

THE ARC OF TENNESSEE, INC.

FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

(With Independent Auditors' Report Thereon)

Farmer & Associates, PLLC

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
The Arc of Tennessee, Inc.
Nashville, Tennessee

I have audited the accompanying statement of financial position of the Arc of Tennessee (a nonprofit corporation) as of June 30, 2008, 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. My responsibility is to express an opinion on these financial statements based on my audit. The financial statements of the ARC of Tennessee as of June 30, 2007 were audited by another auditor who has ceased operations. The auditor expressed an unqualified opinion on those financial statements in their report dated November 16, 2007.

I conducted my 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 I 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Arc of Tennessee as of June 30, 2008 and the changes in 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, I have also issued my report dated November 16, 2008 on my consideration of the Arc of Tennessee's internal control over financial reporting and on my 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 my 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. The report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

My audit was performed for the purpose of forming an opinion on the basic financial statements of the Arc of Tennessee taken as a whole. The accompanying Schedule of Federal and State Awards is presented for 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 my opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Farmer & Associates, PLLC

Franklin, Tennessee
November 16, 2008

THE ARC OF TENNESSEE, INC.
COMPARATIVE STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 110,358	\$ 207,578
Grants receivable	193,119	133,283
Contracts receivables	69,056	38,036
Accounts receivable	9,090	11,276
Due from MegaConference	-	8,892
Prepaid expense	6,740	9,427
	<u>388,363</u>	<u>408,492</u>
Total Current Assets		
PROPERTY AND EQUIPMENT		
Furniture and equipment	123,341	123,341
Less accumulated depreciation	112,169	106,409
	<u>11,172</u>	<u>16,932</u>
Total Property and Equipment		
OTHER ASSETS		
Security deposit	5,393	6,692
	<u>5,393</u>	<u>6,692</u>
Total Other Assets		
Total Assets	<u>\$ 404,928</u>	<u>\$ 432,116</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 58,050	\$ 124,032
Accrued expenses	32,349	33,877
Deferred revenue	2,084	153
Line of credit	-	25,000
	<u>92,483</u>	<u>183,062</u>
Total Current Liabilities		
Total liabilities	<u>92,483</u>	<u>183,062</u>
NET ASSETS		
Unrestricted	280,143	213,252
Temporarily restricted	32,302	35,802
Total Net Assets	<u>312,445</u>	<u>249,054</u>
Total Liabilities and Net Assets	<u>\$ 404,928</u>	<u>\$ 432,116</u>

See notes to financial statements.

THE ARC OF TENNESSEE, INC.
COMPARATIVE STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Changes in unrestricted net assets:		
Support and revenue		
Gum vending	\$ 77,161	\$ 81,977
Government grants	1,363,807	1,470,415
Contract revenue - non government	347,686	121,804
Contributions	46,315	14,995
Interest	1,215	912
Rental income	8,012	4,044
Affiliation fees	10,350	11,348
MegaConference administrative fee	10,000	6,000
Miscellaneous	677	50
Memberships	5,156	5,687
Net assets released from temporary restrictions	3,500	2,075
Total support and revenue	<u>1,873,879</u>	<u>1,719,307</u>
Expenses:		
Program Services		
Public awareness - Legislative Monitor	47,062	45,728
Advocacy, education and public awareness	346,694	336,519
Support collaboration for special education	112,171	101,928
TnWorkFORCE	-	162,522
Support and assistance services (DSPAT)	170,186	167,517
Partners in Policymaking workshop	149,762	111,974
Personal assistance services and support	175,621	169,052
Administration of the Real Choice Systems Change	225,167	182,171
Supported Employment	-	6,959
MegaConference	13,333	10,000
Support brokerage / financial administration	244,040	74,993
Fundraising	-	-
Management and General	322,951	349,699
Total expenses	<u>1,806,987</u>	<u>1,719,062</u>
Increase (decrease) in unrestricted net assets	<u>66,891</u>	<u>245</u>
Changes in temporarily restricted net assets		
Contributions	-	953
Net assets released from temporary restrictions	3,500	2,075
Increase (decrease) in temporarily restricted net assets	<u>(3,500)</u>	<u>(1,122)</u>
Total increase (decrease) in net assets	63,391	(877)
Net assets, beginning of year	<u>249,054</u>	<u>249,931</u>
Net assets, end of year	<u>\$ 312,445</u>	<u>\$ 249,054</u>

See notes to financial statements.

THE ARC OF TENNESSEE, INC.
STATEMENT OF FUNCTIONAL EXPENSE
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008							
	Public Awareness Legislative Monitor	Advocacy Education & Public Awareness	Support Collaboration Special Education	TnWork Force	Support & Assistance Services, (DSPAT)	Partners in Policymaking Workshop	Personal Assistance Services & Support	Administration Real Choice Systems Change
\$	15,488	189,199	68,274	-	80,005	689	47,745	157,007
Salaries and payroll taxes	3,757	57,300	19,718	-	16,960	207	11,757	26,339
Employee benefits	789	7,302	166	-	5,813	-	3,470	7,977
Rent	-	-	-	-	-	-	-	-
In Kind	8	35,991	13,442	-	-	31,615	-	-
Travel	191	6,743	4,840	-	23,356	55,365	5,421	21,586
Communication	1,295	112	120	-	2,223	-	745	3,289
Printing	2,353	7,966	1,920	-	275	2,584	1,004	-
Supplies	8,655	3,420	1,379	-	2,498	4,625	2,523	3,847
Professional services	-	-	-	-	-	34,327	8,038	408
Insurance	52	18,362	1,841	-	-	-	-	-
Meetings and conferences	-	-	-	-	3,638	-	149	1,966
Memberships	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-	-
Affiliation fees	-	-	-	-	-	-	-	-
Individual assistance	-	9,577	-	-	-	-	-	-
Equipment lease and maintenance	8,701	8,889	314	-	33,528	20,345	8,400	-
Donations	-	-	-	-	1,433	1	1,758	2,144
Postage	5,773	1,833	157	-	-	-	-	-
Lobbying expense	-	-	-	-	457	4	634	604
Edith Wright disbursements	-	-	-	-	-	-	-	-
Personal assistance direct services	-	-	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-	83,977	-
\$	47,062	\$ 346,694	112,171	-	170,186	149,762	175,621	225,167

	2007							
	Public Awareness Legislative Monitor	Advocacy Education & Public Awareness	Support Collaboration Special Education	TnWork Force	Support & Assistance Services, (DSPAT)	Partners in Policymaking Workshop	Personal Assistance Services & Support	Administration Real Choice Systems Change
Salaries and payroll taxes	13,217	171,811	64,444	2,327	76,765	809	61,055	126,682
Employee benefits	3,678	47,798	17,887	651	21,511	227	17,054	35,365
Rent	375	2,438	-	48	2,946	-	1,421	2,748
Travel	66	53,633	10,993	192	22,819	56,160	6,037	12,184
Communication	-	5,010	4,649	-	1,724	-	284	1,344
Printing	1,675	52	5	-	110	1,848	-	-
Supplies	1,418	3,616	1,162	2	1,454	2,001	2,178	1,209
Professional services	8,655	1,227	215	159,300	7,485	25,807	7,165	95
Insurance	-	-	-	-	-	-	-	-
Meetings and conferences	-	9,846	2,024	-	904	-	1,567	511
Memberships	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-	-
Affiliation fees	-	-	-	-	-	-	-	-
Individual assistance	4,000	30,500	-	-	30,090	25,002	-	-
Equipment lease and maintenance	6,689	8,532	244	2	1,503	120	549	1,279
Donations	-	-	-	-	-	-	-	-
Postage	5,955	2,056	305	-	206	-	253	754
Lobbying expense	-	-	-	-	-	-	-	-
Edith Wright disbursements	-	-	-	-	-	-	-	-
Personal assistance direct services	-	-	-	-	-	-	71,489	-
Depreciation	-	-	-	-	-	-	-	-
\$	45,728	336,519	101,928	162,522	167,517	111,974	169,052	182,171

See notes to financial statements.

THE ARC OF TENNESSEE, INC.
STATEMENT OF FUNCTIONAL EXPENSE
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008			
	Supported Employment	Megaconference	Support Brokerage Financial Administration	Management and General
Salaries and payroll taxes	-	-	150,998	709,405
Employee benefits	-	-	43,649	179,687
Rent	-	-	3,060	28,576
In Kind	-	-	-	31,615
Travel	-	-	22,619	177,789
Communication	-	-	5,215	23,246
Printing	-	-	194	5,584
Supplies	-	-	6,545	32,277
Professional services	-	-	-	56,227
Insurance	-	-	-	-
Meetings and conferences	-	-	1,991	27,999
Memberships	-	-	-	-
Miscellaneous	-	-	-	-
Affiliation fees	-	-	55	19,749
Individual assistance	-	13,333	8,913	94,096
Equipment lease and maintenance	-	-	506	23,746
Donations	-	-	-	200
Postage	-	-	295	9,757
Lobbying expense	-	-	-	2,386
Edith Wright disbursements	-	-	-	14,776
Personal assistance direct services	-	-	-	3,500
Depreciation	-	-	-	83,977
				5,760
		13,333	244,040	1,484,036
				322,951
				1,806,987

	2007			
	Supported Employment	Megaconference	Support Brokerage Financial Administration	Management and General
Salaries and payroll taxes	4,219	-	50,481	571,810
Employee benefits	1,181	-	14,135	159,487
Rent	100	-	72	10,148
Travel	1,029	-	7,163	170,276
Communication	-	-	1,950	14,961
Printing	-	-	290	3,980
Supplies	45	-	503	13,588
Professional services	-	-	-	209,949
Insurance	-	-	-	-
Meetings and conferences	257	-	320	15,429
Memberships	-	-	-	328
Miscellaneous	-	-	-	4,865
Affiliation fees	-	-	-	8,040
Individual assistance	-	10,000	99,592	1,011
Equipment lease and maintenance	75	-	21	19,014
Donations	-	-	-	15,942
Postage	53	-	58	200
Lobbying expense	-	-	-	3,068
Edith Wright disbursements	-	-	-	13,397
Personal assistance direct services	-	-	-	2,075
Depreciation	-	-	-	71,489
				5,740
	6,959	10,000	74,993	1,369,363
				349,699
				1,719,062

See notes to financial statements.

THE ARC OF TENNESSEE, INC.
COMPARATIVE STATEMENTS OF CASH FLOW
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Cash Flows From Operating Activities		
Increase (decrease) in net assets	\$ 63,391	\$ (877)
Adjustments to reconcile increase (decrease) in net assets to cash provided (used) by operating activities:		
Depreciation	5,760	5,740
(Increase) decrease in grants receivable	(59,837)	141,541
(Increase) decrease in contract receivable	(31,020)	(38,036)
(Increase) decrease in accounts receivable	2,186	8,984
(Increase) decrease due from Megaconference	8,892	(32,868)
(Increase) decrease in prepaid expense	2,687	(758)
(Increase) decrease in security deposits	1,299	(5,392)
Increase (decrease) in accounts payable	(65,982)	23,056
Increase (decrease) in other accrued liabilities	404	(546)
	<u>(135,611)</u>	<u>101,721</u>
Net Cash Provided (Used) by Operating Activities	<u>(72,220)</u>	<u>100,844</u>
Cash Flows From Investing Activities		
Acquisition of plant, property, and equipment	-	-
Net Cash Used by Investing Activities	<u>-</u>	<u>-</u>
Cash Flows From Financing Activities		
Borrowings line of credit	-	25,000
Payments line of credit	(25,000)	-
Net Cash Provided (Used) by Financing Activities	<u>(25,000)</u>	<u>25,000</u>
Increase (decrease) in cash	(97,220)	125,844
Cash, beginning of year	<u>207,578</u>	<u>81,734</u>
Cash, end of year	<u>\$ 110,358</u>	<u>\$ 207,578</u>
Supplemental disclosures:		
Cash paid for interest	<u>\$ 1,175</u>	

See notes to financial statements.

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements follow:

1. Nature of Organization. The Arc of Tennessee, Inc., (the Organization), is a nonprofit corporation chartered by the State of Tennessee for the purpose of promoting the general wellbeing of all citizens with mental retardation. The membership consists of individuals comprising local units in counties across the State of Tennessee and at-large members. All member units are autonomous, community-based nonprofit entities. The Corporation maintains membership in the national organization of The Arc of the US, and transmits a portion of individual membership dues to The Arc of the US. The Arc of US provides national leadership and information and offers education and training. The Corporation is autonomous and functions independently of any control by The Arc of the US. The Corporation provides advocacy, local unit development, direct client assistance, training, education, counseling, referral and public awareness services statewide.
2. Basis of Presentation. The Arc of Tennessee, Inc. reports information regarding its financial position and activities in accordance with the Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS 117, the Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets, based upon the existence or absence of donor-imposed restrictions. (The Corporation has no assets that meet the definition of permanently restricted net assets.) In addition, the Corporation reports information regarding contributions in accordance with SFAS No. 11, Accounting for Contributions Received and Contributions Made. In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. (The Corporation has received no contributions with donor-imposed restrictions that would result in permanently restricted net assets.)
3. Basis of Accounting. The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principle
4. Cash Equivalents. Cash equivalents consist of short-term, highly liquid investments which have an initial maturity of ninety days or less.
5. Revenue and Support. The Arc of Tennessee, Inc. receives much of its income from grants from the State of Tennessee Department of Finance and Administration, Division of Mental Retardation Services, the State of Tennessee Department of Education, Division of Special Education, and the Tennessee Council on Developmental Disabilities as well as from a grant from the U.S. Department of Labor. The Corporation records income from the grants in the period that the applicable expenditures are incurred.
6. Contributions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted. When a restriction expires, (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. If a restriction is fulfilled in the same period in which the contribution is received, the Organization reports the support as unrestricted. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS

7. Property and Equipment. Property and equipment are carried at cost. Donated equipment is recorded at market value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, presently five to ten years. 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.
8. Donated Services. Unpaid volunteers make contributions of time in various administrative, fund-raising, and program functions. The value of contributed time is not reflected in the financial statements as it is not susceptible to an objective measurement or valuation. The value of contributed time is allowed to be used as a match in some government grants.
9. Functional Allocation of Expenses. The costs of providing the various programs and other activities 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.
10. Estimates. The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
11. Income Taxes. The Arc of Tennessee, Inc. is exempt from federal income taxes under Section 501 (c) (3) of the Internal Revenue Code and therefore no provision has been made for federal income taxes in the accompanying financial statements.
12. Pension Plan. The Arc of Tennessee, Inc. maintains 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 total approximately \$21,500 for the year ended June 30, 2008.

NOTE B – GRANTS RECEIVABLE:

The Arc of Tennessee is due monies from the State of Tennessee Department of Finance and Administration, Division of Mental Retardation Services, the Tennessee Council on Developmental Disabilities, the Bureau of TennCare and the State of Tennessee Department of Education, Division of Special Education for grant expenses incurred through June 30, 2008 that total \$ 193,120. Monies due from State grants are for:

Public awareness - Legislative Monitor	\$ 7,343
Advocacy, education & public awareness	32,346
Support collaboration for special education	9,105
Support & assistance services	47,021
Partners in Policymaking workshop	7,096
Personal assistance services and support	35,624
Administration of the Real Choice Systems Change	54,584
Total	<u>\$ 193,119</u>

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS

NOTE C – CONTRACT RECEIVABLE:

The Arc of Tennessee, Inc. entered into a contract with Public Partnership LLC in February 2007. The Arc of Tennessee is to provide financial administration and support brokerage services to qualifying participants. As of June 30, 2008, Public Partnership LLC owed The Arc of Tennessee, Inc. \$ 69,056.

NOTE D – ACCOUNTS RECEIVABLE:

Accounts receivable consist of:

Monies due from member units	\$ 2,050
Monies due from gum vendors	3,989
Other	1,184
MegaConference registrations	<u>1,867</u>
Total	<u>\$ 9,090</u>

NOTE E – LINE OF CREDIT – SUNTRUST BANK:

During the year, The Arc of Tennessee, Inc. drew monies down from its line of credit with SunTrust Bank. As of June 30, 2007, The Arc of Tennessee, Inc. owed \$ 25,000 on its line of credit. The interest rate at June 30, 2007 was 8.25%. During the year ended June 30, 2008 the Corporation repaid the line of credit in full.

NOTE F – SENSORY COURSES – FUTURE YEARS:

As a result of a request from the Division of Mental Retardation Services, The Arc of Tennessee, Inc. participated in making available Sensory courses for interested persons. This activity was actually an activity of the Division of Mental Health Retardation Services and monies not spent on these sensory courses, as of June 30, 2008 and 2007, are being held by The Arc of Tennessee, Inc. for future sensory courses. Total monies being held by The Arc of Tennessee, Inc. as of June 30, 2008 and 2007 was \$ 153.

NOTE G – MEGACONFERENCE – FUTURE YEARS:

The Arc of Tennessee, Inc., in collaboration with other nonprofit entities, participated in a MegaConference. The Arc of Tennessee, Inc. provided the capabilities for the receipts and disbursements of funds related to this MegaConference, but this was not a program for The Arc of Tennessee, Inc. Money not spent on the MegaConference is held by The Arc of Tennessee, Inc. on the request of the other nonprofit participants for future MegaConferences. For the year ended June 30, 2008 this amount was \$1,931.

NOTE H – NET ASSETS – TEMPORARILY RESTRICTED:

During the year ended June 30, 2001, The Arc of Tennessee, Inc. received gifts totaling \$40,716 from an estate. These gifts are restricted for the building or modifying of homes in relation to supported living activities. During the year ended June 30, 2007, \$3,500 was expended for supported living activities.

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS

NOTE I – GUM VENDING:

The Arc of Tennessee, Inc. has entered into contracts with third parties to maintain vending containers throughout the State of Tennessee that then solicit contributions for The Arc of Tennessee, Inc. The Corporation is not responsible for any of the operating expenses or any resulting legal liability as related to maintaining the containers. The Corporation receives a percentage of the gross receipts collected from the containers on a monthly basis. The contracts are subject to automatic renewal in 2008, unless canceled by either party. The Corporation received \$77,161 and \$81,977 from gum vending for the year ended June 30, 2008 and 2007 respectively.

NOTE J – GOVERNMENT GRANTS:

The Arc of Tennessee, Inc. earned grant monies from the State of Tennessee Department of Finance and Administration, Division of Mental Retardation Services, the Tennessee Council on Developmental Disabilities and the Bureau of TennCare, as well as the State of Tennessee Department of Education, Division of Special Education in the amount of \$1,363,807. Monies received from State of Tennessee were received for the following grant activities:

Public awareness - Legislative Monitor	\$ 41,737
Advocacy, education and public awareness	409,949
Support collaboration for special education	84,000
Support & assistance services	209,457
Partners in Policymaking workshop	134,750
Personal assistance services and support	207,665
Administration of the Real Choice Systems Change	266,249
MegaConference	<u>10,000</u>
Total	<u>\$ 1,363,807</u>

NOTE K – 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 allowability or eligibility. A questioned cost may not be reimbursed by the State or the 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, 2008 or 2007 for these costs as no determination has been made by the grantor agencies as to any amount for any grant. The Board deems the contingency to be remote, as the Corporation has accommodated the objective of the Corporation to the provisions of the grant.

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS

NOTE L – COMMITMENTS:

The Arc of Tennessee, Inc. leases its office space under a lease that requires a monthly payment of \$4,697. The annual lease payment totaled \$57,600 and \$50,896 for the years ended June 30, 2008 and 2007 respectively. This lease is in effect until September 2011, and includes rent increases at twelve month intervals. Office equipment is leased under various operating agreements. No lease is considered a capital lease under FASB Statement 13. Future minimum rental payments for leases with initial lease terms exceeding one year follow:

<u>Year Ended</u>	<u>Amount</u>
June 30, 2009	\$ 60,016
June 30, 2010	62,103
June 30, 2011	64,191
June 30, 2012	<u>16,178</u>
Total	<u>\$ 202,488</u>

NOTE M – CONCENTRATION OF CREDIT RISK:

Financial instruments that potentially subject the Corporation to concentrations of credit risk consist of account and grant receivables. Account receivables consist of member units and third party gum vending entities. These receivables are widely dispersed over the State of Tennessee and mitigate credit risk. Grant receivables represent concentrations of credit risk to the extent that they are received from concentrated sources. The Corporation receives 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 the Corporation's programs and activities. Based on the upcoming fiscal year's budget, this funding is expected to continue.

SUPPLEMENTAL INFORMATION

THE ARC OF TENNESSEE, INC.
SCHEDULE OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

Grantor / Program Title	Federal CFDA Number	Grant Number	Federal Award Amount	State Award Amount	Balance June 30, 2007	(2) Receipts	Federal Disbursements Expenditures	State Disbursements Expenditures	Adjustments for Over / Under Payment	Total Expenditures	(1) Balance June 30, 2008
Tennessee Department of Finance and Administration Council on Developmental Disabilities:											
Partners in Policymaking and Youth Leadership Forum Workshops	93.630	GR-08-22634-00	\$	-	-	127,654	134,750	-	-	134,750	7,096
	93.630	GR-07-17994-00	-	-	8,274	8,274	-	-	-	-	-
MegaConference	93.630	GR-08-24438-00	-	-	-	10,000	10,000	-	-	10,000	-
	93.630	GR-07-21203-00	-	-	10,000	10,000	-	-	-	-	-
Public awareness - Legislative Monitor	93.630	GR-08-22222-00	-	-	-	34,394	41,737	-	-	41,737	7,343
	93.630	GR-07-18034-00	-	-	14,223	14,223	-	-	-	-	-
Division of Mental Retardation Services:											
Support and assistance services, (DSPAT)		GR-06-1739-00	-	230,129	28,242	190,678	-	209,457	-	209,457	47,021
Advocacy, education & public awareness		GR-08-22338-00	-	410,000	-	377,603	-	409,949	-	409,949	32,346
		GR-07-18294-00	-	410,000	16,299	16,299	-	-	-	-	-
Real Choice Systems Change		GR-07-18351-00	-	292,810	27,604	239,992	-	266,249	723	266,972	54,584
Personal assistance services & support		GR-07-18367-00	-	226,159	18,164	192,802	-	207,665	2,597	210,262	35,624
Supported employment		GR-07-18424-00	-	20,000	2,295	2,295	-	-	-	-	-
Tennessee Department of Education Division of Special Education:											
Support collaboration - special education	84.027A	GR-08-21809-00	84,000	-	-	74,895	84,000	-	-	84,000	9,105
	84.027A	GR-07-17915-00	42,000	42,000	8,182	8,182	-	-	-	-	-
Total					\$ 133,283	1,307,291	270,487	1,093,320		1,367,127	193,119

(1) Balance owed by the State of Tennessee and the Department of Labor to The Arc of Tennessee, Inc. as of June 30, 2008.

(2) Receipts do not include money earned for the fiscal year ended June 30, 2008 but not yet received.

See notes to financial statements.

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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

Board of Directors
The Arc of Tennessee, Inc.
Nashville, Tennessee

I have audited the financial statements of The Arc of Tennessee (a nonprofit organization) as of and for the year ended June 30, 2008, and have issued my report thereon dated November 16, 2008. I conducted my 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 my audit, I considered The Arc of Tennessee's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Arc of Tennessee's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of The Arc of Tennessee's internal control over financial reporting.

A control deficiency 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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Arc of Tennessee's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

I have communicated certain matters to management of The Arc of Tennessee, Inc. in a separate letter dated November 16, 2008.

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

Jarman & Associates, PLLC

Franklin, Tennessee
November 16, 2008