# THE ARC DAVIDSON COUNTY
# & GREATER NASHVILLE & AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

***As of and for the Years Ended June 30, 2018 and 2017***

***And Report of Independent Auditor***

Cherry Bekaert LLP
CPAs & Advisors

**THE ARC DAVIDSON COUNTY & GREATER NASHVILLE & AFFILIATES**
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**THE ARC DAVIDSON COUNTY & GREATER NASHVILLE & AFFILIATES**
ROSTER OF BOARD OF DIRECTORS AND EXECUTIVE STAFF

*AS OF JUNE 30, 2018*

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## Board of Directors

| | |
|---|---|
| Cynthia Gardner | President |
| Tyler Lisowski | Vice President |
| Thom Druffel | Treasurer |
| Elizabeth Ralph | Secretary |
| Andrea Arnold | Board Member |
| Bettie Blackman | Board Member |
| Kay Dodd | Board Member |
| Rachelle Gallimore-Scruggs | Board Member |
| John Gillmor | Board Member |
| Steve Hart | Board Member |
| Matt Moser | Board Member |
| Matt North | Board Member |
| Richard Thompson | Board Member |

## Executive Staff

| | |
|---|---|
| Sheila Moore | Chief Executive Director |
| Lorie Golden | Director of Family Support |
| Donna Bryant | Co-Director of Support Coordination |
| Hailey Everly | Co-Director of Support Coordination |

Cherry Bekaert LLP
CPAs & Advisors

# Report of Independent Auditor

To the Board of Directors
The Arc Davidson County & Greater Nashville & Affiliates
Nashville, Tennessee

## Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of The Arc Davidson County & Greater Nashville & Affiliates (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2018 and the related consolidated statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

## Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Arc Davidson County & Greater Nashville & Affiliates as of June 30, 2018, 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.

## Prior Period Financial Statements

The consolidated financial statements of The Arc Davidson County & Greater Nashville & Affiliates as of June 30, 2017, were audited by other auditors whose report dated November 21, 2017, expressed an unmodified opinion on those statements.

## Other Matters

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information on page 18 consisting of the schedule of expenditures of state financial assistance is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated 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 February 14, 2019, on our consideration of The Arc Davidson County & Greater Nashville & Affiliates' 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 Davidson County & Greater Nashville & Affiliates' internal control over financial reporting and compliance.

Cherry Bekaert LLP

Nashville, Tennessee
February 14, 2019

# THE ARC DAVIDSON COUNTY & GREATER NASHVILLE & AFFILIATES

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

*JUNE 30, 2018 AND 2017*

| | 2018 | 2017 |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 168,961 | $ 327,651 |
| Investments | 589,073 | 405,407 |
| Government contract receivables | 148,471 | 153,590 |
| Government grant receivables | 162,108 | 55,976 |
| Receivables - other | 7,185 | 11,377 |
| Prepaid expenses | 12,694 | 10,777 |
| Total Current Assets | 1,088,492 | 964,778 |
| Property and Equipment: | | |
| Office furniture and equipment | 72,907 | 65,487 |
| Less accumulated depreciation | (51,637) | (45,926) |
| Net Property and Equipment | 21,270 | 19,561 |
| **Total Assets** | $ 1,109,762 | $ 984,339 |
| **LIABILITIES AND NET ASSETS** | | |
| Current Liabilities: | | |
| Accounts payable and accrued expenses | $ 46,399 | $ 66,895 |
| Contract refund payable | 21,909 | 21,909 |
| Total Current Liabilities | 68,308 | 88,804 |
| Net Assets: | | |
| Unrestricted: | | |
| Operating | 1,020,184 | 875,974 |
| Furniture and equipment | 21,270 | 19,561 |
| Total Unrestricted Net Assets | 1,041,454 | 895,535 |
| **Total Liabilities and Net Assets** | $ 1,109,762 | $ 984,339 |

**THE ARC DAVIDSON COUNTY & GREATER NASHVILLE & AFFILIATES**

CONSOLIDATED STATEMENT OF ACTIVITIES

*YEAR ENDED JUNE 30, 2018*

| | Unrestricted | Temporarily Restricted | Total |
|---|---|---|---|
| Revenues and Other Support: | | | |
| Government Grants: | | | |
| Family support program | $ 827,922 | $ - | $ 827,922 |
| Traumatic brain injury program | 232,028 | - | 232,028 |
| Government Contracts: | | | |
| Support coordination program | 897,789 | - | 897,789 |
| Cart revenues | 242,008 | - | 242,008 |
| Phone solicitation income | 67,224 | - | 67,224 |
| Investment income | 38,937 | - | 38,937 |
| Other grants and contracts | 26,807 | - | 26,807 |
| Contributions | 21,484 | - | 21,484 |
| Miscellaneous income | 10,399 | - | 10,399 |
| Employment income | 4,902 | - | 4,902 |
| Special events | 1,671 | - | 1,671 |
| Memberships | 438 | - | 438 |
| Total Revenues and Other Support | 2,371,609 | - | 2,371,609 |
| Expenses: | | | |
| Program Services: | | | |
| Family support and TBI | 1,075,407 | - | 1,075,407 |
| Support coordination | 761,946 | - | 761,946 |
| Development | 43,860 | - | 43,860 |
| Employment education advocacy | 38,790 | - | 38,790 |
| Day of service | 23,520 | - | 23,520 |
| Support Services: | | | |
| Management and general | 207,804 | - | 207,804 |
| Phone solicitation | 74,363 | - | 74,363 |
| Total Expenses | 2,225,690 | - | 2,225,690 |
| Change in net assets | 145,919 | - | 145,919 |
| Net assets, beginning of year | 895,535 | - | 895,535 |
| Net assets, end of year | $ 1,041,454 | $ - | $ 1,041,454 |

**THE ARC DAVIDSON COUNTY & GREATER NASHVILLE & AFFILIATES**
CONSOLIDATED STATEMENT OF ACTIVITIES

*YEAR ENDED JUNE 30, 2017*

| | Unrestricted | Temporarily Restricted | Total |
|---|---|---|---|
| Revenues and Other Support: | | | |
| Government Contracts: | | | |
| Support coordination program | $ 912,711 | $ - | $ 912,711 |
| Government Grants: | | | |
| Family support program | 784,951 | - | 784,951 |
| Cart revenues | 332,591 | - | 332,591 |
| Phone solicitation income | 109,417 | - | 109,417 |
| Special events | 60,190 | - | 60,190 |
| Other grants and contracts | 50,876 | - | 50,876 |
| Investment income | 49,519 | - | 49,519 |
| Contributions | 27,875 | - | 27,875 |
| Memberships | 1,195 | - | 1,195 |
| Miscellaneous income | 243 | - | 243 |
| United Way | 143 | - | 143 |
| Total Revenues and Other Support | 2,329,711 | - | 2,329,711 |
| Expenses: | | | |
| Program Services: | | | |
| Family support | 805,654 | - | 805,654 |
| Support coordination | 792,145 | - | 792,145 |
| Development | 159,290 | - | 159,290 |
| Employment education advocacy | 61,332 | - | 61,332 |
| Day of service | 50,120 | - | 50,120 |
| Support Services: | | | |
| Management and general | 190,583 | - | 190,583 |
| Phone solicitation | 106,998 | - | 106,998 |
| Total Expenses | 2,166,122 | - | 2,166,122 |
| Change in net assets | 163,589 | - | 163,589 |
| Net assets, beginning of year | 731,946 | - | 731,946 |
| Net assets, end of year | $ 895,535 | $ - | $ 895,535 |

**THE ARC DAVIDSON COUNTY & GREATER NASHVILLE & AFFILIATES**

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

*YEAR ENDED JUNE 30, 2018*

| | Program Services | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Family Support and TBI | Support Coordination | Day of Service | Development | Employment Education Advocacy | Total Program Services | Management and General | Phone Solicitation | Total Expenses |
| Client benefits | $ 900,051 | $ - | $ - | $ - | $ - | $ 900,051 | $ - | $ - | $ 900,051 |
| Salaries | 107,255 | 455,325 | 13,260 | - | 8,567 | 584,407 | 109,754 | 66,126 | 760,287 |
| Employee benefits | 16,462 | 82,277 | - | - | 1,131 | 99,870 | 10,620 | 277 | 110,767 |
| Office rent | 23,589 | 36,656 | 1,500 | - | 11,398 | 73,143 | 7,252 | - | 80,395 |
| Contracted services | 6,466 | 40,049 | 5,962 | - | 14,279 | 66,756 | 5,196 | - | 71,952 |
| Payroll taxes | 8,160 | 33,612 | - | - | 235 | 42,007 | 8,392 | 4,902 | 55,301 |
| Travel | 955 | 49,037 | 328 | - | 47 | 50,367 | 2,762 | - | 53,129 |
| Postage | 1,990 | 4,733 | - | 41,164 | 1 | 47,888 | 631 | 177 | 48,696 |
| Professional services | 1,995 | 13,263 | - | - | 1,825 | 17,083 | 23,604 | 2,881 | 43,568 |
| Insurance | 2,762 | 17,337 | 750 | - | 45 | 20,894 | 1,467 | - | 22,361 |
| Telephone | 1,866 | 14,758 | 500 | - | 83 | 17,207 | 3,020 | - | 20,227 |
| Supplies | 1,711 | 3,677 | 129 | 128 | 333 | 5,978 | 7,263 | - | 13,241 |
| Printing and publications | 1,077 | 5,181 | 750 | - | 57 | 7,065 | 1,341 | - | 8,406 |
| Affiliation fees | - | - | - | - | - | - | 7,184 | - | 7,184 |
| Conferences | 288 | 210 | 297 | - | - | 795 | 6,168 | - | 6,963 |
| Depreciation | - | - | - | - | 594 | 594 | 5,117 | - | 5,711 |
| Subscriptions | 197 | 438 | - | - | 120 | 755 | 3,364 | - | 4,119 |
| Miscellaneous | - | - | - | 1,000 | - | 1,000 | 3,062 | - | 4,062 |
| Equipment rental and maintenance | 228 | 2,386 | 44 | - | 75 | 2,733 | 275 | - | 3,008 |
| Other rent | 355 | 2,197 | - | - | - | 2,552 | 430 | - | 2,982 |
| Fundraising | - | - | - | 1,568 | - | 1,568 | 250 | - | 1,818 |
| License and fees | - | 810 | - | - | - | 810 | 568 | - | 1,378 |
| Interest | - | - | - | - | - | - | 84 | - | 84 |
| | $ 1,075,407 | $ 761,946 | $ 23,520 | $ 43,860 | $ 38,790 | $ 1,943,523 | $ 207,804 | $ 74,363 | $ 2,225,690 |

**THE ARC DAVIDSON COUNTY & GREATER NASHVILLE & AFFILIATES**
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

*YEAR ENDED JUNE 30, 2017*

| | Program Services | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Family Support | Support Coordination | Day of Service | Development | Employment Education Advocacy | Total Program Services | Management and General | Phone Solicitation | Total Expenses |
| Salaries | $ 68,638 | $ 483,227 | $ 25,577 | $ - | $ 24,934 | $ 602,376 | $ 98,328 | $ 95,995 | $ 796,699 |
| Client benefits | 691,921 | - | - | - | - | 691,921 | - | - | 691,921 |
| Postage | 2,119 | 6,154 | - | 110,768 | 40 | 119,081 | 588 | 282 | 119,951 |
| Employee benefits | 11,219 | 77,913 | 3,256 | - | 3,452 | 95,840 | 8,330 | - | 104,170 |
| Office rent | 14,187 | 36,542 | 2,839 | - | 13,327 | 66,895 | 10,995 | - | 77,890 |
| Contracted services | 3,125 | 38,991 | 12,141 | - | 7,551 | 61,808 | - | - | 61,808 |
| Payroll taxes | 5,204 | 36,563 | 1,957 | - | 1,903 | 45,627 | 7,371 | 7,344 | 60,342 |
| Travel | 153 | 47,400 | 701 | - | 1,024 | 49,278 | 1,341 | - | 50,619 |
| Fundraising | - | - | - | 47,278 | - | 47,278 | - | - | 47,278 |
| Professional services | 2,122 | 12,612 | - | - | 1,094 | 15,828 | 23,054 | 3,377 | 42,259 |
| Insurance | 2,061 | 20,623 | 672 | 244 | 685 | 24,285 | 820 | - | 25,105 |
| Telephone | 1,096 | 12,605 | - | - | 611 | 14,312 | 3,609 | - | 17,921 |
| Supplies | 1,762 | 6,130 | 76 | - | 2,652 | 10,620 | 2,383 | - | 13,003 |
| Printing and publications | 774 | 7,528 | 1,753 | - | 1,026 | 11,081 | 1,676 | - | 12,757 |
| Conferences | 524 | 1,060 | 358 | - | 2,481 | 4,423 | 5,855 | - | 10,278 |
| Miscellaneous | - | - | - | 1,000 | - | 1,000 | 7,489 | - | 8,489 |
| Depreciation | - | - | - | - | - | - | 7,149 | - | 7,149 |
| Affiliation fees | - | - | - | - | - | - | 6,800 | - | 6,800 |
| Equipment rental and maintenance | 259 | 1,842 | 790 | - | 168 | 3,059 | 727 | - | 3,786 |
| Subscriptions | 197 | - | - | - | 197 | 394 | 3,233 | - | 3,627 |
| Other rent | 215 | 2,145 | - | - | 72 | 2,432 | 417 | - | 2,849 |
| License and fees | - | 810 | - | - | 115 | 925 | 375 | - | 1,300 |
| Interest | 78 | - | - | - | - | 78 | 43 | - | 121 |
| | $ 805,654 | $ 792,145 | $ 50,120 | $ 159,290 | $ 61,332 | $ 1,868,541 | $ 190,583 | $ 106,998 | $ 2,166,122 |

The accompanying notes to the consolidated financial statements are an integral part of these statements.

**THE ARC DAVIDSON COUNTY & GREATER NASHVILLE & AFFILIATES**

CONSOLIDATED STATEMENTS OF CASH FLOWS

*YEARS ENDED JUNE 30, 2018 AND 2017*

| | 2018 | 2017 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Change in net assets | $ 145,919 | $ 163,589 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 5,711 | 7,149 |
| Realized and unrealized (gain) loss on investments | (13,677) | (40,351) |
| Changes in current assets and liabilities: | | |
| Government contract receivables | 5,119 | 1,866 |
| Government grant receivables | (106,132) | 37,331 |
| Receivables - other | 4,192 | (5,957) |
| Prepaid expenses | (1,917) | 2,923 |
| Accounts payable and accrued expenses | (20,496) | 3,142 |
| Contract refund payable | - | 21,909 |
| Deferred revenue | - | (24,826) |
| Net cash provided by operating activities | 18,719 | 166,775 |
| **Cash flows from investing activities:** | | |
| Purchases of investments | (350,675) | (16,062) |
| Proceed from sales of investments | 180,686 | 10,977 |
| Purchases of office furniture and equipment | (7,420) | (16,871) |
| Net cash used in investing activities | (177,409) | (21,956) |
| **Cash flows from financing activities:** | | |
| Proceeds from issuance of line of credit | 87,700 | 51,000 |
| Repayments on line of credit | (87,700) | (51,000) |
| Net cash used in financing activities | - | - |
| Change in cash and cash equivalents | (158,690) | 144,819 |
| Cash and cash equivalents, beginning of year | 327,651 | 182,832 |
| Cash and cash equivalents, end of year | $ 168,961 | $ 327,651 |

## Note 1—Summary of significant accounting policies

*Nature Of Organization* – The Arc Davidson County & Greater Nashville & Affiliates (the "Organization") is a nonprofit corporation conducting programs for the benefit of individuals with intellectual and developmental disabilities and their families. The Organization is affiliated with The U.S. Arc and The Arc of Tennessee. The State of Tennessee Department of Finance and Administration, Division of Intellectual and Developmental Disabilities and the Bureau of TennCare provide support on an annual basis.

*Principles of Consolidation* – The financial statements include the accounts of The Arc of Davidson County & Greater Nashville and its affiliated supporting organizations, ArcAbility, LLC and eDoc TN, LLC. All inter-entity transactions and balances have been eliminated in consolidation.

The Arc of Davidson County & Greater Nashville sponsored the establishment of ArcAbility, LLC ("ArcAbility"), a separate nonprofit limited liability company, during December 2015. ArcAbility provides employment opportunities for individuals with intellectual and developmental disabilities.

Additionally, The Arc of Davidson County & Greater Nashville sponsored the establishment of eDoc TN, LLC ("eDoc"), a separate nonprofit limited liability company, during September 2017. eDoc provides employment opportunities for individuals with intellectual and developmental disabilities to assist in scanning and archiving documents.

ArcAbility and eDoc receive management services from and are governed by the same board of directors as The Arc of Davidson County & Greater Nashville. The activity for ArcAbility and eDoc for the years ended June 30, 2018 and 2017 is included in the Organization's consolidated financial statements.

*Basis Of Presentation* – The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Consolidated financial statement presentation is in accordance with standards of accounting and financial reporting prescribed for not-for-profit organizations. Accordingly, net assets of the Organization 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 actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. The Organization has no temporarily restricted net assets at June 30, 2018 and 2017.
>
> *Permanently Restricted Net Assets* – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. The Organization has no permanently restricted net assets at June 30, 2018 and 2017.

*Cash And Cash Equivalents* – The Organization considers all highly liquid investments available for current use with a maturity of three months or less when purchased to be cash equivalents.

*Revenue And Other Support* – The Organization receives much of its income from grants and contracts from the State of Tennessee Department of Finance and Administration, Division of Intellectual and Developmental Disabilities. The Organization records income from the grants in the period that the applicable expenditures are incurred. Income from contracts is recognized as the related services are performed.

## Note 1—Summary of significant accounting policies (continued)

*Contributions* – Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. 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 consolidated statements of activities as net assets released from restrictions.

*Investments* – Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the consolidated statements of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying consolidated statements of activities as unrestricted revenues or expenses, unless specified by the donor.

*Fair Values* – The Organization has an established process for determining fair values. Fair value is based upon quoted market prices, where available. If listed prices or quotes are not available, fair value is based upon internally developed models or processes that use primarily market-based or independently-sourced market data and third party information. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies, or assumptions, to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Accounting principles generally accepted in the United States of America have a three-level valuation hierarchy for fair value measurements. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels are explained as follows:

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset and liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Level 1 securities include highly liquid government securities and certain other products, such as mutual funds. No changes in the valuation methodologies have been made during the period from July 1, 2016 through June 30, 2018.

*Receivables* – Contract, grant, and other receivables are reviewed periodically as to their collectability. Management provides for losses on receivables using the allowance method. The allowance is based on experience and other circumstances which may affect the collectability of such receivables. Based on collection experience and management's review, no allowance for doubtful accounts is considered necessary at June 30, 2018 and 2017.

*Office Furniture and Equipment* – Office furniture and equipment are carried at cost. Donated equipment is recorded at fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, ranging from five to ten years.

## Note 1—Summary of significant accounting policies (continued)

*Donated Services* – Unpaid volunteers make contributions of time in various administrative, fundraising, and program functions. The value of contributed time is not reflected in the consolidated financial statements as it is not susceptible to an objective measurement or valuation and generally does not meet the requirements for recognition under accounting principles generally accepted in the United States of America which stipulates such services would ordinarily be purchased and be provided by persons with specialized skills in the performance of such services.

*Functional Allocation of Expenses* – The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

*Estimates* – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Income Taxes* – The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been classified as other than a private foundation. Accordingly, no provision has been made for federal income taxes in the accompanying consolidated financial statements.

The Organization follows Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") guidance concerning the accounting for income taxes recognized in an entity's consolidated financial statements. This guidance prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Organization does not believe there are any uncertain tax positions at June 30, 2018. Additionally, the Organization has not recognized any tax related interest and penalties in the accompanying consolidated financial statements.

*Employee Retirement Plan* – The Organization maintains a tax deferred annuity plan covering substantially all of its employees with at least one year or more of employment. The Organization contributed 3% of eligible employees' salaries into the annuity annually for the years ended June 30, 2018 and 2017. Employee retirement plan expense for the years ended June 30, 2018 and 2017 was $16,215 and $18,098, respectively.

*Subsequent Events* – The Organization evaluated subsequent events through February 14, 2019, when these consolidated financial statements were available to be issued. The Organization is not aware of any significant events that occurred subsequent to the consolidated statement of financial position date but prior to the filing of this report that would have a material impact on the financial statements.

## Note 1—Summary of significant accounting policies (continued)

*Recently Issued Accounting Standards* – In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Accounting Standards Codification ("ASC") 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for the Organization year ending June 30, 2020. A modified retrospective transition approach is required for leases for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the consolidated financial statements, with certain practical expedients available. The Organization is currently in the process of evaluating the impact of adoption of this ASU on the consolidated financial statements.

In August 2016, the FASB issued Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. The standard changes presentation and disclosure requirements of not-for-profit entities. The primary changes are a decrease in the number of net asset classes from three to two, reporting of underwater amounts of donor-restricted endowment funds in net assets with donor restrictions, requiring disclosure of qualitative information on how the not-for-profit entity manages its liquid available resources and liquidity risks, and requiring reporting of expense by function and nature, as well as enhanced endowment disclosures. This standard is effective for all fiscal years beginning after December 31, 2017. The Organization has elected not to early adopt ASU 2016-14.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows: Restricted Cash (Topic 230),* which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The new standard will be effective for the Organization on October 1, 2019. Early adoption is permitted. The Organization is currently evaluating the effect that the standard will have on its consolidated financial statements and related disclosures.

In June 2018, the FASB issued ASU 2018-08, *Not for Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* This should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The new standard is effective for annual periods beginning after December 15, 2018. The Organization is evaluating the impact of this ASU on the consolidated financial statements.

## Note 2—Investments

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of June 30, 2018:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Money market funds | $ 11,715 | $ - | $ - | $ 11,715 |
| Mutual funds: | | | | |
| Growth funds | 130,910 | - | - | 130,910 |
| Large value funds | 24,189 | - | - | 24,189 |
| Large-cap funds | 108,294 | - | - | 108,294 |
| Equities funds | 93,888 | - | - | 93,888 |
| Intermediate-term bond funds | 90,086 | - | - | 90,086 |
| Mid-cap funds | 47,729 | - | - | 47,729 |
| Small-cap funds | 53,423 | - | - | 53,423 |
| Total mutual funds | 548,519 | - | - | 548,519 |
| Alternative funds | 28,839 | - | - | 28,839 |
| Total investments | $ 589,073 | $ - | $ - | $ 589,073 |

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of June 30, 2017:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Money market funds | $ 3,018 | $ - | $ - | $ 3,018 |
| Mutual funds: | | | | |
| Growth funds | 85,871 | - | - | 85,871 |
| Large-cap funds | 81,462 | - | - | 81,462 |
| Equities funds | 71,158 | - | - | 71,158 |
| Intermediate-term bond funds | 52,454 | - | - | 52,454 |
| Mid-cap funds | 42,299 | - | - | 42,299 |
| Small-cap funds | 40,141 | - | - | 40,141 |
| Real estate funds | 15,138 | - | - | 15,138 |
| Total mutual funds | 388,523 | - | - | 388,523 |
| Alternative funds | 13,866 | - | - | 13,866 |
| Total investments | $ 405,407 | $ - | $ - | $ 405,407 |

## Note 2—Investments (continued)

The following schedule summarizes investment return for the years ending June 30:

| | 2018 | 2017 |
|---|---|---|
| Realized and unrealized gains (losses) | $ 13,677 | $ 40,351 |
| Interest and dividends | 29,965 | 13,128 |
| Investment fees | (4,705) | (3,960) |
| | $ 38,937 | $ 49,519 |

## Note 3—Government grants and contracts

The Organization was due $148,471 and $153,590 from the State of Tennessee Department of Finance and Administration, Division of Intellectual and Developmental Disabilities for contract monies for the support coordination program at June 30, 2018 and 2017, respectively. Under this arrangement, the Organization earned contract revenues totaling $897,789 and $912,711, for the support coordination program for the years ended June 30, 2018 and 2017, respectively.

During the years ended June 30, 2018 and 2017, the Organization earned grant monies totaling $827,922 and $784,951, respectively, for the family support program. The Organization was due $74,321 and $55,976 from the State of Tennessee Department of Finance and Administration, Division of Intellectual and Developmental Disabilities for grant monies expended, related to the family support program, during the years ended June 30, 2018 and 2017, respectively.

During the year ended June 30, 2018, the Organization received a five-year grant from the State of Tennessee Department of Health to provide services for persons with traumatic brain injury (“TBI”) and their families. Under this arrangement, the Organization earned contract revenues totaling $232,028 during fiscal 2018. Amounts due from the State of Tennessee Department of Health at June 30, 2018 totaled $87,787.

## Note 4—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 to the State. These amounts can be questioned by the State for the specific grant or contract to which they apply. The determination as to whether such costs will be allowed or disallowed under the grants or contracts is subject to review by the individual grantor agencies.

## Note 5—Operating lease commitments

The Organization has entered into a lease agreement for office space extending through September 30, 2020 with monthly lease payments ranging approximately from $6,700 to $7,050 for the life of the lease. Additionally, certain office equipment is leased under various operating lease agreements. The annual lease payments totaled $83,403 and $80,739 for the years ended June 30, 2018 and 2017, respectively.

## Note 5—Operating lease commitments (continued)

Future minimum lease payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2018 are as follows:

| Years Ending June 30, | | |
|---|---|---|
| 2019 | $ | 90,045 |
| 2020 | | 84,742 |
| 2021 | | 21,132 |
| | $ | 195,919 |

The Organization also entered into an agreement as lessor to sublease a portion of its office space. Under the arrangement, the Organization will receive approximately $650 a month through September 2020.

## Note 6—Cart revenues

In 1982, B&R Salvage, Inc. ("B&R") was engaged by the Organization to assist in the collection and sale of contributed property. The Organization entered into a contract, effective January 1, 2001, with J&I Advisory Support, LLC ("J&I"), an affiliate of B&R. J&I provides solicitation, trucking and transportation services in connection with property contributions, generally clothing and household goods. Goods donated to the Organization through J&I's solicitation are sold by the Organization in bulk to B&R. B&R generally sells the goods to the general public through thrift stores. The terms of the contracts with B&R and J&I set the price per cart for goods acquired by B&R from the Organization. The contract provides for 24 semimonthly minimum payments by B&R to the Organization totaling a flat amount per calendar year.

This amount reflects the amounts payable to the Organization by B&R for the sale of donated goods, net of amounts payable by the Organization to J&I for solicitation, transportation, and trucking services rendered by J&I. Determination of amounts payable to the Organization in excess of the minimum are determined and paid in January following each calendar year.

During 2013, a new contract was established between the Organization and J&I that increased costs of mailing solicitations. The Organization received $242,008 and $332,591 under this arrangement for the years ended June 30, 2018 and 2017, respectively. The contract may be terminated by either party upon sixty days written notice.

## Note 7—Phone solicitation

Effective January 1, 2013, the Organization entered into an agreement with J&I to manage telephone donation associates who solicit in-kind donations on behalf of the Organization. The Organization is responsible for the hiring and termination of part-time telephone donation associates, as well as remitting payroll taxes and state required withholdings. In addition, the Organization maintains a drawing account from which telephone donation associates are paid weekly by the Organization's payroll service. The Organization received $67,224 and $109,417 under this arrangement for the years ended June 30, 2018 and 2017, respectively. As of June 30, 2018 and 2017, $74,363 and $106,998 was expensed as salaries, payroll taxes and incidental costs, respectively. This contract may be terminated by either party upon six months written notice.

## Note 8—Concentration of credit risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist of account, grant, and contracts receivable. Grant and contract receivables represent concentration of credit risk to the extent that they are received from the same sources. The Organization receives a substantial amount of its support from governmental grants and contracts. A significant reduction in the levels of this support, if this were to occur, could have an adverse effect on the Organization's programs and activities. These governmental grants and contracts have been renewed for the 2019 fiscal year.

The Organization maintains cash balances which may, at times, exceed federally insured amounts.

## Note 9—Client benefits

The Organization receives funding from the State of Tennessee Department of Finance and Administration, Division of Intellectual and Developmental Disabilities for family support services to be provided to persons with severe disabilities and who are eligible for such support. Certain requirements must be met as provided by the Family Support Guidelines Act before support can be given by the Organization. The Organization paid $704,530 and $667,209 during the years ended June 30, 2018 and 2017, respectively, to eligible persons for family support services.

Under the State of Tennessee Department of Health traumatic brain injury funding arrangement, the Organization paid $195,521 to those who were eligible for such support during the year ended June 30, 2018. No similar program was in place during the year ended June 30, 2017.

During the year ended June 30, 2017, the Organization received funding from the Metropolitan Government of Nashville and Davidson County that provides the Organization with funds for distribution on behalf of eligible individuals by having past due rent, mortgage, or utilities. A similar grant contract through the West End Home Foundation also provides the Organization with funds to distribute relating to eviction support and utility services for seniors. The Organization paid $24,712 during the year ended June 30, 2017 to eligible persons under these programs. These funding arrangements did not recur during the year ended June 30, 2018.

## Note 10—Line of credit

The Organization obtained a $250,000 line of credit from a financial institution. Under the terms of this line of credit, interest is charged at 5.25% per annum. The note representing this arrangement is secured by the Organization's investments and requires monthly principal and interest payments. There were no outstanding borrowings under this arrangement as of June 30, 2018 and 2017. The line of credit matured in November 2018 and was renewed through December 2019, under substantially the same terms.

## SUPPLEMENTAL INFORMATION

**THE ARC DAVIDSON COUNTY & GREATER NASHVILLE & AFFILIATE**
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE

*YEAR ENDED JUNE 30, 2018*

| | CFDA Number | Contract Number | Expenditures |
|---|---|---|---|
| **State Awards:** | | | |
| Tennessee Department of Finance and Administration | | | |
| Department of Intellectual and Developmental Disabilities | | | |
| Family Support Services Program | N/A | 34401-99025 | $ 701,276 |
| Family Support Services Program | N/A | 33401-99094 | 126,646 |
| | | | 827,922 |
| Tennessee Department of Health | | | |
| Family Support Services Program - Traumatic Brain Injury | N/A | 34347-61518 | 232,028 |
| | | | 232,028 |
| Total State Awards | | | $ 1,059,950 |

## Note 1—Basis of presentation

The accompanying Schedule of Expenditures of State Financial Assistance (the "Schedule") summarizes the expenditures of The Arc Davidson County & Greater Nashville & Affiliates under programs of the State of Tennessee for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of the State of Tennessee Audit Manual for Auditing, Accounting, and Reporting for Local Governmental Units and Other Organizations.

## Note 2—Summary of significant accounting policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Grant revenues are recognized when the related program expenditures are incurred.

The Arc Davidson County & Greater Nashville expended indirect costs using a contracted method and did not elect to use the 10% de minimis cost rate allowed under the Uniform Guidance.

Cherry Bekaert LLP
CPAs & Advisors

# Report of Independent Auditor 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 Davidson County & Greater Nashville & Affiliates
Nashville, Tennessee

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 consolidated financial statements of The Arc Davidson County & Greater Nashville & Affiliates (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2018 and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated February 14, 2019.

## Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered The Arc Davidson County & Greater Nashville & Affiliates' internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Arc Davidson County & Greater Nashville & Affiliates' internal control. Accordingly, we do not express an opinion on the effectiveness of The Arc Davidson County & Greater Nashville & Affiliates' 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 consolidated 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 the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 Davidson County & Greater Nashville & Affiliates' consolidated 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 Arc Davidson County & Greater Nashville & Affiliates' 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.

Cherry Bekaert LLP

Nashville, Tennessee
February 14, 2019

**Consolidated Financial Statement Findings**

| **Prior Year Finding Number** | **Finding Title** | **Status / Current Year Finding Number** |
|---|---|---|
| 2017-001 | Contract Expense Reimbursement | Corrected |
| 2017-002 | Segregation of Duties (original finding # 2015-001) | Corrected |