

THE ARC OF DAVIDSON COUNTY
AUDITED FINANCIAL STATEMENTS

Year Ended June 30, 2004

Nancy C. Crabtree
Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
The ARC of Davidson County
Nashville, Tennessee

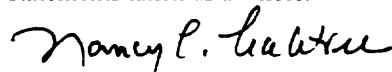
I have audited the accompanying statement of financial position of the ARC of Davidson County (a nonprofit corporation) as of June 30, 2004, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the ARC of Davidson County as of June 30, 2004 and the changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have issued my report dated November 29, 2004 on my consideration of the ARC of Davidson County's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

My audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Federal and State Awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.



Nashville, Tennessee
November 29, 2004

THE ARC OF DAVIDSON COUNTY
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2004

ASSETS

| | |
|--|-------------------------|
| Current Assets: | |
| Cash and cash equivalents | \$ 142408 |
| Investments – Note B | 24013 |
| Government grants receivable | 7727 |
| Government contracts receivable | 69091 |
| Receivables – other – no allowance necessary | 2000 |
| Prepaid expenses | <u>6324</u> |
| Total Current Assets | <u>\$ 251563</u> |
| Property and Equipment: | |
| Office furniture and equipment | \$ 130291 |
| Less accumulated depreciation | <u>(122095)</u> |
| Total Property and Equipment | <u>\$ 8196</u> |
| Total Assets | <u><u>\$ 259759</u></u> |

LIABILITIES AND NET ASSETS

| | |
|----------------------------------|-------------------------|
| Current Liabilities: | |
| Accrued expenses | \$ 9671 |
| Deferred revenues | <u>7500</u> |
| Total Current Liabilities / | |
| Total Liabilities | <u>\$ 17171</u> |
| Net Assets: | |
| Unrestricted: | |
| Operating | \$ 208101 |
| Board Designated | 26291 |
| Furniture and equipment | <u>8196</u> |
| Total Net Assets | <u>\$ 242588</u> |
| Total Liabilities and Net Assets | <u><u>\$ 259759</u></u> |

See accompanying notes to the financial statements.

THE ARC OF DAVIDSON COUNTY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

| | Unrestricted | Temporarily Restricted | Total |
|---|--------------|---------------------------|------------|
| Revenues and Other Support: | | | |
| United Way | \$ 5600 | \$ 5678 | \$ 11278 |
| Government grants | 976368 | | 976368 |
| Government contracts | 661328 | | 661328 |
| Contributions | 4037 | | 4037 |
| Memberships | 3030 | | 3030 |
| Interest | 1852 | | 1852 |
| Newsletter | 4000 | | 4000 |
| Cart revenues | 230000 | | 230000 |
| Net assets released from restrictions: | | | |
| Satisfaction of program restrictions | 5678 | (5678) | |
| Total Revenues and Other Support | \$ 1891893 | \$ | \$ 1891893 |
| Expenses: | | | |
| Program Services: | | | |
| Community Parent Resource Center | \$ 115054 | \$ | \$ 115054 |
| Support Coordination | 588569 | | 588569 |
| Family Support | 763333 | | 763333 |
| Advocacy | 21743 | | 21743 |
| Respite | 47930 | | 47930 |
| Development and Membership | 1419 | | 1419 |
| Support Services: | | | |
| Management and general | 274718 | | 274718 |
| Total Expenses | \$ 1812766 | \$ | \$ 1812766 |
| Increase (Decrease) in Net Assets | \$ 79127 | \$ | \$ 79127 |
| Unrealized loss on investments | (2000) | | (2000) |
| Net Assets at the beginning of the year | 165461 | | 165461 |
| Net Assets at the end of the year | \$ 242588 | \$ | \$ 242588 |

See accompanying notes to the financial statements.

THE ARC OF DAVIDSON COUNTY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2004

| | Community Parent Resource Center | Support Coordination | Family Support | Advocacy | Respite |
|--------------------------------|---|-------------------------|-------------------|----------|----------|
| Salaries | \$ 41778 | \$ 392357 | \$ 44978 | \$ | \$ 5736 |
| Employee benefits | 3571 | 63037 | 8974 | | 1292 |
| Payroll taxes | 3085 | 30214 | 3411 | | 469 |
| Professional services | 919 | 5220 | 619 | 97 | 12 |
| Client benefits | | | 698346 | | 40000 |
| Contract services | 40530 | | | | |
| Supplies | 16304 | 9000 | 1622 | 768 | 19 |
| Telephone | 177 | 19575 | 61 | 62 | 11 |
| Postage | 479 | 5920 | 2270 | 1434 | 87 |
| Office rent | 301 | 17048 | 2126 | 3001 | 304 |
| Other rent | | | | | |
| Insurance | | | | | |
| License and fees | | | | | |
| Equipment rental & maintenance | | 608 | | | |
| Printing and publications | | 167 | | 363 | |
| Subscriptions | | 305 | | | |
| Travel | 7910 | 44535 | 436 | | |
| Conferences | | 532 | 490 | 7068 | |
| Specific assistance / awards | | 51 | | | |
| Memberships | | | | | |
| Affiliation fees | | | | 8950 | |
| Depreciation | | | | | |
| Total | \$ 115054 | \$ 588569 | \$ 763333 | \$ 21743 | \$ 47930 |

See accompanying notes to the financial statements.

THE ARC OF DAVIDSON COUNTY
STATEMENT OF FUNCTIONAL EXPENSES (continued)
FOR THE YEAR ENDED JUNE 30, 2004

| | Development and Membership | Total Program | Management and General | Total Expenses |
|--------------------------------|----------------------------------|------------------|------------------------------|-------------------|
| Salaries | \$ | \$ 484849 | \$ 169846 | \$ 654695 |
| Employee benefits | | 76874 | 30608 | 107482 |
| Payroll taxes | | 37179 | 12374 | 49553 |
| Professional services | | 6867 | 12346 | 19213 |
| Client benefits | | 738346 | | 738346 |
| Contract services | | 40530 | | 40530 |
| Supplies | | 27713 | 9452 | 37165 |
| Telephone | 42 | 19928 | 3181 | 23109 |
| Postage | 306 | 10496 | 781 | 11277 |
| Office rent | | 22780 | 7593 | 30373 |
| Other rent | | | 1656 | 1656 |
| Insurance | | | 12779 | 12779 |
| License and fees | 652 | 652 | 622 | 1274 |
| Equipment rental & maintenance | | 608 | 8022 | 8630 |
| Printing and publications | | 530 | 1485 | 2015 |
| Subscriptions | | 305 | | 305 |
| Travel | | 52881 | 2 | 52883 |
| Conferences | 215 | 8305 | 562 | 8867 |
| Specific assistance / awards | | 51 | | 51 |
| Memberships | 204 | 204 | | 204 |
| Affiliation fees | | 8950 | | 8950 |
| Depreciation | | | 3409 | 3409 |
| Total | \$ 1419 | \$ 1538048 | \$ 274718 | \$ 1812766 |

See accompanying notes to the financial statements.

THE ARC OF DAVIDSON COUNTY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004

Cash Flows from Operating Activities:

| | |
|--|-------------------|
| Cash received from support and revenues | \$ 244733 |
| Cash received from government grants | 1001070 |
| Cash received from government contracts | 600441 |
| Cash received from United Way | 11278 |
| Interest received | 928 |
| Cash paid to suppliers and employees | <u>(1805036)</u> |
| Net Cash Provided (Used) by Operating Activities | <u>\$ 53414</u> |

Cash Flows from Investing Activities:

| | |
|--|-------------------|
| Acquisition of furniture and equipment | \$ (2314) |
| Unrealized loss on investments | <u>(2000)</u> |
| Net Cash Provided (Used) by Investing Activities | <u>\$ (4314)</u> |

| | |
|--|-------------------------|
| Net Increase (Decrease) in Cash and Cash Equivalents | \$ 49100 |
| Cash and Cash Equivalents at beginning of the year | <u>91308</u> |
| Cash and Cash Equivalents at end of the year | <u><u>\$ 140408</u></u> |

See accompanying notes to the financial statements.

THE ARC OF DAVIDSON COUNTY
STATEMENT OF CASH FLOWS (continued)
FOR THE YEAR ENDED JUNE 30, 2004

RECONCILIATION OF INCREASE IN NET ASSETS TO NET CASH PROVIDED (USED)
BY OPERATING ACTIVITIES:

| | |
|------------------------|----------|
| Increase in Net Assets | \$ 79127 |
|------------------------|----------|

Adjustments of reconcile the increase in net assets to
Net cash provided (used) by operating activities:

| | |
|---------------------------------------|-------------|
| Depreciation | 3409 |
| Interest income earned on investments | (924) |
| (Increase) decrease in: | |
| Government grant receivable | 24702 |
| Government contract receivable | (60887) |
| Receivables - other | 3666 |
| Prepaid expenses | (949) |
| Increase (decrease) in: | |
| Accrued expenses | <u>5270</u> |

| | |
|--|-----------------|
| Net Cash provided (used) by operating activities | <u>\$ 53414</u> |
|--|-----------------|

See accompanying notes to the financial statements.

THE ARC OF DAVIDSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

1. Nature of Organization. The ARC of Davidson County is a nonprofit corporation conducting programs for the benefit of mentally retarded citizens and their families. The State of Tennessee Department of Finance and Administration, Division of Mental Retardation Services and the Nashville Area United Way provide partial support on an annual basis.
2. Basis of Presentation. The ARC of Davidson County reports its information regarding its financial position and activities in accordance with the Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS 117, the Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets, based upon the existence or absence of donor-imposed restrictions. (The Corporation has no assets which meet the definition of permanently restricted net assets.) In addition, the Corporation reports information regarding contributions in accordance with SFAS No. 11, Accounting for Contributions Received and Contributions Made. In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. (The Corporation has received no contributions with donor-imposed restrictions that would result in permanently restricted net assets.)
3. Basis of Accounting. The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principle
4. Cash Equivalents. Cash equivalents consist of short-term, highly liquid investments which are readily convertible into cash within ninety days of purchase.
5. Revenue and Support. The ARC of Davidson County receives much of its income from grants and contracts from the State of Tennessee Department of Finance Administration, Division of Mental Retardation Services, the Council on Developmental Disabilities and the U.S. Department of Education. The Corporation records income from the grants and contracts in the period that the applicable expenditures are incurred.
6. Contributions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted. When a restriction expires, (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

THE ARC OF DAVIDSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS (continued)

7. Property and Equipment. Property and equipment are carried at cost. Donated equipment is recorded at market value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, presently five to ten years. Certain equipment has been purchased, in part, with grant funds and is subject to return to the grantor either upon its ultimate disposition or for failure to comply with the terms and conditions of the grant contract for the useful life of the equipment. Equipment totaling \$ 2314 was purchased during the year ended June 30, 2004.
8. Donated Services. Unpaid volunteers make contributions of time in various administrative, fund-raising, and program functions. The value of contributed time is not reflected in the financial statements as it is not susceptible to an objective measurement or valuation.
9. Functional Allocation of Expenses. The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.
10. Estimates. The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
11. Income Taxes. The ARC of Davidson County is exempt from federal income taxes under Section 501 (c) (3) of the Internal Revenue Code and therefore no provision has been made for federal income taxes in the accompanying financial statements.
12. Pension Plan. The ARC of Davidson County maintains a noncontributory tax deferred annuity plan covering substantially all of its employees over 25 years of age with at least one year of employment. The costs of this employee benefit plan are charged to expense.

NOTE B – INVESTMENTS:

Investments in marketable securities are stated at their fair values which are based on quoted market prices for those investments as of June 30, 2004. The historical cost for these investments totaled \$ 30394 at the year ended June 30, 2004, whereas the fair value and carrying value per the financial statements is \$ 24013 as of June 30, 2004.

NOTE C – RECEIVABLES – OTHER:

The ARC of Davidson County is due monies from the ARC of Tennessee in the amount of \$ 2000 for the reimbursement of expenses as of June 30, 2004.

THE ARC OF DAVIDSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE D – GOVERNMENT GRANTS RECEIVABLE AND CONTRACTS RECEIVABLE:

The U.S. Department of Education, as of the year ended June 30, 2004 owed the ARC of Davidson County \$ 7727 for the Community Parent Resource Center program.

The ARC of Davidson County is due \$ 66056 from the State of Tennessee Department of Finance and Administration, Division of Mental Retardation Services for contract monies for support coordination activities for the year ended June 30, 2004. The ARC of Davidson County is also owed \$ 3035 from the Metropolitan Government of Nashville and Davidson County (Metropolitan Public Schools) for contract services. Total contract receivables for the year ended June 30, 2004 was \$ 69091.

NOTE E – GOVERNMENT GRANTS AND CONTRACTS:

During the year ended June 30, 2004, the ARC of Davidson County earned monies from the State of Tennessee Department of Finance and Administration, Division of Mental Retardation Services totaling \$ 867940, consisting of monies for:

| | |
|-------------------------|------------------|
| Respite activities | \$ 46357 |
| Family Support services | <u>821583</u> |
| Total | <u>\$ 867940</u> |

In addition, the ARC of Davidson County earned \$ 108428 from the Department of Education for a community parent resource center program. Total government grants received from both Federal and State sources amounted to \$ 976368 for the year ended June 30, 2004.

During the year ended June 30, 2004, the ARC of Davidson County earned contract monies from the State of Tennessee Department of Finance and Administration, Division of Mental Retardation Services totaling \$ 650802 for support coordination services. The ARC of Davidson County earned \$ 10526 from Metropolitan Government of Nashville and Davidson County (Metropolitan Public Schools) for education activities. Contract monies totaled \$ 661328 for the year ended June 30, 2004.

THE ARC OF DAVIDSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE F – QUESTIONED COSTS / CONTINGENCIES:

Questioned costs are those amounts charged to a funded program that may not be in compliance with requirements set forth in contracts, statutes, and regulations governing allowability or eligibility. A questioned cost may not be reimbursed by the State or the State agency may require that the funds already expended be refunded back to the State. These amounts can be “questioned” by the State for the specific grant or contract to which they apply. The determination as to whether such costs will be allowed or disallowed under the grants or contracts will be made by the individual grantor agencies at a later date. No liability is needed as of June 30, 2004 for any costs as no determination has been made by the grantor agencies as to any amount for any grant. The Board deems this contingency remote, as the ARC of Davidson County has accommodated the objective of the organization to the provisions of the grant.

NOTE G – COMMITMENTS:

As of June 30, 2004, the ARC of Davidson County leased its office space under a lease that went into effect beginning September 1, 2002 and will expire August 31, 2005. The annual lease payment totaled \$ 30373 for the year ended June 30, 2004.

Office equipment is leased under various term agreements, with monthly lease payments for all leased equipment approximating less than \$ 1000. No lease is considered a capital lease under FASB Statement 13.

NOTE H – NET ASSETS – UNRESTRICTED – BOARD DESIGNATED:

In 1986, \$ 25000 was designated by the Board of Directors for expenditures relating to the establishment of the Community Residential Alternative. This Community Residential Alternative would enable some developmentally disabled persons to have special residences in which to live within the community. In addition, monies have been placed in a savings account that have been designated to be used to facilitate the development of community living services for adult retarded citizens. This savings account totals \$1291 as of June 30, 2004.

THE ARC OF DAVIDSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE I – THRIFT STORE PROCEEDS:

In 1982, the ARC of Davidson County contracted with B&R Salvage Corporation, allowing the ARC to share in the net profits generated by B&R Salvage Corporation. The ARC of Davidson County then entered into a contract, effective January 1, 2001, with J&I Advisory Support, to aid the ARC of Davidson County in the solicitation of donations from the general public in the form of clothing and household goods which are then given to B&R Salvage and subsequently sold to the public. The terms of the contract with B&R Salvage state that the ARC of Davidson County is to receive money based on the number of carts filled with donations made to the ARC of Davidson County and picked up by B&R Salvage. An estimate is paid semimonthly and any remaining profits due the ARC of Davidson County are paid out in January of the following year. The ARC of Davidson County agrees to spend \$ 15000 in mailing expenses for the calendar year ended December 31, 2004 and any monies not spent for mailings are then used to reduce any remaining profits due the ARC of Davidson County as of December 31, 2004. Profits generated for the year ended June 30, 2004 were \$ 230000.

NOTE J - CLIENT BENEFITS:

In 1993, the ARC of Davidson County began receiving monies from the Department of Finance and Administration, Division of Mental Retardation Services for family support services to be provided to persons with severe disabilities and who are eligible for such support. Certain requirements must be met as provided by the Family Support Guidelines and Act before support can be given by the ARC. For the year ended June 30, 2004, \$ 698346 was paid out to eligible persons for family support services.

NOTE K – CONCENTRATION OF CREDIT RISK:

Financial instruments that potentially subject the ARC of Davidson County to concentrations of credit risk consist of account, grants and contracts receivable. Grants and contracts receivable represent concentration of credit risk to the extent that they are received from concentrated sources. The ARC of Davidson County 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 effect on the ARC of Davidson County's programs and activities. Based on the upcoming fiscal year's budget, the funding is expected to continue for the current year.

SUPPLEMENTAL INFORMATION

THE ARC OF DAVIDSON COUNTY
SCHEDULE OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

| <u>Grantor / Program Title</u> | <u>Federal CFDA Number</u> | <u>Grant Number</u> | <u>Federal Award Amount</u> | <u>State Award Amount</u> |
|---|------------------------------------|------------------------------------|-------------------------------------|-----------------------------------|
| Tennessee Department of Finance and Administration : | | | | |
| Tennessee Council on Developmental Disabilities/ | | | | |
| Teacher training | 93.63 | GR-03-15270-00 | \$ 2500 | |
| Tennessee Division of Mental Retardation Services/ | | | | |
| Respite & Family Support | | Z-03-010242-00 | | \$ 867940 |
| Respite & Family Support | | Z-04-016429-00 & DG-04-01815-00 | | \$ 867940 |
| U.S. Department of Education/ | | | | |
| Community Parent Resource Center | 84.328C | H328C010038 | \$ 203000 | |
| Total | | | | |

- (1) Balance owed by the grantor agencies to the ARC of Davidson County as of June 30, 2004.
- (2) This amount does not include monies due for the fiscal year ended June 30, 2004, that have been earned, but not yet received.

| Balance June 30, 2003 | Receipts or Revenues Recognized (2) | Federal Disbursements / Expenditures | State Disbursements / Expenditures | Total Expenditures | Balance June 30, 2004 (1) |
|--------------------------|---|--|--|-----------------------|------------------------------|
|--------------------------|---|--|--|-----------------------|------------------------------|

| | | | | | |
|------------|---------|----|----|----|----|
| \$ (1456) | \$ 1456 | \$ | \$ | \$ | \$ |
|------------|---------|----|----|----|----|

| | | | | | |
|----------|--------|--|--------|--------|--|
| (17716) | 17716 | | | | |
| | 867940 | | 867940 | 867940 | |

| | | | | | |
|----------|--------|--------|--|--------|---------|
| (13257) | 113958 | 108428 | | 108428 | (7727) |
|----------|--------|--------|--|--------|---------|

| | | | | | |
|--------------------|-------------------|------------------|------------------|------------------|-------------------|
| <u>\$ (32429)</u> | <u>\$ 1001070</u> | <u>\$ 108428</u> | <u>\$ 867940</u> | <u>\$ 976368</u> | <u>\$ (7727)</u> |
|--------------------|-------------------|------------------|------------------|------------------|-------------------|

NANCY C. CRABTREE

CERTIFIED PUBLIC ACCOUNTANT
6150 JOCELYN HOLLOW ROAD
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(615) 352-2734

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

Board of Directors
The ARC of Davidson County
Nashville, Tennessee

I have audited the financial statements of the ARC of Davidson County (a nonprofit organization) as of and for the year ended June 30, 2004, and have issued my report thereon dated November 29, 2004. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the ARC of Davidson County's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses. (However, I noted other matters involving the internal control over financial reporting, which I have reported to management of the ARC of Davidson County in a separate letter dated November 29, 2004.)

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, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. (However, I noted certain matters that I have reported to management of the ARC of Davidson County in a separate letter dated November 29, 2004.)

This report is intended solely for the information and use of the audit committee, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Nancy C. Crabtree

Nashville, Tennessee
November 29, 2004

NANCY C. CRABTREE

CERTIFIED PUBLIC ACCOUNTANT

6150 JOCELYN HOLLOW ROAD

NASHVILLE, TENNESSEE 37205

(615) 352-2734

Board of Directors
The ARC of Davidson County
Nashville, Tennessee

In planning and performing my audit of the financial statements of the ARC of Davidson County for the year ended June 30, 2004, I considered the Organization's internal control structure to plan my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on internal control structure.

However, during my audit, I noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. (I previously reported on the Organization's internal control over financial reporting in my report dated November 29, 2004). This letter does not effect my report dated November 29, 2004 on the financial statements of the ARC of Davidson County.

I will review the status of these comments during my next audit engagement. My comments and recommendations, all of which have been discussed with appropriate members of management are intended to improve the internal control structure or result in other operating efficiencies. I will be pleased to discuss these comments in further detail at your convenience to perform any additional study of these matters, or to assist you in implementing the recommendations.

In last year's audit, my review of the payroll records disclosed that salary authorizations were not signed by the Executive Director. An email was being sent to payroll personnel, but this notice was not initialed or signed by the Executive Director. To insure that salary amounts are truly authorized (especially salary increases), it is imperative that such correspondence be signed or initialed by the Executive Director. In this year's audit, salary authorizations were signed by the Executive Director or the Board Chair (for approval of salary increase for the Executive Director). Controls have been strengthened because assurance is given that proper approval has taken place.

In my review of cash disbursements, it was noted that one invoice was not present to support a particular disbursement. Although this appears to be a very isolated incident, greater diligence should be taken to insure that all disbursements have an invoice or other appropriate support documentation.

In addition, in my review of cash disbursements, approval was not noted for any disbursements except for those disbursements made for family support expenditures and for any travel reimbursement to employees. Both types of expenditures were approved by appropriate program personnel or supervisors. However, all payments made by the ARC of Davidson County should be approved, preferably by the Executive Director or the Assistant Executive Director. At a minimum, one of the two check signers should initial each invoice prior to signing the check for payment. This provides assurance that each invoice has been reviewed and is proper to pay.

Also, in my review of cash disbursements, I noted that invoices were not marked "paid" upon their payment. Invoices are attached to check stubs, which can corroborate payment, but should an invoice become loose from the check stub, a subsequent payment could be made for the same invoice. Controls could be strengthened with invoices being marked "paid" upon their payment.

My review of the 2004 records did not uncover any gross negligence in the maintenance of the accounting records and no major adjustments had to be made in order for the financial statements to be fairly stated. The accounting records are being maintained by very competent personnel. Much care and diligence have been taken by the accounting personnel to create an audit trail that tracks transactions made during the year, provides adequate documentation, and supports year-end financial statement balances. However, my review did bring to light several areas, as mentioned in the preceding paragraphs, that could become problems if not addressed, now. With implementation of stronger controls, questions as to the management of the ARC of Davidson County' financial assets can be easily answered and supported.

This report is intended solely for the information and use of the Board of Directors, management, and others within the ARC of Davidson County.

Nancy L. Leake

Nashville, Tennessee
November 29, 2004

THE ARC OF DAVIDSON COUNTY
SCHEDULE OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

| Grantor / Program Title | Federal CFDA Number | Grant Number | Federal Award Amount | State Award Amount |
|---|---------------------------|------------------------------------|----------------------------|--------------------------|
| Tennessee Department of Finance and Administration : | | | | |
| Tennessee Council on Developmental Disabilities/ | | | | |
| Teacher training | 93.63 | GR-03-15270-00 | \$ 2500 | |
| Tennessee Division of Mental Retardation Services/ | | | | |
| Respite & Family Support | | Z-03-010242-00 | | \$ 867940 |
| Respite & Family Support | | Z-04-016429-00 & DG-04-01815-00 | | \$ 867940 |
| U.S. Department of Education/ | | | | |
| Community Parent Resource Center | 84.328C | H328C010038 | \$ 203000 | |
| Total | | | | |

- (1) Balance owed by the grantor agencies to the ARC of Davidson County as of June 30, 2004.
- (2) This amount does not include monies due for the fiscal year ended June 30, 2004, that have been earned, but not yet received.