

NASHVILLE CARES

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION

AND

REPORTS OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

JUNE 30, 2006

NASHVILLE CARES
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FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
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JUNE 30, 2006

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of Nashville CARES
Nashville, Tennessee

We have audited the accompanying statements of financial position of Nashville CARES (the "Agency"), a Tennessee not-for-profit corporation, as of June 30, 2006 and 2005, the related statements of activities and functional expenses for the year ended June 30, 2006, and the statements of cash flows for the years ended June 30, 2006 and 2005. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audits. The prior year summarized comparative information in the statements of activities and functional expenses have been derived from the Agency's June 30, 2005 financial statements and, in our report dated November 10, 2005, we expressed an unqualified opinion on those statements.

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 Nashville CARES as of June 30, 2006 and 2005, the changes in its net assets for the year ended June 30, 2006, and its cash flows for the years ended June 30, 2006 and 2005, 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 December 1, 2006, on our consideration of Nashville CARES' 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 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 audits.

Our audits were performed for the purpose of forming an opinion on the basic financial statements of Nashville CARES taken as a whole. The accompanying schedule of expenditures of federal awards, on pages 15 - 16, 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 the U.S. Department of Education, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits 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.

KraftCPAs PLLC

Nashville, Tennessee
December 1, 2006

NASHVILLE CARES
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 177,392	\$ 39,371
Accounts receivable	35,935	27,259
Grants receivable - Note 2	519,999	489,052
Contributions receivable - Note 3:		
Operating	208,243	202,394
Capital campaign	92,095	-
Contracts receivable	-	41,923
Prepaid expenses and other	62,807	30,870
Property and equipment - net - Note 4	1,481,662	1,534,565
Beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee - Note 8	<u>16,309</u>	<u>14,205</u>
TOTAL ASSETS	<u>\$ 2,594,442</u>	<u>\$ 2,379,639</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable	\$ 21,419	\$ 60,493
Checks issued in excess of deposits	-	140,959
Accrued payroll and compensated absences	44,656	38,561
Deferred revenue - Note 2	759	-
Note payable - Note 9	<u>1,293,127</u>	<u>1,329,933</u>
TOTAL LIABILITIES	<u>1,359,961</u>	<u>1,569,946</u>
COMMITMENTS - Note 9		
NET ASSETS		
Unrestricted:		
Undesignated	627,990	364,818
Designated for property and equipment, less related debt	188,535	204,632
Designated for beneficial interest in agency endowment fund - Note 8	<u>16,309</u>	<u>14,205</u>
Total unrestricted	832,834	583,655
Temporarily restricted - Note 7	<u>401,647</u>	<u>226,038</u>
TOTAL NET ASSETS	<u>1,234,481</u>	<u>809,693</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,594,442</u>	<u>\$ 2,379,639</u>

See accompanying notes to financial statements.

NASHVILLE CARES

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2006, WITH COMPARATIVE SUMMARIZED INFORMATION FOR 2005

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTALS</u>	<u>TOTALS</u>
			2006	2005
SUPPORT AND REVENUE				
Public Support:				
Individual gifts	\$ 158,602	\$ 311,372	\$ 469,974	\$ 272,610
United Way allocations	2,290	18,000	20,290	23,356
Special events	316,027	10,181	326,208	345,581
Government grants	6,828,032	-	6,828,032	4,244,737
Foundation and corporate grants	122,194	160,014	282,208	468,944
Contracted services	73,553	-	73,553	92,328
Investment income	7,855	-	7,855	624
Loss on disposal of property and equipment	-	-	-	(12,298)
Miscellaneous	77,898	-	77,898	66,733
Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee - Note 8	2,804	-	2,804	1,601
Net assets released resulting from satisfaction of donor restrictions	323,958	(323,958)	-	-
TOTAL SUPPORT AND REVENUE	<u>7,913,213</u>	<u>175,609</u>	<u>8,088,822</u>	<u>5,504,216</u>
EXPENSES				
Program Services:				
Case management services	1,170,277	-	1,170,277	1,227,109
Emotional and practical support services	452,137	-	452,137	449,142
Educational services	373,647	-	373,647	350,767
Volunteer services	62,916	-	62,916	62,250
Dental and insurance assistance	4,740,155	-	4,740,155	2,335,009
Supporting Services:				
Management and general	541,996	-	541,996	450,536
Fundraising	322,906	-	322,906	343,432
TOTAL EXPENSES	<u>7,664,034</u>	<u>-</u>	<u>7,664,034</u>	<u>5,218,245</u>
CHANGE IN NET ASSETS	249,179	175,609	424,788	285,971
NET ASSETS - BEGINNING OF YEAR	<u>583,655</u>	<u>226,038</u>	<u>809,693</u>	<u>523,722</u>
NET ASSETS - END OF YEAR	<u>\$ 832,834</u>	<u>\$ 401,647</u>	<u>\$ 1,234,481</u>	<u>\$ 809,693</u>

See accompanying notes to financial statements.

NASHVILLE CARES

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	\$ 424,788	\$ 285,971
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	75,767	59,864
Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee - Note 8	(2,804)	(1,601)
Loss on disposal of property and equipment	-	12,298
Restricted contributions for capital campaign	(203,034)	-
(Increase) decrease in:		
Accounts receivable	(8,676)	(9,357)
Grant receivable	(30,947)	(205,233)
Contributions receivable - other	(5,849)	17,761
Contracts receivable	41,923	(41,923)
Prepaid expenses and other	(31,937)	(6,629)
Increase (decrease) in:		
Accounts payable	(39,074)	51,237
Checks issued in excess of deposits	(140,959)	140,959
Accrued payroll and compensated absences	6,095	(76,329)
Deferred revenue	759	-
NET ADJUSTMENTS	<u>(338,736)</u>	<u>(58,953)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>86,052</u>	<u>227,018</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(22,864)	(1,517,994)
Distributions from agency endowment fund	700	684
NET CASH USED IN INVESTING ACTIVITIES	<u>(22,164)</u>	<u>(1,517,310)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from note payable	-	1,350,000
Payments on note payable	(36,806)	(20,067)
Payment on line of credit	-	(50,000)
Capital campaign contributions collected	110,939	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>74,133</u>	<u>1,279,933</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	138,021	(10,359)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>39,371</u>	<u>49,730</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 177,392</u>	<u>\$ 39,371</u>
OTHER CASH FLOW DISCLOSURES		
Interest paid during the year	<u>\$ 80,287</u>	<u>\$ 62,847</u>

See accompanying notes to financial statements.

NASHVILLE CARES

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2006, WITH COMPARATIVE SUMMARIZED INFORMATION FOR 2005

	PROGRAM SERVICES					SUPPORTING SERVICES		TOTALS
	CASE MANAGEMENT SERVICES	EMOTIONAL AND PRACTICAL SUPPORT SERVICES	EDUCATIONAL SERVICES	VOLUNTEER SERVICES	DENTAL AND INSURANCE ASSISTANCE	MANAGEMENT AND GENERAL FUNDRAISING		
						GENERAL	FUNDRAISING	
Salaries	\$ 583,813	\$ 227,398	\$ 198,209	\$ 38,762	\$ 191,945	\$ 230,017	\$ 165,339	\$ 1,635,483
Employee taxes and fringe benefits	116,179	53,231	48,096	7,972	45,949	42,481	35,872	349,780
TOTAL PAYROLL AND RELATED EXPENSES	699,992	280,629	246,305	46,734	237,894	272,498	201,211	1,985,263
Client assistance	368,812	138,785	49,769	-	4,466,233	-	-	5,023,599
Advertising	-	-	-	947	-	2,394	-	3,341
Audit	-	-	-	-	-	14,375	-	12,820
Bank fees	-	-	-	-	1,234	12,051	-	13,285
Conferences and training	196	286	8,375	35	3,150	5,605	-	17,647
Contracts	-	-	-	-	-	-	-	7,321
Equipment rental and maintenance	-	-	-	-	-	5,371	-	5,371
Insurance	-	-	-	-	2,771	12,095	-	14,866
Licensure/permits	-	1,410	-	-	-	1,946	300	3,656
Memberships	-	780	120	15	-	11,205	135	12,255
Occupancy	36,192	18,751	12,572	3,871	11,996	56,937	8,535	148,854
Participation fees	-	-	485	200	-	1,316	80	2,081
Postage	2,520	340	1,528	284	5,101	1,323	6,791	17,887
Printing	4,821	774	8,178	2,224	974	9,308	23,372	49,651
Professional fees	-	-	1,737	8,062	4,000	18,915	3,824	36,538
Space rental	-	-	2,600	-	-	-	2,148	4,748
Special event production	-	-	-	-	-	-	68,554	74,148
Supplies	1,976	3,813	26,692	92	5,005	23,580	5,627	66,785
Telephone	11,560	3,354	4,779	452	1,797	7,896	1,779	31,617
Travel/mileage	44,208	3,215	10,507	-	-	2,619	550	61,099
Miscellaneous	-	-	-	-	-	6,795	-	6,795
TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION	1,170,277	452,137	373,647	62,916	4,740,155	466,229	322,906	7,588,267
Depreciation on furniture and equipment	-	-	-	-	-	75,767	-	75,767
TOTAL FUNCTIONAL EXPENSES	\$ 1,170,277	\$ 452,137	\$ 373,647	\$ 62,916	\$ 4,740,155	\$ 541,996	\$ 322,906	\$ 7,664,034
								\$ 5,218,245

See accompanying notes to financial statements.

NASHVILLE CARES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Nashville CARES (the "Agency") was founded in 1985 as a Tennessee not-for-profit corporation. The Agency serves northern Middle Tennessee by providing practical, financial, material and emotional support services to persons living with AIDS or HIV infection and to those persons' families and loved ones. The Agency educates and informs the general public by providing the most current medical and scientific information about AIDS/HIV infection and risk reduction practices. Funding for the Agency's services is provided principally by grants from the U.S. Department of Housing and Urban Development ("HUD"), the Metropolitan Development and Housing Agency, the Tennessee Department of Health ("TDH"), United Way of Metropolitan Nashville, the United Way of the MidSouth, designated donations through United Way of Metropolitan Nashville from other United Way agencies, and from individual, foundation and corporate donors.

Cash equivalents

Cash equivalents include demand deposits with banks, money market funds and time deposits with original maturities when purchased of three months or less.

Property and equipment

Property and equipment are stated at acquisition cost, or at estimated fair value at date of gift if donated, less accumulated depreciation. Depreciation is computed on the straight-line method over an estimated useful life of five years.

Agency endowment fund

The Agency's beneficial interest in an agency endowment fund held by the Community Foundation of Middle Tennessee is recognized as an asset. Investment income and changes in the value of the fund are recognized in the statement of activity, and distributions received from the fund are recorded as decreases in the beneficial interest. (See Note 8.)

Compensated absences

Compensated absences are accrued for vacation days earned by employees that will be paid in the future. Current policy is to allow employees to carry over a maximum of ten days.

NASHVILLE CARES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and support

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

The Agency's practice is to report revenue and support whose restrictions are met in the same reporting period as unrestricted revenue. All other donor-restricted support is reported as an increase in temporarily 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 and reported in the Statement of Activities as net assets released from restrictions.

Grant revenue is recognized in the period a liability is incurred for eligible expenditures under the terms of the grant. Grant funds received prior to expenditure are recorded initially as deferred revenue.

The Agency reports any gifts of equipment or materials as unrestricted support absent any explicit donor restrictions as to how the assets must be used. Gifts of long-lived assets, and/or support that is restricted to the acquisition of long-lived assets, are reported as restricted support. Expirations of donor restrictions are recognized when the donated or acquired long-lived assets are placed in service.

Promises to give

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on those amounts is computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is recognized on the interest method over the term of the gift and included in contribution revenue. Conditional promises to give are not included as support until such time as the contributions are substantially met.

Income taxes

The Agency qualifies as a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, income taxes are not provided.

Donated services

The Agency's policy is not to record support and expenses for contributed services where no objective basis is available to measure the value of such services.

NASHVILLE CARES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and supporting services

The following functional expense allocations are included in the accompanying financial statements:

Program services

Case management services - social services to meet financial and material needs of HIV-infected individuals and their families living in 17 counties of northern Middle Tennessee.

Emotional and practical support services - social services to meet emotional, therapeutic, nutritional, and practical support needs of HIV-infected individuals and their families living in 17 counties of northern Middle Tennessee.

Educational services - provision of HIV/AIDS prevention education and awareness to various populations and target groups throughout 17 counties of northern Middle Tennessee.

Volunteer services - recruitment, training and placement of volunteers within the various departments of the Agency. There are currently more than 300 volunteers that work in all areas of the Agency.

Dental and insurance assistance - financial assistance for the payment of dental care and/or medical insurance premiums and/or medical and prescription deductibles and co-payments of persons with HIV/AIDS throughout a 39 county area in Middle Tennessee and Upper Cumberland and a 3 county area in Southwest Tennessee.

Supporting services

Management and general - includes the functions necessary to ensure an adequate working environment, Board operations, and community planning and networking activities.

Fundraising - includes costs of activities directed toward appeals for financial support, including special events. Other activities include the cost of solicitations and creation and distribution of fundraising materials.

Allocation of functional expenses

Expenses that can be directly attributed to a particular function are charged to that function. Certain costs have been allocated among more than one program or activity based on objectively evaluated financial and nonfinancial data or reasonable subjective methods determined by management.

Use of estimates in the preparation of financial statements

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NASHVILLE CARES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006

NOTE 2 - GRANTS RECEIVABLE AND DEFERRED REVENUE

Grants receivable consist of the following as of June 30:

	<u>2006</u>	<u>2005</u>
HUD - Housing Opportunities for People with AIDS (HOPWA)	\$ 117,706	\$ 136,445
HUD - Supportive Housing Program	381	5,749
CDC - HIV Prevention Education	16,512	19,149
Ryan White CARE Act Title IV	16,101	17,724
Ryan White CARE Act Title II Care - Medical Care Management	9,614	14,253
Ryan White CARE Act Title II Care - Dental Assistance - Middle Tennessee	21,213	20,701
Ryan White CARE Act Title II Emerging Communities	48,583	41,993
Ryan White CARE Act Title II Emerging Communities Dental Assistance - Middle Tennessee	8,563	15,051
Ryan White CARE Act Title II - Insurance Assistance - Middle Tennessee	117,982	93,069
Ryan White CARE Act Title II Care	18,288	24,566
Ryan White CARE Act Title II Emerging Communities Dental Assistance - Southwest Tennessee	11,795	23,152
Ryan White CARE Act Title II Care - Dental Assistance - Southwest Tennessee	10,386	24,773
Ryan White CARE Act Title II - Insurance Assistance - Southwest Tennessee	120,724	51,400
Emergency Management Food and Shelter Program (formerly FEMA)	<u>2,151</u>	<u>1,027</u>
	<u>\$ 519,999</u>	<u>\$ 489,052</u>

Deferred revenue consists of the following as of June 30:

	<u>2006</u>	<u>2005</u>
Emergency Management Food and Shelter Program (formerly FEMA)	<u>\$ 759</u>	<u>\$ -</u>

NASHVILLE CARES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006

NOTE 3 - CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following as of June 30:

	<u>2006</u>	<u>2005</u>
Temporarily restricted:		
Less than one year	\$ 276,115	\$ -
One to five years	<u>24,223</u>	<u>-</u>
Total	<u>\$ 300,338</u>	<u>\$ -</u>

Pledges receivable are classified as follows at June 30:

Operating	\$ 208,243	\$ -
20th Anniversary campaign	<u>92,095</u>	<u>-</u>
	<u>\$ 300,338</u>	<u>\$ -</u>

The Agency began a 20th Anniversary capital campaign to raise funds for operations and to pay down the debt owed on the building. The goal of the campaign is to raise \$1,000,000 by June 2007. Pledges from board members amounted to approximately \$27,000 at June 30, 2006.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30:

	<u>2006</u>	<u>2005</u>
Land	\$ 257,850	\$ 257,850
Building	1,092,150	1,092,150
Building improvements	94,779	87,609
Vehicles	4,125	4,125
Software	58,259	37,170
Furniture and equipment	<u>198,478</u>	<u>203,873</u>
	1,705,641	1,682,777
Less accumulated depreciation	<u>(223,979)</u>	<u>(148,212)</u>
	<u>1,481,662</u>	<u>1,534,565</u>

Fully depreciated assets at June 30, 2006 amounted to approximately \$69,000 (\$53,600 at June 30, 2005).

NASHVILLE CARES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006

NOTE 5 - EMPLOYEE BENEFIT PLAN

The Agency sponsors a Section 403(b) retirement plan. Under the plan, the Agency has the discretion to vary the rate of the Employer match on an annual basis up to a maximum of 3% of each eligible employee's compensation. Employees are eligible to participate in the plan after two years of service. Total employer contributions to the plan were \$11,801 in 2006 (\$-0- in 2005).

NOTE 6 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Agency to concentrations of credit risk consist of cash and cash equivalents, various federal grants, accounts and United Way receivables. Contributions receivable consist of individual and corporate contribution pledges which are widely dispersed to mitigate credit risk. Grant and United Way receivables represent concentrations of credit risk to the extent they are receivable from concentrated sources. The Agency maintains its cash balances in bank deposit accounts which, at times, may exceed federally insured limits. Accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$100,000. In management's opinion, the risk is mitigated by the use of high quality financial institutions.

NASHVILLE CARES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at June 30:

	<u>2006</u>	<u>2005</u>
United Way of Metropolitan Nashville:		
Designations	\$ 49,638	\$ 34,909
Outcome-based funding grants:		
CARE-A-Van Cuisine Home Meals Delivery program	17,490	16,852
Alcohol and Drug Abuse Treatment program	37,334	35,289
HEARTline program	17,248	16,953
CARE Team program	20,632	20,632
Mental Health Services	25,328	25,328
Case Management Services	16,482	15,045
United Way of Williamson County	8,000	8,000
United Way of Wilson County	-	511
United Way of Sumner County	6,000	7,000
United Way of Robertson County	4,000	4,000
Altria - donation for nutritional programs	10,000	10,000
Donation for special event for the following year	10,181	7,000
HCA Foundation - donations for operational support	10,000	10,000
Children Affected by AIDS Foundation	5,500	
Building Fund - paydown of building debt	71,719	13,019
U.S. Smokeless Tobacco Manufacturing Partnership - donations		
for following year's operational support	-	1,500
20th anniversary campaign fund	<u>92,095</u>	<u>-</u>
	<u>\$ 401,647</u>	<u>\$ 226,038</u>

NASHVILLE CARES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006

NOTE 8 - AGENCY ENDOWMENT FUND

The Agency has a beneficial interest in the Nashville CARES Endowment Fund, an agency endowment fund held by the Community Foundation of Middle Tennessee (the "Community Foundation"). The Agency has granted variance power to the Community Foundation, and the Community Foundation has the ultimate authority and control over the Fund and the income derived therefrom. The fund is charged a .4% administrative fee annually. Upon request by the Agency, income from the Fund representing a 5% annual return may be distributed to the Agency or to another suggested beneficiary.

A schedule of changes in the Agency's beneficial interest in this fund for the years ended June 30, 2006 and 2005, follows:

	<u>2006</u>	<u>2005</u>
Balance - beginning of year	\$ 14,205	\$ 13,288
Change in value of beneficial interest in agency endowment fund:		
Contributions to the fund	1,400	500
Investment income (loss)	1,505	1,193
Administrative expenses	<u>(101)</u>	<u>(92)</u>
	2,804	1,601
Distributions to the Agency	<u>(700)</u>	<u>(684)</u>
Balance - end of year	<u>\$ 16,309</u>	<u>\$ 14,205</u>

NASHVILLE CARES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006

NOTE 9 - DEBT OBLIGATIONS

On September 30, 2004, the Agency entered into a \$1,350,000 Loan Agreement with Beacon Federal Bank. The note is secured by a deed of trust on the Agency's real estate and is payable in bi-weekly installments of \$4,503. The note accrues interest at the rate of 6.05% per annum through December 1, 2009. On December 1, 2009, the rate will be readjusted to the then prevailing Federal Home Loan Bank of New York five-year rate plus 2% per annum and readjusted thereafter at each five-year interval.

A schedule of future principal maturities on the loan as of June 30, 2006, follows:

Year ending June 30,

2007	\$	39,128
2008		41,593
2009		44,214
2010		47,000
2011		49,961
Thereafter		<u>1,071,231</u>
	\$	<u>1,293,127</u>

The loan agreement, as amended, also provides for a \$500,000 unsecured line of credit. Borrowings under the line bear interest at a rate equal to The Wall Street Journal Prime Rate. The line of credit matures December 2007. The outstanding balance at June 30, 2006 was \$-0-.

Total interest expense incurred by the Agency was \$80,287 in 2006, and \$62,547 in 2005 and is included in occupancy expense.

ADDITIONAL INFORMATION

NASHVILLE CARES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2006

Program Name	Federal CFDA Number	Contract Number	Award Period	Award Amount	(Accrued) Deferred Revenue 7/1/2005	Receipts	Expenditures	(Accrued) Deferred Revenue 6/30/2006
<u>DEPARTMENT OF HOMELAND SECURITY</u>								
Emergency Management Food and Shelter Program	97.024	N/A	11-1-04 - 10-31-05	\$ 4,619	(1,027)	1,027	-	-
Emergency Management Food and Shelter Program	97.024	N/A	11-1-05 - 10-31-06	\$ 9,200	-	5,882	8,033	(2,151)
Emergency Management Food and Shelter Program	97.024	N/A	11-1-05 - 10-31-06	\$ 2,980	-	1,491	732	759
TOTAL CFDA 97.024					(1,027)	8,400	8,765	(1,392)
<u>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u>								
Supportive Housing Program - Transportation Assistance	14.235	TN37B904004	07-01-04 - 06-30-06	\$ 15,410	(418)	4,930	4,893	(381)
Supportive Housing Program - Outpatient Substance Abuse Treatment	14.235	TN37B904003	07-01-04 - 06-30-06	\$ 159,084	(5,331)	57,392	52,061	-
TOTAL CFDA 14.235					(5,749)	62,322	56,954	(381)
<u>PASSED THROUGH TENNESSEE DEPARTMENT OF HEALTH:</u>								
Housing Opportunities for Persons with AIDS	14.241*	GR-05-16113-00	07-01-04 - 06-30-06	\$ 35,200	(13,472)	36,401	35,200	(12,271)
<u>PASSED THROUGH METROPOLITAN DEVELOPMENT AND HOUSING AGENCY:</u>								
Housing Opportunities for Persons with AIDS	14.241*	N/A	04-01-04 - 03-31-05	\$ 451,083	(24,128)	32,226	8,098	-
Housing Opportunities for Persons with AIDS	14.241*	N/A	04-01-05 - 03-31-06	\$ 496,200	(98,845)	496,200	397,355	-
Housing Opportunities for Persons with AIDS	14.241*	N/A	04-01-06 - 03-31-07	\$ 487,266	-	10,391	115,826	(105,435)
TOTAL CFDA 14.241					(136,445)	575,218	556,479	(117,706)
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</u>								
<u>PASSED THROUGH TENNESSEE DEPARTMENT OF HEALTH:</u>								
<u>PASSED THROUGH THE MIDDLE TENNESSEE REGIONAL ADVISORY COMMITTEE IN COLLABORATION WITH THE UNITED WAY OF METROPOLITAN NASHVILLE:</u>								
Minority Initiatives	93.944	N/A	01-01-05 - 12-31-05	\$ 16,356	(1,223)	13,415	12,192	-
Minority Initiatives	93.944	N/A	01-01-06 - 12-31-06	\$ 18,000	-	6,873	8,207	(1,334)
HIV/AIDS Prevention and Education	93.944	N/A	01-01-05 - 12-31-05	\$ 173,800	(17,926)	123,280	105,354	-
HIV/AIDS Prevention and Education	93.944	N/A	01-01-06 - 12-31-06	\$ 184,110	-	62,216	77,394	(15,178)
TOTAL CFDA 93.944					(19,149)	205,784	203,147	(16,512)
Ryan White CARE Act - Medical Care Management	93.917*	GR-04-16038-00	04-01-05 - 03-31-06	\$ 100,000	(14,253)	76,281	62,028	-
Ryan White CARE Act - Medical Care Management	93.917*	GR-05-16833-00	04-01-06 - 03-31-07	\$ 100,000	-	11,400	21,014	(9,614)
<u>PASSED THROUGH THE UNITED WAY OF METROPOLITAN NASHVILLE:</u>								
Ryan White CARE Act - Dental Assistance	93.917*	N/A	04-01-05 - 03-31-06	\$ 331,662	(20,701)	305,252	284,551	-
Ryan White CARE Act - Dental Assistance	93.917*	N/A	04-01-06 - 03-31-07	\$ 300,387	-	20,697	41,910	(21,213)

(continued on following page)

NASHVILLE CARES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2006

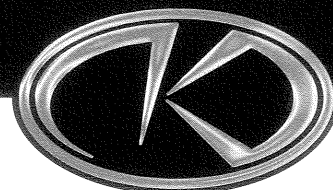
Program Name	Federal CFDA Number	Contract Number	Award Period	Award Amount	(Accrued) Deferred Revenue 7/1/2005	Receipts	Expenditures	(Accrued) Deferred Revenue 6/30/2006
PASSED THROUGH THE UNITED WAY OF METROPOLITAN NASHVILLE (CONTINUED):								
Ryan White CARE Act - Emerging Communities Dental Assistance	93.917*	N/A	04-01-05 - 03-31-06	\$ 158,257	(15,051)	117,382	102,331	-
Ryan White CARE Act - Emerging Communities Dental Assistance	93.917*	N/A	04-01-06 - 03-31-07	\$ 191,501	-	5,231	13,794	(8,563)
Ryan White CARE Act - Insurance Assistance	93.917*	N/A	04-01-05 - 03-31-06	\$ 3,179,090	(93,069)	3,101,259	3,008,190	-
Ryan White CARE Act - Insurance Assistance	93.917*	N/A	04-01-06 - 03-31-07	\$ 3,896,535	-	186,244	304,226	(117,982)
Ryan White CARE Act - Title II	93.917*	N/A	04-01-05 - 03-31-06	\$ 219,862	(24,566)	188,540	163,974	-
Ryan White CARE Act - Title II	93.917*	N/A	04-01-06 - 03-31-07	\$ 179,362	-	29,148	47,436	(18,288)
Ryan White CARE Act - Emerging Communities	93.917*	N/A	04-01-05 - 03-31-06	\$ 426,992	(41,993)	361,527	319,534	-
Ryan White CARE Act - Emerging Communities	93.917*	N/A	04-01-06 - 03-31-07	\$ 481,741	-	74,677	123,260	(48,583)
PASSED THROUGH THE UNITED WAY OF MIDSOUTH:								
Ryan White CARE Act - Dental Assistance	93.917*	N/A	04-01-05 - 03-31-06	\$ 143,575	(24,773)	91,796	67,023	-
Ryan White CARE Act - Dental Assistance	93.917*	N/A	04-01-06 - 03-31-07	\$ 144,575	-	10,962	21,348	(10,386)
Ryan White CARE Act - Emerging Communities Dental Assistance	93.917*	N/A	04-01-05 - 03-31-06	\$ 110,000	(23,152)	103,396	82,244	-
Ryan White CARE Act - Emerging Communities Dental Assistance	93.917*	N/A	04-01-06 - 03-31-07	\$ 137,795	-	9,292	21,087	(11,795)
Ryan White CARE Act - Insurance Assistance	93.917*	N/A	04-01-05 - 03-31-06	\$ 1,010,000	(51,400)	863,823	812,423	-
Ryan White CARE Act - Insurance Assistance	93.917*	N/A	04-01-06 - 03-31-07	\$ 1,469,000	-	292,581	413,305	(120,724)
TOTAL CFDA 93.917					(308,958)	5,851,488	5,909,678	(367,148)
PASSED THROUGH THE COMPREHENSIVE CARE CENTER:								
Ryan White Community AIDS Partnership - Title IV	93.153	1 H12 HA 23001-03	08-01-04 - 07-31-05	\$ 94,273	(17,724)	26,063	8,339	-
Ryan White Community AIDS Partnership - Title IV	93.153	1 H12 HA 23001-05	08-01-05 - 07-31-06	\$ 94,273	-	68,569	84,670	(16,101)
TOTAL CFDA 93.153					(17,724)	94,632	93,009	(16,101)
TOTAL OF EXPENDITURES OF FEDERAL AWARDS					\$ (489,052)	\$ 6,797,844	\$ 6,828,032	\$ (519,240)

*Considered a major program under OMB Circular A-133.

BASIS OF PRESENTATION

This schedule includes the federal grant activity of Nashville CARES, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non Profit Organizations*.

OTHER REPORTS



KraftCPAs
PLLC

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
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*

To The Board of Directors of Nashville CARES
Nashville, Tennessee

We have audited the financial statements of Nashville CARES, a Tennessee not-for-profit corporation, as of and for the years ended June 30, 2006 and 2005, and have issued our report thereon dated December 1, 2006. 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.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered Nashville CARES' 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 over financial reporting 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 Nashville CARES' 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 audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

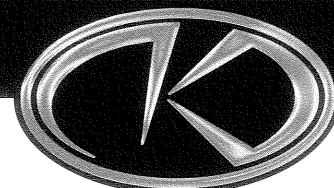
We noted certain matters that we reported to management of Nashville CARES in a separate letter dated December 1, 2006.

This report is intended solely for the information and use of the Board of Directors, management and federal awarding agencies and the State of Tennessee and is not intended to be and should not be used by anyone other than these specified parties.

KraftCPAs PLLC

Nashville, Tennessee
December 1, 2006

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PLLC

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors of Nashville CARES
Nashville, Tennessee

Compliance

We have audited the compliance of Nashville CARES 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 years ended June 30, 2006 and 2005. Nashville CARES' major federal programs are identified in the Summary of Auditors' 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 Nashville CARES' management. Our responsibility is to express an opinion on Nashville CARES' compliance based on our audits.

We conducted our audits 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 Nashville CARES' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinion. Our audits do not provide a legal determination on Nashville CARES' compliance with those requirements.

In our opinion, Nashville CARES complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the years ended June 30, 2006 and 2005.

Internal Control Over Compliance

The management of Nashville CARES 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 audits, we considered Nashville CARES' 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 and use of the Board of Directors, management and federal awarding agencies and the State of Tennessee and is not intended to be and should not be used by anyone other than these specified parties.

Y. Gray CPAS PLLC

Nashville, Tennessee
December 1, 2006

NASHVILLE CARES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2006

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' 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 weaknesses? _____ yes x none reported

Noncompliance material to financial statements noted?

_____ yes x no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes x no
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ yes x none reported

Type of auditors' report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

_____ yes x no

Identification of major programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
93.917	Ryan White CARE Act Program
14.241	Housing Opportunities for Persons with AIDS

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

\$300,000

Auditee qualified as low-risk auditee?

 x yes _____ no

NASHVILLE CARES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2006

Section II - Financial Statement Findings

PRIOR YEAR REPORTABLE CONDITIONS

None reported in prior year.

CURRENT YEAR REPORTABLE CONDITIONS

None reported in current year.

NASHVILLE CARES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2006

Section III - Federal Award Findings and Questioned Costs

PRIOR YEAR

None reported in prior year.

CURRENT YEAR

None reported in current year.