-term investments are certificates of deposit with original maturities of more than three months. These investments totaled \$1,384,035 at June 30, 2011. Certificates of deposit with maturities greater than one year at June 30, 2011 are considered to be short-term because management has the ability to convert these assets to cash at their discretion.

NOTE 7 - 401 (k) RETIREMENT PLAN:

The Organization sponsors a 401(k) retirement plan for both full-time and part-time employees. The plan covers all employees with six months of service that have attained at least 1,000 hours of service. Covered employees make elective salary deferrals subject to the limitations set forth by law. The Organization matches one hundred percent of the employees' deferral up to five percent of the participant's

compensation. The employee becomes fully vested in the employer contribution after five years of service. The Organization contributed \$103,981 during 2011 and \$110,790 during 2010.

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS:

Net assets temporarily restricted by grantors relate to grant contracts with the Tennessee Department of Transportation for the purchase of vans. The contracts restrict title of the vans until their useful life has expired or until they have reached a specified number of miles. The contracts also restrict use of the vans to inside the state of Tennessee until the mileage or useful life restrictions have been satisfied. Until that time, title remains with the State of Tennessee.

NOTE 9 - LEASES:

The Organization leases transportation equipment under capital leases and operating leases. The future minimum lease commitments under capital leases for transportation equipment are as follows:

Year Ending <u>June 30,</u>	<u>2011</u>	<u>2010</u>
2011		\$ 26,722
2012	\$ 31,736	23,048
2013	29,203	20,515
2014	27,589	18,901
2015	24,376	15,688
2016	14,632	5,944
2017	<u>7,578</u>	<u> </u>
Total future minimum lease payments	135,114	110,818
Amounts representing interest	<u>(11,431)</u>	<u>(14,206)</u>
Present value of minimum lease payments	123,683	96,612
Less: current portion	<u>(27,249)</u>	<u>(21,751)</u>
	<u>\$ 96,434</u>	<u>\$ 74,861</u>

Rental expenses under operating leases for short-term residential rentals for the years ended June 30, 2011 and 2010 were \$23,091 and \$21,853, respectively.

NOTE 10 - FUNCTIONAL EXPENSES:

The cost of providing various program and supporting services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

10

	<u>Program Services for 2011</u>						
	<u>Residential Services</u>	<u>Day Services</u>	<u>Early Intervention</u>	<u>Family Support</u>	<u>Other</u>	<u>Management and General</u>	<u>Total</u>
Compensation and related expenses:							
Salaries	\$4,111,879	\$1,939,021	\$ 399,518	\$ 48,356	\$ 11,156	\$ 807,820	\$ 7,317,750
Fringe benefits	<u>669,394</u>	<u>374,679</u>	<u>61,862</u>	<u>8,853</u>	<u>1,657</u>	<u>156,165</u>	<u>1,272,610</u>
Personnel cost	4,781,273	2,313,700	461,380	57,209	12,813	963,985	8,590,360
Client wages		107,537				3,714	111,251
Family support				346,266			346,266
Supplies	28,886	95,006	9,399	3,857	54	50,873	188,075
Utilities and fuel	27,966	81,223	5,871			12,798	127,858
Insurance	5,634	8,833	1,330			34,972	50,769
Food	76,719		15,418				92,137
Communications and printing	7,575	97,746	3,613			63,491	172,425
Repairs and maintenance	27,580	34,617	2,274		15	9,025	73,511
Travel	505	62,302	278	374		4,925	68,384
Motor vehicle operations	114,030	167,277	35,024			15,995	332,326
Interest	3,758	4,752	602			1,855	10,967
Depreciation and amortization	84,805	121,686	25,464			35,253	267,208
Training	2,285	12,975	688			7,570	23,518
Professional and contract	23,376	56,649	4,231		31,390	99,962	215,608
Rentals	20,310	46				2,735	23,091
Miscellaneous			3,011				3,011
	<u>\$5,204,702</u>	<u>\$3,164,349</u>	<u>\$ 568,583</u>	<u>\$407,706</u>	<u>\$ 44,272</u>	<u>\$ 1,307,153</u>	<u>\$ 10,696,765</u>

NOTE 10 - FUNCTIONAL EXPENSES (CONTINUED):

	<u>Program Services for 2010</u>						
	<u>Residential Services</u>	<u>Day Services</u>	<u>Early Intervention</u>	<u>Family Support</u>	<u>Other</u>	<u>Management and General</u>	<u>Total</u>
Compensation and related expenses:							
Salaries	\$4,369,415	\$2,106,617	\$ 273,947	\$ 47,296	\$ 41,684	\$ 747,896	\$ 7,586,855
Fringe benefits	<u>820,217</u>	<u>415,818</u>	<u>47,724</u>	<u>8,682</u>	<u>4,273</u>	<u>145,295</u>	<u>1,442,009</u>
Personnel cost	5,189,632	2,522,435	321,671	55,978	45,957	893,191	9,028,864
Client wages		109,630				4,176	113,806
Family support				315,474			315,474
Supplies	30,394	98,412	12,688	7,394	73	46,361	195,322
Utilities and fuel	25,289	75,072	5,367			11,616	117,344
Insurance	5,959	8,774	1,347			35,012	51,092
Food	36,467		12,538				49,005
Communications and printing	8,696	109,509	4,314			57,297	179,816
Repairs and maintenance	27,449	21,404	2,278		15	10,191	61,337
Travel	1,985	59,535	217	131	200	4,614	66,682
Motor vehicle operations	133,121	159,262	7,475			16,952	316,810
Interest	5,970	6,281	73			4,363	16,687
Depreciation and amortization	74,825	104,133	12,708			31,418	223,084
Training	6,269	5,162	562			6,831	18,824
Professional and contract	21,258	47,745	3,051		50,758	72,651	195,463
Rentals	<u>20,123</u>	<u>220</u>				<u>1,510</u>	<u>21,853</u>
	<u>\$5,587,437</u>	<u>\$3,327,574</u>	<u>\$ 384,289</u>	<u>\$378,977</u>	<u>\$ 97,003</u>	<u>\$ 1,196,183</u>	<u>\$ 10,971,463</u>

ADDITIONAL INFORMATION

PACESETTERS, INCORPORATED

SCHEDULES OF INDIRECT COST

For the years ended June 30, 2011 and 2010

Indirect Cost Pool:

	<u>2011</u>	<u>2010</u>
Salaries	\$ 807,820	\$ 747,896
Fringe benefits	156,165	145,295
Client wages	3,714	4,176
Supplies	50,873	46,361
Utilities and fuel	12,798	11,616
Insurance	34,972	35,012
Communications and printing	63,491	57,297
Repairs and maintenance	9,025	10,191
Travel	4,925	4,614
Motor vehicle operations	15,995	16,952
Interest	1,855	4,363
Depreciation and amortization	35,253	31,418
Training	7,570	6,831
Professional and contract	99,962	72,651
Rentals	2,735	1,510
Indirect cost pool	<u>\$1,307,153</u>	<u>\$1,196,183</u>

Indirect Cost Basis:

Pacesetters, Incorporated allocates indirect costs to each program based on the ratio of direct salaries in each program to total direct salaries. This method was specifically approved by the funding agency.

	<u>2011</u>	<u>2010</u>
Direct salaries - Residential Services	\$4,111,879	\$4,369,415
Direct salaries - Day Services	1,939,021	2,106,617
Direct salaries - Early Intervention	399,518	273,947
Direct salaries - Family Support	48,356	47,296
Direct salaries - Other	11,156	41,684
	<u>\$6,509,930</u>	<u>\$6,838,959</u>

Indirect costs eligible for allocation to:

Division of Intellectual Disabilities Services - Residential	\$ 825,639	\$ 764,242
Division of Intellectual Disabilities Services - Day Services	389,343	368,463
Division of Intellectual Disabilities Services - Early Intervention	80,221	47,915
Division of Intellectual Disabilities Services - Family Support	9,710	8,272
Various - Other	2,240	7,291
	<u>\$1,307,153</u>	<u>\$1,196,183</u>

PACESETTERS, INCORPORATED

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS & STATE FINANCIAL ASSISTANCE

FOR THE YEAR ENDED JUNE 30, 2011

Assistance Programs as Identified in the Catalog of Federal Domestic Assistance (CFDA)

<u>CFDA</u> <u>Number</u>	<u>State</u> <u>Grant/Contract</u> <u>Number</u>	<u>Program</u>	<u>Grantor Agency</u>	<u>Receivable</u>			<u>Receivable</u>
				<u>June 30,</u> <u>2010</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>June 30,</u> <u>2011</u>
84.393A	DGA-C000017 DGA-C000017	ARRA - Early Intervention	State of Tennessee, Department of Education	\$ 30,600	\$ 30,600 69,566	\$ 179,012	\$ 109,446
20.513	TN-16-X003-01	5310 Grant Program	State of Tennessee, Department of Transportation, pass-thru from Federal Transit Administration	-	125,320	125,320	-
84.126	DP-10-28519	Supported Employment	State of Tennessee, Department of Human Services	-	1,849	2,715	866
			TOTAL FEDERAL AWARDS	<u>30,600</u>	<u>227,335</u>	<u>307,047</u>	<u>110,312</u>
	GR-10-28948 GR-11-31399	Family Support	State of TN Dept of Finance and Administration, Division of Intellectual Disabilities Services	8,680	8,680 392,563	407,370	14,807
	DGA-C000017 DGA-C000017	Early Intervention	State of Tennessee, Department of Education	4,741	4,741 109,223	154,000	44,777
	TN-16-X003-01	5310 Grant Program	State of Tennessee, Department of Transportation	-	15,665	15,665	-
	DP-10-28519	Supported Employment	State of Tennessee, Department of Human Services	-	501	735	234
	DP-09-27834 DP-3-3-10	Child Care Food Program	State of Tennessee, Department of Human Services	1,922	8,154 17,609	6,232 19,601	1,992
			TOTAL STATE FINANCIAL ASSISTANCE	<u>15,343</u>	<u>557,136</u>	<u>603,603</u>	<u>61,810</u>
			TOTAL FEDERAL AWARDS & STATE FINANCIAL ASSISTANCE	<u>\$ 45,943</u>	<u>\$ 784,471</u>	<u>\$ 910,650</u>	<u>\$ 172,122</u>

All amounts reported are under the accrual basis of accounting whereby revenues are recorded when earned and expenditures are recorded when the liability is incurred.



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

To the Board of Directors of
Pacesetters, Incorporated

We have audited the financial statements of Pacesetters, Incorporated as of and for the years ended June 30, 2011 and 2010, and have issued our report thereon dated February 6, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered Pacesetters, Incorporated's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pacesetters, Incorporated's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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

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

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Duncan, White & Wilkerson, P.C.

February 6, 2012
Cookeville, TN