

THE ARC OF TENNESSEE, INC.

FINANCIAL STATEMENTS

JUNE 30, 2010

(With Independent Auditor's Report Thereon)

THE ARC OF TENNESSEE, INC.
FINANCIAL STATEMENTS
JUNE 30, 2010

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Charles Akersloot, III
Lisa L. Patterson
Sarah C. Hardee

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statement of financial position for The Arc of Tennessee, Inc. as of June 30, 2010, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 13, 2010, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

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

As described in Note 18, The Arc of Tennessee, Inc. understated its net assets as of June 30, 2009; consequently, a prior period adjustment of \$10,000 has been recorded to adjust beginning net assets.

APh, CPAs

August 13, 2010

THE ARC OF TENNESSEE, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2010

ASSETS

Current Assets:

Cash and cash equivalents	\$ 365,157	
Certificates of Deposit	60,355	
Grants receivable	347,825	
Contracts receivable	62,508	
Accounts receivable	20,812	
Prepaid expenses	23,372	
Total current assets		\$ 880,029

Property and Equipment:

Furniture and equipment	151,446	
Less: accumulated depreciation	(128,872)	
Total property and equipment		22,574

Other Assets:

Security deposit		5,393
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Assets Whose Use Is Limited:

Cash		36,656
Total assets		<u>\$ 944,652</u>

THE ARC OF TENNESSEE, INC.
STATEMENT OF FINANCIAL POSITION (continued)
JUNE 30, 2010

LIABILITIES AND NET ASSETS

Current Liabilities:

Current portion - capitalized lease obligation	\$ 2,272	
Accounts payable	62,076	
Accrued expenses	105,039	
Deferred revenue	229,575	
Total current liabilities		\$ 398,962

Long-term portion - capitalized lease obligation	10,411
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Total Liabilities	409,373
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Net Assets:

Unrestricted:

Undesignated	492,623	
Board-designated	6,000	
Total unrestricted net assets		498,623

Temporarily restricted	36,656	
Total restricted net assets		36,656

Total net assets	535,279
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Total liabilities and net assets	\$ 944,652
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THE ARC OF TENNESSEE, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

	Unrestricted	Temporarily Restricted	Total
Support and Revenues:			
Gum vending	\$ 63,488	\$ -	\$ 63,488
Grant Income	1,860,425	-	1,860,425
Contract revenue - non government	656,784	-	656,784
Contributions	7,140	5,229	12,369
In kind contributions	42,628	-	42,628
Interest	818	-	818
Rental income	5,600	-	5,600
Affiliation fees	9,800	-	9,800
Mega-Conference administration fee	10,000	-	10,000
Miscellaneous	193	-	193
Registrations	300	-	300
Memberships	5,331	-	5,331
Fundraising	3,799	-	3,799
Net assets released from restrictions	375	(375)	-
Total support and revenues	2,666,681	4,854	2,671,535
Expenses:			
Program services:			
Public awareness - Legislative Monitor	48,567	-	48,567
Advocacy, education and public awareness	341,934	-	341,934
Secondary Transition Program - Formerly LINK	121,432	-	121,432
TEIS	225	-	225
Advocacy, Class Member Advocacy Services (CMAS)	498,220	-	498,220
Wal - Mart Grant	229	-	229
Support and assistance services (DSPAT)	152,060	-	152,060
Partners in Policymaking workshop	187,583	-	187,583
Personal assistance services and support (PASS)	135,308	-	135,308
Administration of the Real Choices Systems Change (PTP)	223,695	-	223,695
Choices	27,198	-	27,198
Mega-Conference	13,333	-	13,333
Support brokerage / financial administration	452,524	-	452,524
GNRC	8,423	-	8,423
Total program services	2,210,731	-	2,210,731
Supporting services:			
Management and general	348,603	-	348,603
Fundraising	2,103	-	2,103
Total supporting services	350,706	-	350,706
Total expenses	2,561,437	-	2,561,437
Unallocated payments to affiliated organizations	8,535	-	8,535
Increase in net assets	96,709	4,854	101,563
Net assets - beginning of year as previously reported	391,914	31,802	423,716
Prior period adjustment	10,000	-	10,000
Net assets - beginning of year as restated	401,914	31,802	433,716
Net assets - end of year	\$ 498,623	\$ 36,656	535,279

See accompanying notes to the financial statements.

THE ARC OF TENNESSEE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2010

	Program Services									
	Public Awareness Legislative Monitor	Advocacy Education & Public Awareness	Secondary Transition Project Formerly LINK	IEIS	Advocacy CMAS	Wal-Mart Grant	Support & Assistance Services_DSPAT	Partners in Policymaking Workshop	Personal Assistance Services & Support	Administration Real Choice Systems Change
Salaries	\$ 16,934	\$ 191,565	\$ 77,486	\$ 140	\$ 312,128	\$ 174	\$ 75,656	\$ 848	\$ 29,426	\$ 147,258
Payroll taxes and benefits	3,952	70,436	24,929	36	106,895	45	14,068	214	6,550	31,136
Total personnel costs	20,896	262,001	102,415	176	419,023	219	89,724	1,062	35,976	178,394
Bad debts	-	-	-	-	-	-	-	-	-	-
Communication	-	-	-	-	-	-	-	-	-	-
Contracted services	244	5,263	3,485	-	14,972	-	1,929	-	528	3,466
Donations	-	-	-	-	-	-	-	-	-	-
Dues and subscriptions	-	-	-	-	-	-	-	-	-	-
Equipment lease	9,575	8,865	294	-	62	-	702	-	-	615
Individual assistance	-	13,128	-	-	-	-	37,950	28,395	171	-
In kind	-	-	-	-	-	-	-	39,295	-	-
Insurance	-	-	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-	-	-	-
Lobbying	-	-	-	-	-	-	-	-	-	-
PA direct services	-	-	-	-	-	-	-	-	-	-
Postage	5,667	1,698	-	-	-	-	-	-	82,342	-
Printing	1,250	55	151	-	203	-	267	-	96	634
Professional memberships	-	-	202	-	56	-	-	2,332	-	97
Professional services	6,293	2,347	610	-	-	-	1,000	-	-	-
Rent	1,207	7,516	-	-	2,413	-	1,063	32,196	10,675	2,307
Repairs and maintenance	-	-	-	-	2,989	-	3,781	-	2,397	8,213
Supplies	3,046	3,958	-	-	-	-	-	-	-	-
Travel and transportation	389	36,672	1,462	-	753	-	1,951	2,571	2,678	1,858
Volunteer stipends	-	431	12,813	49	57,749	10	13,693	81,732	445	28,111
Total expenses before depreciation	48,567	341,934	121,432	225	498,220	229	152,060	187,583	135,308	223,695
Depreciation	-	-	-	-	-	-	-	-	-	-
Gain/loss on sale of fixed assets	-	-	-	-	-	-	-	-	-	-
Total expenses	\$ 48,567	\$ 341,934	\$ 121,432	\$ 225	\$ 498,220	\$ 229	\$ 152,060	\$ 187,583	\$ 135,308	\$ 223,695

THE ARC OF TENNESSEE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2010

	Program Services			Support Brokerage		GNRC	Total Program Services	Supporting Services		Total
	Choices	Mega conference	Financial Administration	Management and General	Fundraising			Expenses		
Salaries	\$ 15,904	\$ -	\$ 271,620	\$ 5,543	\$ 1,144,682	\$ -	\$ 169,742	\$ -	\$ 1,314,424	
Payroll taxes and benefits	4,703	-	103,777	2,355	369,106	-	47,408	-	416,514	
Total personnel costs	20,607	-	375,397	7,898	1,513,788	-	217,150	-	1,730,938	
Bad debts	-	-	-	-	-	-	1,179	-	1,179	
Communication	433	-	12,375	222	42,917	-	12,011	-	54,928	
Contracted services	-	-	-	-	-	-	-	-	-	
Donations	-	-	-	-	-	-	1,541	-	1,541	
Dues and subscriptions	-	-	-	-	-	-	-	-	-	
Equipment lease	-	-	895	-	21,179	1,234	6,775	-	29,188	
Individual assistance	-	13,333	-	-	92,806	-	-	-	92,806	
In kind	-	-	-	-	39,295	-	-	-	39,295	
Insurance	-	-	-	-	-	-	5,026	-	5,026	
Interest	-	-	-	-	-	-	2,297	-	2,297	
Miscellaneous	-	-	28	-	28	-	3,109	-	3,137	
Lobbying	-	-	-	-	-	-	13,008	-	13,008	
PA direct services	-	-	-	-	82,342	-	-	-	82,342	
Postage	-	-	3,612	-	12,328	554	2,879	-	15,761	
Printing	55	-	308	-	4,355	-	238	-	4,593	
Professional memberships	-	-	-	-	1,000	-	638	-	1,638	
Professional services	60	-	10,305	62	68,331	35	31,816	-	100,182	
Rent	1,722	-	5,130	200	33,155	-	28,599	-	61,754	
Repairs and maintenance	-	-	-	-	-	-	-	-	-	
Supplies	620	-	4,685	-	23,582	280	10,099	-	33,961	
Travel and transportation	3,701	-	39,789	41	275,194	-	4,065	-	279,259	
Volunteer stipends	-	-	-	-	431	-	-	-	431	
Total expenses before depreciation	27,198	13,333	452,524	8,423	2,210,731	2,103	340,430	-	2,553,264	
Depreciation	-	-	-	-	-	-	8,173	-	8,173	
Gain/loss on sale of fixed assets	-	-	-	-	-	-	-	-	-	
Total expenses	\$ 27,198	\$ 13,333	\$ 452,524	\$ 8,423	\$ 2,210,731	\$ 2,103	\$ 348,603	\$ 2,103	\$ 2,561,437	

See accompanying notes to the financial statements.

THE ARC OF TENNESSEE, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010

Cash Flows From Operating Activities:		
Increase in net assets	\$	101,563
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation	\$	8,173
Interest earned on certificates of deposit		(732)
Changes in:		
Grants receivable		(114,801)
Contracts receivable		31,843
Accounts receivable		12,443
Prepaid expenses		(17,197)
Accounts payable		(35,718)
Accrued expenses		2,584
Deferred revenue		66,985
		<u>(46,420)</u>
Net cash provided by operating activities		55,143
Cash Flows from Investing Activities:		
Net change in cash whose use is limited		<u>(4,854)</u>
Net cash used in investing activities		(4,854)
Cash Flows from Financing Activities:		
Payments on long-term debt		<u>(2,488)</u>
Net cash used in financing activities		(2,488)
Net increase in cash and cash equivalents		47,801
Cash and cash equivalents - beginning of year		<u>317,356</u>
Cash and cash equivalents - end of year	\$	<u><u>365,157</u></u>

SUPPLEMENTAL CASH FLOW INFORMATION:

Interest paid during the year ended June 30, 2010, was \$2,297.

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

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 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.

b. **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 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.

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, 2010.

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.

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 - Summary of Significant Accounting Policies (continued)

f. **Revenue Recognition**

We receive much of our income through grants from the State of Tennessee Department of Finance and Administration, Division of Intellectual Disability Services, 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**

Unpaid 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. 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.

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 \$70,822 during the year ended June 30, 2010.

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 2 - Grants Receivable

At June 30, 2010, we are owed the following amounts for grants:

Public awareness – Legislative Monitor	\$ 8,761
Advocacy, education & public awareness	46,301
Secondary Transition Program – (formerly LINK)	38,550
Mega Conference	10,000
Partners in Policymaking workshop	23,227
Personal assistance services and support	3,944
Administration of the Real Choice Systems Change	31,228
CMAS - Advocacy	165,000
Direct Support Professionals of Tennessee	20,814
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	\$ 347,825

NOTE 3 - Contract Receivable

We provide financial administration and support brokerage services to qualifying participants via our contracts with Public Partnership, LLC. As of June 30, 2010, Public Partnership, LLC owed us the following amount as follows:

Greater Nashville Regional Council	\$ 1,300
Tennessee CHOICES Consumer-Direction Waiver	3,940
Support Brokerage	57,268
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	\$ 62,508

NOTE 4 - Accounts Receivable

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

Due from Member Units	\$ 1,925
Due from Gum Vendors	4,038
Mega-Conference Registrations	13,755
Other	1,094
	<hr/>
	\$ 20,812

NOTE 5 - 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 2% above the lender's base commercial rate which was 3.25% at June 30, 2010 (5.25%) and expires in April of 2012. At June 30, 2010, we have not drawn any amounts on this line of credit.

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 6 - Accrued Expenses

At June 30, 2010, accrued expenses consisted of the following:

Accrued vacation	\$ 47,998
Accrued salaries	<u>57,041</u>
	<u>\$ 105,039</u>

NOTE 7 - Mega-Conference - Future Years

We, along with other nonprofit entities, participate in a Mega-Conference each year. We provide the capability for the receipts and disbursements of the funds related to this Mega-Conference; however, this was not a program for us. Total receipts for the Mega-Conference for the year ended June 30, 2010, were \$101,398. Total disbursements for the Mega-Conference for the year ended June 30, 2010, were \$98,196. Money not spent on the Mega-Conference is held by us by request of the other non-profit participants for future Mega-Conferences. For the year ended June 30, 2010, this amount was \$4,651 and is included in accounts payable.

NOTE 8 - Deferred Revenue

We have an agreement with the State of Tennessee, whereas they remit \$50,000 each month as advance payment 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, 2010, we have billed \$194,716 in funds from the State for which we have not incurred matching expenses.

We also have received \$34,859, 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 total amount of deferred revenue at June 30, 2010, is \$229,575.

NOTE 9 - 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, 2010, the amount restricted for Edith Wright supported living activities is \$31,427. We also hold funds on behalf of DSPAT (see NOTE 16) in the amount of \$5,229. At June 30, 2010 \$36,656 was restricted for all projects and funds.

NOTE 10 - 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 \$63,488 for the year ended June 30, 2010.

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 11 - Lease Agreements

We rent our facilities and equipment under both non-cancelable lease agreements, which expire at various dates through 2014, and month-to-month lease agreements. The non-cancelable lease agreements generally provide for renewal for various periods at stipulated rates. 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, 2010, including both capital and operating leases was \$90,942. The following is a schedule of minimum lease payments under the non-cancellable operating and capital leases.

<u>Year Ending June 30,</u>	<u>Capital</u>	<u>Operating</u>
2011	\$ 4,784	\$ 63,669
2012	4,784	32,256
2013	4,784	-
2014	797	-
	<hr/>	<hr/>
	15,149	\$ 95,925
		<hr/>
Less amount representing interest	(2,466)	
Present value of net minimum lease payments	<hr/> 12,683	
Less: current installments	(2,272)	
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	\$ 10,411	
	<hr/>	

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

Cost	\$ 18,205
Accumulated depreciation	(6,675)
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	\$ 11,530
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THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 12 - Government Grants and Grant Revenue

We earned grant monies from the State of Tennessee Department of Finance and Administration, Division of Intellectual Disability Services, 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, 2010:

Public awareness – Legislative Monitor	\$ 41,517
Advocacy, education and public awareness	389,110
Secondary Transition Program – formerly LINK	100,001
Advocacy – CMAS	567,874
Wal – Mart Grant	141
Partners in Policymaking workshop	169,257
Personal assistance services & support	154,237
Administration of the Real Choice Systems Change	254,968
Direct Support Professionals of Tennessee	173,320
Mega - Conference	10,000
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	\$ 1,860,425

NOTE 13 - 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 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, 2010, 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 14 - 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 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 its support from member units, gum vending and governmental grants. A significant reduction in the levels of this support, if this were to occur, could have an effect on our programs and activities. Based on the upcoming fiscal year's budget, this funding is expected to continue.

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 it is exposed to any significant credit risk on our cash.

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 15 - 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, 2010, we paid \$8,535 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, 2010, we collected \$9,800 from these entities.

NOTE 16 - Agency Relationships

The Arc holds funds for other non-profit entities. DSPAT is a program in which The Arc acts as an administrator of the grant fund. The intention of DSPAT is to break off and become its own 501(c) (3) organization. The Arc is holding the dues collected on behalf of DSPAT which was \$5,229 as of June 30, 2010.

NOTE 17 - 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, 2010, we recognized \$42,628 in in-kind revenues.

NOTE 18 - Prior Period Adjustment

A prior period adjustment has been recorded in the amount of \$10,000 to account for revenue related to the Mega-Conference for the year ended June 30, 2009, that was not previously reported on the Organization's audited financial statements. This adjustment increased the Organization's net assets at the beginning of the year by \$10,000.

NOTE 19 - Subsequent Events

We have evaluated events subsequent to the year ending June 30, 2010. As of August 13, 2010, the date that the financial statements were available to be issued, no events subsequent to the balance sheet date are considered necessary to be included in the financial statements for the period ended June 30, 2010.

SUPPLEMENTARY INFORMATION

The Arc of Tennessee, Inc.
Schedule of Expenditures of Federal and State Awards
For the Year Ended June 30, 2010

Pass-Through Grantor	CFDA Number	Contract Number	Beginning (Accrued) Deferred	Cash Receipts	Expenditures	Ending (Accrued) Deferred
<u>Federal Financial Assistance</u>						
TN Department of Education	84.027A	GR092411000	\$ (19,566)	\$ 81,016	\$ (100,000)	\$ (38,550)
TN Council on Developmental Disabilities	93.630	GR092519100	(21,836)	167,866	(169,257)	(23,227)
TN Council on Developmental Disabilities	93.630	GR092519900	(12,670)	45,426	(41,517)	(8,761)
TOTAL FEDERAL AWARDS			(54,072)	294,308	(310,774)	(70,538)
<u>State Financial Assistance</u>						
Division of Intellectual Disabilities Services	N/A	GR092521100	(35,950)	378,759	(389,110)	(46,301)
Division of Intellectual Disabilities Services	N/A	Edison 3654	46,390	550,000	(566,674)	29,716
Division of Intellectual Disabilities Services	N/A	GR061733902	(30,704)	183,210	(173,320)	(20,814)
TN Council on Developmental Disabilities	N/A	GR11-10-09	(10,000)	10,000	(10,000)	(10,000)
Division of Intellectual Disabilities Services	N/A	GR092521200	(21,137)	171,430	(154,237)	(3,944)
Division of Intellectual Disabilities Services	N/A	GR092521000	(26,161)	249,901	(254,968)	(31,228)
TOTAL STATE AWARDS			(77,562)	1,543,300	(1,548,309)	(82,571)
TOTAL FEDERAL AND STATE AWARDS			\$ (131,634)	\$ 1,837,608	\$ (1,859,083)	\$ (153,109)

The beginning balance does not agree to the June 30, 2009, financial statements because of a prior period adjustment made to record grant receivable for the Mega Conference in the amount of \$10,000.

Basis of Presentation: The accompanying Schedule of Expenditures of Federal and State Awards summarizes the expenditures of The Arc of Tennessee, Inc. under programs of the state government for the year ended June 30, 2010. The schedule is presented in conformity with the State of Tennessee subrecipient contract payments. Consequently, some amounts presented in this schedule may differ from the amounts presented in the preparation of the basic financial statements. Such differences are the result of timing between the State reporting system and generally accepted accounting principles.

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



Charles Akersloot, III
Lisa L. Patterson
Sarah C. Hardee

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 the financial statements of The Arc of Tennessee, Inc. as of and for the year ended June 30, 2010, and have issued our report thereon dated August 13, 2010. Our auditor's report was modified to reference a prior period adjustment. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered The Arc of Tennessee, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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 misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Arc of Tennessee, Inc.'s financial statements are free of 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*.

We noted certain matters that we reported to management and the Board of Directors of The Arc of Tennessee, Inc. in a separate letter dated August 13, 2010.

This report is intended solely for the information and use of management, the Board of Directors of the Organization, and the federal and state awarding and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

APA, CPAs

August 13, 2010

