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THE ARC OF DAVIDSON COUNTY
AUDITED FINANCIAL STATEMENTS

Years ended June 30, 2007 and 2006

THE ARC OF DAVIDSON COUNTY

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
The Arc of Davidson County
Nashville, Tennessee

We have audited the accompanying statements of financial position of The Arc of Davidson County (a nonprofit corporation) as of June 30, 2007 and 2006, 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. 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 a 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 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 The Arc of Davidson County as of June 30, 2007 and 2006 and the changes in 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 issued our report dated October 25, 2007 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 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 conducted for the purpose of forming an opinion on the basic financial statements of The Arc of Davidson County 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

October 25, 2007

THE ARC OF DAVIDSON COUNTY
STATEMENTS OF FINANCIAL POSITION
June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 409,924	\$ 347,257
Investments	26,814	25,825
Government grant receivables	11,461	-
Government contract receivables	3,926	17,978
Receivables - other - no allowance necessary	10,425	8,374
Prepaid expenses	<u>13,636</u>	<u>5,588</u>
Total current assets	<u>476,186</u>	<u>405,022</u>
Property and equipment:		
Office furniture and equipment	42,506	44,249
Less accumulated depreciation	<u>(35,405)</u>	<u>(33,696)</u>
Total property and equipment	<u>7,101</u>	<u>10,553</u>
Total assets	<u><u>\$ 483,287</u></u>	<u><u>\$ 415,575</u></u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 62,068	\$ 74,909
Deferred revenues	<u>7,500</u>	<u>7,500</u>
Total current liabilities	<u>69,568</u>	<u>82,409</u>
Net assets:		
Unrestricted:		
Operating	396,193	314,357
Furniture and equipment	7,101	10,553
Temporarily restricted	<u>10,425</u>	<u>8,256</u>
Total net assets	<u>413,719</u>	<u>333,166</u>
Total liabilities and net assets	<u><u>\$ 483,287</u></u>	<u><u>\$ 415,575</u></u>

See accompanying notes.

THE ARC OF DAVIDSON COUNTY
STATEMENT OF ACTIVITIES
For the year ended June 30, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and other support:			
United Way	\$ 4,376	\$ 10,425	\$ 14,801
Government grants:			
Family support program	745,081	-	745,081
Respite program	46,357	-	46,357
Other	4,000	-	4,000
Government contracts:			
Support coordination program	830,073	-	830,073
Contributions	1,924	-	1,924
Memberships	1,295	-	1,295
Interest	9,900	-	9,900
Cart revenues	233,000	-	233,000
Net assets released from restrictions - satisfaction of program restrictions	<u>8,256</u>	<u>(8,256)</u>	<u>-</u>
Total revenue and other support	<u>1,884,262</u>	<u>2,169</u>	<u>1,886,431</u>
Expenses:			
Program services:			
Support coordination	721,353	-	721,353
Family support	757,333	-	757,333
Advocacy	9,116	-	9,116
Respite	43,743	-	43,743
Development and membership	16,695	-	16,695
Home of your own	1,737	-	1,737
Support services:			
Management and general	<u>255,901</u>	<u>-</u>	<u>255,901</u>
Total expenses	<u>1,805,878</u>	<u>-</u>	<u>1,805,878</u>
Change in net assets	78,384	2,169	80,553
Net assets, beginning of year	<u>324,910</u>	<u>8,256</u>	<u>333,166</u>
Net assets, end of year	<u><u>\$ 403,294</u></u>	<u><u>\$ 10,425</u></u>	<u><u>\$ 413,719</u></u>

See accompanying notes.

THE ARC OF DAVIDSON COUNTY
STATEMENT OF ACTIVITIES
For the year ended June 30, 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and other support:			
United Way	\$ 6,125	\$ 8,256	\$ 14,381
Government grants:			
Family support program	983,060	-	983,060
Respite program	46,357	-	46,357
Other	19,613	-	19,613
Government contracts:			
Support coordination program	804,972	-	804,972
Contributions	11,229	-	11,229
Memberships	1,845	-	1,845
Interest	6,886	-	6,886
Cart revenues	233,000	-	233,000
Net assets released from restrictions - satisfaction of program restrictions	<u>10,122</u>	<u>(10,122)</u>	<u>-</u>
Total revenue and other support	<u>2,123,209</u>	<u>(1,866)</u>	<u>2,121,343</u>
Expenses:			
Program services:			
Support coordination	732,765	-	732,765
Family support	938,316	-	938,316
Advocacy	28,544	-	28,544
Respite	46,352	-	46,352
Development and membership	21,299	-	21,299
Home of your own	29,536	-	29,536
Support services:			
Management and general	<u>292,950</u>	<u>-</u>	<u>292,950</u>
Total expenses	<u>2,089,762</u>	<u>-</u>	<u>2,089,762</u>
Change in net assets	33,447	(1,866)	31,581
Net assets, beginning of year	<u>291,463</u>	<u>10,122</u>	<u>301,585</u>
Net assets, end of year	<u><u>\$ 324,910</u></u>	<u><u>\$ 8,256</u></u>	<u><u>\$ 333,166</u></u>

See accompanying notes.

THE ARC OF DAVIDSON COUNTY
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2007

	Support Coordination	Family Support	Advocacy	Respite	Development and Membership	Home of Your Own	Total Program Services	Management and General	Total Expenses
Salaries	\$ 469,975	\$ 95,896	\$ -	\$ 3,070	\$ -	\$ -	\$ 568,941	\$ 140,685	\$ 709,626
Client benefits	-	633,319	-	40,000	-	-	673,319	-	673,319
Employee benefits	90,942	12,573	-	-	-	-	103,515	19,270	122,785
Travel	61,622	221	-	-	-	-	61,843	-	61,843
Payroll taxes	35,429	7,193	-	233	-	-	42,855	10,996	53,851
Office rent	18,415	2,304	3,764	323	1,084	1,300	27,190	12,510	39,700
Telephone	20,762	1,278	2	16	227	75	22,360	5,209	27,569
Supplies	9,223	1,192	43	2	111	110	10,681	13,292	23,973
Professional services	6,080	807	-	-	-	-	6,887	16,272	23,159
Insurance	-	-	-	-	-	-	-	18,000	18,000
Postage	3,909	1,529	142	99	6,407	34	12,120	468	12,588
Equipment rental and maintenance	-	-	-	-	-	-	-	11,088	11,088
Affiliation fees	-	-	-	-	8,692	-	8,692	-	8,692
Conferences	161	500	5,117	-	141	218	6,137	1,034	7,171
Specific assistance/awards	4,000	198	-	-	-	-	4,198	-	4,198
Depreciation	-	-	-	-	-	-	-	3,452	3,452
Printing and publications	499	288	-	-	-	-	787	1,655	2,442
License and fees	-	35	-	-	1	-	36	1,700	1,736
Subscriptions	336	-	48	-	32	-	416	200	616
Miscellaneous	-	-	-	-	-	-	-	70	70
	<u>\$ 721,353</u>	<u>\$ 757,333</u>	<u>\$ 9,116</u>	<u>\$ 43,743</u>	<u>\$ 16,695</u>	<u>\$ 1,737</u>	<u>\$1,549,977</u>	<u>\$ 255,901</u>	<u>\$1,805,878</u>

See accompanying notes.

THE ARC OF DAVIDSON COUNTY
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2006

	<u>Support Coordination</u>	<u>Family Support</u>	<u>Advocacy</u>	<u>Respite</u>	<u>Development and Membership</u>	<u>Home of Your Own</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Total Expenses</u>
Client benefits	\$ -	\$ 835,601	\$ -	\$ 40,000	\$ -	\$ -	\$ 875,601	\$ -	\$ 875,601
Salaries	465,399	72,701	21,660	4,459	-	11,538	575,757	170,544	746,301
Employee benefits	97,530	14,902	-	970	-	-	113,402	25,120	138,522
Travel	60,522	660	48	51	-	501	61,782	556	62,338
Payroll taxes	35,047	5,510	1,657	338	-	883	43,435	13,189	56,624
Professional services	5,229	1,941	48	145	1,714	13,021	22,098	17,943	40,041
Office rent	16,251	2,033	850	288	4,124	540	24,086	12,429	36,515
Telephone	21,380	771	753	34	33	694	23,665	3,170	26,835
Supplies	11,083	1,449	289	23	155	798	13,797	13,014	26,811
Insurance	-	-	-	-	-	-	-	18,000	18,000
Specific assistance/awards	12,793	-	-	-	-	-	12,793	-	12,793
Postage	4,799	1,930	123	42	4,659	44	11,597	732	12,329
Equipment rental and maintenance	-	-	-	-	-	-	-	9,725	9,725
Affiliation fees	-	-	-	-	9,365	-	9,365	-	9,365
Printing and publications	1,938	90	-	-	1,151	819	3,998	2,703	6,701
Conferences	544	728	3,041	-	-	698	5,011	1,460	6,471
Depreciation	-	-	-	-	-	-	-	2,428	2,428
Subscriptions	250	-	40	-	98	-	388	900	1,288
License and fees	-	-	35	2	-	-	37	1,037	1,074
	<u>\$ 732,765</u>	<u>\$ 938,316</u>	<u>\$ 28,544</u>	<u>\$ 46,352</u>	<u>\$ 21,299</u>	<u>\$ 29,536</u>	<u>\$1,796,812</u>	<u>\$ 292,950</u>	<u>\$2,089,762</u>

See accompanying notes.

THE ARC OF DAVIDSON COUNTY
STATEMENTS OF CASH FLOWS
For the years ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Change in net assets	\$ 80,553	\$ 31,581
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	3,452	2,428
Realized and unrealized (gain) loss on investments	(989)	(909)
Contribution of equipment	-	(7,850)
Changes in current assets and liabilities:		
Government grant receivables	(11,461)	1,237
Government contract receivables	14,052	46,755
Prepaid expenses	(8,048)	(221)
Other assets	(2,051)	(164)
Accounts payable and accrued expenses	(12,841)	11,535
Deferred revenue	-	(3,750)
Net cash provided by operating activities	<u>62,667</u>	<u>80,642</u>
Change in cash and cash equivalents	62,667	80,642
Cash and cash equivalents, beginning of year	<u>347,257</u>	<u>266,615</u>
Cash and cash equivalents, end of year	<u><u>\$ 409,924</u></u>	<u><u>\$ 347,257</u></u>
Supplemental disclosure:		
Contributed equipment	<u><u>\$ -</u></u>	<u><u>\$ 7,850</u></u>

See accompanying notes.

THE ARC OF DAVIDSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2007 and 2006

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 mentally retarded citizens 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 Mental Retardation Services and the Nashville Area United Way provide partial 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 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 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, 2007 and 2006.

Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments with original maturities of ninety days or less.

Revenue and Support

The Arc of Davidson County receives much of its income from grants and contracts from the State of Tennessee Department of Finance Administration, Division of Mental Retardation Services and the Council on Developmental Disabilities. The Organization records income from the grants and contracts in the period that the applicable expenditures are incurred.

THE ARC OF DAVIDSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2007 and 2006

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.

Unconditional Promises to Give

The Organization has also adopted SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. In accordance with SFAS No. 116, contributions are recognized when the donor makes a promise to give to the Organization 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 Organization 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 statements of financial position. Unrealized gains and losses are included in the change in net assets.

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, ranging from five to ten years.

THE ARC OF DAVIDSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2007 and 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the 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.

Income Taxes

The Arc of Davidson County 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.

Pension Plan

The Organization maintains a tax deferred annuity plan covering substantially all of its employees with at least one year or more employment. The costs of this employee benefit plan are charged to expense. The Organization contributes 6% of employee salaries into the annuity annually.

THE ARC OF DAVIDSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2007 and 2006

NOTE 2 – GOVERNMENT GRANTS RECEIVABLE AND CONTRACTS RECEIVABLE

The Organization is due \$3,926 and \$17,978 from the State of Tennessee Department of Finance and Administration, Division of Mental Retardation Services for contract monies for support coordination activities for the years ended June 30, 2007 and 2006, respectively. At June 30, 2007, the Organization is also owed \$11,461 from the State of Tennessee under its family support and respite programs.

NOTE 3 – GOVERNMENT GRANTS AND CONTRACTS

During the years ended June 30, 2007 and 2006, the Organization earned grant monies from the State of Tennessee Department of Finance and Administration, Division of Mental Retardation Services totaling \$791,438 and \$1,029,417, respectively, consisting of the following:

	<u>2007</u>	<u>2006</u>
Respite activities	\$ 46,357	\$ 46,357
Family support services	<u>745,081</u>	<u>983,060</u>
	<u>\$ 791,438</u>	<u>\$ 1,029,417</u>

During the years ended June 30, 2007 and 2006, the Organization earned contract monies from the State of Tennessee Department of Finance and Administration, Division of Mental Retardation Services totaling \$830,073 and \$804,972, respectively, for support coordination services. The Organization earned \$0 in 2007 and \$3,750 in 2006 from Metropolitan Government of Nashville and Davidson County (Metropolitan Public Schools) for education activities.

NOTE 4 – INVESTMENTS

Investments as of June 30, 2007 and 2006 are held in a long-term government bond fund.

The following schedule summarizes investment return at June 30:

	<u>2007</u>	<u>2006</u>
Realized and unrealized gains	<u>\$ 989</u>	<u>\$ 909</u>

NOTE 5 – 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. No liability is recorded as of June 30, 2007 and 2006 for any refundable costs (Note 13).

THE ARC OF DAVIDSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2007 and 2006

NOTE 6 – OPERATING LEASE COMMITMENTS

As of June 30, 2007 and 2006, the Organization leased its office space under a lease that went into effect beginning September 1, 2002 and expired August 31, 2005. Since that time, the Organization's lease was extended through August 31, 2008. Under terms of the new lease agreement, the Organization may cancel the lease within 180 days notice. The annual lease payments totaled \$39,700 and \$36,515, respectively, for the years ended June 30, 2007 and 2006.

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, 2007 are as follows:

Year ended <u>June 30,</u>	
2008	\$ 4,889
2009	1,572
2010	655
2011	-
2012	-
	\$ <u>7,116</u>

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2007</u>	<u>2006</u>
United Way grants for the coming year	\$ <u>10,425</u>	\$ <u>8,256</u>

NOTE 8 – CART REVENUES

In 1982, the Organization began contracting with B&R Salvage Corporation, allowing the Organization to share in the net profits generated by B&R Salvage Corporation. The Organization then entered into a contract, effective January 1, 2001, with J&I Advisory Support, to aid the Organization in the solicitation of donations from the general public in the form of clothing and household goods which are then sold to B&R Salvage and subsequently retailed by B&R Salvage and sold to the public. The terms of the contract with B&R Salvage state that the Organization is to receive money based on the number of carts filled with donations made to the Organization and picked up by J&I Advisory Support. An estimate is paid semimonthly and any remaining profits due the Organization are paid in January of the following year. The Organization agrees to spend \$15,000 in mailing expenses during the calendar year and any monies not spent for mailings are then used to reduce any remaining profits due the Organization as of December 31. Profits generated under these arrangements totaled \$233,000 for each of the years ended June 30, 2007 and 2006.

THE ARC OF DAVIDSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2007 and 2006

NOTE 9 – CLIENT BENEFITS

In 1993, the Organization began receiving monies from the Department of Finance and Administration, Division of Mental Retardation Services 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 and Act before support can be given by the Organization. For the years ended June 30, 2007 and 2006, the Organization paid \$633,319 and \$835,601, respectively, to eligible persons for family support services.

NOTE 10 – CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Organization to concentrations of credit risk consist of account, grant and contracts receivable. Grants and contracts receivable represent concentration of credit risk to the extent that they are received from concentrated 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.

The Organization maintains cash balances which may, at times, exceed federally insured amounts. In management's opinion, risk related to such deposits is minimal based on the credit rating of its depositories.

NOTE 11 – LINE OF CREDIT

During 2007, the Organization obtained a bank line of credit arrangement allowing for maximum borrowings of \$100,000, with interest on any outstanding balances based on a rate of prime plus 1%. No draws were made from the line of credit during the year ended June 30, 2007.

NOTE 12 – LITIGATION

During 2005, the Organization was named as defendant in two litigation matters. These matters have not been resolved and the outcomes are unknown. However, the Organization does not believe that the outcomes will have a material effect on its financial position or changes in net assets.

NOTE 13 – STATE MONITORING

During 2006, the Organization received the results of an on-site review of its support coordination program conducted by the Tennessee Department of Finance and Administration, Division of Mental Retardation Services (DMRS). In its report, DMRS questioned documentation regarding the eligibility of certain service recipients. Costs relating to such services approximated \$179,000. The Organization submitted its response and received notification from the State that no recoupment of funds by DMRS is appropriate based on the Organization's proper actions and response.