THE ARC DAVIDSON COUNTY
& GREATER NASHVILLE

FINANCIAL STATEMENTS

Years ended June 30, 2016 and 2015

THE ARC DAVIDSON COUNTY & GREATER NASHVILLE

TABLE OF CONTENTS

THE ARC DAVIDSON COUNTY & GREATER NASHVILLE
ROSTER OF BOARD OF DIRECTORS AND EXECUTIVE STAFF
As of June 30, 2016

Board of Directors

Kate Deitzer	President
Cynthia Gardner	Vice President
Thom Druffel	Treasurer
Elizabeth Ralph	Secretary
Andrea Arnold	Board Member
Bettie Blackman	Board Member
John Gillmor	Board Member
Tyler Lisowski	Board Member
Richard Thompson	Board Member
Sandi Wheaton	Board Member

Executive Staff

Sheila Moore	Chief Executive Director
Lorie Golden	Director of Family Support
Shannon Arrington	Co-Director of Support Coordination
Anna Flatt	Co-Director of Support Coordination

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of The Arc Davidson County & Greater Nashville (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Frasier, Dean & Howard, PLLC • 3310 West End Avenue, Suite 550 • Nashville, Tennessee 37203-1089 • 615.383.6592 • *fax* 615.383.7094 • www.fdhcpa.com

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Arc Davidson County & Greater Nashville as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on page 19 consisting of the schedule of expenditures of state financial assistance is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2016, on our consideration of The Arc Davidson County & Greater Nashville's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Arc Davidson County & Greater Nashville's internal control over financial reporting and compliance.

Frasier, Dean + Howard, PLLC

Nashville, Tennessee
December 9, 2016

THE ARC DAVIDSON COUNTY & GREATER NASHVILLE
STATEMENTS OF FINANCIAL POSITION
June 30, 2016 and 2015

	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	$ 182,832	$ 75,789
Investments	359,971	366,988
Government contract receivables	155,456	164,551
Government grant receivables	93,307	152,691
Receivables - other	5,420	14,292
Prepaid expenses	13,700	7,075
Total current assets	810,686	781,386
Property and equipment:		
Office furniture and equipment	48,616	48,616
Less accumulated depreciation	(38,777)	(32,235)
Net property and equipment	9,839	16,381
Total assets	$ 820,525	$ 797,767
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	$ 63,753	$ 82,165
Line of credit	-	18,399
Deferred revenue	24,826	25,951
Total current liabilities	88,579	126,515
Net assets:		
Unrestricted:		
Operating	722,107	654,871
Furniture and equipment	9,839	16,381
Total unrestricted net assets	731,946	671,252
Total liabilities and net assets	$ 820,525	$ 797,767

See accompanying notes.

THE ARC DAVIDSON COUNTY & GREATER NASHVILLE
STATEMENT OF ACTIVITIES
For the year ended June 30, 2016

	Unrestricted	Temporarily Restricted	Total
Revenues and other support:			
Government contracts:			
Support coordination program	$ 982,879	$ -	$ 982,879
Government grants:			
Family support program	701,276	-	701,276
Cart revenues	254,468	-	254,468
Other grants and contracts	111,987	-	111,987
Phone solicitation income	111,925	-	111,925
Contributions	41,170	-	41,170
Miscellaneous income	9,361	-	9,361
Special events	6,188	-	6,188
Memberships	764	-	764
United Way	438	-	438
Investment loss	(3,282)	-	(3,282)
Total revenues and other support	2,217,174	-	2,217,174
Expenses:			
Program services:			
Support coordination	879,675	-	879,675
Family support	771,270	-	771,270
Community enhancement	52,100	-	52,100
Development	39,827	-	39,827
Employment education advocacy	85,409	-	85,409
Support services:			
Management and general	214,522	-	214,522
Phone solicitation	113,677	-	113,677
Total expenses	2,156,480	-	2,156,480
Change in net assets	60,694	-	60,694
Net assets, beginning of year,	671,252	-	671,252
Net assets, end of year	$ 731,946	$ -	$ 731,946

See accompanying notes.

THE ARC DAVIDSON COUNTY & GREATER NASHVILLE
STATEMENT OF ACTIVITIES
For the year ended June 30, 2015

	Unrestricted	Temporarily Restricted	Total
Revenues and other support:			
Government contracts:			
Support coordination program	$ 992,412	$ -	$ 992,412
Government grants:			
Family support program	701,276	-	701,276
Targeted family support program	75,167	-	75,167
Cart revenues	343,008	-	343,008
Phone solicitation income	119,857	-	119,857
Other grants and contracts	89,654	-	89,654
Contributions	26,396	-	26,396
Investment income	13,776	-	13,776
Special events	7,089	-	7,089
United Way	2,171	-	2,171
Memberships	814	-	814
Miscellaneous income	620	-	620
Net assets released from restrictions - satisfaction of program restrictions	2,977	(2,977)	-
Total revenues and other support	2,375,217	(2,977)	2,372,240
Expenses:			
Program services:			
Support coordination	940,733	-	940,733
Family support	811,811	-	811,811
Community enhancement	36,354	-	36,354
Development	147,813	-	147,813
Employment education advocacy	76,395	-	76,395
Support services:			
Management and general	236,213	-	236,213
Phone solicitation	119,948	-	119,948
Total expenses	2,369,267	-	2,369,267
Change in net assets	5,950	(2,977)	2,973
Net assets, beginning of year	665,302	2,977	668,279
Net assets, end of year	$ 671,252	$ -	$ 671,252

See accompanying notes.

THE ARC DAVIDSON COUNTY & GREATER NASHVILLE
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2016

	Program Services								
	Support Coordination	Family Support	Community Enhancement	Development	Employment Education Advocacy	Total Program Services	Management and General	Phone Solicitation	Total Expenses
Salaries	$ 544,366	$ 73,678	$ 5,306	$ -	$ 22,737	$ 646,087	$ 92,399	$ 101,849	$ 840,335
Client benefits	-	647,210	44,285	-	-	691,495	-	-	691,495
Employee benefits	96,498	15,547	1,294	-	5,718	119,057	18,364	321	137,742
Office rent	32,931	10,218	800	-	9,811	53,760	11,883	-	65,643
Professional services	12,763	2,152	-	-	23,324	38,239	23,222	3,385	64,846
Travel	57,260	85	-	-	2,854	60,199	3,939	-	64,138
Payroll taxes	40,284	5,347	406	-	1,723	47,760	8,530	7,792	64,082
Contracted services	38,922	7,142	-	88	6,972	53,124	10,605	-	63,729
Postage	5,529	2,659	9	36,461	34	44,692	500	330	45,522
Telephone	17,175	2,380	-	-	1,030	20,585	5,019	-	25,604
Insurance	16,619	2,076	-	-	1,038	19,733	2,057	-	21,790
Equipment rental and maintenance	5,713	813	-	-	7,156	13,682	881	-	14,563
Supplies	5,563	952	-	371	1,194	8,080	2,551	-	10,631
Printing and publications	1,955	328	-	82	649	3,014	7,276	-	10,290
Miscellaneous	-	-	-	1,000	-	1,000	6,651	-	7,651
Affiliation fees	-	-	-	-	-	-	7,571	-	7,571
Depreciation	-	-	-	-	-	-	6,542	-	6,542
Conferences	1,399	84	-	-	872	2,355	4,168	-	6,523
Other rent	2,198	275	-	-	138	2,611	412	-	3,023
Subscriptions	500	108	-	-	-	608	1,432	-	2,040
Fundraising	-	-	-	1,825	-	1,825	200	-	2,025
License and fees	-	-	-	-	159	159	320	-	479
Interest	-	216	-	-	-	216	-	-	216
	$ 879,675	$ 771,270	$ 52,100	$ 39,827	$ 85,409	$ 1,828,281	$ 214,522	$ 113,677	$ 2,156,480

See accompanying notes.

THE ARC DAVIDSON COUNTY & GREATER NASHVILLE
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2015

	Program Services								
	Support Coordination	Family Support	Community Enhancement	Development	Employment Education Advocacy	Total Program Services	Management and General	Phone Solicitation	Total Expenses
Salaries	$ 546,959	$ 68,683	$ 3,294	$ -	$ 43,666	$ 662,602	$ 107,897	$ 107,287	$ 877,786
Client benefits	-	689,962	30,867	-	-	720,829	-	-	720,829
Employee benefits	150,076	20,613	950	-	12,684	184,323	22,593	818	207,734
Postage	6,633	2,570	119	141,160	35	150,517	904	321	151,742
Contracted services	43,998	6,128	280	675	9,108	60,189	11,673	-	71,862
Travel	63,084	279	13	-	1,354	64,730	3,369	-	68,099
Payroll taxes	42,095	5,544	250	-	3,261	51,150	8,302	8,208	67,660
Professional services	11,202	1,725	75	-	640	13,642	29,256	3,314	46,212
Office rent	28,466	3,769	165	-	1,523	33,923	8,375	-	42,298
Telephone	20,460	1,431	66	-	1,111	23,068	3,753	-	26,821
Insurance	11,036	1,318	61	-	689	13,104	1,379	-	14,483
Conferences	1,484	1,288	60	-	1,237	4,069	8,065	-	12,134
Supplies	4,964	1,243	58	-	307	6,572	5,119	-	11,691
Printing and publications	1,300	1,008	47	-	80	2,435	7,394	-	9,829
Equipment rental and maintenance	6,669	797	37	-	417	7,920	1,251	-	9,171
Miscellaneous	79	4,583	-	2,500	-	7,162	949	-	8,111
Affiliation fees	-	-	-	-	-	-	6,800	-	6,800
Depreciation	-	-	-	-	-	-	6,542	-	6,542
Fundraising	-	-	-	3,478	-	3,478	-	-	3,478
Other rent	1,978	235	12	-	124	2,349	371	-	2,720
Subscriptions	250	-	-	-	-	250	1,947	-	2,197
Interest	-	635	-	-	-	635	-	-	635
License and fees	-	-	-	-	159	159	274	-	433
	$ 940,733	$ 811,811	$ 36,354	$ 147,813	$ 76,395	$ 2,013,106	$ 236,213	$ 119,948	$ 2,369,267

See accompanying notes.

THE ARC DAVIDSON COUNTY & GREATER NASHVILLE
STATEMENTS OF CASH FLOWS
For the years ended June 30, 2016 and 2015

	2016	**2015**
Cash flows from operating activities:		
Change in net assets	$ 60,694	$ 2,973
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	6,542	6,542
Realized and unrealized loss (gain) on investments	3,282	(13,776)
Changes in current assets and liabilities:		
Government contract receivables	9,095	(78,781)
Government grant receivables	59,384	(152,691)
Receivables - other	8,872	(13,903)
Prepaid expenses	(6,625)	16,026
Accounts payable and accrued expenses	(18,383)	1,572
Deferred revenue	(1,125)	25,951
Net cash provided by (used in) operating activities	121,736	(206,087)
Cash flows from investing activities:		
Purchases of investments	(120,799)	(59,449)
Sales of investments	124,505	63,180
Net cash provided by investing activities	3,706	3,731
Cash flows from financing activities:		
Proceeds from issuance of line of credit	1,200	197,899
Repayments on line of credit	(19,599)	(179,500)
Net cash (used in) provided by financing activities	(18,399)	18,399
Change in cash and cash equivalents	107,043	(183,957)
Cash and cash equivalents, beginning of year	75,789	259,746
Cash and cash equivalents, end of year	$ 182,832	$ 75,789

See accompanying notes.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

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

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Financial statement presentation is in accordance with standards of accounting and financial reporting prescribed for not-for-profit organizations. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

> **Unrestricted net assets** – Net assets that are not subject to donor-imposed stipulations.
>
> **Temporarily restricted net assets** – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. The Organization has no temporarily restricted net assets at June 30, 2016 and 2015.
>
> **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, 2016 and 2015.

Cash and Cash Equivalents

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

Revenue and Other Support

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Investments

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

Fair Values

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Values (Continued)

Level 1 securities include highly liquid government securities and certain other products, such as mutual funds. No changes in the valuation methodologies have been made during the period from July 1, 2014 through June 30, 2016.

Receivables

Contract, grant and other receivables are reviewed periodically as to their collectability. Management provides for losses on receivables using the allowance method. The allowance is based on experience and other circumstances which may affect the collectability of such receivables. Based on collection experience and management's review, no allowance for doubtful accounts is considered necessary at June 30, 2016 and 2015.

Office Furniture and Equipment

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

Donated Services

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

Functional Allocation of Expenses

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

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

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

The Organization follows Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") guidance concerning the accounting for income taxes recognized in an entity's financial statements. This guidance prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Organization does not believe there are any uncertain tax positions at June 30, 2016. 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, 2013 through June 30, 2016.

Employee Retirement Plan

The Organization maintains a tax deferred annuity plan covering substantially all of its employees with at least one year or more of employment. The Organization contributed 3% and 6% of eligible employees' salaries into the annuity annually for the years ended June 30, 2016 and 2015, respectively. Employee retirement plan expense for the years ended June 30, 2016 and 2015 was $17,376 and $44,499 respectively.

NOTE 2 – GOVERNMENT GRANTS AND CONTRACTS

The Organization was due $155,456 and $164,551 from the State of Tennessee Department of Finance and Administration, Division of Intellectual and Developmental Disabilities for contract monies for the support coordination program at June 30, 2016 and 2015, respectively. Under this arrangement, the Organization earned contract revenues totaling $982,879 and $992,412, for the support coordination program for the years ended June 30, 2016 and 2015, respectively.

During the years ended June 30, 2016 and 2015, the Organization earned grant monies totaling $701,276 each year for the family support program.The Organization was due $93,307 and $147,674 from the State of Tennessee Department of Finance and Administration, Division of Intellectual and Developmental Disabilities for grant monies expended during the years ended June 30, 2016 and 2015, respectively.

NOTE 3 – INVESTMENTS

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of June 30, 2016:

	Level 1	Level 2	Level 3	Total
Money market funds	$ 6,712	$ -	$ -	$ 6,712
Mutual funds:				
Growth funds	72,787	-	-	72,787
Large-cap funds	67,326	-	-	67,326
Equities funds	59,510	-	-	59,510
Intermediate-term bond funds	52,226	-	-	52,226
Mid-cap funds	36,850	-	-	36,850
Small-cap funds	32,942	-	-	32,942
Real estate funds	15,186	-	-	15,186
Total mutual funds	336,827	-	-	336,827
Alternative funds	16,432	-	-	16,432
Total investments	$ 359,971	$ -	$ -	$ 359,971

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of June 30, 2015:

	Level 1	Level 2	Level 3	Total
Money market funds	$ 7,340	$ -	$ -	$ 7,340
Mutual funds:				
Equities funds	103,897	-	-	103,897
Growth funds	89,653	-	-	89,653
Large-cap funds	59,680	-	-	59,680
Intermediate-term bond funds	24,851	-	-	24,851
Small-cap funds	23,661	-	-	23,661
Mid-cap funds	22,104	-	-	22,104
Real estate funds	15,390	-	-	15,390
Total mutual funds	339,236	-	-	339,236
Alternative funds	20,412	-	-	20,412
Total investments	$ 366,988	$ -	$ -	$ 366,988

NOTE 3 – INVESTMENTS (Continued)

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

	2016	2015
Realized and unrealized gains (losses)	$ (3,282)	$ 13,776

NOTE 4 – QUESTIONED COSTS/CONTINGENCIES

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

NOTE 5 – OPERATING LEASE COMMITMENTS

The Organization leased its office space under a lease that expired August 31, 2015. The lease was not renewed and the Organization relocated. The Organization signed a new lease agreement extending through September 30, 2020 with monthly lease payments ranging approximately from $6,700 to $7,050 for the life of the lease. Additionally, certain office equipment is leased under various operating lease agreements. The annual lease payments totaled $76,465 and $54,189 for each of the years ended June 30, 2016 and 2015, respectively. Future minimum lease payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2016 are as follows:

Year ending June 30,	
2017	$ 90,046
2018	91,738
2019	90,045
2020	84,742
2021	21,132
	$ 377,703

The Organization also entered into an agreement as lessor to sublease a portion of its office space. Under the arrangement, the Organization will receive approximately $650 a month through September 2020.

NOTE 6 – CART REVENUES

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

This amount reflects the amounts payable to the Organization by B&R for the sale of donated goods, net of amounts payable by the Organization to J&I for solicitation, transportation and trucking services rendered by J&I. Determination of amounts payable to the Organization in excess of the minimum are determined and paid in the January following each calendar year.

During 2013, a new contract was established between the Organization and J&I that increased costs of mailing solicitations. The Organization received $254,468 and $343,008 under this arrangement for the years ended June 30, 2016 and 2015, respectively. The contract may be terminated by either party upon sixty days written notice.

NOTE 7 – PHONE SOLICITATION

Effective January 1, 2013, the Organization entered into an agreement with J&I to manage telephone donation associates who solicit in-kind donations on behalf of the Organization. The Organization is responsible for the hiring and termination of part-time telephone donation associates, as well as remitting payroll taxes and state required withholdings. In addition, the Organization maintains a drawing account from which telephone donation associates are paid weekly by the Organization's payroll service. The Organization received $111,925 and $119,857 under this arrangement for the years ended June 30, 2016 and 2015, respectively. As of June 30, 2016 and 2015, $113,677 and $119,948 was expensed as salaries, payroll taxes and incidental costs, respectively. This contract may be terminated by either party upon six months written notice.

NOTE 8 – CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Organization to concentrations of credit risk consist of account, grant and contracts receivable. Grant and contract receivables represent concentration of credit risk to the extent that they are received from the same sources. The Organization receives a substantial amount of its support from governmental grants and contracts. A significant reduction in the levels of this support, if this were to occur, could have an adverse effect on the Organization's programs and activities. These governmental grants and contracts have been renewed for the 2017 fiscal year.

NOTE 8 – CONCENTRATION OF CREDIT RISK (Continued)

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

NOTE 9 – CLIENT BENEFITS

The Organization receives funding from the State of Tennessee Department of Finance and Administration, Division of Intellectual and Developmental Disabilities for family support services to be provided to persons with severe disabilities and who are eligible for such support. Certain requirements must be met as provided by the Family Support Guidelines Act before support can be given by the Organization. During 2015, the Organization also received funding from the State of Tennessee Department of Mental Health and Substance Abuse Services for targeted family support services to be provided to persons with mental illness, which was not renewed during 2016. The Organization paid $596,085 and $659,977 during the years ended June 30, 2016 and 2015, respectively, to eligible persons for family support services.

The Organization receives funding from the Metropolitan Government of Nashville and Davidson County that provides the Organization with funds for distribution on behalf of eligible individuals by having past due rent, mortgage, or utilities. A similar grant contract through the West End Home Foundation also provides the Organization with funds to distribute relating to eviction support and utility services for seniors. The Organization paid $95,410 and $54,916 during the years ended June 30, 2016 and 2015, respectively, to eligible persons under these programs.

NOTE 10 – LINE OF CREDIT

On September 24, 2014, the Organization obtained a $250,000 line of credit from a financial institution. Under the terms of this line of credit, interest is charged at 4.25% per annum. The note representing this arrangement is secured by the Organization’s investments and requires monthly principal and interest payments. This line of credit matured on September 23, 2015 and was renewed for an additional year through September 23, 2016. The Organization borrowed $197,899 during the year ended June 30, 2015 of which $18,399 remained outstanding at June 30, 2015. The remaining balance was paid off during July 2015. Subsequent to June 30, 2016, this arrangement was renewed through October 2017 under substantially the same terms.

NOTE 11 – ARCABILITY, LLC

The Organization sponsored the establishment of ArcAbility, LLC (“ArcAbility”), a separate nonprofit limited liability company, during December 2015. ArcAbility provides employment opportunities for individuals with intellectual and developmental disabilities. ArcAbility receives management services from and is governed by the same board of directors as the Organization. The activity for ArcAbility for the year ended June 30, 2016 is minimal and is not included in the Organization’s financial statements.

NOTE 12 – SUBSEQUENT EVENTS

The Organization evaluated subsequent events through December 9, 2016 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 DAVIDSON COUNTY & GREATER NASHVILLE
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
For the year ended June 30, 2016

	CFDA Number	Contract Number	Expenditures
State Awards:			
Tennessee Department of Finance and Administration			
Department of Intellectual and Developmental Disabilities			
Family Support Services Program	N/A	34401-99025	$ 701,276
Total State Awards			$ 701,276

NOTES TO THE SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of State Financial Assistance (the "Schedule") summarizes the expenditures of The Arc Davidson County & Greater Nashville under programs of the state governments for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of the State of Tennessee Audit Manual for Auditing, Accounting, and Reporting for Local Governmental Units and Other Organizations.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Grant revenues are recognized when the related program expenditures are incurred.

The Arc Davidson County & Greater Nashville expended indirect costs using a contracted method and did not elect to use the 10% de minimis cost rate allowed under the Uniform Guidance.

INDEPENDENT AUDITOR'S 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 Davidson County & Greater Nashville
Nashville, Tennessee

We have audited, in accordance with the 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, the financial statements of The Arc Davidson County & Greater Nashville (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016 and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 9, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Arc Davidson County & Greater Nashville's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Arc Davidson County & Greater Nashville's internal control. Accordingly, we do not express an opinion on the effectiveness of The Arc Davidson County & Greater Nashville's internal control.

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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did

Frasier, Dean & Howard, PLLC • 3310 West End Avenue, Suite 550 • Nashville, Tennessee 37203-1089 • 615.383.6592 • *fax* 615.383.7094 • www.fdhcpa.com

identify a deficiency in internal control, described below, that we consider to be a significant deficiency in 2016 and 2015.

2015-002 Segregation of Duties

We noted that one person has access to the general ledger, as well as the Access database where all client benefits' demographic information and plans are tracked for the family support and community enhancement programs. The same person should not have access to the general ledger and the Access database for client benefits in order to maintain the proper segregation of duties associated with the processing of client benefits payments.

The Arc Davidson County & Greater Nashville Response: The finance committee continues to review all financial processes and procedures and is developing policies and procedures to ensure segregation of duties and appropriate internal controls.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Arc Davidson County & Greater Nashville's financial statements are free from 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.*

The Arc Davidson County & Greater Nashville's Response to Findings

The Arc Davidson County & Greater Nashville's responses to the findings identified in our audit are described previously. The Arc Davidson County & Greater Nashville's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of The Arc Davidson County & Greater Nashville's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Frasier, Dean & Howard, PLLC

Nashville, Tennessee
December 9, 2016

THE ARC DAVIDSON COUNTY & GREATER NASHVILLE
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2016

Financial Statement Findings

Finding Number	Finding Title	Status
2015-001	Financial Reporting	Corrected
2015-002	Segregation of Duties	Repeated