

THE ARC OF DAVIDSON COUNTY
AUDITED FINANCIAL STATEMENTS
Years ended June 30, 2013 and 2012

THE ARC OF DAVIDSON COUNTY

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The Arc of Davidson County
Nashville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of The Arc of Davidson County (a nonprofit organization), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Arc of Davidson County as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Restatement

As discussed in Note 11 to the financial statements, during 2013 management discovered that The Arc of Davidson County owned certain investments that had not been reflected in the accounting records. Accordingly, the 2012 financial statements have been restated to correct the error. Our opinion is not modified with respect to that matter.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of state financial assistance is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2013, on our consideration of The Arc of Davidson County'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Arc of Davidson County's internal control over financial reporting and compliance.

Frasier, Dean + Howard, PLLC

Nashville, Tennessee
October 28, 2013

THE ARC OF DAVIDSON COUNTY
STATEMENTS OF FINANCIAL POSITION
June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u> <i>(As Restated)</i>
Assets		
Current assets:		
Cash and cash equivalents	\$ 211,340	\$ 142,702
Investments	191,234	150,205
Government contract receivables	164,241	82,677
Government grant receivables	-	84,826
Receivables - other - no allowance necessary	11,014	29,616
Prepaid expenses	<u>7,455</u>	<u>12,857</u>
Total current assets	<u>585,284</u>	<u>502,883</u>
Property and equipment:		
Office furniture and equipment	40,393	39,090
Less accumulated depreciation	<u>(20,796)</u>	<u>(15,964)</u>
Net property and equipment	<u>19,597</u>	<u>23,126</u>
Total assets	<u><u>\$ 604,881</u></u>	<u><u>\$ 526,009</u></u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	<u>\$ 57,524</u>	<u>\$ 27,946</u>
Total current liabilities	<u>57,524</u>	<u>27,946</u>
Net assets:		
Unrestricted:		
Operating	516,760	463,937
Furniture and equipment	<u>19,597</u>	<u>23,126</u>
Total unrestricted net assets	536,357	487,063
Temporarily restricted	<u>11,000</u>	<u>11,000</u>
Total net assets	<u>547,357</u>	<u>498,063</u>
Total liabilities and net assets	<u><u>\$ 604,881</u></u>	<u><u>\$ 526,009</u></u>

See accompanying notes.

THE ARC OF DAVIDSON COUNTY
STATEMENT OF ACTIVITIES
For the year ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and other support:			
Government contracts:			
Support coordination program	\$ 999,078	\$ -	\$ 999,078
Government grants:			
Family support program	701,276	-	701,276
Cart revenues	320,018	-	320,018
Phone solicitation income	82,000	-	82,000
Other grants and contracts	73,454	-	73,454
Investment income	42,762	-	42,762
United Way	3,612	11,000	14,612
Special events	8,944	-	8,944
Contributions	3,422	-	3,422
Miscellaneous income	1,457	-	1,457
Memberships	940	-	940
Net assets released from restrictions - satisfaction of program restrictions	<u>11,000</u>	<u>(11,000)</u>	<u>-</u>
Total revenues and other support	<u>2,247,963</u>	<u>-</u>	<u>2,247,963</u>
Expenses:			
Program services:			
Support coordination	842,574	-	842,574
Family support	719,767	-	719,767
Development	111,741	-	111,741
Educational advocacy	77,859	-	77,859
Community enhancement	45,803	-	45,803
Support services:			
Management and general	323,087	-	323,087
Phone solicitation	<u>77,838</u>	<u>-</u>	<u>77,838</u>
Total expenses	<u>2,198,669</u>	<u>-</u>	<u>2,198,669</u>
Change in net assets	49,294	-	49,294
Net assets, beginning of year (as restated)	<u>487,063</u>	<u>11,000</u>	<u>498,063</u>
Net assets, end of year	<u><u>\$ 536,357</u></u>	<u><u>\$ 11,000</u></u>	<u><u>\$ 547,357</u></u>

See accompanying notes.

THE ARC OF DAVIDSON COUNTY
STATEMENT OF ACTIVITIES
For the year ended June 30, 2012 (As Restated)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and other support:			
Government contracts:			
Support coordination program	\$ 995,379	\$ -	\$ 995,379
Government grants:			
Family support program	701,276	-	701,276
Cart revenues	292,991	-	292,991
Other grants and contracts	109,027	-	109,027
United Way	2,323	11,000	13,323
Contributions	6,483	-	6,483
Miscellaneous income	6,359	-	6,359
Memberships	2,875	-	2,875
Investment loss	(4,419)	-	(4,419)
Net assets released from restrictions - satisfaction of program restrictions	<u>25,120</u>	<u>(25,120)</u>	<u>-</u>
Total revenues and other support	<u>2,137,414</u>	<u>(14,120)</u>	<u>2,123,294</u>
Expenses:			
Program services:			
Support coordination	867,962	-	867,962
Family support	741,337	-	741,337
Development	110,529	-	110,529
Community enhancement	64,111	-	64,111
Educational advocacy	63,985	-	63,985
Support services:			
Management and general	<u>364,491</u>	<u>-</u>	<u>364,491</u>
Total expenses	<u>2,212,415</u>	<u>-</u>	<u>2,212,415</u>
Change in net assets	(75,001)	(14,120)	(89,121)
Net assets, beginning of year, (as restated)	<u>562,064</u>	<u>25,120</u>	<u>587,184</u>
Net assets, end of year	<u><u>\$ 487,063</u></u>	<u><u>\$ 11,000</u></u>	<u><u>\$ 498,063</u></u>

See accompanying notes.

THE ARC OF DAVIDSON COUNTY
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2013

	Program Services			Educational		Total		Management		Phone		Total	
	Support	Family	Community	Enhancement	Development	Advocacy	Program	and	General	Solicitation	Expenses	Expenses	Expenses
Coordination	Support	Support	Support	Support	Support	Support	Support	Support	Support	Support	Support	Support	Support
Salaries	\$ 539,426	\$ 85,920	\$ -	\$ -	\$ -	\$ 45,636	\$ 670,982	\$ 116,591	\$ 70,724	\$ -	\$ 858,297	\$ 858,297	\$ 858,297
Client benefits	-	607,148	45,500	-	-	-	652,648	-	-	-	652,648	652,648	652,648
Employee benefits	137,274	9,317	-	-	-	7,523	154,114	15,851	-	-	169,965	169,965	169,965
Postage	5,054	2,225	282	102,190	22	3	109,754	537	159	-	110,450	110,450	110,450
Travel	68,452	389	-	-	-	1,340	70,203	2,265	-	-	72,468	72,468	72,468
Payroll taxes	40,808	6,490	-	-	-	3,431	50,729	8,972	5,411	-	65,112	65,112	65,112
Contracted services	316	-	-	428	-	-	744	52,125	-	-	52,869	52,869	52,869
Office rent	27,920	3,858	-	2,535	-	1,494	35,807	5,681	-	-	41,488	41,488	41,488
Insurance	-	-	-	-	-	-	-	31,028	-	-	31,028	31,028	31,028
Professional services	-	329	-	10	-	-	339	28,335	1,492	-	30,166	30,166	30,166
Telephone	18,639	862	-	18	-	1,440	20,959	4,521	-	-	25,480	25,480	25,480
Employment video	-	-	-	-	-	15,000	15,000	-	-	-	15,000	15,000	15,000
Conferences	333	30	-	-	-	1,674	2,037	12,693	-	-	14,730	14,730	14,730
Supplies	2,964	1,474	21	1,115	-	230	5,804	8,643	52	-	14,499	14,499	14,499
Equipment rental	-	-	-	-	-	-	-	10,792	-	-	10,792	10,792	10,792
and maintenance	-	-	-	-	-	-	-	6,445	-	-	7,385	7,385	7,385
Subscriptions	820	60	-	-	-	60	940	4,142	-	-	5,726	5,726	5,726
Printing and publication:	54	1,502	-	-	-	28	1,584	83	-	-	5,506	5,506	5,506
Fundraising	-	-	-	5,423	-	-	5,423	4,832	-	-	4,832	4,832	4,832
Depreciation	-	-	-	-	-	-	-	3,705	-	-	4,382	4,382	4,382
Specific assistance	514	163	-	-	-	-	677	2,424	-	-	2,424	2,424	2,424
Other rent	-	-	-	-	-	-	-	2,000	-	-	2,000	2,000	2,000
Affiliation fees	-	-	-	-	-	-	-	882	-	-	882	882	882
License and fees	-	-	-	-	-	-	-	540	-	-	540	540	540
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	-	-
	\$ 842,574	\$ 719,767	\$ 45,803	\$ 111,741	\$ 77,859	\$ 1,797,744	\$ 323,087	\$ 77,838	\$ 2,198,669	\$ 2,198,669	\$ 2,198,669	\$ 2,198,669	\$ 2,198,669

See accompanying notes.

THE ARC OF DAVIDSON COUNTY
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2012

	Program Services				Total Program Services	Management and General	Total Expenses
	Support Coordination	Family Support	Community Enhancement	Development	Educational Advocacy		
Salaries	\$ 552,524	\$ 83,442	\$ 9,684	\$ 4,432	\$ 38,732	\$ 201,951	\$ 890,765
Client benefits	-	619,482	54,083	-	-	-	673,565
Employee benefits	133,304	19,541	187	363	10,873	12,972	177,240
Postage	5,658	3,249	157	83,587	26	284	92,961
Payroll taxes	42,586	5,659	-	682	2,309	27,838	79,074
Travel	70,046	434	-	80	1,427	371	72,358
Professional services	1,046	40	-	489	230	50,289	52,094
Office rent	28,867	3,861	-	4,224	1,470	4,119	42,541
Telephone	19,616	761	-	-	1,093	4,333	25,803
Supplies	5,844	2,068	-	-	2,178	14,217	24,307
Insurance	-	-	-	-	-	24,305	24,305
Conferences	681	300	-	5,978	332	3,898	11,189
Equipment rental and maintenance	-	-	-	-	-	10,779	10,779
Printing and publication:	843	984	-	1,836	67	3,555	7,285
Affiliation fees	-	-	-	6,800	-	-	6,800
Specific assistance	5,000	1,200	-	-	-	-	6,200
Contracted services	-	-	-	-	5,067	-	5,067
License and fees	1,822	291	-	502	131	2,221	4,967
Other rent	-	-	-	-	-	2,424	2,424
Fundraising	-	-	-	1,400	-	-	1,400
Subscriptions	125	25	-	156	50	552	908
Miscellaneous	-	-	-	-	-	257	257
Depreciation	-	-	-	-	-	126	126
	<u>\$ 867,962</u>	<u>\$ 741,337</u>	<u>\$ 64,111</u>	<u>\$ 110,529</u>	<u>\$ 63,985</u>	<u>\$ 364,491</u>	<u>\$ 2,212,415</u>

See accompanying notes.

THE ARC OF DAVIDSON COUNTY
STATEMENTS OF CASH FLOWS
For the years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Change in net assets	\$ 49,294	\$ (89,121)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	4,832	126
Realized and unrealized (gain) loss on investments	(42,762)	4,419
Changes in current assets and liabilities:		
Government contract receivables	(81,564)	3,483
Government grant receivables	84,826	(84,826)
Receivables - other	18,602	(6,150)
Prepaid expenses	5,402	3,300
Accounts payable and accrued expenses	29,578	(67,376)
Net cash provided by (used in) operating activities	<u>68,208</u>	<u>(236,145)</u>
Cash flows from investing activities:		
Purchases of investments	(29,441)	(12,752)
Sales of investments	31,174	11,195
Purchases of office furniture and equipment	(1,303)	(23,182)
Net cash provided by (used in) investing activities	<u>430</u>	<u>(24,739)</u>
Change in cash and cash equivalents	68,638	(260,884)
Cash and cash equivalents, beginning of year	<u>142,702</u>	<u>403,586</u>
Cash and cash equivalents, end of year	<u><u>\$ 211,340</u></u>	<u><u>\$ 142,702</u></u>

See accompanying notes.

THE ARC OF DAVIDSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The Arc of Davidson County (the “Organization”) is a nonprofit corporation conducting programs for the benefit of individuals with intellectual and developmental disabilities and their families. The Organization is affiliated with The U.S. Arc and The Arc of Tennessee. The State of Tennessee Department of Finance and Administration, Division of Intellectual and Developmental Disabilities, Bureau of TennCare, and the Nashville Area United Way provide support on an annual basis.

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 is in accordance with standards of accounting and financial reporting prescribed for not-for-profit organizations. Accordingly, net assets of the Organization 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 Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements 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 Organization. The Organization has no permanently restricted net assets at June 30, 2013 and 2012.

Cash and Cash Equivalents

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

Revenue and Other Support

The Arc of Davidson County receives much of its income from grants and contracts from the State of Tennessee Department of Finance and Administration, Division of Intellectual and Developmental Disabilities. The Organization records income from the grants in the period that the applicable expenditures are incurred. Income from contracts is recognized as the related services are performed.

THE ARC OF DAVIDSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2013 and 2012

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 statements of activities as net assets released from restrictions.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities as unrestricted revenues or expenses, unless specified by the donor.

Fair Values

The Organization has an established process for determining fair values. Fair value is based upon quoted market prices, where available. If listed prices or quotes are not available, fair value is based upon internally developed models or processes that use primarily market-based or independently-sourced market data and third party information. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies, or assumptions, to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Accounting principles generally accepted in the United States of America have a three-level valuation hierarchy for fair value measurements. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels are explained as follows:

Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset and liability, either directly or indirectly, for substantially the full term of the financial instrument.

THE ARC OF DAVIDSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2013 and 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Values (Continued)

Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Level 1 securities include highly liquid government securities and certain other products, such as mutual funds. No changes in the valuation methodologies have been made during the period from July 1, 2012 through June 30, 2013.

Office Furniture and Equipment

Office furniture and equipment are carried at cost. Donated equipment is recorded at market value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, ranging from five to ten years.

Donated Services

Unpaid volunteers make contributions of time in various administrative, fundraising, and program functions. The value of contributed time is not reflected in the financial statements as it is not susceptible to an objective measurement or valuation and generally does not meet the requirements for recognition under accounting principles generally accepted in the United States of America which stipulates such services would ordinarily be purchased and be provided by persons with specialized skills in the performance of such services.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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 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.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been classified as other than a private foundation. Accordingly, no provision has been made for federal income taxes in the accompanying financial statements.

THE ARC OF DAVIDSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2013 and 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

The Organization follows Financial Accounting Standards Board Accounting Standards Codification (“FASB ASC”) guidance concerning the accounting for income taxes recognized in an entity’s financial statements. This guidance prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Organization does not believe there are any uncertain tax positions at June 30, 2013. Additionally, the Organization has not recognized any tax related interest and penalties in the accompanying financial statements. Tax years that remain open for examination include years ended June 30, 2010 through June 30, 2013.

Employee Retirement Plan

The Organization maintains a tax deferred annuity plan covering substantially all of its employees with at least one year or more of employment. The Organization contributes 6% of eligible employees’ salaries into the annuity annually. Employee retirement plan expense for the years ended June 30, 2013 and 2012 was \$38,288 and \$57,188, respectively.

Subsequent Events

The Organization evaluated subsequent events through October 28, 2013 when these financial statements were available to be issued. Management of the Organization is not aware of any significant events that occurred subsequent to the statement of financial position date but prior to the filing of this report that would have a material impact on the financial statements.

NOTE 2 – GOVERNMENT GRANT RECEIVABLES AND CONTRACT RECEIVABLES

The Organization was due \$164,241 and \$82,677 from the State of Tennessee Department of Finance and Administration, Division of Intellectual and Developmental Disabilities for contract monies for support coordination programs at June 30, 2013 and 2012, respectively. Under this arrangement, the Organization earned contract monies totaling \$999,078 and \$995,379, respectively, for support coordination programs for the years ended June 30, 2013 and 2012.

During the years ended June 30, 2013 and 2012, the Organization earned grant monies from the State of Tennessee Department of Finance and Administration, Division of Intellectual and Developmental Disabilities totaling \$701,276, respectively for the family support services. Under this grant, the Organization was due \$0 and \$84,826 at June 30, 2013 and 2012, respectively.

THE ARC OF DAVIDSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2013 and 2012

NOTE 3 – INVESTMENTS

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of June 30, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 1,847	\$ -	\$ -	\$ 1,847
Mutual funds:				
Equities funds	45,562	-	-	45,562
Mid-Cap funds	21,878	-	-	21,878
Growth funds	13,977	-	-	13,977
Small-Cap funds	10,330	-	-	10,330
Short-term bond funds	6,717	-	-	6,717
Large-Cap funds	6,161	-	-	6,161
Real estate funds	4,615	-	-	4,615
High yield funds	3,464	-	-	3,464
Total mutual funds	<u>112,704</u>	<u>-</u>	<u>-</u>	<u>112,704</u>
Alternative funds	<u>6,570</u>	<u>-</u>	<u>-</u>	<u>6,570</u>
Common stock	<u>70,113</u>	<u>-</u>	<u>-</u>	<u>70,113</u>
Total investments	<u>\$ 191,234</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 191,234</u>

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of June 30, 2012 (*as restated*):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 926	\$ -	\$ -	\$ 926
Mutual funds:				
Equities funds	38,406	-	-	38,406
Mid-Cap funds	18,559	-	-	18,559
Growth funds	12,642	-	-	12,642
Small-Cap funds	6,966	-	-	6,966
Short-term bond funds	6,722	-	-	6,722
Large-Cap funds	4,919	-	-	4,919
Real estate funds	4,615	-	-	4,615
High yield funds	3,453	-	-	3,453
Total mutual funds	<u>96,282</u>	<u>-</u>	<u>-</u>	<u>96,282</u>
Alternative funds	<u>8,319</u>	<u>-</u>	<u>-</u>	<u>8,319</u>
Common stock	<u>44,678</u>	<u>-</u>	<u>-</u>	<u>44,678</u>
Total investments	<u>\$ 150,205</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 150,205</u>

THE ARC OF DAVIDSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2013 and 2012

NOTE 3 – INVESTMENTS (Continued)

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

	<u>2013</u>	<u>2012</u>
Realized and unrealized gains (losses)	\$ <u>42,762</u>	\$ <u>(4,419)</u>

NOTE 4 – QUESTIONED COSTS/CONTINGENCIES

Questioned costs are those amounts charged to a funded program that may not be in compliance with requirements set forth in contracts, statutes, and regulations governing allowability or eligibility. A questioned cost may not be reimbursed by the State or the State agency may require that the funds already expended be refunded to the State. These amounts can be questioned by the State for the specific grant or contract to which they apply. The determination as to whether such costs will be allowed or disallowed under the grants or contracts is subject to review by the individual grantor agencies.

NOTE 5 – OPERATING LEASE COMMITMENTS

The Organization leases its office space under a lease that expires August 31, 2014. Under terms of the lease agreement, the agreement may be terminated with 90 days notice. The annual lease payments totaled approximately \$42,000 for each of the years ended June 30, 2013 and 2012, respectively. Additionally, certain office equipment is leased under various operating lease agreements. 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, 2013 are as follows:

Year ended <u>June 30,</u>	
2014	\$ 7,071
2015	4,429
2016	-
2017	-
2018	<u>-</u>
	<u>\$ 11,500</u>

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes or periods at June 30:

	<u>2013</u>	<u>2012</u>
United Way grants for the coming year	\$ <u>11,000</u>	\$ <u>11,000</u>

THE ARC OF DAVIDSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2013 and 2012

NOTE 7 – CART REVENUES

In 1982, B&R Salvage, Inc. (“B&R”) was engaged by the Organization to assist in the collection and sale of contributed property. The Organization entered into a contract, effective January 1, 2001, with J&I Advisory Support, LLC (“J&I”), an affiliate of B&R. J&I provides solicitation, trucking and transportation services in connection with property contributions, generally clothing and household goods. Goods donated to the Organization through J&I’s solicitation are sold by the Organization in bulk to B&R. B&R generally sells the goods to the general public through thrift stores. The terms of the contracts with B&R and J&I set the price per cart for goods acquired by B&R from the Organization. The contract provides for 24 semimonthly minimum payments by B&R to the Organization totaling \$218,000 per year. This amount reflects the amounts payable to the Organization by B&R for the sale of donated goods, net of amounts payable by the Organization to J&I for solicitation, transportation and trucking services rendered by J&I. Determination of amounts payable to the Organization in excess of the minimum are determined and paid in the January following each calendar year.

During 2013, a new contract was established between the Organization and J&I that increased costs of mailing solicitations. The Organization received \$320,018 and \$292,991 under this arrangement for the years ended June 30, 2013 and 2012, respectively. The contract may be terminated by either party upon sixty days written notice.

NOTE 8 – PHONE SOLICITATION

Effective January 1, 2013, the Organization entered into an agreement with J&I to manage telephone donation associates who solicit in-kind donations on behalf of the Organization. The Organization is responsible for hiring and termination of part time telephone donation associates, as well as remitting payroll taxes and state required withholdings. In addition, the Organization maintains a drawing account from which telephone donation associates are paid weekly by the Organization’s payroll service. The Organization received \$82,000 under this arrangement for the year ended June 30, 2013. As of June 30, 2013, \$76,135 was expensed as salaries and payroll taxes. This contract may be terminated by either party upon six months written notice.

NOTE 9 – CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Organization to concentrations of credit risk consist of account, grant and contracts receivable. Grant and contract receivables represent concentration of credit risk to the extent that they are received from the same sources. The Organization receives a substantial amount of its support from governmental grants and contracts. A significant reduction in the levels of this support, if this were to occur, could have an adverse effect on the Organization’s programs and activities. These governmental grants and contracts have been renewed for the 2014 fiscal year.

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

THE ARC OF DAVIDSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2013 and 2012

NOTE 10 – CLIENT BENEFITS

The Organization receives funding from the State of Tennessee Department of Finance and Administration, Division of Intellectual and Developmental Disabilities for family support services to be provided to persons with severe disabilities and who are eligible for such support. Certain requirements must be met as provided by the Family Support Guidelines Act before support can be given by the Organization. The Organization also receives a United Way grant that is restricted for financial and emergency assistance for people with disabilities which has been expended through the family support program. The Organization paid \$607,148 and \$619,482 during the years ended June 30, 2013 and 2012, respectively, to eligible persons for family support services.

A similar grant contract program through the Metropolitan Government of Nashville and Davidson County provides the Organization with funds for distribution to eligible individuals for rent, mortgage or utilities assistance. The Organization paid \$45,500 and \$54,083 during the years ended June 30, 2013 and 2012, respectively, to eligible persons under this program.

NOTE 11 – RESTATEMENT

During 2013, management determined that the Organization owned certain investments valued at \$44,678 as of June 30, 2011. Accordingly, the 2012 financial statements have been restated to correct the error and properly reflect net assets at the beginning of 2012, the earliest period presented in the financial statements. The restatement had no effect on revenues and expenses during 2012.

A summary of the changes to previously reported June 30, 2012 investments and net assets follows:

	<u>As Previously Reported</u>	<u>Restated</u>	<u>As Restated</u>
Investments	\$ 105,527	\$ 44,678	\$ 150,205
Unrestricted operating net assets	\$ 419,259	\$ 44,678	\$ 463,937

SUPPLEMENTAL INFORMATION

THE ARC OF DAVIDSON COUNTY
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
For the year ended June 30, 2013

		Balance Receivable June 30, 2012	Cash Receipts	Expenditures	Balance Receivable June 30, 2013
Grant Number					
State Awards:					
Tennessee Department of Finance and Administration					
Department of Intellectual and Developmental Disabilities					
Family Support Services Program		34401-00335	\$ 84,826	\$ -	\$ -
Family Support Services Program		34401-00414	701,276	701,276	-
Total State Awards		\$ 84,826	\$ 786,102	\$ 701,276	\$ -

NOTES TO THE SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE

Note 1 - Basis of Accounting - The supplementary schedule of expenditures of state financial assistance is prepared on the accrual basis of accounting.