

2017

Financial Statements

With Supplementary
Information

THE ARC OF TENNESSEE, INC.

FINANCIAL STATEMENTS

JUNE 30, 2017

(With Independent Auditor's Report Thereon)

THE ARC OF TENNESSEE, INC.
FINANCIAL STATEMENTS
JUNE 30, 2017

CONTENTS

	<u>PAGE</u>
Roster of Board of Directors	i
Independent Auditor's Report	1 - 2
Audited Financial Statements:	
Statement of Financial Position	3 - 4
Statement of Activities	5
Statement of Functional Expenses	6
Statement of Cash Flows	7
Notes to the Financial Statements	8 - 16
Supplementary Information:	
Schedule of Expenditures of Federal and State Awards	17
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 <i>Government Auditing Standards</i>	18 - 19
Schedule of Prior Year Findings	20

The Arc of Tennessee, Inc.
Roster of Board of Directors
June 30, 2017

John Shouse	President
Brenda Farley	Committee Chair
Ann Curl	Vice President
Mary La Haie	Treasurer
Glenda Bond	Secretary
John Lewis	Past President
Elise McMillan	National Representative
Mary Ruth Burke	Regional Representative
Brittany Carter	Regional Representative
Keith Kirby	Regional Representative
Linda Brown	County Representative
Kate Deitzer	County Representative
Malessa Fleenor	County Representative
Christina Pearce	County Representative
Sharon Bottorff	Committee Chair
Robyn Lampley	Committee Chair
Doria Panvini	Committee Chair
Donna Lankford	Board Member
Terry Long	Board Member
Wanda Myles	Board Member
Courtney Taylor	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, 2017, 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, 2017, 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 November 17, 2017, 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.

Patterson Handley & Ballentine

November 17, 2017

THE ARC OF TENNESSEE, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017

ASSETS

Current Assets:

Cash	\$ 690,769	
Certificates of deposit	38,650	
Grants receivable	341,507	
Accounts receivable	36,992	
Prepaid expenses	<u>21,327</u>	
Total current assets		\$ 1,129,245

Property and Equipment:

Furniture and equipment	160,187	
Less: accumulated depreciation	<u>(160,187)</u>	
Total property and equipment		-

Other Assets:

Security deposit	<u>9,800</u>	
Total other assets		9,800

Assets Whose Use Is Limited:

Cash	42,283	
Investments	320,094	
Accounts receivable	<u>60,000</u>	
		<u>422,377</u>

Total Assets		<u><u>\$ 1,561,422</u></u>
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THE ARC OF TENNESSEE, INC.
STATEMENT OF FINANCIAL POSITION (continued)
JUNE 30, 2017

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable	\$ 201,831	
Accrued vacation	<u>42,330</u>	
Total current liabilities		<u>\$ 244,161</u>

Net Assets:

Unrestricted:

Undesignated	894,884	
Board-designated	<u>336,464</u>	
Total unrestricted net assets		1,231,348

Temporarily restricted

	<u>85,913</u>	
Total restricted net assets		<u>85,913</u>

Total net assets		<u>1,317,261</u>
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Total liabilities and net assets		<u><u>\$ 1,561,422</u></u>
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THE ARC OF TENNESSEE, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenues:				
Gum vending	\$ 43,060	\$ -	\$ -	\$ 43,060
Grant income	1,434,828	107,830	-	1,542,658
Contributions	30,682	-	-	30,682
In-kind contributions	49,135	-	-	49,135
Interest	122	8	-	130
Investment income, net	33,641	-	-	33,641
Other income	9,906	-	-	9,906
Affiliation fees	13,300	-	-	13,300
Mega Conference administration fee	15,000	-	-	15,000
Meetings and conferences	4,013	-	-	4,013
Registrations	5,680	-	-	5,680
Memberships	7,129	-	-	7,129
Net assets released from restrictions	36,090	(36,090)	-	-
Total support and revenues	1,682,586	71,748	-	1,754,334
Expenses:				
Program services:				
Advocacy, Education and Public Awareness	579,708	-	-	579,708
Secondary Transition Project (formerly LINK)	152,803	-	-	152,803
Baptist Healing Trust	14,897	-	-	14,897
Partners in Policymaking Workshop	179,207	-	-	179,207
Personal Assistance Services and Support (PASS)	134,942	-	-	134,942
Administration of the Real Choice Systems Change	197,381	-	-	197,381
Other grants	18,550	-	-	18,550
Employment and Community First Choices (ECF)	925	-	-	925
	1,278,413	-	-	1,278,413
Supporting services:				
Management and general	289,078	-	-	289,078
Fundraising	64,857	-	-	64,857
Total supporting services	353,935	-	-	353,935
Total expenses	1,632,348	-	-	1,632,348
Increase in net assets	50,238	71,748	-	121,986
Net assets - beginning of year	1,181,110	14,165	-	1,195,275
Net assets - end of year	\$ 1,231,348	\$ 85,913	\$ -	\$ 1,317,261

THE ARC OF TENNESSEE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

	Program Services								Supporting Services			
	Advocacy, Education and Public Awareness	Secondary Transition Project	Baptist Healing Trust	Partners in Policymaking Workshop	Personal Assistance Services and Support (PASS)	Administration of Real Choice Systems Change (PTP)	Other Grants	Employment and Community First Choices (ECF)	Total Program Services	Management and General	Fundraising	Total Expenses
Salaries	\$ 363,449	\$ 104,220	\$ 7,245	\$ 885	\$ 35,613	\$ 129,961	\$ 10,690	\$ 523	\$ 652,586	\$ 138,175	\$ 44,281	\$ 835,042
Payroll taxes and benefits	103,137	28,358	1,171	280	9,507	23,665	3,307	140	169,565	27,121	8,129	204,815
Total personnel costs	466,586	132,578	8,416	1,165	45,120	153,626	13,997	663	822,151	165,296	52,410	1,039,857
Professional Fees / Grant Awards	5,747	1,275	200	17,105	86,789	17,491	62	-	128,669	27,991	5,416	162,076
Supplies	1,210	320	11	718	1,107	653	590	3	4,612	4,894	2,224	11,730
Communication	7,582	5,340	3,600	-	364	3,260	2	-	20,148	7,586	1,086	28,820
Postage & Shipping	1,935	273	-	34	56	74	13	1	2,386	988	91	3,465
Occupancy	5,984	409	-	-	1,131	4,783	-	-	12,307	39,747	1,804	53,858
Equipment Rental & Maintenance	2,043	920	13	-	64	766	133	66	4,005	5,514	120	9,639
Printing & Publications	7,807	24	-	268	-	49	250	-	8,398	50	24	8,472
Travel / Conferences & Meetings	70,769	11,664	2,657	79,840	311	16,679	1,128	192	183,240	8,222	1,322	192,784
Insurance	-	-	-	-	-	-	-	-	-	4,765	-	4,765
Specific Assistance to Individuals	10,045	-	-	30,942	-	-	2,375	-	43,362	-	-	43,362
Other Non-Personnel	-	-	-	-	-	-	-	-	-	8,825	-	8,825
In-Kind Expense	-	-	-	49,135	-	-	-	-	49,135	-	-	49,135
Miscellaneous	-	-	-	-	-	-	-	-	-	2,966	360	3,326
Lobbying Expenses	-	-	-	-	-	-	-	-	-	1,943	-	1,943
Edith Wright Fund	-	-	-	-	-	-	-	-	-	9,124	-	9,124
Total expenses before depreciation	579,708	152,803	14,897	179,207	134,942	197,381	18,550	925	1,278,413	287,911	64,857	1,631,181
Depreciation	-	-	-	-	-	-	-	-	-	1,167	-	1,167
Total expenses	\$ 579,708	\$ 152,803	\$ 14,897	\$ 179,207	\$ 134,942	\$ 197,381	\$ 18,550	\$ 925	\$ 1,278,413	\$ 289,078	\$ 64,857	\$ 1,632,348

See accompanying notes to the financial statements.

THE ARC OF TENNESSEE, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017

Cash Flows From Operating Activities:

Increase in net assets \$ 121,986

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

Depreciation	\$ 1,167	
Investment income, net	(33,641)	
Changes in:		
Certificates of deposit	(116)	
Grants receivable	116,038	
Contracts receivable	-	
Accounts receivable	(14,378)	
Prepaid expenses	(10,125)	
Assets whose use is limited	(73,004)	
Accounts payable	(55,315)	
Accrued vacation	(8,227)	
Deferred revenue	(8,581)	
	<u>(86,182)</u>	
Net cash provided by operating activities		35,804

Net increase in cash 35,804

Cash - beginning of year 654,965

Cash - end of year \$ 690,769

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

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

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.

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

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.

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. We also conduct NCI (National Core Indicators) surveys that allow Tennessee to compare itself to other states.

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 - Summary of Significant Accounting Policies (continued)

Program and Supporting Services (continued)

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 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 Tennessee is a contracted provider with VR to provide three of the five Pre-ETS: workplace readiness training, self-advocacy, self-determination and self-direction training, post-secondary education counseling. The Arc Tennessee collaborates with local school systems to implement these services.

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:

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, 2017.

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 do not consider any amounts to be uncollectible at June 30, 2017.

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 - Summary of Significant Accounting Policies (continued)

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.

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 revenue from those activities recorded as services are provided. See notes 8 and 12.

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.

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 charged to fringe benefits expense and totaled \$37,350 during the year ended June 30, 2017.

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

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%	4/13/2018	\$ 11,377
.10%	4/13/2018	11,362
.10%	4/13/2018	15,911
		<u>\$ 38,650</u>

NOTE 3 - Investments

Investments consisted of the following at June 30, 2017:

	<u>Market Value</u>	<u>Cost</u>
Mutual Funds	\$ 320,094	\$ 295,532

Investment income (loss) consisted of the following for the year ended June 30, 2017:

Interest and dividend income	\$ 9,913
Unrealized gain - net	26,086
Investment fees	<u>(2,358)</u>
Investment income, net	<u>\$ 33,641</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 ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 4 - Fair Value Measurements (continued)

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, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds	\$ 320,094	\$ -	\$ -	\$ 320,094

There were no transfers between Level 1, Level 2, and Level 3 investments during the year ended June 30, 2017.

NOTE 5 - Grants Receivable

At June 30, 2017, we are owed the following amounts for grants:

Advocacy, Education & Public Awareness	\$ 137,734
PTP	52,056
Partners in Policymaking Workshop	64,503
Secondary Transition Program (formerly LINK)	31,748
Personal Assistance Services and Support	54,658
Employment and Community First Choices	808
	<u>\$ 341,507</u>

NOTE 6 - Accounts Receivable

We are due amounts from Member Units, customers and registrations as follows:

Due from Member Units and customers	\$ 8,350
Other	28,642
	<u>\$ 36,992</u>

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 5.00% at June 30, 2017, and expires on May 31, 2036. During the year ended June 30, 2017, 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, 2017, 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 administration of receipts and disbursements for 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, 2017, were \$141,490. Total disbursements for the MegaConference for the year ended June 30, 2017, were \$139,991. 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, 2017, the cumulative surplus was \$97,962 and is included in accounts payable.

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

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. The total amount of deferred revenue at June 30, 2017, is \$0.

NOTE 10 - Net Assets – Board Designated

Board designated net assets consisted of the following at June 30, 2017:

Investments, including cash portion	\$ 321,979
Roger Blue Savings	4,155
ADID Future Conferences	2,715
Corporate Savings	806
DCE Funds for Future Training	5,559
People First	1,250
	<hr/>
	\$ 336,464

NOTE 11 - Net Assets - Temporarily Restricted

Temporarily restricted net assets consisted of the following at June 30, 2017:

Edith Wright	\$ 2,250
DSPAT (See NOTE 17)	2,299
Arc US Advocacy	3,546
AT&T	2,494
Frist Foundation	346
Supported Decision Making	1,433
Family Support	2,000
SEAT	906
Arc US FSRTC	654
Conservatorship	1,763
Youth Act	721
Baptist Healing Trust (time restricted)	67,501
	<hr/>
	\$ 85,913

NOTE 12 - Gum Vending

We have entered into contracts with third parties to maintain gum 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 2016, unless canceled by either party. We received \$43,060 for the year ended June 30, 2017, from gum vending.

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 13 - Government Grants and Grant Revenue

We earned grant monies from the State of Tennessee Department of Intellectual and Developmental Disabilities (DIDD), the Tennessee Council on Developmental Disabilities, the Department of Education as well as private companies and foundations. Our largest source of revenue is from the DIDD, which consists of three contracts: Advocacy and Awareness; People Talking to People (PTP); and Personal Assistance.

A portion of the activities included in the Advocacy and Awareness contract are tied to a longstanding lawsuit, which was settled in fiscal year 2017, and there is a possibility that this contract could be reduced significantly. The Arc of Tennessee continues working with DIDD on our scope of services for the future that justifies the current amount of the contract. If the funding of this contract is not maintained at its current level, it will have a material effect on our operations.

Funds were received for the following grant activities as of June 30, 2017:

Advocacy, education and public awareness	\$ 699,670
Secondary Transition	169,976
Future Planning	2,920
TN Leadership Institute	156,612
Personal Assistance & Support	161,145
Real Choice Systems Change	235,816
Health Matters	15,733
Supported Decision Making	568
Special Education Advocacy Training	94
Baptist Healing Trust	77,552
Employment and First Choice Community	1,208
Other Grants	21,364
	<hr/>
	\$ 1,542,658

NOTE 14 - Lease Agreements

We rent our facilities under five-year lease agreements. These lease agreements have monthly lease payments of \$4,653, which were set to increase with each year of the lease. In July 2015, our facility was purchased, and our new landlord cancelled our lease to allow us to move to a new location. The monthly lease payment in our new location is \$4,653, which will increase with each year of the lease. The future minimum lease payments of the new location are included in the schedule below. All leases have been classified as operating leases.

Total lease expense for the year ended June 30, 2017, was \$53,858. The following is a schedule of minimum lease payments under the non-cancellable operating leases.

Year Ending June 30,

2018	\$ 64,994
2019	60,226
2020	59,897
2021	61,545
2022	25,932
Thereafter	<hr/>
	\$ 272,594

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 15 - 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, 2017, 62% of all receivables were due from two sources. At June 30, 2017, 92% of all revenue was received from five sources.

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 16 - 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, 2017, 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, 2017, we collected \$13,300 from these entities.

NOTE 17 - 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 \$2,299 as of June 30, 2017.

NOTE 18 - 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, 2017, we recognized \$49,135 as in-kind revenues.

NOTE 19 - New Pronouncements

In May 2014, FASB issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The Update provides guidance about recording contract revenue on an organization's statement of activities. The amendments in this Update are effective for annual periods beginning after December 15, 2018, and for annual periods and interim periods thereafter with early adoption permitted for annual periods beginning after December 15, 2016. We are currently evaluating the impact of adopting this statement.

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, 2019, and for annual periods and interim periods thereafter with early adoption permitted. We are currently evaluating the impact of adopting this statement.

In August 2016, FASB issued Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The Update provides guidance about the

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 19 – New Pronouncements (continued)

presentation of financial statements for non-profit organizations. The amendments in this Update are effective for annual periods beginning after December 15, 2017, and for annual periods and interim periods thereafter with early adoption permitted. We are currently evaluating the impact of adopting this statement.

NOTE 19 - Subsequent Events

We have evaluated our June 30, 2017, financial statements for subsequent events through November 17, 2017, 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

The Arc of Tennessee, Inc.
Schedule of Expenditures of Federal and State Awards
For The Year Ended June 30, 2017

Federal Grantor Pass-Through Grantor Grant Program Title	CFDA Number	Contract Number	Expenditures
<u>Federal Awards</u>			
U.S. Department of Education Office of Special Education and Rehabilitative Services Passed through the TN Department of Education Special Education - Grants to States	84.027A	33136-01116	169,976
U.S. Department of Health and Human Services Administration for Community Living Passed through the TN Department of Intellectual and Developmental Disabilities Tennessee Leadership Institute	93.630	34401-80215	156,612
U.S. Department of Health and Human Services Administration for Community Living Passed through Quality Trust for Individuals with Disabilities, Inc.	93.631	90DM0001-01-00	567
TOTAL FEDERAL AWARDS			\$ 327,155
<u>State Financial Assistance</u>			
Department of Intellectual and Developmental Disabilities Advocacy Program to DIDD Service Recipients	N/A	34401-99075	696,366
Department of Intellectual and Developmental Disabilities Personal Assistance Services and Support	N/A	34401-00461	161,145
Department of Intellectual and Developmental Disabilities Real Choice Systems Change Program	N/A	34401-00434	235,816
TOTAL STATE AWARDS			1,093,327
TOTAL FEDERAL & STATE AWARDS			\$ 1,420,482

NOTE: This schedule was prepared on a modified 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, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 17, 2017.

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.

Patterson Harder & Bellentine

November 17, 2017

THE ARC OF TENNESSEE, INC.
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017

Financial Statement Findings:

There were no prior findings reported.



PATTERSON, HARDEE & BALLENTINE, P.C.

Certified Public Accountants

November 17, 2017
To the Board of Directors
The Arc of Tennessee, Inc.

We have audited the financial statements of The Arc of Tennessee, Inc. (the "organization") for the year ended June 30, 2017, and have issued our report thereon dated November 17, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September 25, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by The Arc of Tennessee, Inc. are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2017. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure in Note 1 to the financial statements explaining the basis of allocation of functional expenses into their appropriate functional categories.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or

the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 17, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Directors of The Arc of Tennessee, Inc. and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Patterson Handee & Ballentine

The Arc of Tennessee, Inc.
Passed Adjustments Schedule
June 30, 2017

Description (Nature) of Audit Difference (AD)	Factual (F), Judgmental (J), or Projected (P)	Cause	W/P Reference	Financial Statement Effect—Amount of Over (Under) Statement of:						
				Total Assets	Total Liabilities	Net Assets	Revenues	Expenses	Change in Net Assets	Working Capital
Improper recording of prior year deferred revenue	F	Deferred revenue should have been recorded as revenue and shown as temp restricted	U-1			-\$8,580	\$8,580		\$8,580	
Payroll taxes accrued before payroll paid.	F	Client booked payroll tax accrual for payroll that was paid after year end.	N-3		\$7,370			\$7,370	-\$7,370	
									\$0	
									\$0	
									\$0	
									\$0	
									\$0	
									\$0	
									\$0	
									\$0	
Total				\$0	\$7,370	-\$8,580	\$8,580	\$7,370	\$1,210	\$0
Less Audit Adjustments Subsequently Booked									\$0	
Unadjusted AD—Current Year (Iron Curtain Method)				\$0	\$7,370	-\$8,580	\$8,580	\$7,370	\$1,210	\$0
Effect of Unadjusted AD—Prior Years									\$0	
Combined Current and Prior Year AD (Rollover Method)				\$0	\$7,370	-\$8,580	\$8,580	\$7,370	\$1,210	\$0
Financial Statement Caption Totals				\$1,561,422	\$244,161	\$1,317,261	\$1,754,334	\$1,632,348	\$121,986	
Current Year AD as % of FS Captions (Iron Curtain Method)				0.00%	3.02%	-0.65%	0.49%	0.45%	0.99%	0.00%
Current and Prior Year AD as % of FS Captions (Rollover Method)				0.00%	3.02%	-0.65%	0.49%	0.45%	0.99%	0.00%

Qualitative Factors: Describe qualitative factors that entered into your evaluation of whether uncorrected accumulated misstatements are material, individually or in the aggregate, in relation to specific accounts and disclosures and to the financial statements as a whole, and the reasons why.

Conclusion: Based on the results of the evaluation performed above, as well as the consideration of qualitative factors, uncorrected audit differences, individually and in the aggregate, ☐ do ☒ do not cause the financial statements taken as a whole to be materially misstated.



PATTERSON, HARDEE & BALLENTINE, P.C.

Certified Public Accountants

November 17, 2017

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

In planning and performing our audit of the combined financial statements of The Arc of Tennessee, Inc. (the "Organization") as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered The Arc of Tennessee, Inc. internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. This letter does not affect our report dated November 17, 2017, on the financial statements of the Organization.

Functional Allocation of Expenses

As part of our audit procedures, we sent questionnaires to members of the Board of Directors. Based on the responses received, we noted several instances where the board was not clear on how functional expenses were allocated. We strongly recommend that The Arc of Tennessee, Inc. establish an effective review with the Board of Directors on the methodology and execution of the allocation of functional expenses.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Organization personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This information is intended solely for the use of management, the Board of Directors, and others within the Organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

Patterson Hardee & Ballentine