

**THE ARC OF TENNESSEE, INC.**

**FINANCIAL STATEMENTS**

**JUNE 30, 2009 AND 2008**

**(With Independent Auditor's Report Thereon)**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
The Arc of Tennessee, Inc.  
Nashville, Tennessee

I have audited the accompanying statement of financial position of the Arc of Tennessee (a nonprofit corporation) as of June 30, 2009 and 2008, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Arc of Tennessee as of June 30, 2009 and 2008 and the changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued my report dated October 1, 2009 on my consideration of the Arc of Tennessee's internal control over financial reporting and on my 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 my 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. The report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

My audit was performed for the purpose of forming an opinion on the basic financial statements of the Arc of Tennessee taken as a whole. The accompanying Schedule 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 my opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.



Franklin, Tennessee  
October 1, 2009

**THE ARC OF TENNESSEE, INC.**  
**COMPARATIVE STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2009 AND 2008**

	2009	2008
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 408,781	\$ 110,358
Grants receivable	168,024	193,119
Contracts receivables	94,352	69,056
Accounts receivable	23,252	9,090
Prepaid expense	6,176	6,740
Total Current Assets	700,585	388,363
<b>PROPERTY AND EQUIPMENT</b>		
Furniture and equipment	151,446	123,341
Less accumulated depreciation	120,699	112,169
Total Property and Equipment	30,747	11,172
<b>OTHER ASSETS</b>		
Security deposit	5,393	5,393
Total Other Assets	5,393	5,393
Total Assets	\$ 736,725	\$ 404,928
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 193,935	\$ 58,050
Accrued expenses	102,455	32,349
Deferred revenue	1,448	2,084
Capitalized leases payable	15,171	-
Total Current Liabilities	313,009	92,483
Total liabilities	313,009	92,483
<b>NET ASSETS</b>		
Unrestricted	385,914	280,143
Temporarily restricted	31,802	32,302
Board restricted	6,000	-
Total Net Assets	423,716	312,445
Total Liabilities and Net Assets	\$ 736,725	\$ 404,928

See notes to financial statements.

**THE ARC OF TENNESSEE, INC.**  
**COMPARATIVE STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

	2009	2008
Changes in unrestricted net assets:		
Support and revenue		
Gum vending	\$ 71,983	\$ 77,161
Government grants	1,573,355	1,363,807
Contract revenue - non government	520,944	347,686
Contributions	62,538	46,315
Interest	915	1,215
Rental income	7,700	8,012
Affiliation fees	9,742	10,350
MegaConference administrative fee	10,000	10,000
Miscellaneous	820	677
Memberships	5,540	5,156
Net assets released from temporary restrictions	500	3,500
Total support and revenue	<u>2,264,037</u>	<u>1,873,879</u>
Expenses:		
Program Services		
Public awareness - Legislative Monitor	46,757	47,062
Advocacy, education and public awareness	329,796	346,694
Support collaboration for special education	119,349	112,171
Advocacy, CMAS	213,530	-
Support and assistance services (DSPAT)	159,476	170,186
Partners in Policymaking workshop	187,133	149,762
Personal assistance services and support	131,216	175,621
Administration of the Real Choice Systems Change	259,112	225,167
MegaConference	-	13,333
Support brokerage / financial administration	363,052	244,040
GNRC	6,524	0
Fundraising	-	-
Management and General	336,321	322,951
Total expenses	<u>2,152,266</u>	<u>1,806,987</u>
Increase (decrease) in unrestricted net assets	<u>111,771</u>	<u>66,891</u>
Changes in temporarily restricted net assets		
Contributions	-	-
Net assets released from temporary restrictions	(500)	3,500
Increase (decrease) in temporarily restricted net assets	<u>(500)</u>	<u>(3,500)</u>
Total increase (decrease) in net assets	111,271	63,391
Net assets, beginning of year	<u>312,445</u>	<u>249,054</u>
Net assets, end of year	<u>\$ 423,716</u>	<u>\$ 312,445</u>

See notes to financial statements.

THE ARC OF TENNESSEE, INC.  
STATEMENT OF FUNCTIONAL EXPENSE  
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	Public Awareness Legislative Monitor	Advocacy Education & Public Awareness	2009				Partners in Policymaking Workshop	Personal Assistance Services & Support	Administration Real Choice Systems Change
			Support Collaboration Special Education	Advocacy CMAS	Support & Assistance Services, (DSPAT)				
Salaries	\$ 14,858	182,714	75,106	126,472	73,790	769	28,887	178,683	
Employee benefits	3,875	52,675	20,861	27,471	14,613	216	5,618	32,308	
Rent	1,077	7,251	46	2,061	3,638	-	2,947	7,909	
In Kind	-	-	-	-	-	51,360	-	-	
Travel	67	27,094	14,265	29,403	17,178	42,850	2,897	27,454	
Communication	327	6,058	3,923	5,484	2,351	-	498	4,204	
Printing	1,295	55	747	452	23	1,533	-	79	
Supplies	2,344	5,308	1,462	14,651	1,964	3,340	859	5,314	
Professional services	7,650	878	1,392	6,469	5,590	56,344	7,430	1,233	
Insurance	-	-	-	-	-	-	-	-	
Meetings and conferences	-	11,505	462	483	569	-	1,697	874	
Miscellaneous	-	149	-	-	-	-	-	-	
Affiliation fees	-	-	-	-	-	-	-	-	
Individual assistance	-	23,226	-	-	39,310	30,573	389	-	
Equipment lease and maintenance	8,193	10,205	924	584	345	81	210	722	
Donations	-	-	-	-	-	-	-	-	
Postage	7,071	2,678	161	-	105	67	1,042	333	
Lobbying expense	-	-	-	-	-	-	-	-	
Edith Wright disbursements	-	-	-	-	-	-	-	-	
Roger Blue disbursements	-	-	-	-	-	-	-	-	
Personal assistance direct services	-	-	-	-	-	-	78,742	-	
Interest	-	-	-	-	-	-	-	-	
Depreciation	-	-	-	-	-	-	-	-	
\$	46,757	329,796	119,349	213,530	159,476	187,133	131,216	259,112	

	2008						
	Public Awareness Legislative Monitor	Advocacy Education & Public Awareness	Support Collaboration Special Education	Support & Assistance Services, (DSPAT)	Partners in Policymaking Workshop	Personal Assistance Services & Support	Administration Real Choice Systems Change
\$	15,488	189,199	68,274	80,005	689	47,745	157,007
Salaries	3,757	57,300	19,718	16,960	207	11,757	26,339
Employee benefits	789	7,302	166	5,813	-	3,470	7,977
Rent	-	-	-	-	31,615	-	-
In Kind	8	35,991	13,442	23,356	55,365	5,421	21,586
travel	191	6,743	4,840	2,223	-	745	3,289
Communication	1,295	112	120	275	2,584	1,004	-
Printing	2,353	7,966	1,920	2,498	4,625	2,523	3,847
Supplies	8,655	3,420	1,379	-	34,327	8,038	408
Professional services	-	-	-	-	-	-	-
Insurance	52	18,362	1,841	3,638	-	149	1,966
Meetings and conferences	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-
Affiliation fees	-	-	-	-	-	-	-
Individual assistance	-	9,577	-	33,528	20,345	8,400	-
Equipment and maintenance	8,701	8,889	314	1,433	1	1,758	2,144
Donations	-	-	-	-	-	-	-
Postage	5,773	1,833	157	457	4	634	604
Lobbying expense	-	-	-	-	-	-	-
Edith Wright disbursements	-	-	-	-	-	-	-
Personal assistance direct services	-	-	-	-	-	83,977	-
Depreciation	-	-	-	-	-	-	-
\$	47,062	346,694	112,171	170,186	149,762	175,621	225,167

See notes to financial statements.

**THE ARC OF TENNESSEE, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSE**  
**FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

	2009			
	Support Brokerage		Management and General	
	Megaconference	Financial Administration	GNRC	Total Program
Salaries	-	218,366	3,521	903,166
Employee benefits	-	82,955	1,320	241,912
Rent	-	3,908	-	28,837
In Kind	-	-	-	51,360
Travel	-	34,301	293	195,802
Communication	-	7,717	80	30,642
Printing	-	913	-	5,097
Supplies	-	5,952	625	41,819
Professional services	-	3,395	685	91,066
Insurance	-	-	-	-
Meetings and conferences	-	2,532	-	18,122
Miscellaneous	-	-	-	149
Affiliation fees	-	-	-	-
Individual assistance	-	-	-	93,498
Equipment lease and maintenance	-	1,774	-	23,038
Donations	-	-	-	-
Postage	-	1,239	-	12,696
Lobbying expense	-	-	-	-
Edith Wright disbursements	-	-	-	-
Roger Blue disbursements	-	-	-	-
Personal assistance direct services	-	-	-	78,742
Interest	-	-	-	-
Depreciation	-	-	-	-
	-	363,052	6,524	1,815,945
				336,321
				2,152,266

	2008			
	Support Brokerage		Management and General	
	Megaconference	Financial Administration	Total Program	Total Expense
Salaries	-	150,998	709,405	853,508
Employee benefits	-	43,649	179,686	22,445
Rent	-	3,060	28,574	29,025
In Kind	-	-	31,614	-
Travel	-	22,619	177,787	4,198
Communication	-	5,215	23,246	6,800
Printing	-	194	5,584	439
Supplies	-	6,545	32,276	16,734
Professional services	-	-	56,225	28,432
Insurance	-	-	-	6,902
Meetings and conferences	-	1,991	27,998	2,466
Miscellaneous	-	55	54	19,749
Affiliation fees	-	-	-	8,208
Individual assistance	13,333	8,913	94,095	94,095
Equipment lease and maintenance	-	506	23,743	6,830
Donations	-	-	-	200
Postage	-	295	9,756	2,386
Lobbying expense	-	-	-	14,776
Edith Wright disbursements	-	-	-	3,500
Personal assistance direct services	-	-	83,976	83,976
Depreciation	-	-	-	5,760
	13,333	244,040	1,484,019	322,951
				1,806,970

See notes to financial statements.

**THE ARC OF TENNESSEE, INC.**  
**COMPARATIVE STATEMENTS OF CASH FLOW**  
**FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

	2009	2008
Cash Flows From Operating Activities		
Increase (decrease) in net assets	\$ 111,271	63,391
Adjustments to reconcile increase (decrease) in net assets to cash provided (used) by operating activities:		
Depreciation	8,530	5,760
(Increase) decrease in grants receivable	25,095	(59,837)
(Increase) decrease in contract receivable	(25,296)	(31,020)
(Increase) decrease in accounts receivable	(14,162)	2,186
(Increase) decrease due from Megaconference	-	8,892
(Increase) decrease in prepaid expense	564	2,687
(Increase) decrease in security deposits	-	1,299
Increase (decrease) in accounts payable	135,886	(65,982)
Increase (decrease) in other accrued liabilities	69,471	404
Total adjustments	200,088	(135,611)
Net Cash Provided (Used) by Operating Activities	311,359	(72,220)
Cash Flows From Investing Activities		
Acquisition of property and equipment	-	-
Net Cash Used by Investing Activities	-	-
Cash Flows From Financing Activities		
Payments capital leases	(3,036)	-
Payments line of credit	-	(25,000)
Net Cash Provided (Used) by Financing Activities	(3,036)	(25,000)
Increase (decrease) in cash	308,323	(97,220)
Cash, beginning of year	110,358	207,578
Cash, end of year	\$ 418,681	\$ 110,358
Supplemental Disclosures:		
Cash paid for interest	\$ 1,608	\$ 1,175
Noncash investing and financing activities:		
Property and equipment acquired through capital lease	\$ 18,205	\$ 11,105

See notes to financial statements.

THE ARC OF TENNESSEE, INC.  
NOTES TO THE FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements follow:

1. Nature of Organization. The Arc of Tennessee, Inc., (the Organization), is a nonprofit corporation chartered by the State of Tennessee for the purpose of promoting the general wellbeing of all citizens with intellectual and/or developmental disabilities. The membership consists of individuals comprising local units in counties across the State of Tennessee and at-large members. All member units are autonomous, community-based nonprofit entities. The Organization maintains membership in the national organization of The Arc of the US. The Arc of US provides national leadership and information and offers education and training. The Organization is autonomous and functions independently of any control by The Arc of the US. The Organization provides advocacy, local unit development, direct client assistance, training, education, counseling, referral and public awareness services statewide.
2. Basis of Presentation. The Arc of Tennessee, Inc. reports information regarding its financial position and activities in accordance with the Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS 117, the Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets, based upon the existence or absence of donor-imposed restrictions. (The Corporation has no assets that meet the definition of permanently restricted net assets.) In addition, the Corporation reports information regarding contributions in accordance with SFAS No. 11, Accounting for Contributions Received and Contributions Made. In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. (The Corporation has received no contributions with donor-imposed restrictions that would result in permanently restricted net assets.)
3. Basis of Accounting. The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principle
4. Cash Equivalents. Cash equivalents consist of short-term, highly liquid investments which have an initial maturity of ninety days or less.
5. Revenue and Support. The Arc of Tennessee, Inc. receives much of its income from grants from the State of Tennessee Department of Finance and Administration, Division of Intellectual Disability Services, the State of Tennessee Department of Education, Division of Special Education, and the Tennessee Council on Developmental Disabilities. The Corporation records income from the grants in the period that the applicable expenditures are incurred.
6. Contributions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted. 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. If a restriction is fulfilled in the same period in which the contribution is received, the Organization reports the support as unrestricted. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

THE ARC OF TENNESSEE, INC.  
NOTES TO THE FINANCIAL STATEMENTS

7. Property and Equipment. Property 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, presently five to ten years. Certain equipment has been purchased, in part, with grant funds and is subject to return to the grantor either upon its ultimate disposition or for failure to comply with the terms and conditions of the grant contract for the useful life of the equipment.
8. Donated Services. Unpaid volunteers make contributions of time in various administrative, fund-raising, 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. The value of contributed time is allowed to be used as a match in some government grants.
9. Functional Allocation of Expenses. The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.
10. Estimates. The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
11. Income Taxes. The Arc of Tennessee, Inc. is exempt from federal income taxes under Section 501 ( c ) (3) of the Internal Revenue Code and therefore no provision has been made for federal income taxes in the accompanying financial statements.
12. Pension Plan. The Arc of Tennessee, Inc. maintains a defined contribution plan which provides for retirement benefits based on the actual value of contributions at the time of retirement. Employees must be 21 years of age and must have completed three months of service before they are eligible to participate. Contributions to the plan are based on the participant's salary. The costs of this plan are charged to fringe benefits expense.

NOTE B – GRANTS RECEIVABLE:

The Arc of Tennessee is due monies from the State of Tennessee Department of Finance and Administration, Division of Intellectual Disability Services, the Tennessee Council on Developmental Disabilities, the Bureau of TennCare and the State of Tennessee Department of Education, Division of Special Education for grant expenses incurred through June 30, 2009 and 2008 that total \$ 168,023 and \$ 193,119 respectively. Monies due from State grants are for:

	2009	2008
Public awareness - Legislative Monitor	\$ 12,670	7,343
Advocacy, education & public awareness	35,950	32,346
Support collaboration for special education	19,566	9,105
Support & assistance services	30,704	47,021
Partners in Policymaking workshop	21,836	7,096
Personal assistance services and support	21,137	35,624
Administration of the Real Choice Systems Change	26,161	54,584
Total	\$ 168,024	193,119

THE ARC OF TENNESSEE, INC.  
NOTES TO THE FINANCIAL STATEMENTS

NOTE C – CONTRACT RECEIVABLE:

The Arc of Tennessee, Inc. entered into a contract with Public Partnership LLC in February 2007. The Arc of Tennessee is to provide financial administration and support brokerage services to qualifying participants. As of June 30, 2009 and 2008, Public Partnership LLC owed The Arc of Tennessee, Inc. \$ 94,352 and \$ 69,056 respectively.

NOTE D – ACCOUNTS RECEIVABLE:

Accounts receivable as of June 30, consist of:

	2009	2008
Monies due from member units	\$ 2,400	2,050
Monies due from gum vendors	5,642	3,989
Other	13,146	2,684
MegaConference registrations	2,064	1,867
Total	<u>\$ 23,252</u>	<u>10,590</u>

NOTE E – LINE OF CREDIT:

As of June 30, 2008, The Arc of Tennessee, Inc. had a line of credit with a facility of \$ 25,000 with SunTrust Bank. The interest rate at June 30, 2008 was 8.25%. During the year ended June 30, 2009 the Organization entered into an agreement with First Tennessee Bank for a line of credit with a facility of \$75,000. The interest rate is variable based on 2 % above the lender's base commercial rate which was 3.25 % for a total of 5.25% at June 30, 2009.

NOTE F – SENSORY COURSES – FUTURE YEARS:

As a result of a request from the Division of Intellectual Disability Services, The Arc of Tennessee, Inc. participated in making available Sensory courses for interested persons. This activity was actually an activity of the Division of Intellectual Disability Services and monies not spent on these sensory courses, as of June 30, 2008, were being held by The Arc of Tennessee, Inc. for future sensory courses. Total monies being held by The Arc of Tennessee, Inc. as of June 30, 2008 was \$ 153. As of June 30, 2009 this liability had been written off.

NOTE G – MEGACONFERENCE – FUTURE YEARS:

The Arc of Tennessee, Inc., in collaboration with other nonprofit entities, participates in a MegaConference each year. The Arc of Tennessee, Inc. provides the capability for the receipts and disbursements of the funds related to this MegaConference; however, this was not a program for The Arc of Tennessee, Inc. Money not spent on the MegaConference is held by The Arc of Tennessee, Inc. on the request of the other nonprofit participants for future MegaConferences. For the year ended June 30, 2009 and 2008 this amount was \$2,064 and \$1,931 respectively.

NOTE H – NET ASSETS – TEMPORARILY RESTRICTED:

During the year ended June 30, 2001, The Arc of Tennessee, Inc. received gifts totaling \$40,716 from an estate. These gifts are restricted for the building or modifying of homes in relation to supported living activities. During the year ended June 30, 2008, \$3,500 was expended for supported living activities.

THE ARC OF TENNESSEE, INC.  
NOTES TO THE FINANCIAL STATEMENTS

NOTE I – GUM VENDING:

The Arc of Tennessee, Inc. has entered into contracts with third parties to maintain vending containers throughout the State of Tennessee that solicit contributions for The Arc of Tennessee, Inc.

The Organization is not responsible for any of the operating expenses or any resulting legal liability as related to maintaining the containers. The Organization receives a percentage of the gross receipts collected from the containers on a monthly basis. The contracts are subject to automatic renewal in 2009, unless canceled by either party. The Corporation received \$71,983 and \$77,161 from gum vending for the years ended June 30, 2009 and 2008 respectively.

NOTE J – GOVERNMENT GRANTS:

The Arc of Tennessee, Inc. earned grant monies from the State of Tennessee Department of Finance and Administration, Division of Intellectual Disability Services, the Tennessee Council on Developmental Disabilities and the Bureau of TennCare, as well as the State of Tennessee Department of Education, Division of Special Education were received for the following grant activities as of June 30:

	<u>2009</u>	<u>2008</u>
Public awareness - Legislative Monitor	\$ 40,865	41,737
Advocacy, education and public awareness	384,326	409,949
Support collaboration for special education	100,000	84,000
Advocacy – CMAS	255,281	-
Support & assistance services	185,843	209,457
Partners in Policymaking workshop	155,167	134,750
Personal assistance services and support	152,766	207,665
Administration of the Real Choice Systems Change	299,107	266,249
MegaConference	10,000	10,000
Total	<u>\$1,573,355</u>	<u>1,363,807</u>

NOTE K – COMMITMENTS:

The Arc of Tennessee, Inc. leases its office space under a lease that requires a monthly payment of \$4,697. The annual lease payment totaled \$59,409 and \$57,600 for the years ended June 30, 2009 and 2008 respectively. This lease terminates in September 2011, and includes rent increases at twelve month intervals. Office equipment is leased under various operating agreements. Two financing leases are considered capital leases. Future minimum rental payments for leases with initial lease terms exceeding one year follow:

<u>Year Ended</u>	<u>Amount</u>
June 30, 2010	\$ 69,311
June 30, 2011	68,975
June 30, 2012	20,962
June 30, 2013	4,784
June 30, 2014	746
Total	<u>\$ 164,778</u>

THE ARC OF TENNESSEE, INC.  
NOTES TO THE FINANCIAL STATEMENTS

NOTE L – 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 back to the State. These amounts can be “questioned” by the State for the specific grant to which they apply. The determination as to whether such costs will be allowed or disallowed under the grants will be made by the individual grantor agencies at a later date. No liability is needed as of June 30, 2009 or 2008 for these costs as no determination has been made by the grantor agencies as to any amount for any grant. The Board deems the contingency to be remote, as the Corporation has accommodated the objective of the Corporation to the provisions of the grant.

NOTE M – CONCENTRATION OF CREDIT RISK:

Financial instruments that potentially subject the Organization to concentrations of credit risk consist of account and grant receivables. Accounts receivable consist of member units and third party gum vending entities. These receivables are widely dispersed over the State of Tennessee and mitigate credit risk. Grants receivable represent concentrations of credit risk to the extent that they are received from concentrated sources. The Organization receives a substantial amount of its support from member units, gum vending and governmental grants. A significant reduction in the levels of this support, if this were to occur, could have an effect on the Organization’s programs and activities. Based on the upcoming fiscal year’s budget, this funding is expected to continue.

All of the Organization’s cash is held in two financial institutions. The Federal Deposit Insurance Corporation (FDIC) insures aggregate deposits up to \$250,000 per bank per depositor for the year ended June 30, 2009 and \$100,000 for the year ended June 30, 2008. At June 30, 2009 deposits exceeded this limit by approximately \$86,000.

## SUPPLEMENTAL INFORMATION

**THE ARC OF TENNESSEE, INC.**  
**SCHEDULE OF FEDERAL AND STATE AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

Grantor / Program Title	Federal CFDA Number	Grant Number	Federal Award Amount	State Award Amount	Balance June 30, 2008	(2) Receipts	Federal Disbursements Expenditures	State Disbursements Expenditures	Adjustments for Over / Under Payment	Total Expenditures	(1) Balance June 30, 2009
Tennessee Department of Finance and Administration Council on Developmental Disabilities:											
Partners in Policymaking and Youth Leadership Forum Workshops	93.630	GR-09-25191-00	\$ 156,699	-	-	133,331	155,167	155,167	-	155,167	21,836
	93.630	GR-08-22634-00	137,969	-	7,096	7,096	-	-	-	-	-
MegaConference	93.630	Edison ID 7278	10,000	-	-	10,000	10,000	10,000	-	10,000	-
Public awareness - Legislative Monitor	93.630	GR-09-25199-00	42,794	-	-	28,195	40,865	40,865	-	40,865	12,670
	93.630	GR-08-22322-00	42,764	-	7,343	7,343	-	-	-	-	-
Division of Mental Retardation Services:											
Support and assistance services (DSPAT)		GR-06-17339-02	-	235,028	47,021	202,160	-	185,843	-	185,843	30,704
Advocacy, education & public awareness		GR-09-25211-00	-	410,000	-	348,376	-	384,326	-	384,326	35,950
		GR-08-22338-00	-	410,000	32,346	32,346	-	-	-	-	-
Advocacy, CMAS		Edison ID 3654	-	350,000	-	301,671	-	255,281	-	255,281	(46,390)
Real Choice Systems Change		GR-09-25210-00	-	299,107	-	272,946	-	299,107	-	299,107	26,161
		GR-07-18351-00	-	292,810	54,584	54,584	-	-	-	-	-
Personal assistance services & support		GR-0--25212-00	-	190,262	-	131,629	-	152,766	-	152,766	21,137
		GR-07-18367-00	-	226,159	35,624	35,624	-	-	-	-	-
Tennessee Department of Education Division of Special Education:											
Support collaboration - special education	84.027A	GR-09-24110-00	100,000	-	-	80,434	100,000	100,000	-	100,000	19,566
	84.027A	GR-08-21809-00	84,000	-	9,105	9,105	-	-	-	-	-
Total					\$ 193,119	1,654,840	306,032	1,277,323	-	1,583,355	121,634

(1) Balance owed by the State of Tennessee and the Department of Labor to The Arc of Tennessee, Inc. as of June 30, 2009.  
(2) Receipts do not include money carried for the fiscal year ended June 30, 2009 but not yet received.

See notes to financial statements.

# **Farmer & Associates, PLLC**

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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**

Board of Directors  
The Arc of Tennessee, Inc.  
Nashville, Tennessee

I have audited the financial statements of The Arc of Tennessee, Inc., (a nonprofit organization), as of and for the year ended June 30, 2009, and have issued my report thereon dated October 1, 2009. I conducted my 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 my audit, I considered The Arc of Tennessee's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Arc of Tennessee's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of The Arc of Tennessee's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether The Arc of Tennessee's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

I have communicated certain matters to management of The Arc of Tennessee, Inc. in a separate letter dated October 1, 2009.

This report is intended solely for the information and use of management, the audit committee, Board of Trustees, 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.

*Janner & Associates, PLLC*

Franklin, Tennessee

October 1, 2009

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# **Farmer & Associates, PLLC**

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Fax 615.807.3049

Board of Directors  
The Arc of Tennessee, Inc.  
Nashville, Tennessee

We have audited the financial statements of The Arc of Tennessee, Inc. (the Organization), for the year ended June 30, 2009, and have issued our report thereon dated October 1, 2009. Professional standards require that we provide you with the following information related to our audit.

## Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

## Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you.

## Significant Audit Findings

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Organization are described in Note B to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2009. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Sensitive estimates in these financial statements have to do with plant property and equipment and functional allocation of expense.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was the disclosure of Concentrations of Credit Risk in Note M to the financial statements.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Material adjustments to the financial statements that were required, that had not been, and potentially would not have been made except for the audit procedures applied, have been provided to management as an attachment to this report. That attachment also includes adjustments that would have been made regardless of the audit procedures applied.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 1, 2009.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

MANAGEMENT LETTER COMMENTS:

In planning and performing our audit of the financial statements in accordance with auditing standards generally accepted in the United States of America we considered internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly we do not express an opinion on the effectiveness of the Organization's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies that adversely affect the Organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be detected by the Organization's internal controls.

MANAGEMENT LETTER COMMENTS, continued

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal controls.

Our consideration of internal control was for the limited purpose described above and would not necessarily identify deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above.

This concludes those communications required by Statement on Auditing Standards Nos. 112 entitled "Communicating Internal Control Related Matters Identified in an Audit" and 114 entitled "The Auditor's Communication With Those Charged With Governance".

*General comments*

Although cash accounts were reconciled to bank statements in what appeared to be a timely manner, there was not always documentation that they were reviewed by someone other than the preparer. Internal control over cash is enhanced when all reconciliations are reviewed by a level of management above the person responsible for preparing the reconciliation.

Two instances were noted where leases qualifying for treatment as capital or financing leases under FASB Statement 13 were improperly accounted for as equipment rental. When a long lived asset is acquired using a lease with a bargain purchase option generally accepted accounting principles require recording that asset as a "fixed asset" and recording the lease obligation as long term debt.

One instance was noted where a current period cost was not accrued due to having twelve months of the particular cost already recorded. This was due to not accruing the cost several years ago and just recording the invoices as they were paid. This situation reversed itself this year due to implementation of new software. Generally accepted accounting principles and grant contracts from the state both call for recording costs in their proper period.

This information is intended solely for the use of the Board of Directors and management of the Organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Farmer & Associates, PLLC". The signature is written in a cursive, flowing style.

Farmer & Associates, PLLC

11/20/2009 10:50AM

Entry #	Status	Account/Code	Description	Workpaper	Misstate	Debit	Credit
AJE 1	Posted	50601-005 17003-005	Depreciation Accumulated depreciation			5,495.64	5,495.64
			To adjust a-d to actual				
AJE 2	Posted	20011-007 30009-007	A/P DMRS Advocacy - DMRS			95,919.12	95,919.12
			To adjust overpayment by the state.				
AJE 3	Posted	20015-00 20010-005	A/P Vendors Benefits payable			18,648.06	18,648.06
			To reclass a-p for health insurance and to accrue for vacation in benefits payable				
AJE 4	Posted	50002-200 20010-005	Benefits Admin Indirect Benefits payable			5,524.65	5,524.65
			To true up vacation				
AJE 5	Posted	29700-005 50203-005	Net Assets Misc nongrant			1,930.00	1,930.00
			To adjust net assets to actual				
AJE 6	Posted	30001-100 30009-100 30019-100 30024-100 30042-100 50010-100 50033-100 50090-100 50180-100 50190-100 50220-100 50400-100 50402-100 50500-100 30011-100 20016-005	Membership income Mega Grant Income Mega Conf Fundraising cont Mega Conf Individual Assistance MC Int Inc Savings MC Staff Travel Mega Conference Meetings & Conf Mega Conf Ind Asst MC Printing MEGA Conf Supplies Mega Conf Eq Lease Mega Comm Mega Post Mega Prof SVC Mega Registrations Mega Conference			24,180.00 10,760.36 20.00 30,000.00 6.77	5.60 196.92 11,934.52 2,970.00 605.98 348.24 285.29 232.09 82,555.01 1,448.48
			To close out Mega Conference				
AJE 7	Posted	10010-005 10013-005 30042-005	CD Accounts - non grant Edith Wright C.D. Interest Income - Savings non			445.39 467.65	913.04
			To adjust c d to actual and accrue interest				
AJE 8	Posted	17001-005 17003-005 21000-000	Fixed assets - Non grant Accumulated depreciation Lease payable computer			11,105.29	8,680.86 2,424.43
			To adjust for capital lease computer				
AJE 9	Posted	17001-005 17003-005 21000-001	Fixed assets - Non grant Accumulated depreciation Lease payable software			18,205.00	3,034.20 15,170.80
			To adjust for capital lease for software				
AJE 10	Posted	50400-018 20015-00	Comm Support A/P Vendors			70.00	70.00
			accrue comm 018				
AJE 11	Posted	29700-005 29999-99	Net Assets Temp Rest N/A			32,302.00	32,302.00
			To adjust for temp rest net assets				
AJE 12	Posted	29700-005 29999-90	Net Assets Board restricted n/a			6,000.00	6,000.00
			To set up board restricted net assets				

11/20/2009 10:50AM

Entry #	Status	Account/Code	Description	Workpaper	Misstate	Debit	Credit
AJE 13	Posted	10006-005 50203-200	A/R non grant Misc Admin			8,629.21	8,629.21
			To record ar from IRS refunded penalties				
AJE 14	Posted	50002-007 50002-014 50001-015 50002-015 20011-007 10006-018 30009-018 50190-019 10006-019	Benefits Advocacy DMRS Benefits Pass Salaries PTP Benefits PTP A/P DMRS A/R Supports Grant Income Supports Supplies GNRC A/R GNRC			1,200.00 125.00 320.66 25.25 3,404.00 457.00	1,670.91 3,404.00 457.00
			To record client corrections				
AJE 15	Posted	20011-007 30009-007	A/P DMRS Advocacy - DMRS			1,200.00	1,200.00
			To adjust for additional client accruals				
AJE 16	Posted	17001-005 17003-005 21000-000	Fixed assets - Non grant Accumulated depreciation Lease payable computer			8,680.86 2,424.43	11,105.29
			To reverse aje at client request				
AJE 17	Posted	50500-007 50500-018 17001-007 17001-018	Prof Svc Advocacy DMRS Prof Svc Support Fixed assets - Advocacy Fixed assets - Supports			5,700.00 4,200.00	5,700.00 4,200.00
			To capitalize software costs				
TOTALS						333,061.34	333,061.34

11/20/2009 10:50AM

Entry #	Status	Account/Code	Description	Workpaper	Misstate	Debit	Credit
RJE 1	Posted	10022-00	Checking			40,918.73	
		20011-005	A/P non grant				40,918.73
		To reclass held checks					
RJE 2	Posted	50601-005	Depreciation			3,034.20	
		50602-005	Interest expense			1,608.08	
		50190-200	Supplies Admin Indirect				4,642.28
		Reclass supplies to dep'n and int exp					
RJE 3	Posted	20011-007	A/P DMRS			50,000.00	
		10006-007	A/R Advocacy to DMRS				50,000.00
		To reclass and net a-r and a-p Advocacy DMRS					
TOTALS						95,561.01	95,561.01