

**MENTAL HEALTH ASSOCIATION
OF MIDDLE TENNESSEE**

FINANCIAL STATEMENTS

June 30, 2005 and 2004

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, 2005 and 2004, 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, 2005 and 2004, 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 19, 2005, 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 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 19, 2005

MENTAL HEALTH ASSOCIATION OF MIDDLE TENNESSEE
STATEMENTS OF FINANCIAL POSITION
June 30, 2005 and 2004

Assets	2005	2004
Current assets:		
Cash and cash equivalents	\$ 85,549	\$ 70,486
Receivable from grantor agencies (note 2)	236,584	198,606
Other receivables, net	22,875	15,388
Unconditional promises to give, net (note 4)	43,289	68,267
Prepaid expenses and deposits	27,686	29,748
Investments (note 5)	141,724	177,156
Inventory	8,920	-
Total current assets	<u>566,627</u>	<u>559,651</u>
Other, net	<u>9,117</u>	<u>13,687</u>
Equipment, furniture and improvements	349,151	309,696
Less: accumulated depreciation	<u>(238,763)</u>	<u>(202,580)</u>
Net equipment, furniture and improvements	<u>110,388</u>	<u>107,116</u>
Total assets	<u><u>\$ 686,132</u></u>	<u><u>\$ 680,454</u></u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 41,268	\$ 31,022
Accrued expenses	45,504	41,143
Deferred revenue (note 6)	<u>20,700</u>	<u>13,440</u>
Total current liabilities	<u>107,472</u>	<u>85,605</u>
Deferred revenue (note 6)	<u>52,675</u>	<u>40,280</u>
Total liabilities	<u>160,147</u>	<u>125,885</u>
Net assets: (note 7)		
Designated for future periods	-	48,192
Other unrestricted	<u>434,330</u>	<u>438,110</u>
Unrestricted	434,330	486,302
Temporarily restricted	<u>91,655</u>	<u>68,267</u>
Total net assets	<u>525,985</u>	<u>554,569</u>
Total liabilities and net assets	<u><u>\$ 686,132</u></u>	<u><u>\$ 680,454</u></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 6)	33,067	-	33,067
In-kind contributions (note 3)	118,203	-	118,203
Management fees and other	31,234	-	31,234
Membership dues	8,120	-	8,120
Investment income, net (note 5)	6,831	-	6,831
Net assets released from restrictions	68,267	(68,267)	-
	<u>1,518,279</u>	<u>23,388</u>	<u>1,541,667</u>
Total revenue and other support			
	<u>1,518,279</u>	<u>23,388</u>	<u>1,541,667</u>
Expenses:			
Program services:			
Advocacy services	708,784	-	708,784
Educational services	259,603	-	259,603
Aging services	90,920	-	90,920
Consumer/family issues services	108,191	-	108,191
	<u>1,167,498</u>	<u>-</u>	<u>1,167,498</u>
Total program services			
	<u>1,167,498</u>	<u>-</u>	<u>1,167,498</u>
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			
	<u>402,753</u>	<u>-</u>	<u>402,753</u>
Total expenses			
	<u>1,570,251</u>	<u>-</u>	<u>1,570,251</u>
Change in net assets	(51,972)	23,388	(28,584)
Net assets, beginning of year	486,302	68,267	554,569
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 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
Massey fundraising dinner	142,611	-	142,611
Jammin' to Beat the Blues fundraiser	150,323	-	150,323
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	23,282	-	23,282
I. C. Hope revenues (note 6)	18,463	-	18,463
Management fees and other	31,082	-	31,082
Investment income, 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			
	<u>1,451,677</u>	<u>60,753</u>	<u>1,512,430</u>
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			
	<u>1,008,983</u>	<u>-</u>	<u>1,008,983</u>
Support services:			
Management and general	96,962	-	96,962
Fundraising, including in-kind of \$52,628	295,534	-	295,534
	<u>392,496</u>	<u>-</u>	<u>392,496</u>
Total support services			
	<u>392,496</u>	<u>-</u>	<u>392,496</u>
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	436,104	7,514	443,618
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 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	Total All Services
Salaries	\$ 344,487	\$ 105,670	\$ 58,498	\$ 65,210	\$ 573,865	\$ 55,225	\$ 75,215	\$ 130,440	\$ 704,305
In-kind expense (note 3)	-	-	-	-	-	-	118,203	118,203	118,203
Employee benefits	59,430	15,773	7,686	9,258	92,147	9,869	9,013	18,882	111,029
Professional fees	77,589	5,324	985	1,296	85,194	6,051	1,647	7,698	92,892
Rent	34,589	10,800	5,382	7,295	58,066	5,814	8,093	13,907	71,973
Payroll taxes	27,482	8,040	4,796	5,440	45,758	4,838	5,944	10,782	56,540
Depreciation and amortization	20,376	20,144	974	1,938	43,432	2,695	4,348	7,043	50,475
Fundraising expense - events	-	-	-	-	-	-	43,760	43,760	43,760
Consulting and contracts	6,591	26,262	2,710	1,848	37,411	1,999	2,208	4,207	41,618
Telephone	28,575	3,015	1,085	1,310	33,985	2,198	1,423	3,621	37,606
Advocacy Summit	35,356	-	-	-	35,356	-	-	-	35,356
Supplies	21,132	3,211	834	1,489	26,666	1,394	1,527	2,921	29,587
Equipment rental and maintenance	17,620	2,256	1,322	1,724	22,922	1,327	3,435	4,762	27,684
Printing and publications	7,110	9,338	1,321	960	18,729	573	3,593	4,166	22,895
Conferences and meetings	5,410	1,587	274	1,184	8,455	8,325	3,188	11,513	19,968
Advertisement	3,495	10,710	997	1,630	16,832	427	1,783	2,210	19,042
Travel	5,926	6,968	1,083	2,855	16,832	1,984	180	2,164	18,996
Support to NMHA	6,456	1,763	1,340	2,451	12,010	2,046	2,856	4,902	16,912
Management fees	-	14,394	-	-	14,394	-	-	-	14,394
Postage	2,054	1,808	663	696	5,221	802	3,836	4,638	9,859
Cost of goods sold	-	9,837	-	-	9,837	-	-	-	9,837
Insurance	4,316	1,228	626	893	7,063	656	913	1,569	8,632
Dues and memberships	725	632	282	391	2,030	929	451	1,380	3,410
Miscellaneous	12	38	40	198	288	1,062	561	1,623	1,911
Awards and gifts	-	92	12	107	211	417	965	1,382	1,593
Loss on retirement of asset	-	630	-	-	630	263	438	701	1,331
Subscriptions	13	3	2	3	21	187	63	250	271
Volunteer Recognition	-	69	-	11	80	-	11	11	91
Copier usage	40	11	8	4	63	8	10	18	81
	\$ 708,784	\$ 259,603	\$ 90,920	\$ 108,191	\$ 1,167,498	\$ 109,089	\$ 293,664	\$ 402,753	\$ 1,570,251

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

See accompanying notes.

MENTAL HEALTH ASSOCIATION OF MIDDLE TENNESSEE
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Change in net assets	\$ (28,584)	\$ 110,951
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	50,475	49,212
Realized and unrealized (gain) loss on investments	(2,099)	535
Noncash contribution	(7,807)	-
Loss on retirement of fixed assets	1,331	1,166
Changes in current assets and liabilities:		
Receivable from grantor agencies	(37,978)	(45,982)
Other receivables	(7,487)	(15,388)
Unconditional promises to give	24,978	(60,753)
Prepaid expenses and deposits	2,062	(9,942)
Other assets	(4,350)	(13,687)
Accounts payable	10,246	20,693
Accrued expenses	4,361	(2,574)
Deferred revenue	19,655	21,754
Net cash provided by operating activities	<u>24,803</u>	<u>55,985</u>
Cash flows from investing activities:		
Purchase of fixed assets	(47,271)	(45,940)
Proceeds from sale of investments	37,531	221,168
Purchases of investments	-	(235,338)
Net cash used in investing activities	<u>(9,740)</u>	<u>(60,110)</u>
Change in cash and cash equivalents	15,063	(4,125)
Cash and cash equivalents, beginning of year	<u>70,486</u>	<u>74,611</u>
Cash and cash equivalents, end of year	<u><u>\$ 85,549</u></u>	<u><u>\$ 70,486</u></u>
Supplemental disclosure of non-cash investing and financing activities:		
Contribution of fixed assets	\$ 7,807	\$ -

See accompanying notes.

MENTAL HEALTH ASSOCIATION OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

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, 2005 or 2004.

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, 2005 and 2004

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, 2005 and 2004 were \$118,203 and \$52,628, respectively.

Advertising

Advertising costs are charged to expense as incurred. Advertising expense totaled \$19,042 and \$15,597 for the years ended June 30, 2005 and 2004.

MENTAL HEALTH ASSOCIATION OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2005 and 2004

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. The licensing agreements are for five-year periods expiring at various times through 2010. Proceeds received for the licensing agreements are being amortized over the five-year period of the agreements.

Reclassifications

Certain reclassifications have been made to the 2004 balances to conform to the 2005 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 In-Home Education 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, 2005 and 2004

NOTE 2 – GRANTS RECEIVABLE (Continued)

Funds received in 2004 from the Tennessee Commission on Aging and Disability were 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>2005</u>	<u>2004</u>
State of Tennessee – TPAL	\$ 205,353	\$ 150,114
State of Tennessee – ETS	28,381	34,816
Greater Nashville Regional Council – In-Home Educational program	2,850	1,550
State of Tennessee – Commission on Aging & Disability	<u>-</u>	<u>12,126</u>
	<u>\$ 236,584</u>	<u>\$ 198,606</u>

NOTE 3 – IN-KIND CONTRIBUTIONS

In-kind contributions consist of the following:

	<u>2005</u>	<u>2004</u>
Donated auction items and other	\$ 100,756	\$ 31,107
Advertising and marketing contributions	<u>17,447</u>	<u>21,521</u>
In-kind contributions	<u>\$ 118,203</u>	<u>\$ 52,628</u>

NOTE 4 – UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give consist of the following:

	<u>2005</u>	<u>2004</u>
United Way grants and designations, receivables less than one year	\$ 33,289	\$ 48,667
Other contributions receivable	<u>10,000</u>	<u>19,600</u>
	<u>\$ 43,289</u>	<u>\$ 68,267</u>

NOTE 5 – INVESTMENTS

Investments as of June 30, 2005 and 2004 are held in certificates of deposit that mature at various dates prior to 2008.

MENTAL HEALTH ASSOCIATION OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2005 and 2004

NOTE 5 – INVESTMENTS (Continued)

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

	<u>2005</u>	<u>2004</u>
Interest and dividends	\$ 4,732	\$ 4,740
Realized and unrealized gains and losses, net	<u>2,099</u>	<u>(535)</u>
	<u>\$ 6,831</u>	<u>\$ 4,205</u>

NOTE 6 – 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 \$33,067 and \$18,463 for the years ended June 30, 2005 and 2004, respectively. Deferred revenue under these license agreements amounted to \$73,375 and \$53,720 at June 30, 2005 and 2004, respectively.

NOTE 7 – RESTRICTIONS ON NET ASSETS

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

	<u>2005</u>	<u>2004</u>
Fundraising dinner proceeds designated for future periods	<u>\$ -</u>	<u>\$ 48,192</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>

MENTAL HEALTH ASSOCIATION OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2005 and 2004

NOTE 7 – RESTRICTIONS ON NET ASSETS (Continued)

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

	<u>2005</u>	<u>2004</u>
United Way grants and designations	\$ 33,289	\$ 48,667
Other contributions receivable	10,000	19,600
Time restricted contributions for aging services	39,847	-
Advocacy Summit expenses in 2006	<u>8,519</u>	<u>-</u>
	<u>\$ 91,655</u>	<u>\$ 68,267</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, 2005 and 2004 was \$71,973 and \$67,587, 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, 2005 are as follows:

Year ended <u>June 30</u>	
2006	\$ 82,250
2007	81,542
2008	83,906
2009	84,087
2010	<u>71,430</u>
	<u>\$ 403,215</u>

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 \$11,736 and \$5,118 for the years ended June 30, 2005 and 2004, 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.

MENTAL HEALTH ASSOCIATION OF MIDDLE TENNESSEE
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2005 and 2004

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, 2005 and 2004 amounted to \$13,796 and \$12,348, 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, 2005

CFDA No.	Pass through Grantor's Number	Balance Receivable June 30, 2004	Cash Receipts	Expenditures	Balance Receivable June 30, 2005
Federal Awards:					
U.S. Dept. of Health & Human Services					
Community Mental Health Program					
	GR-05-16239-00	\$ -	\$ 29,200	\$ 29,200	\$ -
<i>Pass through from Tennessee Department of Mental Health and Developmental Disabilities*</i>					
Special Programs for the Aging, Title III Part B, Grants for Supportive Services and Senior Centers*					
93.044	2003-26	1,550	1,550	-	-
93.044	2005-26	-	9,550	11,550	2,000
93.044	2005-FC-4	-	425	1,275	850
<i>Pass through from Greater Nashville Regional Council</i>					
<i>Pass through from Greater Nashville Regional Council</i>					
Medical Assistance Program +					
<i>Pass through from the Tennessee Department of Finance and Administration, Bureau of TennCare</i>					
93.778	GR-04-15472-02	-	252,063	354,740	102,677
<i>Pass through from the Tennessee Department of Finance and Administration, Bureau of TennCare</i>					
93.778	GR-04-15472-00	75,057	75,057	-	-
Total Federal Awards		76,607	367,845	396,765	105,527
State Awards:					
Medical Assistance Program					
<i>Pass through from the Tennessee Department of Finance and Administration, Bureau of TennCare #</i>					
N/A	GR-04-15472-02	-	252,064	354,740	102,676
<i>Pass through from the Tennessee Department of Finance and Administration, Bureau of TennCare #</i>					
N/A	GR-04-15472-00	75,057	75,057	-	-
Tennessee Department of Mental Health and Developmental Disabilities					
Community Mental Health Program #					
Developmental Disabilities					
Community Mental Health Program #					
N/A	GR-04-15463-00	34,816	34,816	-	-
Total State Awards		109,873	454,649	475,833	131,057
Total Federal and State Awards		\$ 186,480	\$ 822,494	\$ 872,598	\$ 236,584

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



F R A S I E R , D E A N & H O W A R D , P L L C

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, 2005, and have issued our report thereon dated August 19, 2005. 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 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 19, 2005