

THE ARC OF DAVIDSON COUNTY
AUDITED FINANCIAL STATEMENTS
Years ended June 30, 2010 and 2009

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

We have audited the accompanying statements of financial position of The Arc of Davidson County (a nonprofit corporation) as of June 30, 2010 and 2009, 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 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, 2010 and 2009 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 also issued our report dated November 3, 2010 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 state awards is presented for purposes of additional analysis and is not a required part of the financial statements of the Organization. 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.

Frozier, Dean + Howard, PLLC

Nashville, Tennessee
November 3, 2010

THE ARC OF DAVIDSON COUNTY
STATEMENTS OF FINANCIAL POSITION
June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 410,633	\$ 224,626
Investments	29,999	28,930
Government grant receivables	-	146,192
Government contract receivables	85,124	76,808
Receivables - other - no allowance necessary	18,787	13,750
Prepaid expenses	<u>13,637</u>	<u>13,352</u>
Total current assets	<u>558,180</u>	<u>503,658</u>
Property and equipment:		
Office furniture and equipment	33,833	42,506
Less accumulated depreciation	<u>(32,263)</u>	<u>(39,366)</u>
Net property and equipment	<u>1,570</u>	<u>3,140</u>
Total assets	<u><u>\$ 559,750</u></u>	<u><u>\$ 506,798</u></u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 85,937	\$ 76,472
Loan from State of Tennessee	-	17,020
Deferred revenue	<u>10,333</u>	<u>-</u>
Total current liabilities	<u>96,270</u>	<u>93,492</u>
Net assets:		
Unrestricted:		
Operating	425,910	396,416
Furniture and equipment	1,570	3,140
Designated for Project Opportunity	<u>10,000</u>	<u>-</u>
Total unrestricted net assets	437,480	399,556
Temporarily restricted	<u>26,000</u>	<u>13,750</u>
Total net assets	<u>463,480</u>	<u>413,306</u>
Total liabilities and net assets	<u><u>\$ 559,750</u></u>	<u><u>\$ 506,798</u></u>

See accompanying notes.

THE ARC OF DAVIDSON COUNTY
STATEMENT OF ACTIVITIES
For the year ended June 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and other support:			
Government grants:			
Family support program	\$ 604,152	\$ -	\$ 604,152
Government contracts:			
Support coordination program	936,705	-	936,705
Cart revenues	248,000	-	248,000
Other grants	80,800	-	80,800
Contributions	13,702	15,000	28,702
United Way	5,505	11,000	16,505
Interest	4,797	-	4,797
Memberships	850	-	850
Net assets released from restrictions - satisfaction of program restrictions	<u>13,750</u>	<u>(13,750)</u>	<u>-</u>
Total revenues and other support	<u>1,908,261</u>	<u>12,250</u>	<u>1,920,511</u>
Expenses:			
Program services:			
Support coordination	822,272	-	822,272
Family support	588,333	-	588,333
Community enhancement	84,278	-	84,278
Development	42,907	-	42,907
Educational advocacy	39,403	-	39,403
Support services:			
Management and general	<u>293,144</u>	<u>-</u>	<u>293,144</u>
Total expenses	<u>1,870,337</u>	<u>-</u>	<u>1,870,337</u>
Change in net assets	37,924	12,250	50,174
Net assets, beginning of year	<u>399,556</u>	<u>13,750</u>	<u>413,306</u>
Net assets, end of year	<u>\$ 437,480</u>	<u>\$ 26,000</u>	<u>\$ 463,480</u>

See accompanying notes.

THE ARC OF DAVIDSON COUNTY
STATEMENT OF ACTIVITIES
For the year ended June 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and other support:			
United Way	\$ 19,166	\$ 11,000	\$ 30,166
Government grants:			
Family support program	637,191	-	637,191
Respite program	46,357	-	46,357
Government contracts:			
Support coordination program	919,921	-	919,921
Cart revenues	240,497	-	240,497
Contributions	15,063	2,750	17,813
Interest	10,213	-	10,213
Memberships	1,465	-	1,465
Net assets released from restrictions - satisfaction of program restrictions	<u>12,926</u>	<u>(12,926)</u>	<u>-</u>
Total revenues and other support	<u>1,902,799</u>	<u>824</u>	<u>1,903,623</u>
Expenses:			
Program services:			
Support coordination	806,519	-	806,519
Family support	648,304	-	648,304
Respite	40,613	-	40,613
Development	38,889	-	38,889
Educational advocacy	66,001	-	66,001
Support services:			
Management and general	<u>295,060</u>	<u>-</u>	<u>295,060</u>
Total expenses	<u>1,895,386</u>	<u>-</u>	<u>1,895,386</u>
Change in net assets	7,413	824	8,237
Net assets, beginning of year	<u>392,143</u>	<u>12,926</u>	<u>405,069</u>
Net assets, end of year	<u><u>\$ 399,556</u></u>	<u><u>\$ 13,750</u></u>	<u><u>\$ 413,306</u></u>

See accompanying notes.

THE ARC OF DAVIDSON COUNTY
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2010

	Support Coordination	Family Support	Community Enhancement	Development	Educational Advocacy	Total Program Services	Management and General	Total Expenses
Salaries	\$ 524,044	\$ 52,136	\$ 12,463	\$ -	\$ 32,611	\$ 621,254	\$ 176,095	\$ 797,349
Client benefits	-	513,530	69,000	-	-	582,530	-	582,530
Employee benefits	127,461	8,462	1,867	-	1,495	139,285	27,079	166,364
Travel	66,576	424	-	8	777	67,785	-	67,785
Payroll taxes	39,013	3,989	944	-	2,475	46,421	12,763	59,184
Office rent	28,787	3,873	-	4,076	1,428	38,164	4,076	42,240
Postage	6,022	3,000	4	20,272	12	29,310	876	30,186
Telephone	20,592	927	-	-	571	22,090	5,407	27,497
Professional services	919	-	-	-	34	953	20,357	21,310
Insurance	-	-	-	-	-	-	20,927	20,927
Supplies	7,512	1,306	-	1,139	-	9,957	8,864	18,821
Conferences	1,096	-	-	8,542	-	9,638	850	10,488
Equipment rental and maintenance	-	-	-	-	-	-	8,209	8,209
Affiliation fees	-	-	-	7,873	-	7,873	-	7,873
Other rent	-	-	-	-	-	-	2,424	2,424
Subscriptions	250	70	-	-	-	320	1,593	1,913
License and fees	-	-	-	-	-	-	1,806	1,806
Depreciation	-	-	-	-	-	-	1,570	1,570
Printing and publications	-	-	-	997	-	997	248	1,245
Specific assistance	-	616	-	-	-	616	-	616
Miscellaneous	-	-	-	-	-	-	-	-
	<u>\$ 822,272</u>	<u>\$ 588,333</u>	<u>\$ 84,278</u>	<u>\$ 42,907</u>	<u>\$ 39,403</u>	<u>\$ 1,577,193</u>	<u>\$ 293,144</u>	<u>\$ 1,870,337</u>

See accompanying notes.

THE ARC OF DAVIDSON COUNTY
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2009

	Support Coordination	Family Support	Respite	Development	Educational Advocacy	Total Program Services	Management and General	Total Expenses
Salaries	\$ 506,072	\$ 69,406	\$ -	\$ -	\$ 48,876	\$ 624,354	\$ 173,333	\$ 797,687
Client benefits	-	541,612	40,000	-	-	581,612	-	581,612
Employee benefits	127,209	15,509	-	-	8,472	151,190	24,383	175,573
Travel	69,896	379	-	-	264	70,539	-	70,539
Payroll taxes	36,438	5,156	-	-	3,864	45,458	12,018	57,476
Office rent	28,558	3,336	507	4,044	1,416	37,861	4,044	41,905
Postage	6,452	2,091	103	21,550	15	30,211	796	31,007
Telephone	21,247	771	-	-	866	22,884	5,057	27,941
Professional services	2,184	488	-	-	1,587	4,259	22,446	26,705
Supplies	7,882	1,435	3	1,028	234	10,582	13,558	24,140
Insurance	-	-	-	-	-	-	22,938	22,938
Equipment rental and maintenance	-	-	-	-	-	-	8,456	8,456
Affiliation fees	-	-	-	7,346	-	7,346	-	7,346
Conferences	384	137	-	4,903	372	5,796	708	6,504
Specific assistance	-	5,060	-	-	-	5,060	7	5,060
Miscellaneous	-	2,924	-	-	-	2,924	2,394	2,931
Other rent	-	-	-	-	-	-	2,394	2,394
Printing and publications	197	-	-	15	-	212	1,520	1,732
Depreciation	-	-	-	-	-	-	1,686	1,686
License and fees	-	-	-	3	-	3	1,193	1,196
Subscriptions	-	-	-	-	35	35	523	558
	<u>\$ 806,519</u>	<u>\$ 648,304</u>	<u>\$ 40,613</u>	<u>\$ 38,889</u>	<u>\$ 66,001</u>	<u>\$ 1,600,326</u>	<u>\$ 295,060</u>	<u>\$1,895,386</u>

See accompanying notes.

THE ARC OF DAVIDSON COUNTY
STATEMENTS OF CASH FLOWS
For the years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Change in net assets	\$ 50,174	\$ 8,237
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,570	1,686
Realized and unrealized (gain) loss on investments	(1,069)	(1,086)
Changes in current assets and liabilities:		
Government grant receivables	146,192	(146,192)
Government contract receivables	(8,316)	70,840
Other receivables	(5,037)	(3,325)
Prepaid expenses	(285)	381
Accounts payable and accrued expenses	9,465	4,816
Deferred revenue	<u>10,333</u>	<u>(7,500)</u>
Net cash provided by (used in) operating activities	<u>203,027</u>	<u>(72,143)</u>
Cash flows from financing activities:		
Payments on loan from State of Tennessee	<u>(17,020)</u>	<u>(85,110)</u>
Net cash used in financing activities	<u>(17,020)</u>	<u>(85,110)</u>
Change in cash and cash equivalents	186,007	(157,253)
Cash and cash equivalents, beginning of year	<u>224,626</u>	<u>381,879</u>
Cash and cash equivalents, end of year	<u><u>\$ 410,633</u></u>	<u><u>\$ 224,626</u></u>

See accompanying notes.

THE ARC OF DAVIDSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010 and 2009

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 Mental Retardation Services and the Nashville Area United Way provide support on an annual basis.

Accounting Standards Codification

The Financial Accounting Standards Board Accounting Standards Codification (“FASB ASC”) became the sole authoritative source of generally accepted accounting principles in the United States of America for periods ending after September 15, 2009. The FASB ASC incorporates all authoritative literature previously issued by a standard setter. Adoption of the FASB ASC had no effect on the Organization’s assets, liabilities, net assets, revenue, expenses or change in net assets.

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, 2010 and 2009.

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.

THE ARC OF DAVIDSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and 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.

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

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

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.

THE ARC OF DAVIDSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Generally accepted accounting principles 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.

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

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.

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.

THE ARC OF DAVIDSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

On January 1, 2009, the Organization adopted FASB ASC guidance clarifying the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. This interpretation 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. This guidance must be applied to all existing tax positions upon initial adoption. The Organization does not believe there are any uncertain tax positions at June 30, 2010. 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, 2008 through June 30, 2010. There are no tax penalties or interest reported in the accompanying financial statements. Adoption of this pronouncement had no impact on the Organization's financial position or results of operations.

Pension 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 costs of this employee benefit plan are charged to expense. The Organization contributes 6% of employee salaries into the annuity annually. Pension expense for the years ended June 30, 2010 and 2009 was \$58,858 and \$53,293, respectively.

THE ARC OF DAVIDSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2009

NOTE 2 – GOVERNMENT GRANT RECEIVABLES AND CONTRACT RECEIVABLES

The Organization was due \$85,124 and \$76,808 from the State of Tennessee Department of Finance and Administration, Division of Mental Retardation Services for contract monies for support coordination programs for the years ended June 30, 2010 and 2009, respectively. At June 30, 2010 and 2009, the Organization was also owed \$0 and \$146,192, respectively, from the State of Tennessee under its family support and respite programs.

NOTE 3 – GOVERNMENT GRANTS AND CONTRACTS

During the years ended June 30, 2010 and 2009, the Organization earned grant monies from the State of Tennessee Department of Finance and Administration, Division of Mental Retardation Services totaling \$604,152 and \$683,548, respectively, consisting of the following:

	<u>2010</u>	<u>2009</u>
Respite activities	\$ -	\$ 46,357
Family support services	<u>604,152</u>	<u>637,191</u>
	<u>\$ 604,152</u>	<u>\$ 683,548</u>

During the years ended June 30, 2010 and 2009, the Organization earned contract monies from the State of Tennessee Department of Finance and Administration, Division of Mental Retardation Services totaling \$936,705 and \$919,921, respectively, for support coordination programs.

NOTE 4 – INVESTMENTS

Investments are stated at fair value with fair value determined based on active markets (Level 1). Investments are held in a long-term government bond fund and as of June 30, 2010 and 2009 totaled \$29,999 and \$28,930, respectively. The following schedule summarizes investment return at June 30:

	<u>2010</u>	<u>2009</u>
Realized and unrealized gains	<u>\$ 1,069</u>	<u>\$ 1,086</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. The Organization is currently unaware of any disallowed costs for 2010 and 2009.

THE ARC OF DAVIDSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2009

NOTE 6 – OPERATING LEASE COMMITMENTS

The Organization leases its office space under a lease that expires August 31, 2011. Under terms of the lease agreement, the agreement may be terminated with 90 days notice. The annual lease payments totaled \$42,240 and \$41,905, respectively for the years ended June 30, 2010 and 2009.

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, 2010 are as follows:

Year ending <u>June 30,</u>	
2011	\$ 3,991
2012	1,725
2013	1,272
2014	<u>1,166</u>
	<u>\$ 8,154</u>

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2010</u>	<u>2009</u>
United Way grants for the coming year	\$ 11,000	\$ 11,000
Contributions for the coming year	<u>15,000</u>	<u>2,750</u>
	<u>\$ 26,000</u>	<u>\$ 13,750</u>

NOTE 8 – 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.

THE ARC OF DAVIDSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2009

NOTE 8 – CART REVENUES (Continued)

During 2009, the contracts were terminated and a new contract was established between the Organization and J&I that is substantially the equivalent of the previous contracts. The Organization received \$248,000 and \$240,497 under this arrangement for the years ended June 30, 2010 and 2009. The contract may be terminated by either party upon sixty days written notice.

NOTE 9 – CLIENT BENEFITS

The Organization receives funding from the State of Tennessee 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 Act before support can be given by the Organization. The Organization paid \$513,530 and \$541,612 during the years ended June 30, 2010 and 2009, 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. 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.

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

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%. When the agreement matured during 2010, the arrangement was terminated. No draws were made from the line of credit during the years ended June 30, 2010 and 2009, respectively.

NOTE 12 – LOAN FROM STATE OF TENNESSEE

During 2008, the Organization received a loan from the State of Tennessee Department of Finance and Administration in the amount of \$102,130 in order to have adequate working capital to continue services to eligible recipients under the support coordination program. This arrangement is non-interest bearing and amounts loaned to the Organization were recouped from payments made to the Organization during 2009 and 2010. At June 30, 2010 and 2009, the Organization owed \$0 and \$17,020, respectively, under this arrangement.

THE ARC OF DAVIDSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2009

NOTE 13 – SUBSEQUENT EVENTS

The Organization evaluated subsequent events through November 3, 2010 when these financial statements were available to be issued. 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.

SUPPLEMENTAL INFORMATION

THE ARC OF DAVIDSON COUNTY
SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the year ended June 30, 2010

	Grant Number	Balance		Cash Receipts	Expenditures	Balance Receivable June 30, 2010
		June 30, 2009	June 30, 2010			
State Awards:						
Tennessee Department of Finance and Administration						
Tennessee Division of Mental Retardation Services						
Family Support Services Program	Z-05-022077-04	\$ 140,442	\$ 140,442	\$ -	\$ -	-
Family Support Services Program	34401-02136	-	604,152	604,152	-	-
Respite Services Program	Z-05-022080-04	5,750	5,750	-	-	-
Total State Awards						
		\$ 146,192	\$ 750,344	\$ 604,152	\$ -	-

NOTES TO THE SCHEDULE OF STATE AWARDS

Note 1 - Basis of Accounting - The Supplementary Schedule of Expenditures of State Awards is prepared on the accrual basis of accounting.



FRASIER, DEAN & HOWARD, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of The Arc of Davidson County as of and for the year ended June 30, 2010, and have issued our report thereon dated November 3, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* 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 *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws,

regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Organization in a separate letter dated November 3, 2010.

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

Frasier, Dean + Howard, PLLC

Nashville, Tennessee
November 3, 2010

THE ARC OF DAVIDSON COUNTY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year ended June 30, 2010

None.