

**MENTAL HEALTH ASSOCIATION
OF MIDDLE TENNESSEE**

FINANCIAL STATEMENTS

June 30, 2004 and 2003

MENTAL HEALTH ASSOCIATION OF MIDDLE TENNESSEE

Table of Contents

Independent Auditor's Report.....	1
Financial Statements:	
Statements of Financial Position	2
Statements of Activities	3 – 4
Statements of Functional Expenses	5 – 6
Statements of Cash Flows.....	7
Notes to Financial Statements	8 – 13
Supplementary Data:	
Schedule of Expenditures of Federal and State Awards.....	14
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	15



FRASIER, DEAN & HOWARD, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

3310 WEST END AVENUE, SUITE 550
NASHVILLE, TENNESSEE 37203
PHONE 615-383-6592, FAX 615-383-7094

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Mental Health Association of Middle Tennessee

We have audited the accompanying statements of financial position of Mental Health Association of Middle Tennessee ("the Association") (a nonprofit organization) as of June 30, 2004 and 2003, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 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 Mental Health Association of Middle Tennessee as of June 30, 2004 and 2003, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 20, 2004, on our consideration of Mental Health Association of Middle Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Mental Health Association of Middle Tennessee 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

August 20, 2004

MENTAL HEALTH ASSOCIATION OF MIDDLE TENNESSEE
STATEMENTS OF FINANCIAL POSITION
June 30, 2004 and 2003

Assets	2004	2003
Current assets:		
Cash and cash equivalents	\$ 70,486	\$ 74,611
Receivable from grantor agencies (note 2)	198,606	152,624
Other receivables, net	15,388	-
Unconditional promises to give, net (note 4)	68,267	7,514
Prepaid expenses and deposits	29,748	19,806
Investments (note 5)	177,156	163,521
Total current assets	559,651	418,076
Other, net	13,687	-
Equipment, furniture and improvements	309,696	275,129
Less: accumulated depreciation	(202,580)	(163,575)
Net equipment, furniture and improvements	107,116	111,554
Total assets	\$ 680,454	\$ 529,630
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 31,022	\$ 10,329
Accrued expenses	41,143	43,717
Deferred revenue	13,440	6,850
Total current liabilities	85,605	60,896
Deferred revenue	40,280	25,116
Total liabilities	125,885	86,012
Net assets: (note 6)		
Designated for future periods	48,192	-
Other unrestricted	438,110	436,104
Unrestricted	486,302	436,104
Temporarily restricted	68,267	7,514
Total net assets	554,569	443,618
Total liabilities and net assets	\$ 680,454	\$ 529,630

See accompanying notes.

MENTAL HEALTH ASSOCIATION OF MIDDLE TENNESSEE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and other support:			
Federal and state contracts and grants	\$ 873,228	\$ -	\$ 873,228
Special events	292,934	-	292,934
United Way	74,138	48,667	122,805
Other grants	63,000	19,600	82,600
In-kind contributions (note 3)	52,628	-	52,628
Contributions	41,745	-	41,745
Management fees and other	31,082	-	31,082
Investment income (loss), net (note 5)	4,205	-	4,205
Membership dues	11,203	-	11,203
Net assets released from restrictions	7,514	(7,514)	-
	<u>1,451,677</u>	<u>60,753</u>	<u>1,512,430</u> ✓
Total revenue and other support			
Expenses:			
Program services:			
Advocacy services	559,341	-	559,341
Educational services	251,331	-	251,331
Aging services	110,032	-	110,032
Consumer/family issues services	88,279	-	88,279
	<u>1,008,983</u>	<u>-</u>	<u>1,008,983</u>
Total program services			
Support services:			
Management and general	96,962	-	96,962
Fundraising	295,534	-	295,534
	<u>392,496</u>	<u>-</u>	<u>392,496</u>
Total support services			
Total expenses	<u>1,401,479</u>	<u>-</u>	<u>1,401,479</u> ✓
Change in net assets	50,198	60,753	110,951
Net assets, beginning of year	<u>436,104</u>	<u>7,514</u>	<u>443,618</u>
Net assets, end of year	<u>\$ 486,302</u>	<u>\$ 68,267</u>	<u>\$ 554,569</u>

See accompanying notes.

MENTAL HEALTH ASSOCIATION OF MIDDLE TENNESSEE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2003

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and other support:			
Federal and state contracts and grants	\$ 849,744	\$ -	\$ 849,744
United Way	106,654	7,514	114,168
Other grants	63,831	-	63,831
Special events	58,220	-	58,220
Contributions	50,164	-	50,164
In-kind contributions (note 3)	43,783	-	43,783
Management fees and other	17,741	-	17,741
Membership dues	9,225	-	9,225
Investment income (loss), net (note 5)	(423)	-	(423)
Net assets released from restrictions	22,381	(22,381)	-
	<u>1,221,320</u>	<u>(14,867)</u>	<u>1,206,453</u>
Total revenue and other support			
Expenses:			
Program services:			
Advocacy services	592,794	-	592,794
Educational services	190,300	-	190,300
Aging services	123,855	-	123,855
Consumer/family issues services	91,349	-	91,349
	<u>998,298</u>	<u>-</u>	<u>998,298</u>
Total program services			
Support services:			
Management and general	126,060	-	126,060
Fundraising	182,811	-	182,811
	<u>308,871</u>	<u>-</u>	<u>308,871</u>
Total support services			
Total expenses	<u>1,307,169</u>	<u>-</u>	<u>1,307,169</u>
Change in net assets	(85,849)	(14,867)	(100,716)
Net assets, beginning of year	<u>521,953</u>	<u>22,381</u>	<u>544,334</u>
Net assets, end of year	<u>\$ 436,104</u>	<u>\$ 7,514</u>	<u>\$ 443,618</u>

See accompanying notes.

MENTAL HEALTH ASSOCIATION OF MIDDLE TENNESSEE
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2004

	Program Services				Support Services				
	Advocacy Services	Educational Services	Aging Services	Consumer/ Family Issues Services	TOTAL PROGRAM SERVICES	Management and General	Fundraising	TOTAL SUPPORT SERVICES	Total All Services
Salaries	\$ 323,887	\$ 118,302	\$ 64,032	\$ 53,396	\$ 559,617	\$ 50,900	\$ 75,542	\$ 126,442	\$ 686,059
Fundraising expense - events	-	-	-	-	-	-	105,677	105,677	105,677
Employee benefits	50,335	17,499	8,037	6,529	82,400	8,083	8,159	16,242	98,642
Rent	34,490	10,784	7,605	5,762	58,641	993	7,953	8,946	67,587
Payroll taxes	26,766	9,491	5,086	4,268	45,611	4,038	5,988	10,026	55,637
In-kind expense (note 3)	-	-	-	-	-	-	52,628	52,628	52,628
Depreciation expense	17,194	9,907	5,106	4,323	36,530	4,309	8,373	12,682	49,212
Equipment rental and maintenance	20,260	5,297	1,865	2,060	29,482	1,961	4,103	6,064	35,546
Consulting and contracts	3,253	22,089	852	943	27,137	3,534	772	4,306	31,443
Telephone	22,831	3,162	1,152	851	27,996	1,439	1,183	2,622	30,618
Printing and publications	14,699	4,142	2,671	1,297	22,809	262	3,038	3,300	26,109
Supplies	5,732	4,208	1,327	2,047	13,314	913	2,352	3,265	16,579
Conferences and meetings	6,568	773	1,301	238	8,880	6,621	5,603	12,224	21,104
Travel	8,814	4,080	2,378	1,580	16,852	1,424	408	1,832	18,684
Professional fees	7,225	2,138	1,122	810	11,295	4,472	1,741	6,213	17,508
Management fees	-	16,363	-	-	16,363	-	-	-	16,363
Support to NMHA	9,000	2,292	2,078	779	14,149	628	1,080	1,708	15,857
Advertisement	2,315	7,251	2,410	2,396	14,372	591	634	1,225	15,597
Cost of goods sold	-	9,400	-	-	9,400	-	-	-	9,400
Postage	1,812	1,651	523	234	4,220	847	3,702	4,549	8,769
Insurance	4,060	1,335	773	592	6,760	568	822	1,390	8,150
Dues and memberships	100	1,134	236	5	1,475	1,690	1,055	2,745	4,220
Miscellaneous	-	-	575	-	575	1,740	2,863	4,603	5,178
Awards and gifts	-	-	879	150	1,029	356	1,566	1,922	2,951
Loss on retirement of fixed assets	-	-	-	-	-	1,166	-	1,166	1,166
Subscriptions	-	33	24	19	76	340	118	458	534
Copier usage	-	-	-	-	-	87	174	261	261
	<u>\$ 559,341</u>	<u>\$ 251,331</u>	<u>\$ 110,032</u>	<u>\$ 88,279</u>	<u>\$ 1,008,983</u>	<u>\$ 96,962</u>	<u>\$ 295,534</u>	<u>\$ 392,496</u>	<u>\$ 1,401,479</u>

See accompanying notes.

MENTAL HEALTH ASSOCIATION OF MIDDLE TENNESSEE
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2003

	Program Services					Support Services			
	Advocacy Services	Educational Services	Aging Services	Consumer/ Family Issues Services	TOTAL PROGRAM SERVICES	Management and General	Fundraising	TOTAL SUPPORT SERVICES	Total All Services
Salaries	\$ 348,956	\$ 93,318	\$ 72,224	\$ 57,594	\$ 572,092	\$ 61,207	\$ 70,715	\$ 131,922	\$ 704,014
Employee benefits	50,732	11,778	7,367	5,533	75,410	7,521	6,968	14,489	89,899
Rent	41,039	7,184	7,825	6,241	62,289	6,136	6,343	12,479	74,768
Payroll taxes	28,655	7,301	5,774	4,799	46,529	4,646	5,567	10,213	56,742
Depreciation expense	23,951	8,088	3,522	1,603	37,164	5,324	4,076	9,400	46,564
In-kind expense (note 3)	-	-	-	-	-	-	38,575	38,575	38,575
Professional fees	10,034	3,411	1,071	757	15,273	17,337	953	18,290	33,563
Telephone	25,988	1,798	1,390	973	30,149	1,639	990	2,629	32,778
Fundraising expense - events	-	-	-	-	-	-	30,009	30,009	30,009
Consulting and contracts	5,976	19,772	752	599	27,099	592	613	1,205	28,304
Printing and publications	6,540	8,999	4,108	1,318	20,965	1,102	2,858	3,960	24,925
Support to NMHA	7,773	2,639	4,627	3,529	18,568	1,254	3,908	5,162	23,730
Travel	8,264	5,822	3,209	1,015	18,310	3,715	660	4,375	22,685
Equipment rental and maintenance	11,047	1,937	2,804	1,454	17,242	1,677	1,806	3,483	20,725
Advertisement	5,430	4,273	2,173	1,804	13,680	1,469	477	1,946	15,626
Supplies	7,385	2,330	1,451	827	11,993	1,832	1,057	2,889	14,882
Conferences and meetings	1,064	1,498	1,563	279	4,404	6,505	2,718	9,223	13,627
Insurance	4,466	1,150	967	762	7,345	809	796	1,605	8,950
Postage	2,320	2,322	864	463	5,969	769	1,872	2,641	8,610
Management fees	352	4,088	-	-	4,440	-	-	-	4,440
Miscellaneous	914	218	1,370	1,305	3,807	257	1,408	1,665	5,472
Dues and memberships	125	546	598	300	1,569	1,123	298	1,421	2,990
Cost of goods sold	-	1,507	-	-	1,507	-	-	-	1,507
Loss on retirement of asset	1,279	-	-	-	1,279	-	-	-	1,279
Copier usage	491	92	149	151	883	266	120	386	1,269
Awards and gifts	-	75	43	41	159	580	22	602	761
Subscriptions	13	154	4	2	173	300	2	302	475
	<u>\$ 592,794</u>	<u>\$ 190,300</u>	<u>\$ 123,855</u>	<u>\$ 91,349</u>	<u>\$ 998,298</u>	<u>\$ 126,060</u>	<u>\$ 182,811</u>	<u>\$ 308,871</u>	<u>\$ 1,307,169</u>

See accompanying notes.

MENTAL HEALTH ASSOCIATION OF MIDDLE TENNESSEE
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Change in net assets	\$ 110,951	\$ (100,716)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	49,212	46,564
Realized and unrealized loss on investments	535	6,693
Loss on retirement of fixed assets	1,166	1,279
Changes in current assets and liabilities:		
Receivable from grantor agencies	(45,982)	(115,108)
Other receivables	(29,075)	37,198
Unconditional promises to give	(60,753)	14,867
Prepaid expenses and deposits	(9,942)	(11,009)
Accounts payable	20,693	597
Accrued expenses	(2,574)	7,214
Deferred revenue	21,754	31,966
	<u>55,985</u>	<u>(80,455)</u>
Net cash provided by (used in) operating activities		
	<u>55,985</u>	<u>(80,455)</u>
Cash flows from investing activities:		
Purchase of fixed assets	(45,940)	(33,028)
Proceeds from sale of investments	221,168	51,975
Purchases of investments	(235,338)	(154,898)
	<u>(60,110)</u>	<u>(135,951)</u>
Net cash used in investing activities		
	<u>(60,110)</u>	<u>(135,951)</u>
Decrease in cash and cash equivalents	(4,125)	(216,406)
Cash and cash equivalents, beginning of year	<u>74,611</u>	<u>291,017</u>
Cash and cash equivalents, end of year	<u>\$ 70,486</u>	<u>\$ 74,611</u>

See accompanying notes.

MENTAL HEALTH ASSOCIATION OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2004 and 2003

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Mental Health Association of Middle Tennessee (the “Association”) is a nonprofit organization that provides community education about mental health illnesses and advocates for the rights and needs of persons with mental illnesses. The Association is primarily funded by government grants, United Way and private donations.

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 Association 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 Association 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 Association. The Association has no permanently restricted net assets at June 30, 2004 or 2003.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

MENTAL HEALTH ASSOCIATION OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2004 and 2003

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 Association 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 Association 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.

Donated Services

Volunteers have donated significant amounts of their time to the Association's program services. No amounts have been recognized in the accompanying statement of activities because the criteria for recognition of such volunteer effort under SFAS No. 116 has not been satisfied. In-kind donations during the years ended June 30, 2004 and 2003 were \$52,628 and \$43,783, respectively.

Advertising

Advertising costs are charged to expense as incurred. Advertising expense totaled \$15,597 and \$15,626 for the years ended June 30, 2004 and 2003.

MENTAL HEALTH ASSOCIATION OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2004 and 2003

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Association is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation as defined in Section 509(a) of the Internal Revenue Code. Accordingly, no provision for income tax has been made.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Association considers all highly liquid investments available for use with a maturity of three months or less when purchased to be cash equivalents.

Furniture and Equipment

The Association capitalizes assets over \$500 and records them at cost or fair market value at date of gift. Depreciation of equipment and furniture is provided over the estimated useful lives (ranging from three to five years) on a straight-line basis.

Deferred Revenue

Deferred revenue consists of I.C. Hope licensing proceeds received during 2003 and 2004. The licensing agreements are for five-year periods expiring in March 2008 and November 2008, respectively. Proceeds received for the licensing agreements are being amortized over the five-year period of the agreements.

Reclassifications

Certain reclassifications have been made to 2003 balances to conform with 2004 presentation.

NOTE 2 – GRANTS RECEIVABLE

Funds received from the State of Tennessee Department of Finance and Administration are to be used for the general support and management of TennCare Partners Advocacy Line ("TPAL"), which is a telephone network designed to provide information and advocacy regarding mental health issues.

Funds received from the State of Tennessee Department of Mental Health and Developmental Disabilities are to be used for the general support of the Erasing the Stigma ("ETS") program, which is designed to educate the public about mental illness and eliminate the stigma associated with it.

Funds received from the Greater Nashville Regional Council are to be used for the general support of the Homes program, which uses trained volunteers who provide 2-4 hours of in-home companionship and supervision each week for persons with Alzheimer's Disease or related dementia in order to relieve caregivers.

MENTAL HEALTH ASSOCIATION OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2004 and 2003

NOTE 2 – GRANTS RECEIVABLE (Continued)

Funds received from the Tennessee Commission on Aging and Disability are used to support a six-week series of learning opportunities for caregivers of persons with Alzheimer's Disease or related dementia.

Grants receivable consist of the following at June 30:

	<u>2004</u>	<u>2003</u>
State of Tennessee – TPAL	\$ 150,114	\$ 113,715
State of Tennessee – ETS	34,816	25,097
Greater Nashville Regional Council – Homes program	1,550	8,317
State of Tennessee – Commission on Aging & Disability	<u>12,126</u>	<u>5,495</u>
	<u>\$ 198,606</u>	<u>\$ 152,624</u>

NOTE 3 – IN-KIND CONTRIBUTIONS

In-kind contributions consist of the following:

	<u>2004</u>	<u>2003</u>
Legal fees and song production costs – I.C. Hope	\$ -	\$ 5,208
Donated auction items and other	31,107	18,013
Advertising and marketing contributions	<u>21,521</u>	<u>20,562</u>
In-kind contributions	52,628	43,783
Less amounts capitalized	<u>(-)</u>	<u>(5,208)</u>
Amount recognized as expense	<u>\$ 52,628</u>	<u>\$ 38,575</u>

NOTE 4 – UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give consist of the following:

	<u>2004</u>	<u>2003</u>
United Way grants and designations, receivables less than one year	\$ 48,667	\$ 7,514
Other contributions receivable	<u>19,600</u>	<u>-</u>
	<u>\$ 68,267</u>	<u>\$ 7,514</u>

MENTAL HEALTH ASSOCIATION OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2004 and 2003

NOTE 5 – INVESTMENTS

The details of investments as of June 30 are as follows:

	<u>2004</u> <u>Market</u> <u>Value</u>	<u>2003</u> <u>Market</u> <u>Value</u>
Preferred stocks	\$ -	\$ 10,152
Mutual funds	-	47,533
Certificates of deposit	<u>177,156</u>	<u>105,836</u>
	<u>\$ 177,156</u>	<u>\$ 163,521</u>

The following schedule summarizes investment return for the years ended June 30:

	<u>2004</u>	<u>2003</u>
Interest and dividends	\$ 4,740	\$ 6,270
Realized and unrealized gains and losses, net	<u>(535)</u>	<u>(6,693)</u>
	<u>\$ 4,205</u>	<u>\$ (423)</u>

NOTE 6 – RESTRICTIONS ON NET ASSETS

Board designated net assets are available for the following purposes or periods:

	<u>2004</u>	<u>2003</u>
Fundraising dinner proceeds designated for future periods	<u>\$ 48,192</u>	<u>\$ -</u>

During fiscal 2004, the Association held its biennial Massey fundraising dinner. The Association budgets for the net proceeds of the dinner to be utilized over two fiscal years. As a result, half of the net proceeds received from the dinner were designated for fiscal year 2005. The following is a summary of fundraising contributions received and expenses incurred during 2004 for the Massey fundraising dinner.

Contributions	\$ 142,611
Expenses	<u>(46,228)</u>
Net proceeds	<u>\$ 96,383</u>

Temporarily restricted net assets are available for the following purposes or periods:

	<u>2004</u>	<u>2003</u>
United Way grants and designations	\$ 48,667	\$ 7,514
Other contributions receivable	<u>19,600</u>	<u>-</u>
	<u>\$ 68,267</u>	<u>\$ 7,514</u>

MENTAL HEALTH ASSOCIATION OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2004 and 2003

NOTE 7 – OPERATING LEASE COMMITMENT

The Association is renting its office space under an operating lease agreement. The Association entered into this lease in November 1999 for a 126-month term. Rent expense for the years ended June 30, 2004 and 2003 was \$67,587 and \$74,768, respectively. 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, 2004 are as follows:

<u>Year ended</u> <u>June 30</u>	
2005	\$ 73,944
2006	76,164
2007	78,444
2008	80,796
2009	83,636
Thereafter	<u>85,300</u>
	<u>\$ 478,284</u>

NOTE 8 – EMPLOYEE BENEFIT PLAN

The Association has a tax deferred annuity plan covering employees who have reached age 21, have been employed for one year, and work at least 20 hours per week. Total contributions made to the plan were \$5,118 and \$7,061 for the years ended June 30, 2004 and 2003, respectively.

NOTE 9 – CONCENTRATIONS

The Association receives a substantial amount of its support from government grants and contracts. A significant reduction in the level of this support, if this were to occur, could have a negative effect on the Association's programs and activities. In addition, the funding received by the Association from governmental agencies is subject to audit and retroactive adjustment.

The Association maintains cash balances which may, at times, exceed federally insured amounts.

NOTE 10 – CHARITABLE TRUST

The Association has been named as beneficiary of a trust. Under the terms of the trust agreement, the Association is to receive a charitable contribution annually from the trust for a ten-year period. Each year's contribution will be based on the fair value of the trust as determined annually each December 31. Amounts received and recorded as contribution revenue during the years ended June 30, 2004 and 2003 amounted to \$12,348 and \$13,365, respectively. Contributions from the trust for future periods will be recorded as revenue when received.

SUPPLEMENTARY DATA

MENTAL HEALTH ASSOCIATION OF MIDDLE TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the year ended June 30, 2004

	<u>CFDA No.</u>	<u>Pass through Grantor's Number</u>	<u>Balance Receivable June 30, 2003</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Balance Receivable June 30, 2004</u>
Federal Awards:						
U.S. Dept. of Health & Human Services						
Community Mental Health Program Pass through from Tennessee Department of Mental Health and Developmental Disabilities*	93.958	GR-04-15463-00	\$ -	\$ 24,200	\$ 24,200	\$ -
Special Programs for the Aging, Title III Part B, Grants for Supportive Services and Senior Centers*	93.044	2003-26	8,317	8,317	-	-
Pass through from Greater Nashville Regional Council	93.044	2003-26	-	12,913	14,463	1,550
Medical Assistance Program + *						
Pass through from the Tennessee Department of Finance and Administration, Bureau of TennCare	93.778	GR-03-14967-00	56,858	56,858	-	-
Pass through from the Tennessee Department of Finance and Administration, Bureau of TennCare	93.778	GR-04-15472-00	-	236,359	311,416	75,057
Total Federal Awards			<u>65,175</u>	<u>338,647</u>	<u>350,079</u>	<u>76,607</u>
State Awards:						
Medical Assistance Program						
Pass through from the Tennessee Department of Finance and Administration, Bureau of TennCare #	N/A	GR-03-14967-00	56,857	56,857	-	-
Pass through from the Tennessee Department of Finance and Administration, Bureau of TennCare #	N/A	GR-04-15472-00	-	236,359	311,416	75,057
Tennessee Department of Mental Health and Developmental Disabilities						
Community Mental Health Program #	N/A	GR-03-14827-00	25,097	25,097	-	-
Developmental Disabilities						
Community Mental Health Program #	N/A	GR-04-15463-00	-	119,295	154,111	34,816
Total State Awards			<u>81,954</u>	<u>437,608</u>	<u>465,527</u>	<u>109,873</u>
Total Federal and State Awards			<u>\$ 147,129</u>	<u>\$ 776,255</u>	<u>\$ 815,606</u>	<u>\$ 186,480</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.

Represents State's portion of grant.

* Grant represents pass-through federal funds



FRASIER, DEAN & HOWARD, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

3310 WEST END AVENUE, SUITE 550
NASHVILLE, TENNESSEE 37203
PHONE 615-383-6592, FAX 615-383-7094

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

The Board of Directors
Mental Health Association of Middle Tennessee

We have audited the financial statements of Mental Health Association of Middle Tennessee as of and for the year ended June 30, 2004, and have issued our report thereon dated August 20, 2004. 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.

Compliance

As part of obtaining reasonable assurance about whether Mental Health Association of Middle Tennessee's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mental Health Association of Middle Tennessee'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 assurance 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 over financial reporting that might be material weaknesses. A material weakness is a 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 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.

This report is intended solely for the information and use of the finance committee, 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.

Frasier, Dean & Howard, PLLC
August 20, 2004