

THE ARC OF TENNESSEE, INC.
AUDITED FINANCIAL STATEMENTS
Year Ended June 30, 2006

Nancy C. Crabtree
Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
The Arc of Tennessee, Inc.
Nashville, Tennessee

I have audited the accompanying statement of financial position of The Arc of Tennessee, Inc. (a nonprofit corporation) 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. My responsibility is to express an opinion on these financial statements based on my audit.

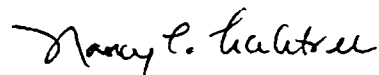
I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform 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 the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Arc of Tennessee, Inc. as of June 30, 2006 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, I have issued my report dated November 20, 2006 on my consideration of The Arc of Tennessee's internal control over financial reporting and on my 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 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 considered in assessing the results of my audit.

My audit was conducted for the purpose of forming an opinion on the basic financial statements of The Arc of Tennessee, Inc. taken as a whole. The accompanying Schedule of Federal and State Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, 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 my opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Nashville, Tennessee
November 20, 2006



THE ARC OF TENNESSEE, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2006

ASSETS

Current Assets:	
Cash and cash equivalents	\$ 81734
Grant receivable – Note B	274824
Account receivable – other – no allowance necessary – Note C	20260
Prepaid expenses	8669
Security deposit	<u>1300</u>
Total Current Assets	<u>\$ 386787</u>
Property and Equipment:	
Office furniture and equipment	\$ 123340
Less accumulated depreciation	<u>(100668)</u>
Total Property and Equipment	<u>\$ 22672</u>
Total Assets	<u>\$ 409459</u>

LIABILITIES AND NET ASSETS

Current Liabilities:	
Accounts payable	\$ 100976
Accrued expenses	34423
Sensory Course – Future Years – Note D	153
MegaConferences – Future Years – Note E	<u>23976</u>
Total Current Liabilities /	
Total Liabilities	<u>\$ 159528</u>
Net Assets:	
Unrestricted:	
Operating	\$ 187254
Board designated for endowment campaign	3081
Furniture and equipment	<u>22672</u>
	<u>\$ 213007</u>
Temporarily Restricted – Note G	<u>36924</u>
Total Net Assets	<u>\$ 249931</u>
Total Liabilities and Net Assets	<u>\$ 409459</u>

See accompanying notes to the financial statements.

THE ARC OF TENNESSEE, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

	Unrestricted	Temporarily Restricted	Total
Revenues and Other Support:			
Gum vending	\$ 94850	\$	\$ 94850
Government grants	2149373		2149373
Contributions	16700		16700
Interest	666	572	1238
Rental income	3944		3944
Affiliation fees	10150		10150
MegaConference administrative fee	6000		6000
Miscellaneous	1010		1010
Memberships	5262		5262
Total Revenues and Other Support	<u>\$ 2287955</u>	<u>\$ 572</u>	<u>\$ 2288527</u>
Expenses:			
Program Services:			
Public awareness - Legislative Monitor	\$ 46175	\$	\$ 46175
Advocacy, education and public awareness	335949		335949
Support collaboration for special education	105928		105928
TnWorkFORCE	664883		664883
Support and assistance services	151994		151994
Partners in Policymaking workshop	113926		113926
Personal assistance services and support	287700		287700
Administration of the Real Choice Systems Change	269328		269328
Youth Leadership Forum workshop	20582		20582
Megaconference	10000		10000
Support Services:			
Management and general	243275	632	243907
Total Expenses	<u>\$ 2249740</u>	<u>\$ 632</u>	<u>\$ 2250372</u>
Increase (Decrease) in Net Assets	\$ 38215	\$ (60)	\$ 38155
Net Assets at the beginning of the year	174792	36984	211776
Net Assets at the end of the year	<u>\$ 213007</u>	<u>\$ 36924</u>	<u>\$ 249931</u>

See accompanying notes to the financial statements.

THE ARC OF TENNESSEE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2006

	Public Awareness- Legislative Monitor	Advocacy, Education, & Public Awareness	Support Collaboration- Special Education	TnWorkFORCE
Salaries	\$ 16402	\$ 181175	\$ 67024	\$ 18176
Fringe benefits	3975	49412	18048	5400
Rent	1669	9192	1317	570
Travel	90	36579	11406	295
Communication	433	6579	3846	84
Printing	2540	69	93	
Supplies	1219	4394	1132	4
Professional services	5159	2544	310	
Insurance				
Meetings & conferences	237	12048	1744	30
Memberships				
Miscellaneous				
Affiliation fees				
Individual assistance		21380		
Equipment lease & maintenance	8069	10264	773	84
Donations				
Contract services	270			640141
Postage	6112	2313	235	99
Lobbying expenses				
Edith Wright disbursements				
Personal assistance direct services				
Depreciation				
Total	\$ 46175	\$ 335949	\$ 105928	\$ 664883

See accompanying notes to the financial statements.

THE ARC OF TENNESSEE, INC.
STATEMENT OF FUNCTIONAL EXPENSES (continued)
FOR THE YEAR ENDED JUNE 30, 2006

	Support & Assistance Services	Partners in Policymaking Workshop	Personal Assistance Services & Support	Administration- Real Choice Systems Change	Youth Leadership Forum Workshop
Salaries	\$ 62364	\$ 2318	\$ 69586	\$ 172083	\$
Fringe benefits	11787	673	14586	32239	
Rent	4316		6281	3990	
Travel	18075	55511	5840	47305	5660
Communication	2328		1186	3915	
Printing					248
Supplies	5231	1656	4443	2365	2421
Professional services	1958	32521	96527	3015	8850
Insurance					
Meetings & conferences	2432		3015	1657	
Memberships					
Miscellaneous					
Affiliation fees					
Individual assistance	40050	20586	295		3301
Equipment lease & maintenance	3106	658	1735	2056	102
Donations					
Contract services					
Postage	347	3	508	703	
Lobbying expenses					
Edith Wright disbursements					
Personal assistance direct services			83698		
Depreciation					
Total	<u>\$ 151994</u>	<u>\$ 113926</u>	<u>\$ 287700</u>	<u>\$ 269328</u>	<u>\$ 20582</u>

See accompanying notes to the financial statements.

THE ARC OF TENNESSEE, INC.
STATEMENT OF FUNCTIONAL EXPENSES (continued)
FOR THE YEAR ENDED JUNE 30, 2006

	Megaconference	Total Program Expenses	Management and General	Total Expenses
Salaries	\$	\$ 589128	\$ 97118	\$ 686246
Fringe benefits		136120	28015	164135
Rent		27335	31141	58476
Travel		180761	3097	183858
Communication		18371	6169	24540
Printing		2950	432	3382
Supplies		22865	7249	30114
Professional services		150884	17908	168792
Insurance			3809	3809
Meetings & conferences		21163	647	21810
Memberships			999	999
Miscellaneous			6384	6384
Affiliation fees			7875	7875
Individual assistance	10000	95612		95612
Equipment lease & maintenance		26847	9367	36214
Donations			323	323
Contract services		640411	444	640855
Postage		10320	2815	13135
Lobbying			12690	12690
Edith Wright disbursements			632	632
Personal assistance direct services		83698		83698
Depreciation			6793	6793
Total	\$ 10000	\$ 2006465	\$ 243907	\$ 2250372

See accompanying notes to the financial statements.

THE ARC OF TENNESSEE, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006

Cash Flows from Operating Activities:

Cash received from support and revenues	\$ 138463
Cash received from government grants	2145630
Interest received	1238
Cash paid to suppliers and employees	<u>(2187412)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 97919</u>

Cash Flows from Investing Activities:

Purchase of equipment	<u>\$(7818)</u>
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Cash Flows from Financing Activities:

Net payments on Line of Credit	<u>\$(15000)</u>
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Net Increase (Decrease) in Cash and Cash Equivalents	\$ 75101
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Cash and Cash Equivalents at beginning of the year	<u>6633</u>
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Cash and Cash Equivalents at end of the year	<u><u>\$ 81734</u></u>
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See accompanying notes to the financial statements.

THE ARC OF TENNESSEE, INC.
 STATEMENT OF CASH FLOWS (continued)
 FOR THE YEAR ENDED JUNE 30, 2006

RECONCILIATION OF DECREASE IN NET ASSETS TO NET CASH PROVIDED (USED)
 BY OPERATING ACTIVITIES:

Increase in Net Assets	\$ 38155
Adjustments of reconcile the increase in net assets to Net cash provided (used) by operating activities:	
Depreciation	6793
(Increase) decrease in:	
Grant receivable	(3743)
Account receivable	874
Prepaid expenses	336
Increase (decrease) in:	
Account payable	63997
Accrued expenses	391
Deferred revenue	(327)
MegaConferences – Future Years	<u>(8557)</u>
Net Cash provided (used) by operating activities	<u>\$ 97919</u>

See accompanying notes to the financial statements.

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements follow:

1. Nature of Organization. The Arc of Tennessee, Inc. is a nonprofit corporation chartered by the State of Tennessee for the purpose of promoting the general wellbeing of all citizens with mental retardation. The membership consists of individuals comprising local units in counties across the State of Tennessee and at-large members. All member units are autonomous, community-based nonprofit entities. The Corporation maintains membership in the national organization of The Arc of the US, and transmits a portion of individual membership dues to The Arc of the US. The Arc of US provides national leadership and information and offers education and training. The Corporation is autonomous and functions independently of any control by The Arc of the US. The Corporation provides advocacy, local unit development, direct client assistance, training, education, counseling, referral and public awareness services statewide.
2. Basis of Presentation. The Arc of Tennessee, Inc. reports information regarding its financial position and activities in accordance with the Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS 117, the Corporation 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, based upon the existence or absence of donor-imposed restrictions. (The Corporation has no assets that meet the definition of permanently restricted net assets.) In addition, the Corporation reports information regarding contributions in accordance with SFAS No. 11, Accounting for Contributions Received and Contributions Made. In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. (The Corporation has received no contributions with donor-imposed restrictions that would result in permanently restricted net assets.)
3. Basis of Accounting. The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principle
4. Cash Equivalents. Cash equivalents consist of short-term, highly liquid investments which are readily convertible into cash within ninety days of purchase.
5. Revenue and Support. The Arc of Tennessee, Inc. receives much of its income from grants from the State of Tennessee Department of Finance and Administration, Division of Mental Retardation Services, the State of Tennessee Department of Education, Division of Special Education, and the Tennessee Council on Developmental Disabilities as well as from a grant from the U.S. Department of Labor. The Corporation records income from the grants in the period that the applicable expenditures are incurred.
6. Contributions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted. 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.

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS (continued)

7. 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, presently five to ten years. Certain equipment has been purchased, in part, with grant funds and is subject to return to the grantor either upon its ultimate disposition or for failure to comply with the terms and conditions of the grant contract for the useful life of the equipment. Equipment totaling \$ 7818 was purchased with grant funds during the year.
8. Donated Services. Unpaid volunteers make contributions of time in various administrative, fund-raising, 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. The value of contributed time is allowed to be used as a match in some government grants.
9. 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.
10. Estimates. The preparation of the 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.
11. Income Taxes. The Arc of Tennessee, Inc. is exempt from federal income taxes under Section 501 (c) (3) of the Internal Revenue Code and therefore no provision has been made for federal income taxes in the accompanying financial statements.
12. Pension Plan. The Arc of Tennessee, Inc. maintains a defined contribution plan which provides for retirement benefits based on the actual value of contributions at the time of retirement. Employees must be 21 years of age and must have completed three months of service before they are eligible to participate. Contributions to the plan are based on the participant's salary. The costs of this plan are charged to fringe benefits expense.

NOTE B – GRANTS RECEIVABLE:

The Arc of Tennessee is due monies from the U.S. Department of Labor for the WorkFORCE action continuation grant in the amount of \$ 114712 for the year ended June 30, 2006. The Arc of Tennessee is also due monies from the State of Tennessee Department of Finance and Administration, Division of Mental Retardation Services, the State of Tennessee Department of Education, Division of Special Education and the Tennessee Council on Developmental Disabilities for grant expenses incurred through June 30, 2006 which total \$ 160112. Monies due from State grants are:

Public awareness - Legislative Monitor	\$ 4106
Advocacy, education & public awareness	51644
Support collaboration for special education	17062
Support & assistance services	34566
Partners in Policymaking workshop	2968
Personal assistance services and support	11699
Administration of the Real Choice Systems Change	14076
Youth Leadership Forum workshop	13891
Direct Support Focus Group	100
MegaConference	10000
Total	<u>\$ 160112</u>

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE B – GRANTS RECEIVABLE (continued):

For the year ended June 30, 2006, total grants receivable from both the federal and state governments amounted to \$ 274824.

NOTE C – ACCOUNTS RECEIVABLE:

Accounts receivable consist of:

Monies due form member units	\$ 2950
Monies due from gum vendors	6249
Tennessee Disability Coalition Olmstead refund	1500
Megaconference registrations	8836
Others	<u>725</u>
Total	<u>\$ 20260</u>

NOTE D – SENSORY COURSES – FUTURE YEARS:

As a result of a request from the Division of Mental Retardation Services, The Arc of Tennessee, Inc. participated in making available Sensory courses for interested persons. This activity was actually an activity of the Division of Mental Health Retardation Services and monies not spent on these sensory courses, as of June 30, 2006, are being held by The Arc of Tennessee, Inc. for future sensory courses. Total monies being held by The Arc of Tennessee, Inc. as of June 30, 2006 was \$ 153.

NOTE E – MEGACONFERENCE – FUTURE YEARS:

The Arc of Tennessee, Inc., in collaboration with other nonprofit entities, participated in a MegaConference. The Arc of Tennessee, Inc. provided the capabilities for the receipts and disbursements of funds related to this MegaConference, but this was not a program for The Arc of Tennessee, Inc. Monies not spent on this MegaConference as of June 30, 2006 are being held by The Arc of Tennessee, Inc. on the request of the other nonprofit participants for future MegaConferences. Total monies being held by The Arc of Tennessee, Inc. as of June 30, 2006 was \$ 23976.

NOTE F – NET ASSETS – TEMPORARILY RESTRICTED:

During the year ended June 30, 2001, The Arc of Tennessee, Inc. received gifts totaling \$ 40716 from an estate. These gifts are restricted for the building or modifying of homes in relation to supported living activities. During the year ended June 30, 2006, \$ 632 was expended for supported living activities.

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE G – GUM VENDING:

The Arc of Tennessee, Inc. has entered into contracts with third parties to maintain vending containers throughout the State of Tennessee that then solicit contributions for The Arc of Tennessee, Inc. The Corporation is not responsible for any of the operating expenses or any resulting legal liability as related to maintaining the containers. The Corporation receives a percentage of the gross receipts collected from the containers on a monthly basis. The contracts are subject to automatic renewal in 2007, unless canceled by either party. The Corporation received \$ 94850 from gum vending for the year ended June 30, 2006.

NOTE H – GOVERNMENT GRANTS:

During the year ended June 30, 2006, The Arc of Tennessee, Inc. was to receive monies from the U.S. Department of Labor totaling \$ 675997 for a WorkFORCE action continuation grant and from the State of Tennessee Department of Finance and Administration, Division of Mental Retardation Services, the State of Tennessee Department of Education, Division of Special Education and the Tennessee Council on Developmental Disabilities in the amount of \$ 1473376. Monies received from State of Tennessee were received for the following grant activities:

Public awareness - Legislative Monitor	\$ 39826
Advocacy, education and public awareness	386341
Support collaboration for special education	82803
Support & assistance services	166740
Partners in Policymaking workshop	133103
Personal assistance services and support	332200
Administration of the Real Choice Systems Change	302166
Youth Leadership Forum workshop	19982
Direct Support Focus Group	215
MegaConference	<u>10000</u>
Total	<u>\$ 1473376</u>

Total grant monies received from both federal and state sources totaled \$ 2149373.

NOTE I – 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 back to the State. These amounts can be “questioned” by the State for the specific grant to which they apply. The determination as to whether such costs will be allowed or disallowed under the grants will be made by the individual grantor agencies at a later date. No liability is needed as of June 30, 2006 for these costs as no determination has been made by the grantor agencies as to any amount for any grant. The Board deems the contingency to be remote, as the Corporation has accommodated the objective of the organization to the provisions of the grant.

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE J – COMMITMENTS:

The Arc of Tennessee, Inc. leases its office space under a lease that requires a monthly payment of \$ 4923. The annual lease payment totaled \$ 58476 for the year ended June 30, 2006. In June 2006, a new lease was signed with the same landlord for different office space within the same complex. This new lease is in effect until September 2011, and includes rent increases at twelve month intervals. Office equipment is leased under various operating agreements. No lease is considered a capital lease under FASB Statement 13. Future minimum rental payments for leases with initial lease terms exceeding one year follow:

<u>Year Ended</u>	<u>Amount</u>
June 30, 2007	\$ 42272
June 30, 2008	57928
June 30, 2009	60016
June 30, 2010	62103
June 30, 2011	<u>64191</u>
Total	<u>\$ 286510</u>

NOTE K – CONCENTRATION OF CREDIT RISK:

Financial instruments that potentially subject the Corporation to concentrations of credit risk consist of account and grant receivables. Account receivables consist of member units and third party gum vending entities. These receivables are widely dispersed over the State of Tennessee and mitigate credit risk. Grant receivables represent concentrations of credit risk to the extent that they are received from concentrated sources. The Corporation receives a substantial amount of its support from member units, gum vending and governmental grants. A significant reduction in the levels of this support, if this were to occur, could have an effect on the Corporation's programs and activities. Based on the upcoming fiscal year's budget, this funding is expected to continue for the current year.

SUPPLEMENTAL INFORMATION

THE ARC OF TENNESSEE, INC.
SCHEDULE OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

Grantor / Program Title	Federal CFDA Number	Grant Number	Federal Award Amount	State Award Amount
<u>MAJOR PROGRAMS</u>				
U. S. Department of Labor: WorkFORCE continuation	53.001	E-9-4-3-0072	\$ 1181250	
Tennessee Department of Finance and Administration/ Division of Mental Retardation Services: Personal assistance services & support	93.778	GR-04-15919-01	\$ 558800	
<u>NONMAJOR PROGRAMS</u>				
Tennessee Department of Finance and Administration/ Council on Developmental Disabilities: Partners in Policymaking and Youth Leadership Forum workshops	93.630 93.630	GR-06-17089-01 GR-05-16262-00	\$ 155802 \$ 140994	
MegaConference	93.630 93.630	GR-06-17963-00 GR-05-11861-00	\$ 10000 \$ 10000	
Direct support focus group	93.630	GR-06-17587-00	\$ 4074	
Public awareness-Legislative Monitor	93.630 93.630	GR-06-17079-00 GR-05-16324-00	\$ 42795 \$ 42795	
Division of Mental Retardation Services: Support & assistance services		GR-06-17339-00 GR-05-16846-00		\$ 185000 25000
Advocacy, education & public awareness		GR-06-16973-00 GR-05-16422-00		\$ 405999 \$ 405999
Real Choice Systems Change	93.779 93.779	GR-05-16380-02 GR-05-16380-01	\$ 144242 \$ 163575	\$ 157924 \$ 49630
Tennessee Department of Education/ Division of Special Education: Support collaboration -special education	84.027A 84.027A	GR-06-17465-00 GR-05-16377-00	\$ 84000 \$ 84000	

Total

- (1) Balance owed by the State of Tennessee and the U.S. Department of Labor to The Arc of Tennessee, Inc. as of June 30, 2006.
- (2) This amount does not include monies due for the fiscal year ended June 30, 2006, that although earned, have not yet been received.

Balance June 30, 2005	Receipts or Revenues Recognized (2)	Federal Disbursements / Expenditures	State Disbursements / Expenditures	Total Expenditures	Balance June 30, 2006 (1)
\$ (55904)	\$ 617189	\$ 675997	\$	\$ 675997	\$ (114712)
(40545)	361046	332200		332200	(11699)
(16127)	136226 16127	153085		153085	(16859)
(10000)	10000	10000		10000	(10000)
	115	215		215	(100)
(4230)	35720 4230	39826		39826	(4106)
(17516)	132174 17516		166740	166740	(34566)
(36420)	334697 36420		386341	386341	(51644)
(75197)	288090 75197	144242	157924	302166	(14076)
(15142)	65741 15142	82803		82803	(17062)
<u>\$ (271081)</u>	<u>\$ 2145630</u>	<u>\$ 1438368</u>	<u>\$ 711005</u>	<u>\$ 2149373</u>	<u>\$ (274824)</u>