

**MENTAL HEALTH ASSOCIATION
OF MIDDLE TENNESSEE**

FINANCIAL STATEMENTS

June 30, 2006 and 2005

MENTAL HEALTH ASSOCIATION OF MIDDLE TENNESSEE

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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, 2006 and 2005, 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, 2006 and 2005, 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 23, 2006, 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 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 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 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 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 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 23, 2006

MENTAL HEALTH ASSOCIATION OF MIDDLE TENNESSEE
STATEMENTS OF FINANCIAL POSITION
June 30, 2006 and 2005

Assets	2006	2005
Current assets:		
Cash and cash equivalents	\$ 173,778	\$ 85,549
Receivable from grantor agencies, net (note 2)	216,290	236,584
Other receivables, net	7,620	22,875
Unconditional promises to give, net (note 3)	40,846	43,289
Prepaid expenses and deposits	34,374	27,686
Investments (note 4)	59,411	141,724
Inventory	8,920	8,920
Total current assets	541,239	566,627
Other, net	4,804	9,117
Equipment, furniture and improvements	375,394	349,151
Less: accumulated depreciation	(284,293)	(238,763)
Net equipment, furniture and improvements	91,101	110,388
Total assets	\$ 637,144	\$ 686,132
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 22,613	\$ 41,268
Accrued expenses	39,114	45,504
Deferred revenue (note 5)	25,700	20,700
Total current liabilities	87,427	107,472
Deferred revenue (note 5)	32,439	52,675
Total liabilities	119,866	160,147
Net assets: (note 6)		
Designated for future periods	64,386	-
Other unrestricted	387,046	434,330
Unrestricted	451,432	434,330
Temporarily restricted	65,846	91,655
Total net assets	517,278	525,985
Total liabilities and net assets	\$ 637,144	\$ 686,132

See accompanying notes.

MENTAL HEALTH ASSOCIATION OF MIDDLE TENNESSEE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and other support:			
Federal and state contracts and grants	\$ 1,110,893	\$ -	\$ 1,110,893
Massey fundraising dinner (note 6)	206,285	-	206,285
Jammin' to Beat the Blues fundraiser	132,211	-	132,211
United Way	16,919	40,846	57,765
Other grants	60,805	25,000	85,805
In-kind contributions (note 7)	77,786	-	77,786
Contributions	39,545	-	39,545
I. C. Hope revenues (note 5)	28,981	-	28,981
Management fees and other	47,701	-	47,701
Investment income, net (note 4)	6,634	-	6,634
Net assets released from restrictions	91,655	(91,655)	-
	<u>1,819,415</u>	<u>(25,809)</u>	<u>1,793,606</u>
Total revenue and other support			
Expenses:			
Program services:			
Advocacy services	634,361	-	634,361
Educational services	458,619	-	458,619
Aging services	91,251	-	91,251
Consumer/family issues services	92,234	-	92,234
	<u>1,276,465</u>	<u>-</u>	<u>1,276,465</u>
Total program services			
Support services:			
Management and general	160,407	-	160,407
Fundraising, including in-kind of \$77,786	365,441	-	365,441
	<u>525,848</u>	<u>-</u>	<u>525,848</u>
Total support services			
Total expenses	<u>1,802,313</u>	<u>-</u>	<u>1,802,313</u>
Change in net assets	17,102	(25,809)	(8,707)
Net assets, beginning of year	<u>434,330</u>	<u>91,655</u>	<u>525,985</u>
Net assets, end of year	<u>\$ 451,432</u>	<u>\$ 65,846</u>	<u>\$ 517,278</u>

See accompanying notes.

MENTAL HEALTH ASSOCIATION OF MIDDLE TENNESSEE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and other support:			
Federal and state contracts and grants	\$ 872,598	\$ -	\$ 872,598
United Way	10,192	33,289	43,481
Other grants	115,900	58,366	174,266
Jammin' to Beat the Blues fundraiser	210,537	-	210,537
Contributions	43,330	-	43,330
I. C. Hope revenues (note 5)	33,067	-	33,067
In-kind contributions (note 7)	118,203	-	118,203
Management fees and other	24,960	-	24,960
Investment income, net (note 4)	6,831	-	6,831
Net assets released from restrictions	68,267	(68,267)	-
	<u>1,503,885</u>	<u>23,388</u>	<u>1,527,273</u>
Total revenue and other support			
Expenses:			
Program services:			
Advocacy services	708,784	-	708,784
Educational services	245,209	-	245,209
Aging services	90,920	-	90,920
Consumer/family issues services	108,191	-	108,191
	<u>1,153,104</u>	<u>-</u>	<u>1,153,104</u>
Total program services			
Support services:			
Management and general	109,089	-	109,089
Fundraising, including in-kind of \$118,203	293,664	-	293,664
	<u>402,753</u>	<u>-</u>	<u>402,753</u>
Total support services			
Total expenses	<u>1,555,857</u>	<u>-</u>	<u>1,555,857</u>
Change in net assets	(51,972)	23,388	(28,584)
Net assets, beginning of year	<u>486,302</u>	<u>68,267</u>	<u>554,569</u>
Net assets, end of year	<u>\$ 434,330</u>	<u>\$ 91,655</u>	<u>\$ 525,985</u>

See accompanying notes.

MENTAL HEALTH ASSOCIATION OF MIDDLE TENNESSEE
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2006

	Program Services				Support Services				Total All Services
	Advocacy Services	Educational Services	Aging Services	Consumer/ Family Issues Services	TOTAL PROGRAM SERVICES	Management and General	Fundraising	TOTAL SUPPORT SERVICES	
Salaries	376,876	220,963	61,811	58,019	\$ 717,669	\$ 73,248	\$ 79,103	\$ 152,351	\$ 870,020
Fundraising expense - events	-	-	-	-	-	-	144,735	144,735	144,735
Employee benefits	63,088	28,089	8,630	10,536	110,343	12,597	11,715	24,312	134,655
In-kind expense (note 7)	-	-	-	-	-	-	77,786	77,786	77,786
Rent	34,946	15,301	4,800	5,683	60,730	7,234	9,395	16,629	77,359
Payroll taxes	30,083	18,426	5,000	4,512	58,021	5,427	6,499	11,926	69,947
Consulting and contracts	5,474	22,819	405	456	29,154	31,091	960	32,051	61,205
Travel	8,942	39,948	2,634	2,004	53,528	2,261	1,459	3,720	57,248
Depreciation and amortization	19,547	20,947	747	1,128	42,369	1,663	3,727	5,390	47,759
Telephone	19,432	11,526	1,111	1,855	33,924	2,245	2,016	4,261	38,185
Professional fees	22,357	5,087	784	1,024	29,252	6,141	1,953	8,094	37,346
Equipment rental and maintenance	16,664	11,478	1,128	1,380	30,650	1,901	4,532	6,433	37,083
Conferences and meetings	3,969	17,970	930	743	23,612	5,794	6,465	12,259	35,871
Printing and publications	7,320	14,372	562	737	22,991	469	3,991	4,460	27,451
Supplies	6,977	10,666	693	1,044	19,380	1,560	2,377	3,937	23,317
Support to NMHA	8,844	3,961	824	1,047	14,676	1,359	1,653	3,012	17,688
Insurance	4,821	2,006	484	602	7,913	780	949	1,729	9,642
Advertisement	3,095	2,516	288	885	6,784	423	801	1,224	8,008
Postage	1,250	1,764	240	326	3,580	438	2,904	3,342	6,922
Dues and memberships	439	1,847	102	108	2,496	3,357	643	4,000	6,496
Cost of goods sold	-	4,780	-	-	4,780	-	-	-	4,780
Loss on retirement of fixed assets	-	3,130	-	-	3,130	-	-	-	3,130
Miscellaneous	18	642	-	-	660	1,690	300	1,990	2,650
Awards and gifts	-	200	-	25	225	323	1,196	1,519	1,744
Copier usage	219	181	78	120	598	141	147	288	886
Subscriptions	-	-	-	-	-	265	135	400	400
	\$ 634,361	\$ 458,619	\$ 91,251	\$ 92,234	\$ 1,276,465	\$ 160,407	\$ 365,441	\$ 525,848	\$ 1,802,313

See accompanying notes.
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MENTAL HEALTH ASSOCIATION OF MIDDLE TENNESSEE
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2005

	Program Services				Support Services			
	Advocacy Services	Educational Services	Aging Services	Consumer/ Family Issues Services	TOTAL PROGRAM SERVICES	Management and General	Fundraising	TOTAL SUPPORT SERVICES
Salaries	\$ 344,487	\$ 105,670	\$ 58,498	\$ 65,210	\$ 573,865	\$ 55,225	\$ 75,215	\$ 130,440
In-kind expense (note 7)	-	-	-	-	-	-	118,203	118,203
Employee benefits	59,430	15,773	7,686	9,258	92,147	9,869	9,013	18,882
Professional fees	77,589	5,324	985	1,296	85,194	6,051	1,647	7,698
Rent	34,589	10,800	5,382	7,295	58,066	5,814	8,093	13,907
Payroll taxes	27,482	8,040	4,796	5,440	45,758	4,838	5,944	10,782
Depreciation and amortization	20,376	20,144	974	1,938	43,432	2,695	4,348	7,043
Fundraising expense - events	-	-	-	-	-	-	43,760	43,760
Consulting and contracts	6,591	26,262	2,710	1,848	37,411	1,999	2,208	4,207
Telephone	28,575	3,015	1,085	1,310	33,985	2,198	1,423	3,621
Advocacy Summit	35,356	-	-	-	35,356	-	-	-
Supplies	21,132	3,211	834	1,489	26,666	1,394	1,527	2,921
Equipment rental and maintenance	17,620	2,256	1,322	1,724	22,922	1,327	3,435	4,762
Printing and publications	7,110	9,338	1,321	960	18,729	573	3,593	4,166
Conferences and meetings	5,410	1,587	274	1,184	8,455	8,325	3,188	11,513
Advertisement	3,495	10,710	997	1,630	16,832	427	1,783	2,210
Travel	5,926	6,968	1,083	2,855	16,832	1,984	180	2,164
Support to NMHA	6,456	1,763	1,340	2,451	12,010	2,046	2,856	4,902
Postage	2,054	1,808	663	696	5,221	802	3,836	4,638
Cost of goods sold	-	9,837	-	-	9,837	-	-	-
Insurance	4,316	1,228	626	893	7,063	656	913	1,569
Dues and memberships	725	632	282	391	2,030	929	451	1,380
Miscellaneous	12	38	40	198	288	1,062	561	1,623
Awards and gifts	-	92	12	107	211	417	965	1,382
Loss on retirement of asset	-	630	-	-	630	263	438	701
Subscriptions	13	3	2	3	21	187	63	250
Volunteer Recognition	-	69	-	11	80	-	11	11
Copier usage	40	11	8	4	63	8	10	18
	\$ 708,784	\$ 245,209	\$ 90,920	\$ 108,191	\$ 1,153,104	\$ 109,089	\$ 293,664	\$ 402,753
								\$ 1,555,857

See accompanying notes.

MENTAL HEALTH ASSOCIATION OF MIDDLE TENNESSEE
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Change in net assets	\$ (8,707)	\$ (28,584)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	47,759	50,475
Realized and unrealized (gain) loss on investments	304	(2,099)
Noncash contribution	-	(7,807)
Loss on retirement of fixed assets	3,130	1,331
Changes in current assets and liabilities:		
Receivable from grantor agencies	20,294	(37,978)
Other receivables	15,255	(7,487)
Unconditional promises to give	2,443	24,978
Prepaid expenses and deposits	(6,688)	2,062
Other assets	4,313	(4,350)
Accounts payable	(18,655)	10,246
Accrued expenses	(6,390)	4,361
Deferred revenue	(15,236)	19,655
Net cash provided by operating activities	<u>37,822</u>	<u>24,803</u>
Cash flows from investing activities:		
Purchase of fixed assets	(31,602)	(47,271)
Proceeds from sale of investments	<u>82,009</u>	<u>37,531</u>
Net cash provided by (used in) investing activities	<u>50,407</u>	<u>(9,740)</u>
Change in cash and cash equivalents	88,229	15,063
Cash and cash equivalents, beginning of year	<u>85,549</u>	<u>70,486</u>
Cash and cash equivalents, end of year	<u>\$ 173,778</u>	<u>\$ 85,549</u>
Supplemental disclosure of non-cash investing and financing activities:		
Contribution of fixed assets	<u>\$ -</u>	<u>\$ 7,807</u>

See accompanying notes.

MENTAL HEALTH ASSOCIATION OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

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, 2006 or 2005.

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, 2006 and 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 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.

Allowance for Uncollectible Amounts

Management believes that amounts receivable from grantor agencies and unconditional promises to give are fully collectible for the years ended June 30, 2006 and 2005, respectively. As a result, no allowance for uncollectible amounts has been provided.

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, 2006 and 2005 were \$77,786 and \$118,203, respectively.

MENTAL HEALTH ASSOCIATION OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006 and 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising

Advertising costs are charged to expense as incurred. Advertising expense totaled \$8,008 and \$19,042 for the years ended June 30, 2006 and 2005.

Cash and Cash Equivalents

For purposes of the statements 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. Cash and cash equivalents include short term investments in money market funds of \$82,830 and \$14,195 at June 30, 2006 and 2005, respectively, within the Organization's investment portfolio.

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. The licensing agreements are for five-year periods expiring at various times through 2011. Proceeds received for the licensing agreements are being amortized over the five-year period of the agreements.

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.

Reclassifications

Certain reclassifications have been made to 2005 amounts in order to conform with the 2006 financial statement 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.

MENTAL HEALTH ASSOCIATION OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006 and 2005

NOTE 2 – GRANTS RECEIVABLE (Continued)

Funds received from the State of Tennessee Department of Mental Health and Developmental Disabilities are to be used for the general support of the following programs:

Erasing the Stigma (“ETS”), a program designed to educate the public about mental illness and eliminate the stigma associated with it.

Tennessee Lives Count (“TLC”), a program designed to educate the public in identifying youth that are considered to be high risk for suicide.

Tennessee Suicide Prevention Network (“TSPN”), a statewide program designed to provide resources for the community to identify suicide warning signs.

Funds received from the Greater Nashville Regional Council are to be used for the general support of the In-Home Education program, which provides education to caregivers and families of persons with Alzheimer’s Disease or related dementia.

Grants receivable consist of the following at June 30:

	<u>2006</u>	<u>2005</u>
State of Tennessee – TPAL	\$ 115,175	\$ 205,353
State of Tennessee – ETS	31,607	28,381
Greater Nashville Regional Council – In-Home Educational program	2,125	2,850
State of Tennessee – TLC	38,147	-
State of Tennessee – TSPN	<u>29,236</u>	<u>-</u>
	<u>\$ 216,290</u>	<u>\$ 236,584</u>

NOTE 3 – UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give consist of the following:

	<u>2006</u>	<u>2005</u>
United Way grants and designations, receivables less than one year	\$ 40,846	\$ 33,289
Other contributions receivable	<u>-</u>	<u>10,000</u>
	<u>\$ 40,846</u>	<u>\$ 43,289</u>

MENTAL HEALTH ASSOCIATION OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006 and 2005

NOTE 4 – INVESTMENTS

Investments as of June 30, 2006 and 2005 are held in certificates of deposit that mature in October 2006 and November 2007.

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

	<u>2006</u>	<u>2005</u>
Interest and dividends	\$ 6,938	\$ 4,732
Realized and unrealized gains and losses, net	<u>(304)</u>	<u>2,099</u>
	<u>\$ 6,634</u>	<u>\$ 6,831</u>

NOTE 5 – LICENSE AGREEMENTS

The Association has entered into license agreements with other organizations whereby the I. C. Hope costume, puppet, trademarks and other branded product can be used in exchange for the payment of licensing fees. These license agreements have an initial term of five years. Upon completion of the five year terms and annually on the date of the contracts, the agreements may be extended for one year terms. A portion of the revenue earned under the license agreements is deferred and recognized over the life of the agreement. The remaining proceeds received for the I. C. Hope costume, puppet and educational program related materials are recognized when received. (Additional educational materials may be provided any time throughout the term of the agreement. Proceeds for those materials are also recognized when received.) Licenses and product revenue totaled \$28,981 and \$33,067 for the years ended June 30, 2006 and 2005, respectively. Deferred revenue under these license agreements amounted to \$58,139 and \$73,375 at June 30, 2006 and 2005, respectively.

NOTE 6 – RESTRICTIONS ON NET ASSETS

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

	<u>2006</u>	<u>2005</u>
Fundraising dinner proceeds designated for future periods	\$ <u>64,386</u>	\$ <u>-</u>

During fiscal 2006, 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 2007. The following is a summary of fundraising contributions received and expenses incurred during 2006 for the Massey fundraising dinner.

MENTAL HEALTH ASSOCIATION OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006 and 2005

NOTE 6 – RESTRICTIONS ON NET ASSETS (Continued)

Contributions	\$ 206,285
Expenses	<u>(77,512)</u>
Net proceeds	<u>\$ 128,773</u>

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

	<u>2006</u>	<u>2005</u>
United Way grants and designations	\$ 40,846	\$ 33,289
Other contributions receivable	-	10,000
Time restricted contributions	25,000	39,847
Advocacy Summit expenses in 2006	<u>-</u>	<u>8,519</u>
	<u>\$ 65,846</u>	<u>\$ 91,655</u>

NOTE 7 – IN-KIND CONTRIBUTIONS

In-kind contributions consist of the following:

	<u>2006</u>	<u>2005</u>
Donated auction items and other	\$ 72,056	\$ 100,756
Advertising and marketing contributions	<u>5,730</u>	<u>17,447</u>
In-kind contributions	<u>\$ 77,786</u>	<u>\$ 118,203</u>

NOTE 8 – 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, 2006 and 2005 was \$77,359 and \$71,973, 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, 2006 are as follows:

Year ended <u>June 30</u>	
2007	\$ 89,942
2008	83,906
2009	84,087
2010	<u>71,430</u>
	<u>\$ 329,365</u>

MENTAL HEALTH ASSOCIATION OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006 and 2005

NOTE 9 – 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 thirty hours per week. Total contributions made to the plan were \$16,473 and \$11,736 for the years ended June 30, 2006 and 2005, respectively.

NOTE 10 – 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 11 – 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, 2006 and 2005 amounted to \$14,435 and \$13,796, respectively. Contributions from the trust for future periods will be recorded as revenue when received.

SUPPLEMENTAL INFORMATION

MENTAL HEALTH ASSOCIATION OF MIDDLE TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the year ended June 30, 2006

Federal Awards:

U.S. Dept. of Health & Human Services

Community Mental Health Program
*Pass through from Tennessee Department of Mental Health and Developmental Disabilities**
*Pass through from Tennessee Department of Mental Health and Developmental Disabilities**
 Special Programs for the Aging, Title III Part B, Grants for Supportive Services and Senior Centers*
Pass through from Greater Nashville Regional Council
Pass through from Greater Nashville Regional Council
Pass through from Greater Nashville Regional Council
 Administration on Aging
Pass through from the Tennessee Commission on Aging and Disability

Medical Assistance Program + *

Pass through from the Tennessee Department of Finance and Administration, Bureau of TennCare
Pass through from the Tennessee Department of Finance and Administration, Bureau of TennCare

Total Federal Awards

State Awards:

Community Mental Health Program
*Pass through from Tennessee Department of Mental Health and Developmental Disabilities**

Medical Assistance Program

Pass through from the Tennessee Department of Finance and Administration, Bureau of TennCare #
Pass through from the Tennessee Department of Finance and Administration, Bureau of TennCare #

Tennessee Department of Mental Health and Developmental Disabilities

Community Mental Health Program #

Developmental Disabilities

Community Mental Health Program #

Total State Awards

Total Federal and State Awards

CFDA No.	Pass through Grantor's Number	Balance Receivable June 30, 2005	Cash Receipts	Expenditures	Balance Receivable June 30, 2006
53.958	GR-06-17136-01	\$ -	\$ 44,109	\$ 44,109	\$ -
53.243	GR-06-17678-00	-	70,325	108,472	38,147
53.044	2005-26	2,000	2,000		
53.044	2005-FC-4	850	850		
53.044	2005-26	-	10,550	12,675	2,125
53.051	GR-06-17731-00	-	6,667	6,667	-
53.778	GR-04-15472-02	102,677	102,677	-	-
53.778	GR-06-16957-00	-	287,243	344,830	57,587
		105,527	524,421	516,754	97,860
N/A	GR-06-17136-01	-	101,937	141,309	39,352
N/A	GR-04-15472-02	102,676	102,676		
N/A	GR-05-16957-00	-	287,243	344,830	57,587
N/A	GR-05-16239-00	28,381	28,381	-	-
N/A	GR-04-15463-00	-	86,509	108,000	21,491
		131,057	606,766	594,139	118,430
		\$ 236,584	\$ 1,311,187	\$ 1,110,893	\$ 216,290

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

+ represents major program



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***

The Board of Directors
Mental Health Association of Middle Tennessee

We have audited the financial statements of Mental Health Association of Middle Tennessee (a nonprofit organization) as of and for the year ended June 30, 2006, and have issued our report thereon dated August 23, 2006. 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 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 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 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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial

statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Frasier Dean + Howard PLLC

August 23, 2006



FRASIER, DEAN & HOWARD, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

The Board of Directors
Mental Health Association of Middle Tennessee

Compliance

We have audited the compliance of Mental Health Association of Middle Tennessee (a nonprofit organization) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2006. Mental Health Association of Middle Tennessee's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of Mental Health Association of Middle Tennessee's management. Our responsibility is to express an opinion on Mental Health Association of Middle Tennessee's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Mental Health Association of Middle Tennessee's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Mental Health Association of Middle Tennessee's compliance with those requirements.

In our opinion, Mental Health Association of Middle Tennessee complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Mental Health Association of Middle Tennessee is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Mental Health Association of Middle Tennessee's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance 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 noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

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

Frasier, Dean & Howard, PLLC

August 23, 2006

MENTAL HEALTH ASSOCIATION OF MIDDLE TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2006

I. SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? ___ Yes X No

Reportable condition(s) identified that are not
considered to be material weakness(es)?

___ Yes X None Reported

Noncompliance material to financial statements noted?

___ Yes X No

Federal Awards

Internal control over major program:

Material weakness(es) identified? ___ Yes X No

Reportable condition(s) identified that are not
considered to be material weakness(es)

___ Yes X None Reported

Type of auditor's report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported
in accordance with Section 501 (a) of Circular A-133?

___ Yes X No

Identification of major programs:

CFDA Number

93.778

Name of Federal Program or Cluster

Medical Assistance Program

(Medicaid; Title XIX)

Dollar threshold used to distinguish between
type A and type B program:

\$300,000

Auditee qualified as low-risk auditee?

___ Yes X No

MENTAL HEALTH ASSOCIATION OF MIDDLE TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Year ended June 30, 2006

**II. FINDINGS RELATING TO THE FINANCIAL STATEMENT AUDIT AS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY
ACCEPTED GOVERNMENT AUDITING STANDARDS**

A. Reportable Conditions in Internal Control

None.

B. Compliance Findings

None.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

MENTAL HEALTH ASSOCIATION OF MIDDLE TENNESSEE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year ended June 30, 2006

None.