

WARREN, DENNEY & WALLACE

CERTIFIED PUBLIC ACCOUNTANTS
THE VOLUNTEER BLDG.
SUITE 100
319 PLUS PARK BLVD
NASHVILLE, TN 37217-1098
(615) 366-5100

Partners

ROBERT RAY WARREN, CPA
WILLIAM H. DENNEY, CPA
LARRY BRUCE WALLACE, CPA
JOEL D. COLLUM, JR., CPA
JANE I. W. LEE, CPA

Members

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
TENNESSEE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Down Syndrome Association of Middle Tennessee

We have audited the accompanying statement of financial position of Down Syndrome Association of Middle Tennessee (a nonprofit organization) as of June 30, 2006, 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. 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that 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 Down Syndrome Association of Middle Tennessee as of June 30, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Warren, Denney & Wallace

November 10, 2006

DOWN SYNDROME ASSOCIATION OF MIDDLE TENNESSEE
Statement of Financial Position
June 30, 2006

ASSETS

Current Assets

Cash	\$ 188,978
Accounts receivable - government grants	2,499
Current portion of mortgage receivable	1,328
Agency endowment fund	<u>14,105</u>
Total current assets	<u>206,910</u>

Property and equipment, at cost

Equipment	18,586
Less: Accumulated depreciation	(<u>11,305</u>)
	<u>7,281</u>

Other assets

Mortgage receivable, net of current portion	<u>116,699</u>
Total assets	<u>\$ 330,890</u>

LIABILITIES AND NET ASSETS

Liabilities

Line of credit	\$ 59,982
Accounts payable and credit cards	1,843
Payroll taxes	<u>1,303</u>
Total liabilities	<u>63,128</u>

Net assets

Unrestricted	259,762
Temporarily restricted	-0-
Permanently restricted	<u>8,000</u>

Total net assets 267,762

Total liabilities and net assets \$ 330,890

See accountants' report and accompanying
notes to the financial statements.

DOWN SYNDROME ASSOCIATION OF MIDDLE TENNESSEE
Statement of Activities
For the Year Ended June 30, 2006

Unrestricted net assets

Unrestricted revenues and support	
Grants	\$ 15,000
Donations	31,993
Program fees - government contract	14,609
Program fees - other	88,330
Fund-raising	84,599
Investment return	5,771
Net assets released from restrictions	<u>34,554</u>
Total unrestricted revenues and support	<u>274,856</u> ✓

Expenses

Programs services	251,829
Supporting services	
Management and general	29,876
Fund-raising	<u>10,019</u>
Total expenses	<u>291,724</u> ✓
Decrease in unrestricted net assets	(<u>16,868</u>)

Temporarily restricted net assets

Grants	
Home of Your Own and VISTA	12,500
My Life, My Choice, My Plan	6,836
Donations	
Home of Your Own	760
Net assets released from restrictions	(<u>34,554</u>)
Decrease in temporarily restricted net assets	(<u>14,458</u>)

Permanently restricted net assets

Donations	
Endowment	<u>5,500</u>
Increase in permanently restricted net assets	<u>5,500</u>
Increase (decrease) in net assets	(25,826)
Net assets at beginning of period	<u>293,588</u>
Net assets at end of year	<u>\$ 267,762</u>

See accountants' report and accompanying
notes to the financial statements.

DOWN SYNDROME ASSOCIATION OF MIDDLE TENNESSEE
Statement of Cash Flows
For the Year Ended June 30, 2006

Cash flows from operating activities

Increase (decrease) in net assets (\$ 25,826)

Adjustments to reconcile decrease in net assets to net cash
provided (used) by operating activities:

Depreciation and amortization	2,577
(Increase) decrease in accounts receivable	1,389
(Increase) decrease in mortgage receivable	(38,422)
(Increase) decrease in prepaid insurance	1,708
(Increase) decrease in construction in progress	51,352
Increase (decrease) in accounts payable	(5,105)
Increase (decrease) in payroll taxes	(614)
Increase (decrease) in deferred revenue	(5,025)

Net cash provided (used) by operating activities (17,966)

Cash flows from investing activities

(Increase) decrease in Agency Endowment Fund (6,444)

Net cash provided (used) by investing activities (6,444)

Cash flows from financing activities

Repayments on line of credit (14,440)

Net cash provided (used) by financing activities (14,440)

Net increase (decrease) in cash (38,850)

Cash at beginning of period 227,828

Cash at end of period \$ 188,978

Supplemental Information for the Statement of Cash FlowsCash paid during the year for:

Interest \$ 6,367

See accountants' report and accompanying
notes to the financial statements.

DOWN SYNDROME ASSOCIATION OF MIDDLE TENNESSEE
Statement of Functional Expenses
For the Year Ended June 30, 2006

	Program	Supporting Service		
	Services	Management & General	Fundraising	Total
Wages	\$ 56,530	\$ 7,448	\$ 760	\$ 64,738
Payroll taxes	6,032	795	81	6,908
Total salaries and related expenses	62,562	8,243	841	71,646
Licenses and fees		40		40
Depreciation	2,187	354	36	2,577
Dues and subscriptions	446	72	7	525
Employee benefits	1,076	174	18	1,268
Maintenance	297	48	5	350
Insurance	1,941	314	32	2,287
Interest	5,404	874	89	6,367
Rent	4,630	749	76	5,455
Utilities	47	8	1	56
Professional services	850	12,139	117	13,106
Postage	1,622	262	27	1,911
Printing	3,568	480	49	4,097
Conferences and events	161,061		8,550	169,611
Supplies	2,457	397	41	2,895
Telephone	2,696	436	44	3,176
Training	93	15	2	110
Travel and transportation	38	6	1	45
Other	854	5,265	83	6,202
	<u>\$ 251,829</u>	<u>\$ 29,876</u>	<u>\$ 10,019</u>	<u>\$ 291,724</u>

See accountants' report and accompanying
notes to the financial statements.

DOWN SYNDROME ASSOCIATION OF MIDDLE TENNESSEENotes to the Financial StatementsEnded June 30, 2006Note 1 - Nature of activities and significant accounting policiesNature of activities

Down Syndrome Association of Middle Tennessee (DSAMT) is a tax-exempt organization under 501(c)(3) of the Internal Revenue Code. DSAMT is a nonprofit organization whose mission is to enhance the quality of life throughout the life span of all individuals with Down Syndrome by providing support, information and education to families, professionals, and communities. Activities of the organization include development and distribution of educational materials relating to Down Syndrome affected persons, educational and support meetings, fund-raising activities, and a state approved service provider for Down Syndrome individuals.

Contributed Services

During the year ended June 30, 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 the Organization at their fund-raising activities, but these services do not meet the criteria for recognition as contributed services.

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.

Property and equipment

It is the Organization's policy to capitalize property and equipment over \$1,000. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions 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 contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method.

Financial statement presentation

The Organization has adopted Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, the Organization 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. As permitted by the statement, the Organization does not use fund accounting.

DOWN SYNDROME ASSOCIATION OF MIDDLE TENNESSEENotes to the Financial StatementsEnded June 30, 2006Note 1 - Nature of activities and significant accounting policies (continued)Financial statement presentation (continued)

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

Temporarily restricted net assets are subject to donor-imposed stipulations that can be fulfilled by actions of the organization pursuant to those stipulations or that expire by the passage of time.

Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently by the organization. Generally, the donors of such assets permit the organization to use all or part of the income earned on the assets.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e. the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassification between the applicable classes of net assets.

Contributions

The Organization has also adopted SFAS No. 116, Accounting for Contributions Received and Contributions Made. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. Restricted contributions whose restrictions are met in the period the contributions are received are reported as unrestricted contributions.

Income taxes

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation.

Cash and cash equivalents

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

Allowance for doubtful accounts

No allowance for doubtful accounts is provided because of past experience with collections and estimated collectibility of current receivables.

DOWN SYNDROME ASSOCIATION OF MIDDLE TENNESSEENotes to the Financial StatementsEnded June 30, 2006Note 1 - Nature of activities and significant accounting policies (continued)Functional allocation of expenses

The costs of providing the Organization's various programs and supporting services 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.

Note 2 - Restrictions on net assets

Temporarily restricted net assets are available for the following purposes:

There were no temporarily restricted net assets at June 30, 2006.

Permanently restricted net assets consist of the following:

Endowment funds	\$ 8,000
-----------------	----------

Note 3 - Property and equipment

Property and equipment consist of the following:

Computer equipment	\$ 7,871
Furnishings	6,402
Leasehold improvements	4,313
	18,586
Accumulated depreciation and amortization	(11,305)
	\$ 7,281

Note 4 - Mortgage receivable and contingent liability

The Organization holds a first and second mortgage associated with the sale of a home constructed as part of the Home of Your Own program. The mortgage is secured by the home. The first mortgage in the original amount of \$42,500 is a non-interest loan with 384 monthly principal payments of \$110.68. The mortgage is serviced by Pinnacle National Bank. The second mortgage of \$10,000 is also a non-interest loan with 384 monthly principal payments of \$104.17 that has an arrangement that forgives each monthly payment as it becomes due if the first mortgage is not in default.

The Organization holds a second mortgage associated with the sale of another home constructed as part of the Home of Your Own program. The mortgage is secured by the home. The mortgage is a \$40,000 non-interest bearing loan due in 360 payments of \$111.11. There is an arrangement on this mortgage that forgives each monthly payment as it becomes due as long as the first mortgage is not in default. The Tennessee Housing Development (THDA) holds the first mortgage.

If the owner defaults on the first mortgage held by THDA then the Organization is obligated to purchase the mortgage from THDA at the unpaid balance amount plus any associated costs. At June 30, 2006, the approximate balance on the loan was \$42,028. The Organization would then be allowed to foreclose on and sell the property in order to satisfy the balance on both the first and second mortgages.

DOWN SYNDROME ASSOCIATION OF MIDDLE TENNESSEENotes to the Financial StatementsEnded June 30, 2006Note 5 - Line of credit

The Organization maintains an unsecured line of credit with SunTrust Bank. The arrangement is structured as a demand instrument with interest only monthly payments with annual rate of 10.25%

Note 6 - Description of leasing arrangements

The Organization's administrative office is leased on a 3-year term with monthly payments of \$318, beginning September 1, 2005 and ending August 31, 2008. The rent was scheduled to increase to \$350 per month September 31, 2006.

Future scheduled lease payments are as follows for years ending June 30:

2007	\$	4,136
2008		4,200
2009		700
	\$	<u>9,036</u>

Note 7 - Concentration of risk

The Organization is highly dependent on grants and charitable contributions. If these funding sources decreased extensively, the Organization would experience serious difficulty in continuing operations.

The Organization maintained accounts at several financial institutions at June 30, 2006. Accounts at those institutions are insured up to \$100,000. At June 30, 2006, the Organization had uninsured accounts in the amount of \$70,512.

Note 8 - Fair values of financial instruments

The following methods and assumptions were used by the Organization in estimating its fair value disclosures for financial instruments:

Cash, accounts receivable, endowments, line of credit, and payables: The carrying amounts reported in the statements of financial position approximate fair values because of the short maturities of those instruments.

Notes receivable: Based on current interest rates, the fair value of the notes receivable is \$53,662 at June 30, 2006.