

THE ARC OF DAVIDSON COUNTY
AUDITED FINANCIAL STATEMENTS
Year Ended June 30, 2005

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F R A S I E R , D E A N & H O W A R D , P L L C

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
The Arc of Davidson County
Nashville, Tennessee

We have audited the accompanying statement of financial position of The Arc of Davidson County (a nonprofit corporation) as of June 30, 2005, and the related statements of activities, functional expenses and cash flows for the year 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 audit.

We conducted our 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 we plan and perform the audit to obtain a 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. We believe our audit provides 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 The Arc of Davidson County as of June 30, 2005 and the changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued our report dated October 19, 2005 on our consideration of The Arc of Davidson County's internal control over financial reporting and 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 the compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of The Arc of Davidson County taken as a whole. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Frasier, Dean & Howard, PLLC

October 19, 2005

THE ARC OF DAVIDSON COUNTY
STATEMENT OF FINANCIAL POSITION
June 30, 2005

Assets

Current assets:

Cash and cash equivalents	\$ 266,615
Investments	24,916
Government grant receivables	1,237
Government contract receivables	64,733
Receivables - other - no allowance necessary	8,210
Prepaid expenses	<u>5,367</u>

Total current assets	<u>371,078</u>
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Property and equipment:

Office furniture and equipment	36,399
Less accumulated depreciation	<u>(31,268)</u>

Total property and equipment	<u>5,131</u>
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Total assets	<u><u>\$ 376,209</u></u>
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Liabilities and Net Assets

Current liabilities:

Accounts payable and accrued expenses	\$ 63,374
Deferred revenues	<u>11,250</u>

Total current liabilities	<u>74,624</u>
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Net assets:

Unrestricted:	
Operating	286,332
Furniture and equipment	5,131
Temporarily restricted	<u>10,122</u>

Total net assets	<u>301,585</u>
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Total liabilities and net assets	<u><u>\$ 376,209</u></u>
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See accompanying notes.

THE ARC OF DAVIDSON COUNTY
STATEMENT OF ACTIVITIES
For the year ended June 30, 2005

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and other support:			
United Way	\$ 16,017	\$ 7,522	\$ 23,539
Government grants:			
Family support program	983,060	-	983,060
Respite program	46,357	-	46,357
Other	49,135	-	49,135
Government contracts:			
Support coordination program	730,981	-	730,981
Other	9,370	-	9,370
Contributions	4,569	2,600	7,169
Memberships	2,525	-	2,525
Interest	2,283	-	2,283
Cart revenues	233,000	-	233,000
Net assets released from restrictions - satisfaction of program restrictions	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue and other support	<u>2,077,297</u>	<u>10,122</u>	<u>2,087,419</u>
Expenses:			
Program services:			
Community Parent Resource Center	53,107	-	53,107
Support coordination	665,920	-	665,920
Family support	926,388	-	926,388
Advocacy	17,416	-	17,416
Respite	46,338	-	46,338
Development and membership	16,897	-	16,897
Support services:			
Management and general	<u>302,356</u>	<u>-</u>	<u>302,356</u>
Total expenses	<u>2,028,422</u>	<u>-</u>	<u>2,028,422</u>
Change in net assets	48,875	10,122	58,997
Net assets, beginning of year	<u>242,588</u>	<u>-</u>	<u>242,588</u>
Net assets, end of year	<u><u>\$ 291,463</u></u>	<u><u>\$ 10,122</u></u>	<u><u>\$ 301,585</u></u>

See accompanying notes.

THE ARC OF DAVIDSON COUNTY
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2005

	Community Parent Resource Center	Support Coordination	Family Support	Advocacy	Respite	Development and Membership	Total Program Services	Management and General	Total Expenses
Salaries	\$ 28,433	\$ 435,649	\$ 62,561	\$ -	\$ 4,711	\$ -	\$ 531,354	\$ 191,301	\$ 722,655
Employee benefits	-	79,882	12,774	-	898	-	93,554	24,669	118,223
Payroll taxes	2,175	33,201	4,786	-	360	-	40,522	14,005	54,527
Client benefits	-	-	835,601	-	40,000	-	875,601	-	875,601
Travel	2,055	51,075	573	-	-	-	53,703	82	53,785
Office rent	607	17,008	2,126	3,037	304	-	23,082	7,358	30,440
Telephone	280	23,536	113	49	17	35	24,030	3,547	27,577
Supplies	3,009	11,749	923	589	2	1,056	17,328	9,987	27,315
Professional services	941	3,787	4,246	94	7	1,576	10,651	14,467	25,118
Postage	332	6,559	1,506	37	39	11,368	19,841	1,019	20,860
Insurance	-	-	-	-	-	-	-	18,000	18,000
Contract services	14,630	-	-	-	-	-	14,630	-	14,630
Equipment rental and maintenance	-	187	-	-	-	-	187	9,607	9,794
Affiliation fees	-	-	-	9,115	-	-	9,115	-	9,115
Conferences	-	92	1,144	3,995	-	99	5,330	511	5,841
Printing and publications	645	567	-	-	-	2,204	3,416	2,359	5,775
Depreciation	-	-	-	-	-	-	-	2,933	2,933
Specific assistance/awards	-	2,073	-	500	-	-	2,573	-	2,573
Other rent	-	-	-	-	-	-	-	1,587	1,587
License and fees	-	-	35	-	-	411	446	624	1,070
Subscriptions	-	555	-	-	-	-	555	300	855
Memberships	-	-	-	-	-	148	148	-	148
	<u>\$ 53,107</u>	<u>\$ 665,920</u>	<u>\$ 926,388</u>	<u>\$ 17,416</u>	<u>\$ 46,338</u>	<u>\$ 16,897</u>	<u>\$1,726,066</u>	<u>\$ 302,356</u>	<u>\$2,028,422</u>

See accompanying notes.

THE ARC OF DAVIDSON COUNTY
STATEMENT OF CASH FLOWS
For the year ended June 30, 2005

Cash flows from operating activities:	
Change in net assets	\$ 58,997
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	2,933
Realized and unrealized (gain) loss on investments	(903)
Loss on retirement of fixed assets	132
Changes in current assets and liabilities:	
Government grant receivables	6,490
Government contract receivables	4,358
Prepaid expenses	957
Other assets	(6,210)
Accounts payable and accrued expenses	53,703
Deferred revenue	3,750
	<hr/>
Net cash provided by operating activities	124,207
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Change in cash and cash equivalents	124,207
Cash and cash equivalents, beginning of year	142,408
	<hr/>
Cash and cash equivalents, end of year	<u><u>\$ 266,615</u></u>

See accompanying notes.

THE ARC OF DAVIDSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The Arc of Davidson County (the “Organization”) is a nonprofit corporation conducting programs for the benefit of mentally retarded citizens and their families. The Organization is affiliated with the U.S. Arc and the Arc of Tennessee. The State of Tennessee Department of Finance and Administration, Division of Mental Retardation Services and the Nashville Area United Way provide partial support on an annual basis.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (“SFAS”) No. 117, *Financial Statements for Not-for-Profit Organizations*. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. 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.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. The Organization has no permanently restricted net assets at June 30, 2005.

Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments with original maturities of ninety days or less.

Revenue and Support

The Arc of Davidson County receives much of its income from grants and contracts from the state of Tennessee Department of Finance Administration, Division of Mental Retardation Services, the Council on Developmental Disabilities and the U.S. Department of Education. The Organization records income from the grants and contracts in the period that the applicable expenditures are incurred.

THE ARC OF DAVIDSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All 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 (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.

Unconditional Promises to Give

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

Investments

The Organization has adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

Property and Equipment

Property and equipment are carried at cost. Donated equipment is recorded at market value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, ranging from five to ten years.

Donated Services

Unpaid volunteers make contributions of time in various administrative, fundraising, and program functions. The value of contributed time is not reflected in the financial statements as it is not susceptible to an objective measurement or valuation and generally does not meet the requirements for recognition under generally accepted accounting principles which stipulates such services would ordinarily be purchased and be provided by persons with specialized skills in the performance of such services.

THE ARC OF DAVIDSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Estimates

The preparation of the 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 reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes

The Arc of Davidson County is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been classified as other than a private foundation. Accordingly, no provision has been made for federal income taxes in the accompanying financial statements.

Pension Plan

The Organization maintains a tax deferred annuity plan covering substantially all of its employees with at least one year or more employment. The costs of this employee benefit plan are charged to expense. The Organization contributes 6% of employee salaries into the annuity annually.

NOTE 2 – GOVERNMENT GRANTS RECEIVABLE AND CONTRACTS RECEIVABLE

Amounts receivable from the U.S. Department of Education, as of the year ended June 30, 2005 totaled \$1,237 for the Community Parent Resource Center program.

The Organization is due \$61,001 from the State of Tennessee Department of Finance and Administration, Division of Mental Retardation Services for contract monies for support coordination activities for the year ended June 30, 2005. The Organization is also owed \$3,732 from the Metropolitan Government of Nashville and Davidson County (Metropolitan Public Schools) for contract services for the year then ended. Total contract receivables for the year ended June 30, 2005 total \$64,733.

THE ARC OF DAVIDSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2005

NOTE 3 – GOVERNMENT GRANTS AND CONTRACTS

During the year ended June 30, 2005, the Organization earned monies from the State of Tennessee Department of Finance and Administration, Division of Mental Retardation Services totaling \$1,029,417 consisting of the following:

Respite activities	\$ 46,357
Family support services	<u>983,060</u>
	<u>\$1,029,417</u>

In addition, the Organization earned \$49,135 from the U.S. Department of Education for a community parent resource center program.

During the year ended June 30, 2005, the Organization earned contract monies from the State of Tennessee Department of Finance and Administration, Division of Mental Retardation Services totaling \$730,981 for support coordination services. The Organization earned \$9,370 from Metropolitan Government of Nashville and Davidson County (Metropolitan Public Schools) for education activities in the year then ended.

NOTE 4 – INVESTMENTS

Investments as of June 30, 2005 are held in a long term government bond fund.

The following schedule summarizes investment return for the year ended June 30, 2005:

Interest and dividends	\$ 2,283
Realized and unrealized gains	<u>903</u>
	<u>\$ 3,186</u>

NOTE 5 – QUESTIONED COSTS/CONTINGENCIES

Questioned costs are those amounts charged to a funded program that may not be in compliance with requirements set forth in contracts, statutes, and regulations governing allowability or eligibility. A questioned cost may not be reimbursed by the State or the State agency may require that the funds already expended be refunded to the State. These amounts can be “questioned” by the State for

THE ARC OF DAVIDSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2005

NOTE 5 – QUESTIONED COSTS/CONTINGENCIES (Continued)

the specific grant or contract to which they apply. The determination as to whether such costs will be allowed or disallowed under the grants or contracts is subject to review by the individual grantor agencies. No liability is recorded as of June 30, 2005 for any refundable costs as no determination has been made by the grantor agencies as to any amount due for any grant. The Organization's Board deems such contingency remote, as the Organization has complied with the provisions of its grants.

NOTE 6 – OPERATING LEASE COMMITMENTS

As of June 30, 2005, the Organization leased its office space under a lease that went into effect beginning September 1, 2002 and expired August 31, 2005. Since that time, the Organization has continued to lease office space under substantially the same arrangement. The annual lease payments totaled \$30,441 for the year ended June 30, 2005. Under tentative terms of the proposed new lease agreement, the Organization may cancel the lease within 180 days notice.

Office equipment is leased under various operating lease agreements. Future minimum lease payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2005 are as follows:

Year ended <u>June 30,</u>	
2006	\$ 5,106
2007	5,195
2008	4,889
2009	1,572
2010	<u>655</u>
	<u>\$ 17,417</u>

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes or periods at June 30, 2005:

United Way grants	\$ 7,522
Technology improvements	<u>2,600</u>
	<u>\$ 10,122</u>

THE ARC OF DAVIDSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2005

NOTE 8 – CART REVENUES

In 1982, the Organization began contracting with B&R Salvage Corporation, allowing the Organization to share in the net profits generated by B&R Salvage Corporation. The Organization then entered into a contract, effective January 1, 2001, with J&I Advisory Support, to aid the Organization in the solicitation of donations from the general public in the form of clothing and household goods which are then given to B&R Salvage and subsequently sold to the public. The terms of the contract with B&R Salvage state that the Organization is to receive money based on the number of carts filled with donations made to the Organization and picked up by B&R Salvage. An estimate is paid semimonthly and any remaining profits due the Organization are paid in January of the following year. The Organization agrees to spend \$15,000 in mailing expenses for the calendar year ended December 31, 2005 and any monies not spent for mailings are then used to reduce any remaining profits due the Organization as of December 31, 2005. Profits generated under these arrangements totaled \$233,000 for the year ended June 30, 2005.

NOTE 9 – CLIENT BENEFITS

In 1993, the Organization began receiving monies from the Department of Finance and Administration, Division of Mental Retardation Services for family support services to be provided to persons with severe disabilities and who are eligible for such support. Certain requirements must be met as provided by the Family Support Guidelines and Act before support can be given by the Organization. For the year ended June 30, 2005, the Organization paid \$835,601 to eligible persons for family support services.

NOTE 10 – CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Organization to concentrations of credit risk consist of account, grant and contracts receivable. Grants and contracts receivable represent concentration of credit risk to the extent that they are received from concentrated sources. The Organization receives a substantial amount of its support from governmental grants and contracts. A significant reduction in the levels of this support, if this were to occur, could have an adverse effect on the Organization's programs and activities.

The Organization maintains cash balances which may, at times, exceed federally insured amounts. In management's opinion, risk related to such deposits is minimal based on the credit rating of its depositories.

NOTE 11 – LINE OF CREDIT

During 2005, the Organization maintained a bank line of credit arrangement allowing for maximum borrowings of \$50,000, with interest on any outstanding balances based on a rate of prime plus 3%. No draws were made from the line of credit during the year ended June 30, 2005. The arrangement matured on August 15, 2005.

THE ARC OF DAVIDSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2005

NOTE 12 – LITIGATION

The Organization has been named as defendant in two litigation matters. These matters are in the preliminary stages and the outcomes are unknown. However, the Organization does not believe that the outcomes will have a material effect on its financial position or changes in net assets.

NOTE 13 – SUBSEQUENT EVENT

Subsequent to June 30, 2005, the Organization entered into an informal agreement with another charitable organization to establish the "Home of Your Own" program, which is designed to allow individuals with mental retardation to own a home built on donated land. The Organization plans to provide one administrative staff person while the other organization will provide funding. Accordingly, the only anticipated financial impact to the Organization's future financial statements consists of the additional personnel costs.

SUPPLEMENTAL INFORMATION

THE ARC OF DAVIDSON COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the year ended June 30, 2005

	<u>CFDA No.</u>	<u>Pass through Grantor's Number</u>	<u>Balance Receivable June 30, 2004</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Balance Receivable June 30, 2005</u>
Federal Awards:						
U.S. Dept. of Education						
Community Parent Resource Center	84.328C	H328C010038	\$ 7,727	\$ 7,727	\$ -	\$ -
Community Parent Resource Center	84.328C	I1328C010038-02	-	47,898	49,135	1,237
Total Federal Awards			<u>7,727</u>	<u>55,625</u>	<u>49,135</u>	<u>1,237</u>
State Awards:						
Tennessee Department of Finance and Administration						
Tennessee Division of Mental Retardation Services						
Family Support Services Program		DG-05-01904-00	-	983,060	983,060	-
Respite Services Program		DG-05-01904-00	-	46,357	46,357	-
Total State Awards			<u>-</u>	<u>1,029,417</u>	<u>1,029,417</u>	<u>-</u>
Total Federal and State Awards			<u>\$ 7,727</u>	<u>\$ 1,085,042</u>	<u>\$ 1,078,552</u>	<u>\$ 1,237</u>

NOTES TO THE SCHEDULE OF FEDERAL AND STATE AWARDS

Note 1 - Basis of Accounting - The Supplementary Schedule of Expenditures of Federal and State Awards is prepared on the accrual basis of accounting.



FRASIER, DEAN & HOWARD, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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**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**

Board of Directors
The Arc of Davidson County

We have audited the financial statements of The Arc of Davidson County (a nonprofit organization) as of and for the year ended June 30, 2005, and have issued our report thereon dated October 19, 2005. We conducted our 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 our audit, we considered The Arc of Davidson County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Arc of Davidson County'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*.

We noted certain matters that we reported to management of The Arc of Davidson County in a separate letter dated October 19, 2005.

This report is intended solely for the information and use of the board of directors, management and is not intended to be and should not be used by anyone other than these specified parties.

Frasier, Dean + Howard, PLLC

October 19, 2005