

THE ARC OF DAVIDSON COUNTY
AUDITED FINANCIAL STATEMENTS
Years ended June 30, 2011 and 2010

THE ARC OF DAVIDSON COUNTY

TABLE OF CONTENTS

Independent Auditor's Report.....	1 – 2
Financial Statements:	
Statements of Financial Position.....	3
Statements of Activities	4 – 5
Statements of Functional Expenses.....	6 – 7
Statements of Cash Flows.....	8
Notes to Financial Statements.....	9 – 15
Supplemental Information:	
Schedule of Expenditures of State Financial Assistance	16
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	17 – 19
Summary Schedule of Prior Audit Findings	20



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, 2011 and 2010, 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, 2011 and 2010 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 December 14, 2011 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 audits.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying schedule of expenditures of state financial assistance is presented for purposes of additional analysis and is not a required part of the basic 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.

Frasier, Dean + Hendrix, PLLC

Nashville, Tennessee
December 14, 2011

THE ARC OF DAVIDSON COUNTY
STATEMENTS OF FINANCIAL POSITION
June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 403,586	\$ 410,633
Investments	108,389	29,999
Government contract receivables	86,160	85,124
Receivables - other - no allowance necessary	23,466	18,787
Prepaid expenses	<u>16,157</u>	<u>13,637</u>
Total current assets	<u>637,758</u>	<u>558,180</u>
Property and equipment:		
Office furniture and equipment	33,833	33,833
Less accumulated depreciation	<u>(33,763)</u>	<u>(32,263)</u>
Net property and equipment	<u>70</u>	<u>1,570</u>
Total assets	<u><u>\$ 637,828</u></u>	<u><u>\$ 559,750</u></u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 95,322	\$ 85,937
Deferred revenue	<u>-</u>	<u>10,333</u>
Total current liabilities	<u>95,322</u>	<u>96,270</u>
Net assets:		
Unrestricted:		
Operating	502,316	425,910
Furniture and equipment	70	1,570
Designated for Project Opportunity	<u>15,000</u>	<u>10,000</u>
Total unrestricted net assets	517,386	437,480
Temporarily restricted	<u>25,120</u>	<u>26,000</u>
Total net assets	<u>542,506</u>	<u>463,480</u>
Total liabilities and net assets	<u><u>\$ 637,828</u></u>	<u><u>\$ 559,750</u></u>

See accompanying notes.

THE ARC OF DAVIDSON COUNTY
STATEMENT OF ACTIVITIES
For the year ended June 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and other support:			
Government contracts:			
Support coordination program	\$1,009,756	\$ -	\$ 1,009,756
Government grants:			
Family support program	714,580	-	714,580
Cart revenues	270,498	-	270,498
Other grants and contracts	65,269	-	65,269
Contributions	3,754	13,820	17,574
United Way	3,760	11,300	15,060
Investment income	11,681	-	11,681
Memberships	2,050	-	2,050
Net assets released from restrictions - satisfaction of program restrictions	<u>26,000</u>	<u>(26,000)</u>	<u>-</u>
Total revenues and other support	<u>2,107,348</u>	<u>(880)</u>	<u>2,106,468</u>
Expenses:			
Program services:			
Support coordination	839,694	-	839,694
Family support	710,009	-	710,009
Community enhancement	34,651	-	34,651
Development	68,481	-	68,481
Educational advocacy	68,957	-	68,957
Support services:			
Management and general	<u>305,650</u>	<u>-</u>	<u>305,650</u>
Total expenses	<u>2,027,442</u>	<u>-</u>	<u>2,027,442</u>
Change in net assets	79,906	(880)	79,026
Net assets, beginning of year	<u>437,480</u>	<u>26,000</u>	<u>463,480</u>
Net assets, end of year	<u>\$ 517,386</u>	<u>\$ 25,120</u>	<u>\$ 542,506</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 contracts:			
Support coordination program	\$ 936,705	\$ -	\$ 936,705
Government grants:			
Family support program	604,152	-	604,152
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
Investment income	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><u>\$ 437,480</u></u>	<u><u>\$ 26,000</u></u>	<u><u>\$ 463,480</u></u>

See accompanying notes.

THE ARC OF DAVIDSON COUNTY
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2011

	Support Coordination	Family Support	Community Enhancement	Development	Educational Advocacy	Total Program Services	Management and General	Total Expenses
Salaries	\$ 538,608	\$ 71,888	\$ 4,651	\$ 5,071	\$ 37,492	\$ 657,710	\$ 180,928	\$ 838,638
Client benefits	-	604,418	30,000	-	-	634,418	-	634,418
Employee benefits	125,301	12,180	-	53	9,679	147,213	27,627	174,840
Travel	71,802	15	-	-	274	72,091	-	72,091
Payroll taxes	37,420	5,413	-	368	2,635	45,836	12,605	58,441
Postage	5,871	2,312	-	38,678	26	46,887	554	47,441
Office rent	28,787	3,873	-	4,076	1,427	38,163	4,076	42,239
Supplies	7,745	2,556	-	-	1,830	12,131	14,747	26,878
Telephone	19,940	779	-	-	890	21,609	4,722	26,331
Professional services	1,559	510	-	459	-	2,528	20,893	23,421
Insurance	-	-	-	-	-	-	19,031	19,031
Conferences	261	428	-	11,145	802	12,636	1,313	13,949
Contracted services	-	-	-	-	13,750	13,750	-	13,750
Equipment rental	-	-	-	-	-	-	7,954	7,954
and maintenance	-	-	-	-	-	-	3,366	6,962
Printing and publications	1,315	1,063	-	1,151	67	3,596	-	6,799
Affiliation fees	-	-	-	6,799	-	6,799	-	5,499
Miscellaneous	585	4,539	-	-	-	5,124	375	3,039
Subscriptions	500	35	-	-	85	620	2,419	2,424
Other rent	-	-	-	-	-	-	2,424	1,797
License and fees	-	-	-	681	-	681	1,116	1,500
Depreciation	-	-	-	-	-	-	1,500	-
	\$ 839,694	\$ 710,009	\$ 34,651	\$ 68,481	\$ 68,957	\$ 1,721,792	\$ 305,650	\$ 2,027,442

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	27,078	166,363
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	4,077	42,241
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
	<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
STATEMENTS OF CASH FLOWS
For the years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Change in net assets	\$ 79,026	\$ 50,174
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,500	1,570
Realized and unrealized gain on investments	(6,968)	(1,069)
Changes in current assets and liabilities:		
Government contract receivables	(1,036)	146,192
Government grant receivables	-	(8,316)
Receivables - other	(4,679)	(5,037)
Prepaid expenses	(2,520)	(285)
Accounts payable and accrued expenses	9,385	9,465
Deferred revenue	(10,333)	10,333
Net cash provided by operating activities	<u>64,375</u>	<u>203,027</u>
Cash flows from financing activities:		
Payments on loan from State of Tennessee	<u>-</u>	<u>(17,020)</u>
Net cash used in financing activities	<u>-</u>	<u>(17,020)</u>
Cash flows from investing activities:		
Purchases of investments	<u>(71,422)</u>	<u>-</u>
Net cash used in investing activities	<u>(71,422)</u>	<u>-</u>
Change in cash and cash equivalents	(7,047)	186,007
Cash and cash equivalents, beginning of year	410,633	224,626
Cash and cash equivalents, end of year	<u>\$ 403,586</u>	<u>\$ 410,633</u>

See accompanying notes.

THE ARC OF DAVIDSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011 and 2010

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.

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, 2011 and 2010.

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 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.

THE ARC OF DAVIDSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2011 and 2010

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

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.

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:

THE ARC OF DAVIDSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2011 and 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Values (Continued)

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.

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 generally accepted accounting principles 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.

THE ARC OF DAVIDSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2011 and 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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. 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, 2011. 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, 2011. There are no tax penalties or interest reported 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 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, 2011 and 2010 was \$56,608 and \$58,858, respectively.

NOTE 2 – GOVERNMENT GRANT RECEIVABLES AND CONTRACT RECEIVABLES

The Organization was due \$86,160 and \$85,124 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, 2011 and 2010, respectively. Under this arrangement, the Organization earned contract monies totaling \$1,009,756 and \$936,705, respectively, for support coordination programs for the years ended June 30, 2011 and 2010.

During the years ended June 30, 2011 and 2010, the Organization earned grant monies from the State of Tennessee Department of Finance and Administration, Division of Mental Retardation Services totaling \$714,580 and \$604,152, respectively for the family support services.

THE ARC OF DAVIDSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2011 and 2010

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, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 1,599	\$ -	\$ -	\$ 1,599
Mutual funds:				
Growth funds	13,396	-	-	13,396
Equities funds	38,603	-	-	38,603
Real estate funds	5,494	-	-	5,494
Small-Cap funds	7,530	-	-	7,530
Mid-Cap funds	8,884	-	-	8,884
Large-Cap funds	14,636	-	-	14,636
Short-term bond funds	9,541	-	-	9,541
High yield funds	<u>3,236</u>	<u>-</u>	<u>-</u>	<u>3,236</u>
Total mutual funds	101,320	-	-	101,320
Alternative funds	<u>5,470</u>	<u>-</u>	<u>-</u>	<u>5,470</u>
Total investments	<u>\$ 108,389</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 108,389</u>

Investments of \$29,999 were held in a long-term government bond fund as of June 30, 2010.

The following schedule summarizes investment return at June 30:

	<u>2011</u>	<u>2010</u>
Realized and unrealized gains	<u>\$ 6,968</u>	<u>\$ 1,069</u>

NOTE 4 – QUESTIONED COSTS/CONTINGENCIES

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

NOTE 5 – OPERATING LEASE COMMITMENTS

The Organization leases its office space under a lease that expires August 31, 2014. Under terms of the lease agreement, the agreement may be terminated with 90 days notice. The annual lease payments totaled approximately \$42,000 for each of the years ended June 30, 2011 and 2010, respectively.

THE ARC OF DAVIDSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2011 and 2010

NOTE 5 – OPERATING LEASE COMMITMENTS (Continued)

Certain office equipment is leased under various operating lease agreements. Future minimum lease payments of approximately \$7,000 are required under operating leases through 2015.

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2011</u>	<u>2010</u>
United Way grants for the coming year	\$ 11,300	\$ 11,000
Contributions for the coming year	<u>13,820</u>	<u>15,000</u>
	<u>\$ 25,120</u>	<u>\$ 26,000</u>

NOTE 7 – CART REVENUES

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

During 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. During 2011, the contract was amended to allow for increased costs of mailing solicitations. The Organization received \$270,498 and \$248,000 under this arrangement for the years ended June 30, 2011 and 2010. The contract may be terminated by either party upon sixty days written notice.

THE ARC OF DAVIDSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2011 and 2010

NOTE 8 – 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 \$604,418 and \$513,530 during the years ended June 30, 2011 and 2010, to eligible persons for family support services.

NOTE 9 – CONCENTRATION OF CREDIT RISK

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

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

NOTE 10 – SUBSEQUENT EVENTS

The Organization evaluated subsequent events through December 14, 2011 when these financial statements were available to be issued. Other than as described below, 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.

During July 2011, the Organization signed a Separation Agreement related to a former employee under which the Organization agreed to pay the individual amounts totaling approximately \$50,500 as well as accrued time off of approximately \$10,000.

SUPPLEMENTAL INFORMATION

THE ARC OF DAVIDSON COUNTY
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
For the year ended June 30, 2011

	Grant Number	Balance		Cash Receipts	Expenditures	Balance Receivable June 30, 2011
		June 30, 2010				
State Awards:						
Tennessee Department of Finance and Administration						
Tennessee Division of Mental Retardation Services						
Family Support Services Program						
	34401-02235	\$	-	\$ 714,580	\$ 714,580	\$ -
Total State Awards						
		\$	-	\$ 714,580	\$ 714,580	\$ -

NOTES TO THE SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE

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



**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, 2011, and have issued our report thereon dated December 14, 2011. 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 Arc of Davidson County'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 Arc of Davidson County'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 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.

Our consideration of the 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. However, we identified the following deficiencies in internal control over financial reporting, that we consider to be significant deficiencies in internal control over financial reporting. 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.

Financial Reporting

The Committee of Sponsoring Organizations ("COSO") framework for effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Organization's audited financial statements. The Organization currently does not have a certified public accountant ("CPA") or individual with similar experience on staff or on the Board of Directors to interpret generally accepted accounting principles and identify risks of misstatement that might be relevant to the risks of preparation of reliable financial statements, including full disclosures in accordance with generally accepted accounting principles.

Organization Response: While in fact we do not have a CPA on staff, we have a CPA on our advisory finance committee who is willing to assist in any questions that might arise.

Segregation of Duties

We noted that two individuals have 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 individual 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.

Organization Response: The newly formed finance committee has begun a review of all financial processes and procedures and is developing policies and procedures to ensure separation of duties and appropriate internal controls.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Arc of Davidson County'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 the following instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Fraudulent Disbursements

Subsequent to June 30, 2011, the Organization identified certain fraudulent disbursements in the amount of \$5,499 which partially relate to State of Tennessee funded programs. These disbursements are reflected as miscellaneous expenses in the statement of functional expenses for the year ended June 30, 2011. Although the amount is immaterial to the Organization's financial statements, we suggest the Organization consider its reporting responsibility to the State of Tennessee regarding such funds.

Organization Response: Funds taken from the state funded program have been replaced with funds from the organization's general accounts. This step has been reported to the appropriate state officials. The finance committee will be developing policies and procedures to tighten the organization's internal controls to help prevent future occurrences.

We noted certain matters that we reported to management of the Organization in a separate letter dated December 14, 2011.

The Organization's response to the findings identified in our audit is described above. We did not audit the Organization's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, 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
December 14, 2011

THE ARC OF DAVIDSON COUNTY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year ended June 30, 2011

None.