

# 2013

## Financial Statements

**THE ARC OF TENNESSEE, INC.**

**FINANCIAL STATEMENTS**

**JUNE 30, 2013**

(With Independent Auditor's Report Thereon)

**THE ARC OF TENNESSEE, INC.**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

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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., which comprise the statement of financial position as of June 30, 2013, 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, 2013, 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 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 September 19, 2013, 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*

Franklin, Tennessee  
September 19, 2013

**THE ARC OF TENNESSEE, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2013**

**ASSETS**

Current Assets:

Cash and cash equivalents	\$ 672,519	
Certificates of deposit	38,285	
Grants receivable	263,220	
Contracts receivable	258,903	
Accounts receivable	<u>9,766</u>	
Total current assets		\$ 1,242,693

Property and Equipment:

Furniture and equipment	160,187	
Less: accumulated depreciation	<u>(154,917)</u>	
Total property and equipment		5,270

Other Assets:

Prepaid expenses	33,603	
Security deposit	<u>5,393</u>	
Total other assets		38,996

Assets Whose Use Is Limited:

Cash		<u>239,351</u>
Total Assets		<u>\$ 1,526,310</u>

THE ARC OF TENNESSEE, INC.  
STATEMENT OF FINANCIAL POSITION (continued)  
JUNE 30, 2013

LIABILITIES AND NET ASSETS

Current Liabilities:

Current portion of capitalized lease obligation	\$	777	
Accounts payable		224,085	
Accrued expenses		70,979	
Deferred revenue		<u>148,805</u>	
Total current liabilities			\$ 444,646
Total Liabilities			<u>444,646</u>

Net Assets:

Unrestricted:

Undesignated	842,313	
Board-designated	<u>210,853</u>	
Total unrestricted net assets		1,053,166

Temporarily restricted

	<u>28,498</u>	
Total restricted net assets		<u>28,498</u>

Total net assets		<u>1,081,664</u>
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Total liabilities and net assets		<u><u>\$ 1,526,310</u></u>
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**THE ARC OF TENNESSEE, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenues:			
Gum vending	\$ 60,631	\$ -	\$ 60,631
Grant income	1,793,424	-	1,793,424
Contract revenue - non government	863,452	-	863,452
Contributions	24,178	-	24,178
In-kind contributions	32,100	-	32,100
Interest	228	-	228
Affiliation fees	9,301	-	9,301
Mega-Conference administration fee	10,000	-	10,000
Meetings and conferences - Partners program	3,340	-	3,340
Memberships	4,198	-	4,198
Net assets released from restrictions	2,713	(2,713)	-
	<u>2,803,565</u>	<u>(2,713)</u>	<u>2,800,852</u>
Total support and revenues			
	<u>2,803,565</u>	<u>(2,713)</u>	<u>2,800,852</u>
Expenses:			
Program services:			
Public awareness - Legislative Monitor	34,494	-	34,494
Advocacy, education and public awareness	352,484	-	352,484
Secondary Transition Program (formerly LINK)	94,127	-	94,127
Advocacy, Class Member Advocacy Services (CMAS)	600,948	-	600,948
Walmart Grant	11,207	-	11,207
Partners in Policymaking workshop	135,566	-	135,566
Personal assistance services and support (PASS)	117,244	-	117,244
Administration of the Real Choices Systems Change (PTP)	205,324	-	205,324
Choices	481,131	-	481,131
Support brokerage / financial administration	134,812	-	134,812
	<u>2,167,337</u>	<u>-</u>	<u>2,167,337</u>
Supporting services:			
Management and general	463,091	-	463,091
Fundraising	65,965	-	65,965
	<u>529,056</u>	<u>-</u>	<u>529,056</u>
Total supporting services			
	<u>529,056</u>	<u>-</u>	<u>529,056</u>
Total expenses			
	<u>2,696,393</u>	<u>-</u>	<u>2,696,393</u>
Unallocated payments to affiliated organizations	8,700	-	8,700
	<u>8,700</u>	<u>-</u>	<u>8,700</u>
Increase (decrease) in net assets	98,472	(2,713)	95,759
Net assets - beginning of year	954,694	31,211	985,905
	<u>954,694</u>	<u>31,211</u>	<u>985,905</u>
Net assets - end of year	\$ 1,053,166	\$ 28,498	\$ 1,081,664
	<u>\$ 1,053,166</u>	<u>\$ 28,498</u>	<u>\$ 1,081,664</u>

See accompanying notes to the financial statements.

**THE ARC OF TENNESSEE, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2013**

	Program Services							
	Public Awareness Legislative Monitor	Advocacy Education & Public Awareness	Secondary Transition Project (formerly LINK)	CMAS	Walmart Grant	Partners in Policymaking Workshop	Personal Assistance Services & Support (PASS)	Administration Real Choice Systems Change (PTP)
Salaries	\$ 12,169	\$ 189,960	\$ 59,661	\$ 382,766	\$ 5,333	\$ 874	\$ 14,150	\$ 140,842
Payroll taxes and benefits	3,782	64,610	18,588	136,505	1,404	271	4,539	26,056
Total personnel costs	15,951	254,570	78,249	519,271	6,737	1,145	18,689	166,898
Communication	148	6,375	2,668	16,948	133	-	198	2,148
Edith Wright disbursements	-	-	-	-	-	-	-	-
Equipment lease	23	6,296	1,772	447	72	-	168	729
Individual assistance	-	18,586	-	-	-	22,974	-	-
In-kind	-	-	-	-	-	32,100	-	-
Insurance	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-
Lobbying	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-	-
Other non-personal	-	-	-	-	-	-	-	-
Postage	2,405	5,270	15	51	-	-	67	336
Printing	5,785	2,174	24	670	-	3,889	-	48
Professional services	9,535	1,327	1,014	3,792	5	12,016	97,040	1,921
Rent	559	3,270	9	2,414	54	-	874	6,057
Supplies	88	2,146	470	950	1,881	2,836	205	1,002
Travel and transportation	-	52,470	9,906	56,405	2,325	60,606	3	26,185
Total expenses before depreciation	34,494	352,484	94,127	600,948	11,207	135,566	117,244	205,324
Depreciation	-	-	-	-	-	-	-	-
Total expenses	\$ 34,494	\$ 352,484	\$ 94,127	\$ 600,948	\$ 11,207	\$ 135,566	\$ 117,244	\$ 205,324

See accompanying notes to the financial statements.

**THE ARC OF TENNESSEE, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2013**

	Support		Supporting Services		
	Choices	Support Brokerage Financial Administration	Total Program Services	Management and General	Fundraising
Salaries	\$ 298,770	\$ 85,280	\$ 1,189,805	\$ 243,631	\$ 41,447
Payroll taxes and benefits	98,434	33,148	387,337	58,153	12,909
					<u>\$ 1,474,883</u>
Total personnel costs	397,204	118,428	1,577,142	301,784	54,356
					<u>1,933,282</u>
Communication	14,398	3,888	46,904	13,769	1,916
Edith Wright disbursements	-	-	-	2,000	-
Equipment lease	6,397	3,245	19,149	4,132	479
Individual assistance	-	-	41,560	260	-
In-kind	-	-	32,100	-	-
Insurance	-	-	-	5,195	-
Interest	-	-	-	420	-
Lobbying	-	-	-	1,862	-
Miscellaneous	-	-	-	2,194	-
Other non-personal	-	-	-	3,972	-
Postage	2,752	1,065	11,961	5,158	242
Printing	1,191	-	13,781	2,209	24
Professional services	15,916	2,685	145,251	46,315	3,037
Rent	5,634	686	19,557	42,682	2,474
Supplies	3,292	1,038	13,908	7,822	1,340
Travel and transportation	34,347	3,777	246,024	15,948	2,097
					<u>264,069</u>
Total expenses before depreciation	481,131	134,812	2,167,337	455,722	65,965
					<u>2,689,024</u>
Depreciation	-	-	-	7,369	-
					<u>7,369</u>
Total expenses	\$ 481,131	\$ 134,812	\$ 2,167,337	\$ 463,091	\$ 65,965
					<u>\$ 2,696,393</u>

See accompanying notes to the financial statements.



**THE ARC OF TENNESSEE, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

Cash Flows From Operating Activities:		
Increase in net assets	\$	95,759
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	\$	7,369
Changes in:		
Grants receivable	116,074	
Contracts receivable	190,438	
Accounts receivable	(2,821)	
Prepaid expenses	(242)	
Assets whose use is limited	(208,140)	
Accounts payable	(5,024)	
Accrued expenses	(810)	
Deferred revenue	(96,753)	
		<u>91</u>
Net cash provided by operating activities		95,850
Cash Flows from Financing Activities:		
Payments on long-term debt	<u>(4,429)</u>	
Net cash used in financing activities		<u>(4,429)</u>
Net increase in cash and cash equivalents		91,421
Cash and cash equivalents - beginning of year		<u>581,098</u>
Cash and cash equivalents - end of year	<u>\$</u>	<u>672,519</u>

**SUPPLEMENTAL CASH FLOW INFORMATION:**

Interest paid during the year ended June 30, 2013, was \$420.



**THE ARC OF TENNESSEE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 1 - Summary of Significant Accounting Policies**

a. **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. 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.

b. **Programs and Supporting Services**

**Advocacy and 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.

**DIDD Support Brokerage**

We partnered with Public Partnership, LLC to provide Financial Administration and Support Brokerage services to people in the Department of Intellectual and Developmental Disabilities Self-determination Waiver who desire to self direct their services. The Arc of Tennessee, Inc. provided the Support Brokerage services. Support Brokerage enables a Self-determination Waiver Program participant to manage their services. 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, and the Financial Administration Entity. The participant or their guardian/conservator must retain authority and responsibility for self-direction. This contract ended September 30, 2012.

**CHOICES Support Brokerage**

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.

**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.

**THE ARC OF TENNESSEE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 1 - Summary of Significant Accounting Policies (continued)**

**Partners in Policymaking/Youth Leadership Forum**

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.

**Secondary Transition**

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.

**Walmart Self-Directed IEP Project**

In April 2010 we were awarded a \$75,000 grant over a three year period to provide self-directed IEP training to transition aged students with intellectual disabilities across the state. The purpose of the project is to increase positive outcomes in employment, education and independent living for students transitioning out of high school. Research has shown that students who lead their own IEP meetings have better outcomes in these areas. This project officially ended April 2013.

**PASS**

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.

**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.

**c. 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.



**THE ARC OF TENNESSEE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 1 - Summary of Significant Accounting Policies (continued)**

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.

c. 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, 2013.

d. 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, 2013.

e. 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.

Certain equipment has been purchased, in part, with grant funds and is subject to return to the grantor either upon its ultimate disposition or for failure to comply with the terms and conditions of the grant contract for the useful life of the equipment.

f. 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.

g. 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.

h. 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. We are no longer subject to examination by U.S. federal and state taxing authorities for years ending before 2010. Therefore, no provision for federal income taxes is included in the accompanying financial statements.

i. 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.

**THE ARC OF TENNESSEE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 1 - Summary of Significant Accounting Policies (continued)**

j. **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.

k. **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.

The fair value of the capitalized lease obligation approximates the carrying amount and is estimated based on current rates offered to us.

l. **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 \$64,965 during the year ended June 30, 2013.

**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 6. The amounts, maturities, and interest rates are as follows:

<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount</u>
.10%	4/2/2014	\$ 11,331
.10%	4/2/2014	11,317
.10%	4/2/2014	15,637
		<hr/>
		\$ 38,285

**NOTE 3 - Grants Receivable**

At June 30, 2013, we are owed the following amounts for grants:

Public awareness – Legislative Monitor	\$ 5,064
Advocacy, education & public awareness	71,960
Secondary Transition Program (formerly LINK)	10,617
Tennessee Disability MegaConference Grant	5,000
Partners in Policymaking workshop	229
Personal assistance services and support	62,472
Administration of the Real Choice Systems Change	44,728
CMAS - Advocacy	66,083
Direct Support Professionals of Tennessee	49
Tennessee's Early Intervention System	(2,982)
	<hr/>
	\$ 263,220

**THE ARC OF TENNESSEE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 4 - Contract Receivable**

We provide financial administration and support brokerage services to qualifying participants via our contracts with Public Partnership, LLC. As of June 30, 2013, Public Partnership, LLC owed us the following amount as follows:

Greater Nashville Regional Council	\$ 67
Tennessee CHOICES Consumer-Direction Waiver	258,836
	<u>\$ 258,903</u>

**NOTE 5 - Accounts Receivable**

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

Due from Member Units	\$ 2,767
Other	6,999
	<u>\$ 9,766</u>

**NOTE 6 - 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, 2013 and expires on April 2, 2014. Certificates of deposit have been designated as collateral for this line of credit. See Note 3. At June 30, 2013, we have not drawn any amounts on this line of credit.

**NOTE 7 - Accrued Expenses**

At June 30, 2013, accrued expenses consisted of the following:

Accrued vacation	<u>\$ 70,979</u>
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**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 Mega-Conference for the year ended June 30, 2013, were \$84,009. Total disbursements for the MegaConference for the year ended June 30, 2013, were \$100,971. 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, 2013, this amount was \$36,643 and is included in accounts payable.

**NOTE 9 - Deferred Revenue**

We have an agreement with the State of Tennessee, whereas they remit \$50,000 each month as advance payments on our CMAS grant agreement. 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, 2013, we have billed \$148,805 in funds from the State for which we have not incurred matching expenses.

We also have received \$21,473, from the Wal-Mart Foundation/The Arc of the United States for which we have not incurred matching expenses. This gift is restricted for the school to community transition project and is currently listed as deferred revenue.



**THE ARC OF TENNESSEE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

NOTE 9 - Deferred Revenue (continued)

The total amount of deferred revenue at June 30, 2013, is \$148,805.

NOTE 10 - Net Assets - Temporarily Restricted

During a previous year, we received restricted funds from a private donor to be used for Edith Wright supported living activities. As of June 30, 2013, the amount restricted for Edith Wright supported living activities is \$23,962. We also hold funds on behalf of DSPAT (see NOTE 17) in the amount of \$4,536. At June 30, 2013, \$28,498 was restricted for all projects and funds.

NOTE 11 - 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 \$60,631 for the year ended June 30, 2013.

NOTE 12 - 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. Funds were received for the following grant activities as of June 30, 2013:

Public awareness – Legislative Monitor	\$ 30,757
Advocacy, education and public awareness	409,443
Secondary Transition Program (formerly LINK)	99,999
Advocacy – CMAS	714,455
Walmart Grant	32,297
Partners in Policymaking workshop	118,987
Personal assistance services & support	139,390
People Talking to People	248,096
	<hr/>
	\$ 1,793,424

NOTE 13 - Lease Agreements

We rent our facilities and equipment under a five-year lease agreement. Our facilities lease agreement has a monthly rate of \$5,393, 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 matures in August 2013.

Total lease expense for the year ended June 30, 2013, including both capital and operating leases was \$88,403. The following is a schedule of minimum lease payments under the non-cancellable operating and capital leases.

**THE ARC OF TENNESSEE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 13 - Lease Agreements (continued)**

<u>Year Ending June 30,</u>	<u>Capital</u>	<u>Operating</u>
2014	\$ 788	\$ 89,306
2015	-	91,262
2016	-	77,479
2017	-	71,243
Thereafter	-	54,626
	788	<u>\$ 383,916</u>
Less: amount representing interest	(11)	
Present value of net minimum lease payments	<u>777</u>	
Less: current installments	<u>(777)</u>	
	<u>\$ -</u>	

A summary of assets utilized under the capitalized leases is as follows:

Cost	\$ 18,205
Accumulated depreciation	<u>(17,598)</u>
	<u>\$ 607</u>

**NOTE 14 - 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, 2013, 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 grant.

**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, 2013, 86% of all receivables were due from four concentrated sources. At June 30, 2013, 63% of all revenue was received from one concentrated source.



**THE ARC OF TENNESSEE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 15 - Concentration of Credit Risk (continued)**

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 monthly 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, 2013, 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, 2013, we collected \$8,034 from these entities.

**NOTE 17 - 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 was \$4,537 as of June 30, 2013.

**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, 2013, we recognized \$32,100 in in-kind revenues.

**NOTE 19 - Subsequent Events**

We have evaluated events subsequent to the year ending June 30, 2013. As of September 19, 2013, the date that the financial statements were available to be issued, one event subsequent to the balance sheet date is considered necessary to be included in the notes to the financial statements for the year ended June 30, 2013.

## **SUPPLEMENTARY INFORMATION**

The Arc of Tennessee, Inc.  
Schedule of Expenditures of Federal and State Awards  
For The Year Ended June 30, 2013

Federal Grantor/Pass-Through Grantor	CFDA Number	Contract Number	Beginning (Accrued) Deferred	Cash Receipts	Expenditures	Ending (Accrued) Deferred
<u>Federal Financial Assistance</u>						
U.S. Department of Education/TN Department of Education	84.393A	DGA-C000035	\$ (9,191)	\$ 12,174	\$ -	\$ 2,983
U.S. Department of Education/TN Department of Education	84.027A	GR1338529	(23,255)	112,636	(99,999)	(10,618)
U.S. Department of Health and Human Services/ TN Council on Developmental Disabilities	93.630	36321	(5,000)	5,000	(5,000)	(5,000)
U.S. Department of Health and Human Services/ TN Council on Developmental Disabilities	93.630	GR1338703	(5,662)	124,420	(118,987)	(229)
U.S. Department of Health and Human Services/ TN Council on Developmental Disabilities	93.630	GR1338899	(6,043)	31,736	(30,757)	(5,064)
Total Program 93.630			(16,705)	161,156	(154,744)	(10,293)
TOTAL FEDERAL AWARDS			(49,151)	285,966	(254,743)	(17,928)
<u>State Financial Assistance</u>						
Department of Intellectual Development Disabilities	N/A	GR092521100	(34,880)	422,363	(409,443)	(71,960)
Department of Intellectual Development Disabilities	N/A	GR0927085	93,576	703,601	(714,455)	82,722
Department of Intellectual Development Disabilities	N/A	GR1237400	(56,972)	56,923	-	(49)
Department of Intellectual Development Disabilities	N/A	GR092521200	(25,334)	102,252	(139,390)	(62,472)
Department of Intellectual Development Disabilities	N/A	GR092521000	(43,275)	242,652	(244,105)	(44,728)
TOTAL STATE AWARDS			(116,885)	1,527,791	(1,507,393)	(96,487)
TOTAL FEDERAL & STATE AWARDS			\$ (166,036)	\$ 1,813,757	\$ (1,762,136)	\$ (114,415)

NOTE: This schedule was prepared on an accrual basis.

**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., which comprise the statement of financial position as of June 30, 2013, 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 September 19, 2013.

**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 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 Organization'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 Handley & Bellentone*

Franklin, Tennessee  
September 19, 2013

