

2021

Financial Statements

With Supplementary
Information

THE ARC OF TENNESSEE, INC.

FINANCIAL STATEMENTS

JUNE 30, 2021

(With Independent Auditor's Report Thereon)

THE ARC OF TENNESSEE, INC.
FINANCIAL STATEMENTS
JUNE 30, 2021

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THE ARC OF TENNESSEE, INC.
ROSTER OF BOARD OF DIRECTORS
JUNE 30, 2021

John Shouse	President – The Arc TN
Karen Downer	Vice President
Amber (Nikki) Klumb	Treasurer
Linda Brown	Past President
Robyn Lampley	Secretary
Doria Parvini	Public Policy Chair
Elise McMillen	The Arc US BOD
Malessa Fleenor	Board Member
Courtney Taylor	Board Member
Jenny Vogus	Board Member
Glenda Bond	Local Chapter Rep
Sharon Bottorff	Local Chapter Rep
Susan Carr	Local Chapter Rep
Russell Edwards	Local Chapter Rep
Alyson Edwards	Local Chapter Rep
Teresa Grimmett	Local Chapter Rep
Kytrinia Miller	Local Chapter Rep
Dr. Sharon Webb	Local Chapter Rep
Shontie Brown	Regional Rep
Lexi Shelnut	Regional Rep
Marcus Thomas	Regional Rep
Julie Brawner	Board Member
Tyler Lisowski	Local Chapter Rep
Christina Pearce	Board Member
Egbhai Uriri	Board Member



PATTERSON, HARDEE & BALLENTINE, P.C.
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Arc of Tennessee, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of The Arc of Tennessee, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. 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. Those standards require that we plan and perform the audit 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.

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 of Tennessee, Inc. as of June 30, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards and state financial assistance, roster of Board of Directors, and schedule of prior year findings as required by the Tennessee Comptroller of the Treasury Division of Local Government Audit, 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 schedule of expenditures of federal awards and state financial assistance is prepared in accordance with the standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

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 August 31, 2022, on our consideration of The Arc of Tennessee, Inc.'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 solely 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 effectiveness of The Arc of Tennessee, Inc.'s 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 of Tennessee, Inc.'s internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Patterson Handley & Bellantone".

August 31, 2022

THE ARC OF TENNESSEE, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2021

ASSETS

Current Assets:

Cash and restricted cash	\$ 561,727	
Investments	350,670	
Grants receivable	1,528,953	
Prepaid expenses	4,270	
Total current assets		\$ 2,445,620

Property and Equipment:

Furniture and equipment	165,742	
Less: accumulated depreciation	(160,935)	
Total property and equipment		4,807

Other Assets:

Security deposit	4,407	
Total other assets		4,407

Total Assets		<u>\$ 2,454,834</u>
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LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable	\$ 211,170	
Accrued expenses	451,793	
PPP Loan	191,832	
Total current liabilities		854,795

Net Assets:

Without donor restrictions	1,543,083	
With donor restrictions	56,956	
Total net assets		<u>1,600,039</u>
Total Liabilities and Net Assets		<u>\$ 2,454,834</u>

THE ARC OF TENNESSEE, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenues:			
Grant income	\$ 2,084,153	\$ -	\$ 2,084,153
Contributions	411,816	40,000	451,816
Contract revenue - government	356,391	-	356,391
Contract revenue - non government	124,960	-	124,960
Website income	65,679	-	65,679
In-kind contributions	20,699	-	20,699
Interest	64	-	64
Investment income, net	(49)	-	(49)
Other income	5,607	-	5,607
Affiliation fees	174	-	174
Memberships	825	-	825
Net assets released from restrictions	1,184	(1,184)	-
	<u>3,071,503</u>	<u>38,816</u>	<u>3,110,319</u>
Total support and revenues			
Expenses:			
Program services:			
Family Engagement	973,445	-	973,445
Advocacy, Education and Public Awareness	483,755	-	483,755
Personal Assistance Services and Support (PASS)	120,250	-	120,250
Administration of the Real Choice Systems Change (PTP)	117,834	-	117,834
AIMHiTN, ECF, Enabling Technology, SDM	96,064	-	96,064
Other	182,826	-	182,826
	<u>1,974,174</u>	<u>-</u>	<u>1,974,174</u>
Total program services			
Supporting services:			
Management and general	709,817	-	709,817
Fundraising	1,503	-	1,503
	<u>711,320</u>	<u>-</u>	<u>711,320</u>
Total supporting services			
Total expenses	<u>2,685,494</u>	<u>-</u>	<u>2,685,494</u>
Increase in net assets	386,009	38,816	424,825
Net assets - beginning of year	<u>1,157,074</u>	<u>18,140</u>	<u>1,175,214</u>
Net assets - end of year	<u>\$ 1,543,083</u>	<u>\$ 56,956</u>	<u>\$ 1,600,039</u>

See accompanying notes to the financial statements.

THE ARC OF TENNESSEE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2021

	Program Services							Supporting Services		
	Family Engagement	Advocacy, Education and Public Awareness	Personal Assistance Services and Support (PASS)	Administration of the Real Choice Systems Change (PTP)	AIMHITN ECF, Enabling Technology & SDM	Other Programs	Total Program Services	Management and General	Fundraising	Total Expenses
Salaries	\$ 634,307	\$ 376,813	\$ 49,352	\$ 95,176	\$ 53,557	\$ 96,920	\$ 1,306,125	\$ 207,838	\$ 191	\$ 1,514,154
Payroll taxes and benefits	111,812	72,580	9,262	18,085	15,004	15,871	242,614	168,979	38	411,831
Total personnel costs	746,119	449,393	58,614	113,261	68,561	112,791	1,548,739	376,817	229	1,925,785
Advertising	6,443	138	147	367	1,663	1,480	10,238	3,263	-	13,501
Bad Debt	-	-	-	-	-	-	-	76,882	-	76,882
Communication	6,774	5,143	133	492	2,538	1,838	16,918	27,562	40	44,520
Equipment Rental & Maintenance	1,389	-	-	-	-	-	1,389	7,300	-	8,689
Fees & dues	6,255	900	-	325	-	-	7,480	4,500	-	11,980
Indirect Cost	-	200	-	-	-	-	200	5,700	623	6,523
In-Kind Expense	-	-	-	-	-	20,699	20,699	-	-	20,699
Insurance	-	-	-	-	-	-	-	7,366	-	7,366
Legal	-	-	-	-	-	-	-	15,000	-	15,000
Lobbying Expenses	-	-	-	-	-	380	380	-	-	380
Miscellaneous	645	505	-	-	360	-	1,510	6,823	-	8,333
Occupancy	657	5,737	742	-	35	4,742	11,913	41,160	348	53,421
Postage & Shipping	84	367	-	-	750	162	1,363	5,775	-	7,138
Printing & Publications	689	3,719	-	164	954	971	6,497	5,059	-	11,556
Professional Fees / Grant Awards	171,204	8,133	46,510	125	17,490	34,795	278,257	75,443	263	353,963
Specific Assistance to Individuals	-	4,401	10,585	-	-	-	14,986	1,058	-	16,044
Supplies	30,524	4,193	3,330	3,100	1,528	1,766	44,441	46,425	-	90,866
Travel / Conferences & Meetings	2,662	926	189	-	2,185	3,202	9,164	2,936	-	12,100
Total expenses before depreciation	973,445	483,755	120,250	117,834	96,064	182,826	1,974,174	709,069	1,503	2,684,746
Depreciation		-	-	-	-	-	-	748	-	748
Total expenses	\$ 973,445	\$ 483,755	\$ 120,250	\$ 117,834	\$ 96,064	\$ 182,826	\$ 1,974,174	\$ 709,817	\$ 1,503	\$ 2,685,494

See accompanying notes to the financial statements.

THE ARC OF TENNESSEE, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2021

Cash Flows From Operating Activities:

Increase in net assets \$ 424,825

Adjustments to reconcile increase in net assets
to net cash used in operating activities:

Depreciation	748	
Realized gain on investments	(44,836)	
Unrealized gain on investments	(14,140)	
Changes in:		
Grants receivable	(1,173,109)	
Accounts payable	15,610	
Accrued expenses	395,872	
	(819,855)	
Net cash used in operating activities		(395,030)

Cash Flows from Investing Activities:

Sale of investments	248,594	
Purchase of investments	(191,007)	
Purchase of property and equipment	(5,555)	
Net cash provided by investing activities		52,032

Net decrease in cash (342,998)

Cash and restricted cash - beginning of year 904,725

Cash and restricted cash - end of year \$ 561,727

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 - Summary of Significant Accounting Policies

Nature of Activities

In these financial statements, the terms "Organization", "we", "our", or "us" mean The Arc of Tennessee, Inc. We are a nonprofit corporation chartered by the State of Tennessee for the purpose of promoting the general well-being of all citizens with intellectual and/or developmental disabilities ("I/DD"). We provide advocacy, local unit development, direct client assistance, training, education, counseling, referral, and public awareness services statewide. The membership consists of individuals comprising local units in counties across the State of Tennessee and at-large members. All member units are autonomous, community-based nonprofit entities. We maintain membership in the national organization of The Arc of the United States. The Arc of the United States provides national leadership and information and offers education and training. We function independently of any control by The Arc of the United States.

Program and Supporting Services

Advocacy, Education and Public Awareness

The Advocacy and Awareness project covers a variety of services to people with I/DD and their families including individual advocacy; information and referral; and educational workshops in a variety of topics including person centered practices, self-advocacy and self-determination, healthy relationships, and others. This project also allows for a limited amount of emergency financial assistance to individuals with I/DD who are in need of help.

Secondary Transition Project

The Secondary Transition Project helps families and students prepare for the significant challenges of secondary transition. Families, students, and educators gain knowledge of the secondary transition process, resources, and opportunities in local communities across the state and on the internet, so that young adults transition into adulthood with quality lives they and their families design. The Project promotes collaboration between families, students, and educators to help meet the student's secondary transition goals.

Healing Trust

The Healing Trust Advocacy grant provides unrestricted funding for the Organization to engage in advocacy and public policy work around issues that impact health outcomes for Tennesseans with intellectual and developmental disabilities.

Partners in Policymaking Workshop

We serve as an administrative "pass-through" for the Council on Developmental Disabilities to operate these programs in an efficient manner. We are able to provide a faster turnaround on paying invoices and reimbursing other expenses than the state is able to do. Partners in Policymaking trains individuals with disabilities and family members to become advocates. Graduates from the program have gone on to participate on the boards of various non-profit advocacy organizations and to become active in public policy. Youth Leadership Forum provides leadership skills training to young adults with disabilities.

Personal Assistance Services and Support (PASS)

Personal Assistance Supports and Services (PASS) is funded through the Department of Intellectual and Developmental Disabilities. The grant enhances community support by demonstrating a model of self-directed personal assistance that shifts the existing system in Tennessee from an institutional provider system to self-directed services. The system provides tools, mentoring, and training that allows individuals with a disability to access personal assistance and successfully manage and control the quality of care and service delivery.

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 - Summary of Significant Accounting Policies (continued)

Program and Supporting Services (continued)

Family Engagement

The Family Engagement grant through the TN Department of Education focuses on empowering families to become more involved in the education of their children receiving special education services in our school systems. This year the Department expanded the work of the Family Engagement grant to four times significantly, adding nine FTE positions. At this time, they also folded the Secondary Transition program into this contract.

People First of Tennessee

The People First grant funding through the TN Department of Intellectual and Developmental Disabilities (DIDD) to revitalize People First TN – a self-advocacy organization for self-advocates, run by self-advocates. People First TN is charged with growing membership, developing local chapters, providing training for self-advocates, and addressing policy and systems issues important to people with disabilities across the state.

Administration of the Real Choice Systems Change (PTP)

We assist the Department of Intellectual and Developmental Disabilities with quality assurance and quality improvement by empowering service recipients to give honest feedback regarding the services they receive through participation in a survey that covers four key areas: choice and control, respect and dignity, access to care, and community inclusion. We also conduct NCI (National Core Indicators) surveys that allow Tennessee to compare itself to other states.

Employment and Community First CHOICES (ECF)

This is a fee-for-service home-and-community-based supports program administered through TennCare and managed by the Managed Care Organizations (MCOs). The Arc of Tennessee is an approved provider of services that are designed to enhance self-advocacy skills of people with I/DD and empower families to better support their family member with I/DD.

Pre-Employment Transition Services (Pre-ETS)

The Workforce Investment and Opportunity Act (WIOA) requires Vocational Rehabilitation (VR) to offer Pre-ETS to all students with disabilities aged 14-22. The Arc of Tennessee is a contracted provider of the five Pre-ETS: workplace readiness training, self-advocacy, postsecondary education counseling, job readiness, and work-based learning. The Arc of Tennessee collaborates with local school systems to implement these services across the state.

AIMHiTN

The AIMHiTN grant through AIMHiTN funds administrative support for AIMHiTN, a statewide non-profit dedicated to Infant Mental Health in Tennessee. Our staff assist with tasks such as event planning, coordinating board meetings, taking meeting minutes and other office tasks.

Supported Decision-Making (SDM)

The SDM grant through the TN Council on Developmental Disabilities funds a pilot project to provide formalized decision-making supports for people with I/DD who do not have any natural supports to assist them. It also created an SDM Advisory Group to discuss barriers to implement decision-making supports other than conservatorship for people with I/DD and develop strategies for addressing those barriers.

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 - Summary of Significant Accounting Policies (continued)

Enabling Tech

The Enabling Tech grant through the TN Department of Intellectual and Developmental Disabilities provides funding for a variety of projects that advance the use of technology to increase the independence of people with I/DD. These projects are assigned to us by DIDD based on their need.

Tennessee Disability MegaConference

We are one of several organizations that collaborate to host the Tennessee Disability MegaConference every year. This conference is the largest cross-disability conference in Tennessee and draws between 400 - 1,000 attendees every year. The Council on Developmental Disabilities, as well as other organizations, provides funding for stipends to help people with disabilities, their family and/or support staff to attend the conference. See NOTE 8.

Basis of Presentation

The accompanying financial statements have been prepared on an accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, our net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions - Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of management and the board of directors.

Net assets with donor restrictions - Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by our actions or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, we consider all unrestricted cash and investment instruments purchased with original maturities of three months or less to be cash equivalents. We have no cash equivalents as of June 30, 2021.

Accounts Receivable

We recognize accounts receivable as services are provided. Bad debts are recognized on the allowance method based on historical experience and our evaluation of outstanding accounts. We have recorded an allowance of \$76,882 as of June 30, 2021.

Property and Equipment

Property and equipment are recorded at cost or, if donated, at the estimated fair market value at the date of donation. Depreciation is provided utilizing the straight-line method over the estimated useful lives of the respective assets. Our capitalization policy is to capitalize any expenditure over \$2,500 for any land, building, and equipment purchased. Expenditures for repairs and maintenance are charged to expense as incurred. Depreciation expense for the year ended June 30, 2021, was \$748.

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 - Summary of Significant Accounting Policies (continued)

Revenue Recognition

We receive much of our income through grants from the State of Tennessee Department of Intellectual and Developmental Disabilities, Department of Education, Division of Special Populations, Tennessee Council on Developmental Disabilities, and trade receivables. We record income from the grants in the period that the applicable expenditures are incurred. We also receive income for providing services related to certain activities. This income is recorded as services are provided.

Donated Services

Volunteers make contributions of time in various administrative, fundraising, and program functions. The value of contributed time is only reported as revenue and expenses in our financial statements as allowed by generally accepted accounting principles. The value of contributed time is allowed to be used as a match in some government grants.

Income Tax Status

We are a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and are classified as an organization that is not a private foundation as defined in Section 509(a) of the Internal Revenue Code. Therefore, no provision for federal income taxes is included in the accompanying financial statements. We do not believe there are any uncertain tax positions. Further, we do not believe that we have any unrelated business income, which would be subject to federal taxes.

Functional Allocation of Expenses

The costs of providing program services and supporting services 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. Expenses that are specifically identifiable are allocated on an invoice-by-invoice basis. All other expenses are allocated on the basis of time and effort.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Fair Values of Financial Instruments

The carrying values of current assets and current liabilities approximate fair values due to the short maturities of these instruments. Current assets and current liabilities are categorized as level 1 in the fair value hierarchy.

Pension Plan

We maintain a defined contribution plan which provides for retirement benefits based on the actual value of contributions at the time of retirement. Employees must be 21 years of age and must have completed three months of service before they are eligible to participate. Contributions to the plan are based on the participant's salary. The costs of this plan are included in payroll taxes and benefits and totaled \$42,689 during the year ended June 30, 2021.

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 2 - Availability and Liquidity

Financial assets available for general expenditure within one year of the statement of financial position, consist of the following:

Financial assets for the year ended June 30, 2021

Cash	\$ 504,771
Investments	350,670
Grants receivable	<u>1,528,953</u>
	<u>\$ 2,384,394</u>

The Organization has certain donor-restricted assets limited to use which are only available for restricted programs. Accordingly, these assets have been excluded from the qualitative information above.

In the next fiscal year, we plan to receive the same level of contributions, and consider contributions for programs which are ongoing, major, and central to our annual operations to be available to meet cash needs for general expenditures. The Organization has minimal amounts of liabilities in order to maintain most of its financial assets to be readily available. We consider cash to be readily available. We manage our liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. If our analysis of liquid assets reveals inadequate funds for near-term operating needs, we will immediately reduce spending of program and management and general expenditures.

NOTE 3 – Fair Value

Fair value is defined as the price that would be received to sell an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset. The modified cash basis of accounting establishes a fair value hierarchy that prioritizes investments based on those assumptions.

The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs). We group assets at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

These levels are:

Level 1 - Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date.

Level 2 - Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar assets/liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset/liability; and,
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 - Unobservable inputs that cannot be corroborated by observable market data.

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 4 - Investments

Investment income, net, consisted of the following for the year ended June 30, 2021:

Interest and dividend income, reinvested	\$ 9,680
Unrealized/Realized gain	58,976
Investment disbursements	(65,732)
Investment fees	(2,973)
Investment income, net	<u>\$ (49)</u>

At June 30, 2021, our investments are comprised of \$229,401 of equity securities, and \$121,269 of fixed income bonds, both of which we consider level 1 on the fair value hierarchy.

NOTE 5 - Accounts Receivable

Accounts receivable at June 30, 2021, are as follows:

State of Tennessee	\$ 1,511,013
Sponsors and Other	94,822
Allowance for uncollectible accounts	(76,882)
	<u>\$ 1,528,953</u>

NOTE 6 - Accrued Expenses

Accrued expenses at June 30, 2021 consisted of the following:

Accrued payroll	\$ 54,495
Accrued leave (vacation)	52,040
Accrued bonus	101,251
Accrued legal fees	15,000
State recoupment	225,960
	<u>\$ 451,793</u>

NOTE 7 - Line of Credit and PPP Loan

We have a line of credit with First Tennessee with an available amount of \$75,000. This line of credit carries an interest rate of 5.75% at June 30, 2021, and expires on May 31, 2036. We did not draw any amounts on this line of credit during the year ended June 30, 2021, and the balance at June 30, 2021 is \$0.

We also received a U.S. Small Business Administration Paycheck Protection Plan Loan ("PPP Loan") under the Coronavirus Aid, Relief, and Economic Security Act Loan during 2020. The amount of this loan was \$191,832, with monthly payments of \$10,795, including an interest rate of 1.00%, beginning October 2020, until maturity in March 2022. This loan was forgiven in full subsequent to June 30, 2021.

NOTE 8 - MegaConference - Future Years

We, along with other nonprofit entities, participate in a MegaConference each year. We provide administration of receipts and disbursements for the funds related to this MegaConference; however, this was not a program for us. Due to the ongoing COVID 19 pandemic, the MegaConference was not held during the year ended June 30, 2021. Money not spent on the MegaConference is held by us by request of the other nonprofit participants for future MegaConferences. For the year ended June 30, 2021, the cumulative surplus was \$69,939 and is included in accounts payable.

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 9 - Net Assets – Board Designated

Board designated net assets consisted of the following at June 30, 2021:

Investments, including cash portion	\$ 360,376
Roger Blue Savings	3,172
ADID Future Conferences	2,727
Corporate Savings	38,500
DCE Funds for Future Training	5,584
People First	4,262
	<u>\$ 414,621</u>

Board-designated net assets are included in the following assets as shown on the statement of financial position:

Cash	\$ 63,951
Investments	350,670
	<u>\$ 414,621</u>

NOTE 10 - Net Assets with Donor Restrictions

Net assets with donor restrictions were as follows at June 30, 2021:

Specific purpose, cash for:	
DSPAT (See NOTE 15)	\$ 1,809
Arc US Advocacy	3,546
AT&T	2,494
Frist Foundation	347
Supported Decision Making	136
Family Support	738
Conservatorship	1,763
Youth Act	721
Baptist Healing Trust (time restricted)	45,402
	<u>\$ 56,956</u>

NOTE 11 - Lease Agreements

We lease office space, storage, and equipment under non-cancellable leases classified as operating leases. The facility lease is a seven-year agreement that matures December 31, 2022. Monthly payments are \$5,048 as of June 30, 2021, and increase each year. Monthly payments on four other operating leases range from \$148 to \$539 and will all have matured by September 2023.

Total lease expense for the year ended June 30, 2021, was \$62,110. The following is a schedule of minimum lease payments under the non-cancellable operating leases.

<u>Year Ending June 30,</u>	
2022	67,874
2023	37,587
2024	1,617
	<u>\$ 107,078</u>

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 12 - Concentration of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist of account and grant receivables. Accounts receivable consist of amounts due from member units and third-party gum vending entities. These receivables are widely dispersed over the State of Tennessee and mitigate credit risk. Grants receivable represent concentrations of credit risk to the extent that they are received from concentrated sources. We receive a substantial amount of our support from member units, gum vending and governmental grants. A significant reduction in the levels of this support would have an effect on our programs and activities.

At June 30, 2021, 94% of all receivables was due from the State of Tennessee. At June 30, 2021, 80% of all revenue was received from the State of Tennessee.

We maintain our cash in bank accounts which, at times, may exceed federally insured limits. We have not experienced any losses in such accounts and do not believe that we are exposed to any significant credit risk on our cash.

NOTE 13 – Contingencies

We are currently seeking legal counsel regarding the potential of back payment of 403(b) benefits to current and former employees based on applicable employee benefit laws. Management believes a provision for these potential payments is not necessary as the amount is not estimable. It is reasonably possible that payments could be made.

NOTE 14 - Related Parties and Affiliate Dues

The Arc of the United States bills us annually for affiliate dues, which is a revenue sharing agreement between the two entities. The Arc of the United States provides national leadership and information and offers education and training. We are autonomous and function independently of any control by The Arc of the United States. During the year ended June 30, 2021, we paid \$11,980 to the Arc of the United States for affiliate dues.

We also collect affiliate dues from various regional Arc entities in the State of Tennessee. During the year ended June 30, 2021, we collected \$174 from these entities.

NOTE 15 - Agency Relationships

We hold funds for other groups. DSPAT was a program in which we acted as the administrator of the grant fund. The intention was for DSPAT to become its own 501(c)(3) organization. DSPAT was a program through a grant from DIDD that ended June 30, 2012. DSPAT was also a membership program. At the conclusion of the grant, the members of DSPAT voted to use the membership dollars to fund the \$500 Above & Beyond award given annually at The Arc of Tennessee awards banquet. We are holding the dues collected on behalf of DSPAT, which were \$1,809 as of June 30, 2021.

NOTE 16 - In-kind Revenue and Expenses

We receive a significant amount of donated services from volunteers who assist in our Organization. During the year ended June 30, 2021, we recognized \$20,699 as in-kind revenue and expenses.

NOTE 17 - New Pronouncements

In February 2016, FASB issued Accounting Standards Update 2016-02, *Leases (Topic 842)*. The Update provides guidance about recording lease transactions on an organization's statements of financial position and activities. The amendments in this Update are effective for annual periods beginning after December 15, 2021, and for annual periods and interim periods thereafter with early adoption permitted. We are currently evaluating the impact of adopting this statement.

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 18 - Subsequent Events

We have evaluated events subsequent to the year ended June 30, 2021. As of August 31, 2022, the date that the financial statements were available to be issued, we are not aware of any material subsequent events which would require recognition or disclosure in the accompanying financial statements.

SUPPLEMENTARY INFORMATION



PATTERSON, HARDEE & BALLENTINE, P.C.

Certified Public Accountants

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
The Arc of Tennessee, Inc.

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 of Tennessee, Inc., as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise The Arc of Tennessee, Inc.'s basic financial statements and have issued our report thereon dated August 31, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Arc of Tennessee, Inc.'s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Arc of Tennessee, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of The Arc of Tennessee, Inc.'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 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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2021-001, 2021-002 and 2021-003 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Arc of Tennessee, Inc.'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 financial statements. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2021-001, 2021-002 and 2021-003.

The Arc of Tennessee, Inc.'s Response to Findings

The Arc of Tennessee, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Arc of Tennessee, Inc.'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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



August 31, 2022



PATTERSON, HARDEE & BALLENTINE, P.C.

Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors
The Arc of Tennessee, Inc.

Report on Compliance for Each Major Federal Program

We have audited The Arc of Tennessee, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have direct and material effect on The Arc of Tennessee, Inc.'s major federal program for the year ended June 30, 2021. The Arc of Tennessee, Inc.'s major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for The Arc of Tennessee, Inc.'s major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about The Arc of Tennessee, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our qualified opinion on compliance for the major federal program. However, our audit does not provide a legal determination of The Arc of Tennessee, Inc.'s compliance.

Basis for Qualified Opinion on 84.027A Special Education Cluster – Grants to States (IDEA, Part B)

As described in the accompanying schedule of findings and questioned costs, The Arc of Tennessee, Inc. did not comply with requirements regarding Assistance Listing 84.027A Special Education Cluster – Grants to States (IDEA, Part B) as described in finding numbers 2021-001 for Allowable Costs and 2021-002 for Period of Performance. Compliance with such requirements is necessary, in our opinion, for The Arc of Tennessee, Inc. to comply with the requirements applicable to that program.

Qualified Opinion on 84.027A Special Education Cluster – Grants to States (IDEA, Part B)

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, The Arc of Tennessee, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Assistance Listing 84.027A Special Education Cluster – Grants to States (IDEA, Part B) for the year ended June 30, 2021.

Other Matters

The Arc of Tennessee, Inc.'s response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Arc of Tennessee, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of The Arc of Tennessee, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered The Arc of Tennessee, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of The Arc of Tennessee, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2021-001 and 2021-002, that we consider to be material weaknesses.

The Arc of Tennessee, Inc.'s response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Arc of Tennessee, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Patterman Harder & Ballentine".

August 31, 2022

THE ARC OF TENNESSEE, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED DECEMBER 31, 2021

Federal Grantor/ Pass-Through Grantor	Program/ Cluster Name	CFDA Number	Contract Number	Passed Through to Subrecipients	Expenditures
Federal Awards Pass-through Funding:					
U.S. Department of Education (DOE) Special Education (IDEA) - Cluster U.S. DOE passed through the Tennessee DOE	Special Education - Grants to States (IDEA, Part B)	84.027A	33136-00119	-	\$ 1,199,583
Total Program 84.027A					1,199,583
Total DOE Programs and Special Education (IDEA) Cluster					1,199,583
U.S. Department of Health and Human Services (HHS) passed through TN. Department of Intellectual and Developmental Disabilities (DIDD)	Partners in Policymaking Workshop	93.630	31614-80119	-	37,877
Total Program 93.630					37,877
U.S. HHS pass through TN. DIDD	Advocacy Program to DIDD Service Recipients	93.U01	34401-99145	-	317,773
Total Program 93.U01					317,773
U.S. HHS passed through TN. Council of Developmental Disabilities	Supported Decision Making	93.U02	31614-81021	-	105,547
Total Program 93.U02					105,547
TOTAL FEDERAL AWARDS					1,660,780
Grantor/ Pass-Through Grantor	Program/ Cluster Name	CFDA Number	Contract Number	Passed Through to Subrecipients	Expenditures
State Financial Assistance					
TN. DIDD	Advocacy Program to DIDD Service Recipients - State	N/A	34401-99145	-	317,773
TN. DIDD	People First Special Education Program	N/A	34401-99228	-	36,153
TN. DOE	National Core Indicators Survey	N/A	31865-00815	-	10,008
TOTAL STATE AWARDS					363,934
TOTAL FEDERAL AND STATE AWARDS					\$ 2,024,714

Note 1 - Basis of Presentation: This schedule was prepared on an accrual basis. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. These grants are 100% pass-through to The Arc of Tennessee, Inc. and they assume all audit responsibility.

Note 2 - Indirect Cost Rate: The Arc of Tennessee, Inc. allocates indirect costs using the Restricted Indirect Cost Rate (RICR) for each contract, which is calculated using the following, (General Management Costs + Fixed Costs) / Other Expenditures. The RICR applied during the year ranged from 7.40%.

Note 3 - Commingled Assistance: The Advocacy Programs to DIDD Service Recipients award is deemed commingled assistance from both the State and Federal levels of government. Based on our understanding of the funds one-half of the award is deemed State funds, with the remainder included as Federal.

THE ARC OF TENNESSEE, INC.
SCHEDULE OF CURRENT YEAR FINDINGS AND QUESTIONED COSTS
JUNE 30, 2021

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's reports issued on whether the audited financial statements were prepared in accordance with GAAP:	<i>Unmodified</i>	
Internal control over financial reporting:	<u>YES</u>	<u>NO</u>
Material weaknesses identified?	<u>X</u>	
Significant deficiencies identified?		<u>X</u>
Noncompliance material to financial statements noted?	<u>X</u>	

Federal Awards

Type of auditor's reports issued on compliance for major programs:	<i>Qualified</i>	
Internal control over major programs:	<u>YES</u>	<u>NO</u>
Material weaknesses identified?	<u>X</u>	
Significant deficiencies identified that are not considered to be material weaknesses?		<u>X</u>
Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?	<u>X</u>	

Identification of Major Programs

<u>CFDA Number/Assistance Listing:</u>	<u>Name of Federal Program or Cluster:</u>
84.027A	Special Education Cluster – Grants to States (IDEA, Part B)

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

	<u>YES</u>	<u>NO</u>
Auditee qualified as low-risk auditee?		<u>X</u>

FINANCIAL STATEMENT FINDINGS

2021-001 – Allowable Costs

<i>Criteria:</i>	Costs must be necessary and reasonable expenditures for the performance of the program covered by the grant award and those costs are adequately documented.
<i>Condition:</i>	Actual monthly costs related to programs covered by state and federal awards were allocated to the improper program within the general ledger, which is used as the basis for monthly reimbursement requests of grant funds.
<i>Cause:</i>	Inconsistent and incomplete implementation of controls due to staff vacancy for the responsible party over financial reporting during the fiscal year.
<i>Effect or potential effect:</i>	Known questioned costs of \$225,960 to be repaid or recouped by the State. Potential penalties and interest could be imposed; however, Organization has been proactive in alerting the State of the errors and is attempting to correct the issue.

THE ARC OF TENNESSEE, INC.
SCHEDULE OF CURRENT YEAR FINDINGS AND QUESTIONED COSTS
JUNE 30, 2021

FINANCIAL STATEMENT FINDINGS (CONTINUED)

2021-001 – Allowable Costs (continued)

Recommendation: There should be multiple individuals within the Organization that monitor the monthly expenses to be reimbursed under federal and state awards. Specifically, payroll reconciliations and related allocation of employee wages to grant programs should be reconciled and agreed to the appropriate payroll reports and any other supporting documents, such as timecards or job descriptions.

Management's response: See Management's Corrective Action Plan.

2021-002 – Period of Performance

Criteria: The Organization must be obligated to the expenditure prior to requesting for reimbursement from the grant.

Condition: The Organization requested reimbursement for costs not yet incurred.

Cause: Inconsistent and incomplete implementation of controls due to staff vacancy for the responsible party over financial reporting during the fiscal year, in addition to management override of controls.

Effect or potential effect: Known questioned costs of \$225,960 to be repaid to or recouped by the State. Potential penalties and interest could be imposed; however, Organization has been proactive in alerting the State of the errors and is attempting to correct the issue.

Recommendation: There should be multiple individuals within the Organization that monitor the monthly expenses to be reimbursed under federal and state awards.

Management's response: See Management's Corrective Action Plan.

2021-003 – Statement of Financial Position ("Balance Sheet") Accruals

Criteria: The Organization should report the financial statements on accrual basis, in accordance with GAAP.

Condition: The Organization did not reconcile material balance sheet accruals at year-end.

Cause: Inconsistent and incomplete implementation of controls due to staff vacancy for the responsible party over financial reporting during the fiscal year, in addition to management override of controls.

Effect or potential effect: Materially misstated financial statements are misleading to financial statement users and can further result in issues with reporting requirements.

Recommendation: In order to provide accurate and relevant financial reporting, significant balance sheet accruals should be reconciled on a monthly basis.

Management's response: See Management's Corrective Action Plan.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2021-001 – Allowable Costs

Federal Program: 84.027A – Special Education Cluster – Grants to States (IDEA, Part B)

Criteria: Allowable costs. See 2021-001 in the financial statement finding section above for detail.

Condition: Improper allocation of costs to grant programs requested for reimbursement. See 2021-001 in the financial statement finding section above for detail.

THE ARC OF TENNESSEE, INC.
SCHEDULE OF CURRENT YEAR FINDINGS AND QUESTIONED COSTS
JUNE 30, 2021

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

2021-001 – Allowable Costs (continued)

Cause: Inconsistent and incomplete implementation of controls due to staff vacancy for the responsible party over financial reporting during the fiscal year.

Effect or potential effect: Potential penalties and interest. See 2021-001 in the financial statement finding section above for detail.

Questioned costs: \$225,960 of actual known costs were calculated based on the information described in the context section below.

Context: During the reconciliation of payroll to the general ledger and subsequently to the salaries billed under the program, it was determined that the salary costs applied and billed under the program were greater than the actual payroll costs incurred during the period resulting in overbillings.

Repeat findings: There were no prior year findings.

Recommendation: Improved application and monitoring of controls. See 2021-001 in the financial statement finding section above for detail.

Management's response: See Management's Corrective Action Plan.

2021-002 – Period of Performance

Federal Program: 84.027A – Special Education Cluster – Grants to States (IDEA, Part B)

Criteria: Period of performance. See 2021-002 in the financial statement finding section above for detail.

Condition: The Organization requested reimbursement for costs not yet incurred.

Cause: Inconsistent and incomplete implementation of controls due to staff vacancy for the responsible party over financial reporting during the fiscal year, in addition to management override of controls.

Effect or potential effect: Potential penalties and interest. See 2021-002 in the financial statement finding section above for detail.

Questioned costs: \$225,960 of actual known costs were calculated based on the information described in the context section below.

Context: During the reconciliation of payroll to the general ledger and subsequently to the salaries billed under the program, it was determined that the salary costs applied and billed under the program were greater than the actual payroll costs incurred during the period resulting in overbillings.

Repeat findings: There were no prior year findings.

Recommendation: Improved application and monitoring of controls. See 2021-002 in the financial statement finding section above for detail.

Management's response: See Management's Corrective Action Plan.

THE ARC OF TENNESSEE, INC.
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
JUNE 30, 2021

There were no prior year findings reported.



MANAGEMENT'S CORRECTIVE ACTION PLAN

2021 SUMMARY OF AUDITOR'S RESULTS

Financial Statements

1. The auditor's report expresses an unmodified opinion on the financial statements of The Arc of Tennessee, Inc. (the "Organization"), which are prepared in accordance with accounting principles generally accepted in the United States of America.
2. There are instances of material weakness that were discovered during the audit. There are no significant deficiencies identified.
3. Noncompliance was material to the financial statements.

Federal Awards

1. The auditor's report on compliance for each major program and on internal control over compliance required by the Uniform Guidance expresses a qualified opinion.
2. There are instances of material weakness that were discovered during the audit. There are no significant deficiencies identified that are not considered to be material weaknesses.
3. Audit findings required in accordance with 2 CFR section 200.516(a) have been reported.

FINANCIAL STATEMENT FINDINGS

2021-001 — Allowable Costs

Criteria: Costs must be necessary and reasonable expenditures for the performance of the program covered by the grant award, and those costs must be adequately documented.

Condition: Actual monthly costs related to programs covered by state and federal awards were allocated to improper programs within the general ledger, which is used as the basis for monthly reimbursement requests of grant funds.

Cause: Inconsistent and incomplete implementation of controls due to staff vacancy for the responsible party over financial reporting during the fiscal year.

Effect or potential effect: Known questioned costs of \$225,960 to be repaid or recouped by the State. Potential penalties and interest could be imposed; however, the Organization has been proactive in alerting the State of the errors and is attempting to correct the issue

For people with intellectual and developmental disabilities

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<http://www.thearctn.org>



Recommendation: There should be multiple individuals within the Organization that monitor the monthly expenses to be reimbursed under federal and state awards. Specifically, payroll reconciliations and related allocation of employee wages to grant programs should be reconciled and agreed to the appropriate payroll reports and any other supporting documents, such as timecards or job descriptions.

Management's Response: Under the direction of the Executive Director, in May, 2021, The Arc of Tennessee, Inc. has contracted with a bookkeeping firm, Luca Business solutions, to ensure monthly reconciliations are completed timely and accurately. In addition, we have transitioned our financial accounting software to ensure that expenses requested for reimbursement are properly accounted for and that payroll records and invoices are readily accessible. Lastly, we have reviewed and continue to utilize the *Tennessee -Uniform Reporting Requirements and Cost Allocation Plans for Subrecipients of Federal and State Grant Monies* policies. Anticipated completion date: completed as of audit report date.

2021-002 — Period of Performance

Criteria: The Organization must be obligated to the expenditure prior to requesting for reimbursement from the grant.

Condition: The Organization requested reimbursement for costs not yet incurred.

Cause: Inconsistent and incomplete implementation of controls due to staff vacancy for the responsible party over financial reporting during the fiscal year, in addition to management override of controls.

Effect or potential effect: Known questioned costs of \$225,960 to be repaid or recouped by the State. Potential penalties and interest could be imposed; however, the Organization has been proactive in alerting the State of the errors and is attempting to correct the issue

Recommendation: There should be multiple individuals within the Organization that monitor the monthly expenses to be reimbursed under federal and state awards.

Management's Response: Under the direction of the Executive Director, The Arc of Tennessee, Inc. has multiple individuals at the organization, as well as a third-party bookkeeping firm monitoring balances incurred and related requests for reimbursement. Anticipated completion date: completed as of audit report date.

2021-003 — Statement of Financial Position ("Balance Sheet") Accruals

Criteria: The Organization should report the financial statements on accrual basis, in accordance with GAAP.

Condition: The Organization did not reconcile material balance sheet accruals at year-end.

Cause: Inconsistent and incomplete implementation of controls due to staff vacancy for the responsible party over financial reporting during the fiscal year, in addition to management override of controls.

Effect or potential effect: Materially misstated financial statements are misleading to financial statement users and can further result in issues with reporting requirements.

Recommendation: In order to provide accurate and relevant financial reporting, significant balance sheet accruals should be reconciled on a monthly basis.

Management's Response: Under the direction of the Executive Director, balance sheet accruals are being reconciled on a monthly basis to ensure monthly financial statements reflect proper and correct reconciliations and to prevent a delay in identifying reconciling errors in a timely manner. Anticipated completion date: completed as of audit report date.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2021-001 - Allowable Costs

Federal Program: 84.027A — Special Education Cluster — Grants to States (IDEA, Part B)

Criteria: Allowable costs. See 2021-001 in the financial statement finding section above for detail.

Condition: Improper allocation of costs to grant programs requested for reimbursement. See 2021-001 in the financial statement finding section above for detail.

Cause: Inconsistent and incomplete implementation of controls due to staff vacancy for the responsible party over financial reporting during the fiscal year.

Effect or potential effect: Potential penalties and interest. See 2021-001 in the financial statement finding section above for detail.

Questioned Costs: \$225,960 of actual known costs were calculated based on the information described in the context section below.

Context: During the reconciliation of payroll to the general ledger and subsequently to the salaries billed under the program, it was determined that the salary costs applied and billed under the program were greater than the actual payroll costs incurred during the period resulting in overbillings.

Repeat findings: There were no prior year findings.

Recommendation: Improved application and monitoring of controls. See 2021-001 in the financial statement finding section above for detail.

Management's Response: Under the direction of the Executive Director, in May, 2021, The Arc of Tennessee, Inc. contracted with a bookkeeping firm, Luca Business solutions, to ensure monthly reconciliations are completed timely and accurately. In addition, we have transitioned our financial accounting software to ensure that expenses requested for reimbursement are properly accounted for and that payroll records and invoices are readily accessible. Lastly, we have reviewed and continue to utilize the *Tennessee -Uniform Reporting Requirements and Cost Allocation Plans for Subrecipients of Federal and State Grant Monies* policies. Anticipated completion date: completed as of audit report date.

2021-002 - Period of Performance

Federal Program: 84.027A — Special Education Cluster — Grants to States (IDEA, Part B)

Criteria: Period of performance. See 2021-002 in the financial statement finding section above for detail.

Condition: The Organization requested reimbursement for costs not yet incurred.

Cause: Inconsistent and incomplete implementation of controls due to staff vacancy for the responsible party over financial reporting during the fiscal year, in addition to management override of controls.

Effect or potential effect: Potential penalties and interest. See 2021-002 in the financial statement finding section above for detail.

Questioned costs: \$225,960 of actual known costs were calculated based on the information described in the context section below.

Context: During the reconciliation of payroll to the general ledger and subsequently to the salaries billed under the program, it was determined that the salary costs applied and billed under the program were greater than the actual payroll costs incurred during the period resulting in overbillings.

Repeat findings: There were no prior year findings.

Recommendation: Improved application and monitoring of controls. See 2021-002 in the financial statement finding section above for detail.

Management's Response: Under the direction of the Executive Director, The Arc of Tennessee, Inc. has multiple individuals at the organization, as well as a third-party bookkeeping firm monitoring balances incurred and related requests for reimbursement. Anticipated completion date: completed as of audit report date.

A handwritten signature in blue ink that reads "Heidi Haines". The signature is written in a cursive, flowing style.

Heidi Haines
Executive Director
The Arc Tennessee