

**THE ARC DAVIDSON COUNTY & GREATER NASHVILLE  
(FORMERLY THE ARC OF DAVIDSON COUNTY)**

**AUDITED FINANCIAL STATEMENTS**

**Years ended June 30, 2015 and 2014**

**THE ARC DAVIDSON COUNTY & GREATER NASHVILLE  
(FORMERLY THE ARC OF DAVIDSON COUNTY)**

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## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of The Arc Davidson County & Greater Nashville (formerly The Arc of Davidson County) (a nonprofit organization), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Arc Davidson County & Greater Nashville as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of state financial assistance is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2015, on our consideration of The Arc Davidson County & Greater Nashville's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Arc Davidson County & Greater Nashville's internal control over financial reporting and compliance.

*Frasier, Dean & Howard, PLLC*

Nashville, Tennessee  
December 14, 2015

**THE ARC DAVIDSON COUNTY & GREATER NASHVILLE  
(FORMERLY THE ARC OF DAVIDSON COUNTY)  
STATEMENTS OF FINANCIAL POSITION  
June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 75,789	\$ 259,746
Investments	366,988	356,943
Government contract receivables	164,551	85,770
Government grant receivables	152,691	-
Receivables - other	14,292	389
Prepaid expenses	7,075	23,101
Total current assets	<u>781,386</u>	<u>725,949</u>
Property and equipment:		
Office furniture and equipment	48,616	48,616
Less accumulated depreciation	<u>(32,235)</u>	<u>(25,693)</u>
Net property and equipment	<u>16,381</u>	<u>22,923</u>
Total assets	<u><u>\$ 797,767</u></u>	<u><u>\$ 748,872</u></u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 82,165	\$ 80,593
Line of credit	18,399	-
Deferred revenue	<u>25,951</u>	<u>-</u>
Total current liabilities	<u>126,515</u>	<u>80,593</u>
Net assets:		
Unrestricted:		
Operating	654,871	642,379
Furniture and equipment	<u>16,381</u>	<u>22,923</u>
Total unrestricted net assets	671,252	665,302
Temporarily restricted	<u>-</u>	<u>2,977</u>
Total net assets	<u>671,252</u>	<u>668,279</u>
Total liabilities and net assets	<u><u>\$ 797,767</u></u>	<u><u>\$ 748,872</u></u>

See accompanying notes.

**THE ARC DAVIDSON COUNTY & GREATER NASHVILLE  
(FORMERLY THE ARC OF DAVIDSON COUNTY)  
STATEMENT OF ACTIVITIES  
For the year ended June 30, 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and other support:			
Government contracts:			
Support coordination program	\$ 992,412	\$ -	\$ 992,412
Government grants:			
Family support program	701,276	-	701,276
Targeted family support program	75,167	-	75,167
Cart revenues	343,008	-	343,008
Phone solicitation income	119,857	-	119,857
Other grants and contracts	89,654	-	89,654
Contributions	26,396	-	26,396
Investment income	13,776	-	13,776
Special events	7,089	-	7,089
United Way	2,171	-	2,171
Memberships	814	-	814
Miscellaneous income	620	-	620
Net assets released from restrictions - satisfaction of program restrictions	<u>2,977</u>	<u>(2,977)</u>	<u>-</u>
Total revenues and other support	<u>2,375,217</u>	<u>(2,977)</u>	<u>2,372,240</u>
Expenses:			
Program services:			
Support coordination	940,733	-	940,733
Family support	811,811	-	811,811
Community enhancement	36,354	-	36,354
Development	147,813	-	147,813
Educational advocacy	76,395	-	76,395
Support services:			
Management and general	236,213	-	236,213
Phone solicitation	<u>119,948</u>	<u>-</u>	<u>119,948</u>
Total expenses	<u>2,369,267</u>	<u>-</u>	<u>2,369,267</u>
Change in net assets	5,950	(2,977)	2,973
Net assets, beginning of year	<u>665,302</u>	<u>2,977</u>	<u>668,279</u>
Net assets, end of year	<u><u>\$ 671,252</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 671,252</u></u>

See accompanying notes.

**THE ARC DAVIDSON COUNTY & GREATER NASHVILLE  
(FORMERLY THE ARC OF DAVIDSON COUNTY)  
STATEMENT OF ACTIVITIES  
For the year ended June 30, 2014**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
Revenues and other support:			
Government contracts:			
Support coordination program	\$ 1,000,336	\$ -	\$ 1,000,336
Government grants:			
Family support program	701,276	-	701,276
Cart revenues	343,969	-	343,969
Phone solicitation income	132,000	-	132,000
Other grants and contracts	97,154	11,200	108,354
Investment income	33,048	-	33,048
Contributions	14,715	-	14,715
Special events	7,044	-	7,044
United Way	4,474	-	4,474
Memberships	1,939	-	1,939
Miscellaneous income	1,218	-	1,218
Net assets released from restrictions - satisfaction of program restrictions	19,223	(19,223)	-
Total revenues and other support	2,356,396	(8,023)	2,348,373
Expenses:			
Program services:			
Support coordination	880,849	-	880,849
Family support	680,600	-	680,600
Community enhancement	62,987	-	62,987
Development	106,913	-	106,913
Educational advocacy	68,761	-	68,761
Support services:			
Management and general	292,798	-	292,798
Phone solicitation	134,543	-	134,543
Total expenses	2,227,451	-	2,227,451
Change in net assets	128,945	(8,023)	120,922
Net assets, beginning of year,	536,357	11,000	547,357
Net assets, end of year	\$ 665,302	\$ 2,977	\$ 668,279

See accompanying notes.

**THE ARC DAVIDSON COUNTY & GREATER NASHVILLE  
(FORMERLY THE ARC OF DAVIDSON COUNTY)  
STATEMENT OF FUNCTIONAL EXPENSES  
For the year ended June 30, 2015**

	Program Services					Total Program Services	Management and General	Phone Solicitation	Total Expenses
	Support Coordination	Family Support	Community Enhancement	Development	Educational Advocacy				
Salaries	\$ 546,959	\$ 68,683	\$ 3,294	\$ -	\$ 43,666	\$ 662,602	\$ 107,897	\$ 107,287	\$ 877,786
Client benefits	-	689,962	30,867	-	-	720,829	-	-	720,829
Employee benefits	150,076	20,613	950	-	12,684	184,323	22,593	818	207,734
Postage	6,633	2,570	119	141,160	35	150,517	904	321	151,742
Contracted services	43,998	6,128	280	675	9,108	60,189	11,673	-	71,862
Travel	63,084	279	13	-	1,354	64,730	3,369	-	68,099
Payroll taxes	42,095	5,544	250	-	3,261	51,150	8,302	8,208	67,660
Professional services	11,202	1,725	75	-	640	13,642	29,256	3,314	46,212
Office rent	28,466	3,769	165	-	1,523	33,923	8,375	-	42,298
Telephone	20,460	1,431	66	-	1,111	23,068	3,753	-	26,821
Insurance	11,036	1,318	61	-	689	13,104	1,379	-	14,483
Conferences	1,484	1,288	60	-	1,237	4,069	8,065	-	12,134
Supplies	4,964	1,243	58	-	307	6,572	5,119	-	11,691
Printing and publications	1,300	1,008	47	-	80	2,435	7,394	-	9,829
Equipment rental and maintenance	6,669	797	37	-	417	7,920	1,251	-	9,171
Miscellaneous	79	4,583	-	2,500	-	7,162	949	-	8,111
Affiliation fees	-	-	-	-	-	-	6,800	-	6,800
Depreciation	-	-	-	-	-	-	6,542	-	6,542
Fundraising	-	-	-	3,478	-	3,478	-	-	3,478
Other rent	1,978	235	12	-	124	2,349	371	-	2,720
Subscriptions	250	-	-	-	-	250	1,947	-	2,197
Interest	-	635	-	-	-	635	-	-	635
License and fees	-	-	-	-	159	159	274	-	433
	<u>\$ 940,733</u>	<u>\$ 811,811</u>	<u>\$ 36,354</u>	<u>\$ 147,813</u>	<u>\$ 76,395</u>	<u>\$ 2,013,106</u>	<u>\$ 236,213</u>	<u>\$ 119,948</u>	<u>\$ 2,369,267</u>

See accompanying notes.

**THE ARC DAVIDSON COUNTY & GREATER NASHVILLE  
(FORMERLY THE ARC OF DAVIDSON COUNTY)  
STATEMENT OF FUNCTIONAL EXPENSES  
For the year ended June 30, 2014**

	Program Services				Educational Advocacy	Total Program Services	Management and General	Phone Solicitation	Total Expenses
	Support Coordination	Family Support	Community Enhancement	Development					
Salaries	\$ 565,900	\$ 51,158	\$ 4,600	\$ -	\$ 55,587	\$ 677,245	\$ 91,357	\$ 121,633	\$ 890,235
Client benefits	-	607,155	57,344	-	-	664,499	-	-	664,499
Employee benefits	152,150	7,472	692	-	877	161,191	13,953	-	175,144
Postage	6,056	2,591	9	101,664	3	110,323	955	358	111,636
Travel	64,794	216	-	-	2,202	67,212	1,372	-	68,584
Contracted services	417	1,690	-	88	2,211	4,406	62,511	-	66,917
Payroll taxes	41,156	3,820	342	-	4,235	49,553	6,989	9,305	65,847
Other rent	26,821	3,705	-	-	1,435	31,961	2,584	-	34,545
Professional services	-	193	-	-	-	193	25,954	3,247	29,394
Telephone	18,402	674	-	-	1,360	20,436	4,014	-	24,450
Insurance	-	-	-	-	-	-	24,352	-	24,352
Supplies	3,067	1,693	-	-	166	4,926	10,201	-	15,127
Conferences	1,281	27	-	-	685	1,993	11,647	-	13,640
Equipment rental and maintenance	-	-	-	-	-	-	10,682	-	10,682
Office rent	-	-	-	-	-	-	7,895	-	7,895
Affiliation fees	-	-	-	-	-	-	6,800	-	6,800
Fundraising	-	-	-	5,161	-	5,161	43	-	5,204
Depreciation	-	-	-	-	-	-	4,897	-	4,897
Printing and publications	537	-	-	-	-	537	2,593	-	3,130
Subscriptions	250	-	-	-	-	250	2,273	-	2,523
Miscellaneous	18	206	-	-	-	224	902	-	1,126
License and fees	-	-	-	-	-	-	824	-	824
	<u>\$ 880,849</u>	<u>\$ 680,600</u>	<u>\$ 62,987</u>	<u>\$ 106,913</u>	<u>\$ 68,761</u>	<u>\$ 1,800,110</u>	<u>\$ 292,798</u>	<u>\$ 134,543</u>	<u>\$ 2,227,451</u>

See accompanying notes.

**THE ARC DAVIDSON COUNTY & GREATER NASHVILLE**  
**(FORMERLY THE ARC OF DAVIDSON COUNTY)**  
**STATEMENTS OF CASH FLOWS**  
**For the years ended June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ 2,973	\$ 120,922
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	6,542	4,897
Realized and unrealized gain on investments	(13,776)	(33,048)
Changes in current assets and liabilities:		
Government contract receivables	(78,781)	78,471
Government grant receivables	(152,691)	-
Receivables - other	(13,903)	10,625
Prepaid expenses	16,026	(15,646)
Accounts payable and accrued expenses	1,572	23,069
Deferred revenue	25,951	-
	<u>(206,087)</u>	<u>189,290</u>
Cash flows from investing activities:		
Purchases of investments	(59,449)	(226,364)
Sales of investments	63,180	93,703
Purchases of office furniture and equipment	-	(8,223)
	<u>3,731</u>	<u>(140,884)</u>
Cash flows from financing activities:		
Proceeds from issuance of line of credit	197,899	-
Repayments on line of credit	(179,500)	-
	<u>18,399</u>	<u>-</u>
Change in cash and cash equivalents	(183,957)	48,406
Cash and cash equivalents, beginning of year	<u>259,746</u>	<u>211,340</u>
Cash and cash equivalents, end of year	<u>\$ 75,789</u>	<u>\$ 259,746</u>

See accompanying notes.

**THE ARC DAVIDSON COUNTY & GREATER NASHVILLE  
(FORMERLY THE ARC OF DAVIDSON COUNTY)  
NOTES TO THE FINANCIAL STATEMENTS  
June 30 2015 and 2014**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Organization**

The Arc Davidson County & Greater Nashville (formerly The Arc of Davidson County) (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.

**Basis of Presentation**

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. 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 statements of activities as net assets released from restrictions. The Organization’s temporarily restricted net assets at June 30, 2015 and 2014 is \$0 and \$2,977, respectively.

**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, 2015 and 2014.

**Cash and Cash Equivalents**

For purposes of the statements of cash flows, 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.

**THE ARC DAVIDSON COUNTY & GREATER NASHVILLE  
(FORMERLY THE ARC OF DAVIDSON COUNTY)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
June 30 2015 and 2014**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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.

**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 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 statements of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying 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:

**THE ARC DAVIDSON COUNTY & GREATER NASHVILLE  
(FORMERLY THE ARC OF DAVIDSON COUNTY)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
June 30 2015 and 2014**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Fair Values (Continued)**

*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, 2013 through June 30, 2015.

**Office Furniture and Equipment**

Office furniture 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, ranging from five to ten years.

**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 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 statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**THE ARC DAVIDSON COUNTY & GREATER NASHVILLE  
(FORMERLY THE ARC OF DAVIDSON COUNTY)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
June 30 2015 and 2014**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Estimates**

The preparation of 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 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 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 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, 2015. Additionally, the Organization has not recognized any tax related interest and penalties in the accompanying financial statements. Tax years that remain open for examination include years ended June 30, 2012 through June 30, 2015.

**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 contributes 6% of eligible employees’ salaries into the annuity annually. Employee retirement plan expense for the years ended June 30, 2015 and 2014 was \$44,499 and \$34,392 respectively.

**THE ARC DAVIDSON COUNTY & GREATER NASHVILLE  
(FORMERLY THE ARC OF DAVIDSON COUNTY)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
June 30 2015 and 2014**

**NOTE 2 – GOVERNMENT GRANTS AND CONTRACTS**

The Organization was due \$164,551 and \$85,770 from the State of Tennessee Department of Finance and Administration, Division of Intellectual and Developmental Disabilities for contract monies for support coordination programs at June 30, 2015 and 2014, respectively. Under this arrangement, the Organization earned contract monies totaling \$992,412 and \$1,000,336, for support coordination programs for the years ended June 30, 2015 and 2014.

During the years ended June 30, 2015 and 2014, the Organization earned grant monies from the State of Tennessee Department of Finance and Administration, Division of Intellectual and Developmental Disabilities totaling \$701,276 and \$701,276, respectively for the family support program. During the year ended June 30, 2015, the Organization also earned grant monies from the State of Tennessee Department of Mental Health and Substance Abuse Services totaling \$75,167 for the targeted family support program.

**NOTE 3 – INVESTMENTS**

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of June 30, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 7,340	\$ -	\$ -	\$ 7,340
Mutual funds:				
Equities funds	103,897	-	-	103,897
Mid-cap funds	22,104	-	-	22,104
Growth funds	89,653	-	-	89,653
Small-cap funds	23,661	-	-	23,661
Short-term bond funds	24,851	-	-	24,851
Large-cap funds	59,680	-	-	59,680
Real estate funds	<u>15,390</u>	<u>-</u>	<u>-</u>	<u>15,390</u>
Total mutual	<u>339,236</u>	<u>-</u>	<u>-</u>	<u>339,236</u>
Alternative funds	<u>20,412</u>	<u>-</u>	<u>-</u>	<u>20,412</u>
Total investments	<u>\$ 366,988</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 366,988</u>

**THE ARC DAVIDSON COUNTY & GREATER NASHVILLE  
(FORMERLY THE ARC OF DAVIDSON COUNTY)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
June 30 2015 and 2014**

**NOTE 3 – INVESTMENTS (Continued)**

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of June 30, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 5,209	\$ -	\$ -	\$ 5,209
Mutual funds:				
Equities funds	101,742	-	-	101,742
Mid-cap funds	62,425	-	-	62,425
Growth funds	82,097	-	-	82,097
Small-cap funds	21,449	-	-	21,449
Short-term bond funds	20,626	-	-	20,626
Large-cap funds	17,793	-	-	17,793
Real estate funds	15,333	-	-	15,333
High yield funds	<u>10,582</u>	<u>-</u>	<u>-</u>	<u>10,582</u>
Total mutual funds	<u>332,047</u>	<u>-</u>	<u>-</u>	<u>332,047</u>
Alternative funds	<u>19,687</u>	<u>-</u>	<u>-</u>	<u>19,687</u>
Total investments	<u>\$ 356,943</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 356,943</u>

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

	<u>2015</u>	<u>2014</u>
Realized and unrealized gains	<u>\$ 13,776</u>	<u>\$ 33,048</u>

**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.

**THE ARC DAVIDSON COUNTY & GREATER NASHVILLE  
(FORMERLY THE ARC OF DAVIDSON COUNTY)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
June 30 2015 and 2014**

**NOTE 5 – OPERATING LEASE COMMITMENTS**

The Organization leased its office space under a lease that expired August 31, 2015. The annual lease payments totaled approximately \$42,000 for each of the years ended June 30, 2015 and 2014, respectively. The lease was not renewed and the Organization relocated and signed a new lease agreement 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. 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, 2015 are as follows:

Year ended <u>June 30,</u>	
2016	\$ 68,491
2017	90,046
2018	91,738
2019	90,045
2020	84,528
Thereafter	<u>21,346</u>
	<u>\$ 446,194</u>

The Organization also, subsequent to June 30, 2015, 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 – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes or periods at June 30:

	<u>2015</u>	<u>2014</u>
Other grants and contributions	\$ -	\$ 2,977
Total temporarily restricted net assets	<u>\$ -</u>	<u>\$ 2,977</u>

**THE ARC DAVIDSON COUNTY & GREATER NASHVILLE  
(FORMERLY THE ARC OF DAVIDSON COUNTY)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
June 30 2015 and 2014**

**NOTE 7 – 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 \$218,000 per year.

**NOTE 7 – CART REVENUES (Continued)**

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 the 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 \$343,008 and \$343,969 under this arrangement for the years ended June 30, 2015 and 2014, respectively. The contract may be terminated by either party upon sixty days written notice.

**NOTE 8 – 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 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 \$119,857 and \$132,000 under this arrangement for the years ended June 30, 2015 and 2014, respectively. As of June 30, 2015 and 2014, \$115,495 and \$130,938 was expensed as salaries and payroll taxes, respectively. This contract may be terminated by either party upon six months written notice.

**THE ARC DAVIDSON COUNTY & GREATER NASHVILLE**  
**(FORMERLY THE ARC OF DAVIDSON COUNTY)**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**June 30 2015 and 2014**

**NOTE 9 – 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 2016 fiscal year.

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

**NOTE 10 – 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 also receives funding from the State of Tennessee Department of Mental Health and Substance Abuse Services for targeted family support services to be provided to persons with mental illness. The Organization paid \$659,977 and \$607,155 during the years ended June 30, 2015 and 2014, respectively, to eligible persons for family support services.

A similar grant contract program through the Metropolitan Government of Nashville and Davidson County provides the Organization with funds for distribution to eligible individuals for rent, mortgage or utilities assistance. The Organization also received a new grant contract through West End Home Foundation during 2015 which also provides the Organization with funds to distribute relating to eviction support and utility services. The Organization paid \$60,852 and \$57,344 during the years ended June 30, 2015 and 2014, respectively, to eligible persons under these programs.

**NOTE 11 – LINE OF CREDIT**

On September 24, 2014, 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 4.25% per annum. The note representing this arrangement is secured by the Organization's investments and requires monthly principal and interest payments. This line of credit matured on September 23, 2015 and was renewed for an additional year through September 23, 2016. The Organization borrowed \$197,899 during the year ended June 30, 2015 of which \$18,399 remained outstanding at June 30, 2015. The remaining balance was paid off during July 2015.

**THE ARC DAVIDSON COUNTY & GREATER NASHVILLE  
(FORMERLY THE ARC OF DAVIDSON COUNTY)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
June 30 2015 and 2014**

**NOTE 12 – SUBSEQUENT EVENTS**

The Organization evaluated subsequent events through December 14, 2015 when these financial statements were available to be issued.

Other than disclosed above, management of the Organization is not aware of any significant events that occurred subsequent to the statement of financial position date but prior to the filing of this report that would have a material impact on the financial statements.

**SUPPLEMENTAL INFORMATION**

**THE ARC DAVIDSON COUNTY & GREATER NASHVILLE  
(FORMERLY THE ARC OF DAVIDSON COUNTY)  
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE  
For the year ended June 30, 2015**

	<u>Grant Number</u>	<u>Balance Receivable June 30, 2014</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Balance Receivable June 30, 2015</u>
<b>State Awards:</b>					
Tennessee Department of Finance and Administration					
Department of Intellectual and Developmental Disabilities					
Family Support Services Program	34401-00414	\$ -	\$ 553,602	\$ 701,276	\$ 147,674
Tennessee Department of Mental Health and Substance Abuse Services					
Targeted Family Support Program	N/A	-	70,150	75,167	5,017
Total State Awards		<u>\$ -</u>	<u>\$ 623,752</u>	<u>\$ 776,443</u>	<u>\$ 152,691</u>

NOTES TO THE SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE

Note 1 - Basis of Accounting - The supplementary schedule of expenditures of state financial assistance is prepared on the accrual basis of accounting.



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors of  
The Arc Davidson County & Greater Nashville  
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 financial statements of The Arc Davidson County & Greater Nashville (formerly The Arc of Davidson County) (a nonprofit organization), which comprise the statement of financial position as of June 30, 2015 and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 14, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered The Arc Davidson County & Greater Nashville's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Arc Davidson County & Greater Nashville's internal control. Accordingly, we do not express an opinion on the effectiveness of The Arc Davidson County & Greater Nashville's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of 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. We did identify certain deficiencies in internal control, described below that we consider significant deficiencies in 2015 and 2014.

### **Financial Reporting**

The Committee of Sponsoring Organizations (“COSO”) framework for effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to an organization’s audited financial statements. The Arc Davidson County & Greater Nashville currently does not have a certified public accountant (“CPA”) or individual with similar experience on staff or on the Board of Directors to interpret generally accepted accounting principles and identify risks of misstatement that might be relevant to the risks of preparation of reliable financial statements, including full disclosures in accordance with generally accepted accounting principles.

**The Arc Davidson County & Greater Nashville Response:** While in fact we do not have a CPA on staff, we are working to establish an advisory finance committee and obtain a CPA to serve on that committee to assist in any questions that might arise.

### **Segregation of Duties**

We noted that one person has access to the general ledger, as well as the Access database where all client benefits’ demographic information and plans are tracked for the family support and community enhancement programs. The same person should not have access to the general ledger and the Access database for client benefits in order to maintain the proper segregation of duties associated with the processing of client benefits payments.

**The Arc Davidson County & Greater Nashville Response:** The finance committee continues to review all financial processes and procedures and is developing policies and procedures to ensure segregation of duties and appropriate internal controls.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether The Arc Davidson County & Greater Nashville’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **The Arc Davidson County & Greater Nashville’s Response to Findings**

The Arc Davidson County & Greater Nashville’s responses to the findings identified in our audit are described above. The Arc Davidson County & Greater Nashville’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**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's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

This report is intended solely for the information and use of management, board of directors, others within the entity, and the State of Tennessee and is not intended to be and should not be used by anyone other than these specified parties.

*Fraser, Dean + Howard, PLLC*

Nashville, Tennessee

December 14, 2015