

2014

Financial Statements

THE ARC OF TENNESSEE, INC.

FINANCIAL STATEMENTS

JUNE 30, 2014

(With Independent Auditor's Report Thereon)

THE ARC OF TENNESSEE, INC.
FINANCIAL STATEMENTS
JUNE 30, 2014

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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, 2014, 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, 2014, 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 and State Awards, 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 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 October 22, 2014, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Arc of Tennessee, Inc.'s internal control over financial reporting and compliance.



Franklin, Tennessee
October 22, 2014

THE ARC OF TENNESSEE, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014

ASSETS

Current Assets:

| | | |
|-------------------------|---------------|--------------|
| Cash | \$ 608,657 | |
| Certificates of deposit | 38,534 | |
| Grants receivable | 485,210 | |
| Accounts receivable | <u>15,736</u> | |
| Total current assets | | \$ 1,148,137 |

Property and Equipment:

| | | |
|--------------------------------|------------------|-------|
| Furniture and equipment | 160,187 | |
| Less: accumulated depreciation | <u>(157,272)</u> | |
| Total property and equipment | | 2,915 |

Other Assets:

| | | |
|--------------------|--------------|--------|
| Prepaid expenses | 15,247 | |
| Security deposit | <u>5,393</u> | |
| Total other assets | | 20,640 |

Assets Whose Use Is Limited:

| | | |
|--------------|----------------|---------------------|
| Cash | 40,015 | |
| Investments | <u>271,367</u> | |
| | | <u>311,382</u> |
| Total Assets | | <u>\$ 1,483,074</u> |

THE ARC OF TENNESSEE, INC.
STATEMENT OF FINANCIAL POSITION (continued)
JUNE 30, 2014

LIABILITIES AND NET ASSETS

Current Liabilities:

| | | | |
|---------------------------|----|---------------|------------|
| Accounts payable | \$ | 223,910 | |
| Accrued vacation | | 46,052 | |
| Deferred revenue | | <u>26,799</u> | |
| Total current liabilities | | | \$ 296,761 |

| | | | |
|-------------------|--|--|----------------|
| Total Liabilities | | | <u>296,761</u> |
|-------------------|--|--|----------------|

Net Assets:

Unrestricted:

| | | | |
|-------------------------------|--|----------------|-----------|
| Undesignated | | 874,931 | |
| Board-designated | | <u>288,040</u> | |
| Total unrestricted net assets | | | 1,162,971 |

| | | | |
|-----------------------------|--|---------------|---------------|
| Temporarily restricted | | <u>23,342</u> | |
| Total restricted net assets | | | <u>23,342</u> |

| | | | |
|------------------|--|--|------------------|
| Total net assets | | | <u>1,186,313</u> |
|------------------|--|--|------------------|

| | | | |
|----------------------------------|--|--|---------------------|
| Total liabilities and net assets | | | <u>\$ 1,483,074</u> |
|----------------------------------|--|--|---------------------|

THE ARC OF TENNESSEE, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

| | Unrestricted | Temporarily Restricted | Restricted | Total |
|---|--------------|---------------------------|------------|--------------|
| Support and Revenues: | | | | |
| Gum vending | \$ 56,507 | \$ - | \$ - | \$ 56,507 |
| Grant income | 1,797,365 | - | - | 1,797,365 |
| Contract revenue - non government | 372,132 | - | - | 372,132 |
| Contributions | 70,182 | - | - | 70,182 |
| In-kind contributions | 40,075 | - | - | 40,075 |
| Interest | 242 | - | - | 242 |
| Investment income, net | 19,689 | - | - | 19,689 |
| Other income | 65 | - | - | 65 |
| Rental income | 4,350 | - | - | 4,350 |
| Affiliation fees | 11,237 | - | - | 11,237 |
| MegaConference administration fee | 10,000 | - | - | 10,000 |
| Meetings and conferences - Partners program | 35,129 | - | - | 35,129 |
| Miscellaneous | 15,693 | - | - | 15,693 |
| Memberships | 10,512 | - | - | 10,512 |
| Net assets released from restrictions | 5,156 | (5,156) | - | - |
| Total support and revenues | 2,448,334 | (5,156) | - | 2,443,178 |
| Expenses: | | | | |
| Program services: | | | | |
| Public awareness - Legislative Monitor | 40,428 | - | - | 40,428 |
| Advocacy, education and public awareness | 296,989 | - | - | 296,989 |
| Secondary Transition Program (formerly LINK) | 93,097 | - | - | 93,097 |
| Advocacy, Class Member Advocacy Services (CMAS) | 580,913 | - | - | 580,913 |
| Partners in Policymaking workshop | 160,173 | - | - | 160,173 |
| Personal assistance services and support (PASS) | 111,551 | - | - | 111,551 |
| Administration of the Real Choices Systems Change (PTP) | 191,819 | - | - | 191,819 |
| Choices | 264,492 | - | - | 264,492 |
| Other grants | 33,936 | - | - | 33,936 |
| | 1,773,398 | - | - | 1,773,398 |
| Supporting services: | | | | |
| Management and general | 517,268 | - | - | 517,268 |
| Fundraising | 47,863 | - | - | 47,863 |
| Total supporting services | 565,131 | - | - | 565,131 |
| Total expenses | 2,338,529 | - | - | 2,338,529 |
| Increase in net assets | 109,805 | (5,156) | - | 104,649 |
| Net assets - beginning of year | 1,053,166 | 28,498 | - | 1,081,664 |
| Net assets - end of year | \$ 1,162,971 | \$ 23,342 | \$ - | \$ 1,186,313 |

See accompanying notes to the financial statements.

THE ARC OF TENNESSEE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014

| | Program Services | | | | | | |
|------------------------------------|---|--|---|------------|---|--|---|
| | Public Awareness Legislative Monitor | Advocacy Education & Public Awareness | Secondary Transition Project (formerly LINK) | CMAS | Partners in Policymaking Workshop | Personal Assistance Services & Support (PASS) | Administration of Real Choice Systems Change (PTP) |
| Salaries | \$ 15,390 | \$ 170,787 | \$ 58,619 | \$ 379,352 | \$ 878 | \$ 19,170 | \$ 128,584 |
| Payroll taxes and benefits | 4,949 | 50,575 | 17,257 | 125,315 | 274 | 5,780 | 22,443 |
| Total personnel costs | 20,339 | 221,362 | 75,876 | 504,667 | 1,152 | 24,950 | 151,027 |
| Communication | 191 | 6,039 | 2,588 | 18,452 | - | 236 | 2,502 |
| Edith Wright disbursements | - | - | - | - | - | - | - |
| Equipment rental and maintenance | 161 | 3,757 | 773 | 836 | - | 122 | 2,982 |
| Individual assistance | - | 8,351 | - | - | 26,640 | - | - |
| In-kind | 2,915 | - | - | - | 37,160 | - | - |
| Insurance | - | - | - | - | - | - | - |
| Lobbying | - | - | - | - | - | - | - |
| Occupancy | 483 | 2,062 | - | 2,414 | - | 809 | 5,863 |
| Other non-personnel | - | - | - | - | - | - | - |
| Payments to national affiliate | - | - | - | - | - | - | - |
| Postage and shipping | 2,959 | 1,699 | 1 | 246 | - | 73 | 1,623 |
| Printing and publications | 8,266 | 7,870 | - | - | 2,632 | - | - |
| Professional fees | 4,788 | 3,023 | 2,280 | 3,676 | 22,805 | 85,354 | 1,572 |
| Supplies | 326 | 1,194 | 282 | 256 | 103 | 7 | 1,065 |
| Travel, conferences, and meetings | - | 41,632 | 11,297 | 50,366 | 69,681 | - | 25,185 |
| Total expenses before depreciation | 40,428 | 296,989 | 93,097 | 580,913 | 160,173 | 111,551 | 191,819 |
| Depreciation | - | - | - | - | - | - | - |
| Total expenses | \$ 40,428 | \$ 296,989 | \$ 93,097 | \$ 580,913 | \$ 160,173 | \$ 111,551 | \$ 191,819 |

See accompanying notes to the financial statements.

THE ARC OF TENNESSEE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014

| | <u>Program Services</u> | | | <u>Supporting Services</u> | | |
|------------------------------------|-------------------------|---------------------|-------------------------------|-------------------------------|--------------------|-----------------------|
| | <u>Choices</u> | <u>Other Grants</u> | <u>Total Program Services</u> | <u>Management and General</u> | <u>Fundraising</u> | <u>Total Expenses</u> |
| Salaries | \$ 186,557 | \$ 263 | \$ 959,600 | \$ 260,947 | \$ 32,620 | \$ 1,253,167 |
| Payroll taxes and benefits | 45,890 | 22 | 272,505 | 61,751 | 5,558 | 339,814 |
| Total personnel costs | 232,447 | 285 | 1,232,105 | 322,698 | 38,178 | 1,592,981 |
| Communication | 7,622 | - | 37,630 | 15,670 | 3,158 | 56,458 |
| Edith Wright disbursements | - | - | - | 4,500 | - | 4,500 |
| Equipment rental and maintenance | 2,516 | - | 11,147 | 8,019 | 273 | 19,439 |
| Individual assistance | - | 5,151 | 40,142 | - | - | 40,142 |
| In-kind | - | - | 40,075 | - | - | 40,075 |
| Insurance | - | - | - | 7,583 | - | 7,583 |
| Lobbying | - | - | - | 1,073 | - | 1,073 |
| Occupancy | 3,239 | - | 14,870 | 47,988 | 1,855 | 64,713 |
| Other non-personnel | - | - | - | 5,066 | - | 5,066 |
| Payments to national affiliate | - | - | - | 8,700 | - | 8,700 |
| Postage and shipping | 1,255 | - | 7,856 | - | 161 | 8,017 |
| Printing and publications | - | 2,235 | 21,003 | 6,602 | - | 27,605 |
| Professional fees | 6,488 | 24,900 | 154,886 | 64,834 | 1,822 | 221,542 |
| Supplies | 659 | - | 3,892 | 4,204 | 1,580 | 9,676 |
| Travel, conferences, and meetings | 10,266 | 1,365 | 209,792 | 17,976 | 836 | 228,604 |
| Total expenses before depreciation | 264,492 | 33,936 | 1,773,398 | 514,913 | 47,863 | 2,336,174 |
| Depreciation | - | - | - | 2,355 | - | 2,355 |
| Total expenses | \$ 264,492 | \$ 33,936 | \$ 1,773,398 | \$ 517,268 | \$ 47,863 | \$ 2,338,529 |

See accompanying notes to the financial statements.

THE ARC OF TENNESSEE, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

Cash Flows From Operating Activities:

| | | |
|------------------------|----|---------|
| Increase in net assets | \$ | 104,649 |
|------------------------|----|---------|

Adjustments to reconcile increase in net assets
to net cash provided by operating activities:

| | | |
|---|----|-----------|
| Depreciation | \$ | 2,355 |
| Unrealized gains on investments | | (13,571) |
| Dividends and interest reinvested | | (7,476) |
| Investment fees | | 1,358 |
| Changes in: | | |
| Certificates of deposit | | (249) |
| Grants receivable | | (221,990) |
| Contracts receivable | | 258,903 |
| Accounts receivable | | (5,970) |
| Prepaid expenses | | 18,356 |
| Cash whose use is limited | | 199,336 |
| Accounts payable | | (175) |
| Accrued vacation | | (24,927) |
| Deferred revenue | | (122,006) |
| | | 83,944 |
| Net cash provided by operating activities | | 188,593 |

Cash Flows from Investing Activities:

| | | |
|---------------------------------------|-----------|-----------|
| Purchase of investments | (251,678) | |
| Net cash used in investing activities | | (251,678) |

Cash Flows from Financing Activities:

| | | |
|---------------------------------------|-------|-------|
| Payments on long-term debt | (777) | |
| Net cash used in financing activities | | (777) |

| | | |
|----------------------|--|----------|
| Net decrease in cash | | (63,862) |
|----------------------|--|----------|

| | | |
|--------------------------|--|---------|
| Cash - beginning of year | | 672,519 |
|--------------------------|--|---------|

| | | |
|--------------------|----|---------|
| Cash - end of year | \$ | 608,657 |
|--------------------|----|---------|

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

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 non-profit 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.

Programs 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 assistance to individuals with I/DD who are in need of help.

CHOICES

We provide support brokerage for members of the CHOICES Waiver that choose to self-direct their services. Public Partnerships, LLC contracts with The Arc of Tennessee, Inc. to provide the support brokerage and Public Partnerships, LLC serves as the financial administration entity. TennCare is the oversight entity. The support broker assists the waiver participant to locate, access, and coordinate needed services. The support broker serves as a link between the participant or their guardian/conservator, providers, the managed care organizations (MCOs), and the Financial Administration Entity. The participant or their guardian/conservator must retain authority and responsibility for self-direction. This contract ended December 31, 2013.

Public Awareness Legislative Monitor

The Legislative Monitor is a publication that keeps Tennesseans informed about all aspects of public policy at the state and federal levels as it relates to people with disabilities. At least eight editions are published in hard copy format each year with up to four additional editions available in electronic format only. Copies of the Legislative Monitor are available on our website. During the legislative sessions, weekly calls are hosted to update interested individuals on the status of state legislation.

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.

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 - Summary of Significant Accounting Policies (continued)

Secondary Transition Project (formerly LINK)

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.

Personal Assistance Services and Support

Personal Assistance Supports and Services (PASS) is funded through the Department of Intellectual and Developmental Disabilities. The grant enhances community supports 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.

Class Member Advocacy Services (CMAS)

We provide individual advocacy services to individuals who are part of the Department of Intellectual and Developmental Disabilities service system and are in one of the following protected classes: Arlington class, settlement class, at-risk class (all related to past lawsuits). Advocacy is specific to a given situation where the staff works with all involved to address the concern and assure proper supports are in place.

Administration of 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.

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.

Link2

Link2 is a collaborative grant with three other local chapters of The Arc funded through The Arc US and the AT&T Foundation. The grant allows the chapters to provide wrap around services that support two post-secondary education programs for young adults with IDD. These services include assistance with applications and financial aid, outreach and promotion, conducting job club activities, and providing vocational related services that complement the post-secondary program activities. This grant ends in November, 2014.

Alternatives to Conservatorship and Conservatorship

The Arc Tennessee was awarded a small grant through the Community Foundation of Middle Tennessee to update our Alternatives to Conservatorship and Conservatorship Handbook and to provide educational workshops to educators, students and families about their options in these areas.

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 - Summary of Significant Accounting Policies (continued)

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:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by our actions and/or the passage of time. Restrictions that are fulfilled in the same accounting period in which the contributions are received are reported in the Statement of Activities as unrestricted.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that are permanent in nature. Generally, the donors of these assets permit us to use all or part of the income earned and any related investments for general or specific purposes.

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, 2014.

Accounts Receivable

Bad debts are recognized on the allowance method based on historical experience and our evaluation of outstanding accounts. We do not consider any amounts to be uncollectible at June 30, 2014.

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 \$500 for any land, building, and equipment purchased. Expenditures for repairs and maintenance are charged to expense as incurred.

Revenue Recognition

We receive much of our income through grants from the State of Tennessee Department of Finance and Administration, Department of Intellectual and Developmental Disabilities, Department of Education, Division of Special Education, and the Tennessee Council on Developmental Disabilities. We record income from the grants in the period that the applicable expenditures are incurred.

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.

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 - Summary of Significant Accounting Policies (continued)

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. We are not subject to examination by U.S. federal or state taxing authorities for years before 2011.

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.

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.

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 charged to fringe benefits expense and totaled \$28,132 during the year ended June 30, 2014.

NOTE 2 - Certificates of Deposit

We have three certificates of deposit with First Tennessee Bank. These assets have been named as collateral for the line of credit. See NOTE 7. The amounts, maturities, and interest rates are as follows:

| <u>Interest Rate</u> | <u>Maturity Date</u> | <u>Amount</u> |
|----------------------|----------------------|------------------|
| .10% | 4/13/2015 | \$ 11,343 |
| .10% | 4/13/2015 | 11,329 |
| .10% | 4/13/2015 | 15,862 |
| | | <u>\$ 38,534</u> |

NOTE 3 - Investments

Investments consisted of the following at June 30, 2014:

| | <u>Market Value</u> | <u>Cost</u> |
|--------------|-------------------------|-------------------|
| Mutual Funds | <u>\$ 271,367</u> | <u>\$ 251,678</u> |

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 3 – Investments (continued)

Investment income (loss) consisted of the following for the year ended June 30, 2014:

| | |
|------------------------------|------------------|
| Interest and dividend income | 7,476 |
| Unrealized gain - net | 13,571 |
| Investment fees | <u>(1,358)</u> |
| Investment income - net | <u>\$ 19,689</u> |

See NOTE 4.

NOTE 4 - Fair Value Measurements

We use a framework for measuring fair value and disclosing fair values. We define fair value at the price which would be received to sell an asset in an orderly transaction between market participants at the measurement date. We use this framework for all assets and liabilities measured and reported on a fair value basis and enable the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. Each asset and liability carried at fair value is classified into one of the following categories:

- Level 1 - Quoted market prices in active markets for identical assets or liabilities
- Level 2 - Observable market based inputs or unobservable inputs corroborated by market data
- Level 3 - Unobservable inputs not corroborated by market data.

The following table summarizes our financial assets measured at fair value on a recurring basis segregated by level of valuation inputs within the fair value hierarchy utilized to measure fair value as of June 30, 2014:

| | <u>Fair Value</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|--------------|-------------------|-------------------|----------------|----------------|
| Mutual Funds | <u>\$ 271,367</u> | <u>\$ 271,367</u> | <u>\$ -</u> | <u>\$ -</u> |

There were no transfers between Level 1, Level 2, and Level 3 investments during the year ended June 30, 2014.

NOTE 5 - Grants Receivable

At June 30, 2014, we are owed the following amounts for grants:

| | |
|--|-------------------|
| Public awareness – Legislative Monitor | \$ 11,858 |
| Advocacy, education & public awareness | 126,761 |
| Secondary Transition Program (formerly LINK) | 21,584 |
| Tennessee Disability MegaConference Grant | 5,000 |
| Partners in Policymaking workshop | 11,515 |
| Personal assistance services and support | 56,018 |
| Administration of the Real Choice Systems Change | 82,084 |
| CMAS - Advocacy | 169,139 |
| Tabs | <u>1,251</u> |
| | <u>\$ 485,210</u> |

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 6 - Accounts Receivable

We are due amounts from member units and registrations as follows:

| | |
|-----------------------|-----------|
| Due from Member Units | \$ 5,209 |
| Other | 10,527 |
| | <hr/> |
| | \$ 15,736 |
| | <hr/> |

NOTE 7 - Line of Credit Payable

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 .75% above the lender's base commercial rate, which was 5.25% at June 30, 2014, and expires on April 2, 2015. During the year ended June 30, 2014, we did not incur any interest charges. Certificates of deposit have been designated as collateral for this line of credit. See NOTE 2. At June 30, 2014, we have not drawn any amounts on this line of credit.

NOTE 8 - MegaConference - Future Years

We, along with other nonprofit entities, participate in a MegaConference each year. We provide the capability for the receipts and disbursements of the funds related to this MegaConference; however, this was not a program for us. Total receipts for the MegaConference for the year ended June 30, 2014, were \$143,230. Total disbursements for the MegaConference for the year ended June 30, 2014, were \$119,400. Money not spent on the MegaConference is held by us by request of the other non-profit participants for future MegaConferences. For the year ended June 30, 2014, this amount was \$60,172 and is included in accounts payable.

NOTE 9 - Deferred Revenue

In accordance with our revenue recognition policies listed in Note 1, we recognize revenue as expenses are incurred with regards to our matching grant programs. Any additional amounts that we have received and have not incurred matching expenses are reported as deferred revenue. At June 30, 2014, we have billed \$17,206 in funds from the State for which we have not incurred matching expenses.

The total amount of deferred revenue at June 30, 2014, is \$26,799.

NOTE 10 - Net Assets – Board Designated

Board designated net assets consisted of the following at June 30, 2014:

| | |
|-----------------------------|------------|
| Investments | \$ 271,367 |
| Cash portion of investments | 3,111 |
| Roger Blue Savings | 4,842 |
| ADID Future Conferences | 2,706 |
| Future Endowment Fund | 6,014 |
| | <hr/> |
| | \$ 288,040 |
| | <hr/> |

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 11 - Net Assets - Temporarily Restricted

Temporarily restricted net assets consisted of the following at June 30, 2014:

| | |
|---------------------|-----------|
| Edith Wright | \$ 19,462 |
| DSPAT (See NOTE 18) | 3,880 |
| | <hr/> |
| | \$ 23,342 |
| | <hr/> |

NOTE 12 - Gum Vending

We have entered into contracts with third parties to maintain vending containers throughout the State of Tennessee that solicit contributions for us. We are not responsible for any of the operating expenses or any resulting legal liability as related to maintaining the containers on a monthly basis. The contracts are subject to automatic renewal in 2015, unless canceled by either party. We received \$56,507 for the year ended June 30, 2014.

NOTE 13 - Government Grants and Grant Revenue

We earned grant monies from the State of Tennessee Department of Finance and Administration, Department of Intellectual and Developmental Disabilities, the Tennessee Council on Developmental Disabilities and the Bureau of TennCare, the Department of Education, Division of Special Education as well as private companies. The loss of this funding could have a material effect on our operations.

Funds were received for the following grant activities as of June 30, 2014:

| | |
|--|--------------|
| Public awareness – Legislative Monitor | \$ 34,552 |
| Advocacy, education and public awareness | 373,864 |
| Secondary Transition Program (formerly LINK) | 100,746 |
| Advocacy – CMAS | 731,599 |
| AT&T | 25,528 |
| Tabs | 1,252 |
| MegaConference | 5,000 |
| Conservatorship | 2,235 |
| Partners in Policymaking workshop | 139,850 |
| Personal assistance services & support | 140,877 |
| People Talking to People | 241,862 |
| | <hr/> |
| | \$ 1,797,365 |
| | <hr/> |

NOTE 14 - Lease Agreements

We rent our facilities and equipment under a five-year lease agreement. Our facilities lease agreement have monthly lease payments of \$5,555, increasing with each year of the lease. All leases have been classified as operating leases, except for the accounting software lease, as described in the next paragraph.

We lease our accounting software under a leasing arrangement classified as a capital lease. The lease is for a period of sixty months with monthly lease payments of \$399 with an interest rate of 11.92%. This lease expired in August 2013.

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 14 - Lease Agreements (continued)

Total lease expense for the year ended June 30, 2014, including both capital and operating leases, was \$84,151. The following is a schedule of minimum lease payments under the non-cancellable operating leases.

Year Ending June 30,

| | |
|------------|-------------------|
| 2015 | \$ 91,262 |
| 2016 | 77,479 |
| 2017 | 71,243 |
| 2018 | 54,626 |
| Thereafter | <u>-</u> |
| | <u>\$ 294,610</u> |

NOTE 15 - 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 the properness or eligibility. A questioned cost may not be reimbursed by the State, or a 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 to which they apply. The determination as to whether such costs will be allowed or disallowed under the grants will be made by the individual grantor agencies at a later date.

No liability is needed as of June 30, 2014, for these costs as no determination has been made by the grantor agencies as to any amount for any grant. Our Board deems the contingency to be remote, as we have accommodated our objective to the provisions of the grants.

NOTE 16 - 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, 2014, 87% of all receivables were due from four sources. At June 30, 2014, 73% of all revenue was received from one source.

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 17 - 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 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, 2014, we paid \$8,700 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, 2014, we collected \$11,237 from these entities.

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 18 - Agency Relationships

We hold funds for other non-profit entities. DSPAT is a program in which we act as an administrator of the grant fund. The intention of DSPAT is to become its own 501(c)(3) organization. We are holding the dues collected on behalf of DSPAT, which were \$3,880 as of June 30, 2014.

NOTE 19 - 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, 2014, we recognized \$40,075 in in-kind revenues.

NOTE 20 - Subsequent Events

We have evaluated events subsequent to the year ending June 30, 2014. As of October 22, 2014, the date that the financial statements were available to be issued, no events subsequent to the balance sheet date are considered necessary to be included in the notes to the financial statements for the year ended June 30, 2014.

SUPPLEMENTARY INFORMATION

The Arc of Tennessee, Inc.
Schedule of Expenditures of Federal and State Awards
For The Year Ended June 30, 2014

| Federal Grantor/Pass-Through Grantor | CFDA Number | Contract Number | Beginning (Accrued) Deferred | Cash Receipts | Expenditures | Ending (Accrued) Deferred |
|---|----------------|---------------------|---------------------------------|------------------|----------------|------------------------------|
| <u>Federal Financial Assistance</u> | | | | | | |
| <u>U.S. Department of Labor's Office of Disability Employment Policy/ Institute for Educational Leadership</u> | | | | | | |
| National Collaborative on Workforce and Disability for Youth | 17.720 | OD-23804-12-75-4-11 | \$ - | \$ 1,500.00 | \$ (144.00) | \$ 1,356.00 |
| <u>Department of Education Office of Special Education and Rehabilitative Services/ TN Department of Education</u> | | | | | | |
| Individuals with Disabilities Education Act | 84.393A | DGA-C000035 | 2,983 | (2,983) | - | - |
| <u>Department of Education Office of Special Education and Rehabilitative Services/ TN Department of Education</u> | | | | | | |
| Special Education Grants to State | 84.027A | 30905 | (10,618) | 89,781 | (100,747) | (21,584) |
| <u>U.S. Department of Health and Human Services Administration for Community Living/ TN Council on Developmental Disabilities</u> | | | | | | |
| Developmental Disabilities Basic Support and Advocacy Grants | 93.630 | 41357 | (5,000) | 5,000 | (5,000) | (5,000) |
| Developmental Disabilities Basic Support and Advocacy Grants | 93.630 | 36927 | (229) | 128,563 | (139,849) | (11,515) |
| Developmental Disabilities Basic Support and Advocacy Grants | 93.630 | 36928 | (5,064) | 27,758 | (34,552) | (11,858) |
| Total Program 93.630 | | | (10,293) | 161,321 | (179,401) | (28,373) |
| TOTAL FEDERAL AWARDS | | | (17,928) | 249,619 | (280,292) | (48,601) |
| <u>State Financial Assistance</u> | | | | | | |
| Department of Intellectual Developmental Disabilities | N/A | 34401-00438 | (71,960) | 319,064 | (373,864) | (126,760) |
| Department of Intellectual Developmental Disabilities | N/A | 39354 | - | 180,861 | (350,000) | (169,139) |
| Department of Intellectual Developmental Disabilities | N/A | GR0927085 | 82,722 | 316,083 | (381,599) | 17,206 |
| Department of Intellectual Developmental Disabilities | N/A | GR1237400 | (49) | 49 | - | - |
| Department of Intellectual Developmental Disabilities | N/A | 34401-00461 | (62,472) | 147,330 | (140,876) | (56,018) |
| Department of Intellectual Developmental Disabilities | N/A | 34401-00434 | (44,728) | 204,506 | (241,862) | (82,084) |
| TOTAL STATE AWARDS | | | (96,487) | 1,167,894 | (1,488,202) | (416,795) |
| TOTAL FEDERAL & STATE AWARDS | | | \$ (114,415) | \$ 1,417,513 | \$ (1,768,494) | \$ (465,396) |

NOTE: This schedule was prepared on an accrual basis in accordance with the format prescribed
by the Tennessee Comptroller of the Treasury Division of Local Government Audit.

**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**



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. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 22, 2014.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Arc 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

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 organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Franklin, Tennessee
October 22, 2014