THE ARC DAVIDSON COUNTY
& GREATER NASHVILLE

FINANCIAL STATEMENTS

Years ended June 30, 2017 and 2016

THE ARC DAVIDSON COUNTY & GREATER NASHVILLE

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THE ARC DAVIDSON COUNTY & GREATER NASHVILLE
ROSTER OF BOARD OF DIRECTORS AND EXECUTIVE STAFF
As of June 30, 2017

Board of Directors

Kate Deitzer	President
Cynthia Gardner	Vice President
Thom Druffel	Treasurer
Elizabeth Ralph	Secretary
Andrea Arnold	Board Member
Bettie Blackman	Board Member
John Gillmor	Board Member
Tyler Lisowski	Board Member
Richard Thompson	Board Member
Sandi Wheaton	Board Member

Executive Staff

Sheila Moore	Chief Executive Director
Lorie Golden	Director of Family Support
Anna Flatt	Director of Support Coordination

FRASIERDEAN HOWARDCPAs

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 (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, 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.

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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, 2017 and 2016, 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

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on page 19 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 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 November 21, 2017, 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.

Nashville, Tennessee
November 21, 2017

THE ARC DAVIDSON COUNTY & GREATER NASHVILLE
STATEMENTS OF FINANCIAL POSITION
June 30, 2017 and 2016

	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	$ 327,651	$ 182,832
Investments	405,407	359,971
Government contract receivables	153,590	155,456
Government grant receivables	55,976	93,307
Receivables - other	11,377	5,420
Prepaid expenses	10,777	13,700
Total current assets	964,778	810,686
Property and equipment:		
Office furniture and equipment	65,487	48,616
Less accumulated depreciation	(45,926)	(38,777)
Net property and equipment	19,561	9,839
Total assets	$ 984,339	$ 820,525
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	$ 66,895	$ 63,753
Contract refund payable	21,909	-
Deferred revenue	-	24,826
Total current liabilities	88,804	88,579
Net assets:		
Unrestricted:		
Operating	875,974	722,107
Furniture and equipment	19,561	9,839
Total unrestricted net assets	895,535	731,946
Total liabilities and net assets	$ 984,339	$ 820,525

See accompanying notes.

THE ARC DAVIDSON COUNTY & GREATER NASHVILLE
STATEMENT OF ACTIVITIES
For the 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 gain	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

See accompanying notes.

THE ARC DAVIDSON COUNTY & GREATER NASHVILLE
STATEMENT OF ACTIVITIES
For the year ended June 30, 2016

	Unrestricted	Temporarily Restricted	Total
Revenues and other support:			
Government contracts:			
Support coordination program	$ 982,879	$ -	$ 982,879
Government grants:			
Family support program	701,276	-	701,276
Cart revenues	254,468	-	254,468
Other grants and contracts	111,987	-	111,987
Phone solicitation income	111,925	-	111,925
Contributions	41,170	-	41,170
Miscellaneous income	9,361		9,361
Special events	6,188	-	6,188
Memberships	764		764
United Way	438	-	438
Investment loss	(3,282)	-	(3,282)
Total revenues and other support	2,217,174	-	2,217,174
Expenses:			
Program services:			
Support coordination	879,675	-	879,675
Family support	771,270	-	771,270
Employment education advocacy	85,409	-	85,409
Community enhancement	52,100	-	52,100
Development	39,827	-	39,827
Support services:			
Management and general	214,522	-	214,522
Phone solicitation	113,677	-	113,677
Total expenses	2,156,480	-	2,156,480
Change in net assets	60,694	-	60,694
Net assets, beginning of year	671,252	-	671,252
Net assets, end of year	$ 731,946	$ -	$ 731,946

See accompanying notes.

THE ARC DAVIDSON COUNTY & GREATER NASHVILLE
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2017

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

See accompanying notes.

THE ARC DAVIDSON COUNTY & GREATER NASHVILLE
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2016

	Program Services								
	Support Coordination	Family Support	Community Enhancement	Development	Employment Education Advocacy	Total Program Services	Management and General	Phone Solicitation	Total Expenses
Salaries	$ 544,366	$ 73,678	$ 5,306	$ -	$ 22,737	$ 646,087	$ 92,399	$ 101,849	$ 840,335
Client benefits	-	647,210	44,285	-	-	691,495	-	-	691,495
Employee benefits	96,498	15,547	1,294	-	5,718	119,057	18,364	321	137,742
Office rent	32,931	10,218	800	-	9,811	53,760	11,883	-	65,643
Professional services	12,763	2,152	-	-	23,324	38,239	23,222	3,385	64,846
Travel	57,260	85	-	-	2,854	60,199	3,939	-	64,138
Payroll taxes	40,284	5,347	406	-	1,723	47,760	8,530	7,792	64,082
Contracted services	38,922	7,142	-	88	6,972	53,124	10,605	-	63,729
Postage	5,529	2,659	9	36,461	34	44,692	500	330	45,522
Telephone	17,175	2,380	-	-	1,030	20,585	5,019	-	25,604
Insurance	16,619	2,076	-	-	1,038	19,733	2,057	-	21,790
Equipment rental and maintenance	5,713	813	-	-	7,156	13,682	881	-	14,563
Supplies	5,563	952	-	371	1,194	8,080	2,551	-	10,631
Printing and publications	1,955	328	-	82	649	3,014	7,276	-	10,290
Miscellaneous	-	-	-	1,000	-	1,000	6,651	-	7,651
Affiliation fees	-	-	-	-	-	-	7,571	-	7,571
Depreciation	-	-	-	-	-	-	6,542	-	6,542
Conferences	1,399	84	-	-	872	2,355	4,168	-	6,523
Other rent	2,198	275	-	-	138	2,611	412	-	3,023
Subscriptions	500	108	-	-	-	608	1,432	-	2,040
Fundraising	-	-	-	1,825	-	1,825	200	-	2,025
License and fees	-	-	-	-	159	159	320	-	479
Interest	-	216	-	-	-	216	-	-	216
	$ 879,675	$ 771,270	$ 52,100	$ 39,827	$ 85,409	$ 1,828,281	$ 214,522	$ 113,677	$ 2,156,480

See accompanying notes.

THE ARC DAVIDSON COUNTY & GREATER NASHVILLE
STATEMENTS OF CASH FLOWS
For the years ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ 163,589	$ 60,694
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	7,149	6,542
Realized and unrealized (gain) loss on investments	(49,519)	3,282
Changes in current assets and liabilities:		
Government contract receivables	1,866	9,095
Government grant receivables	37,331	59,384
Receivables - other	(5,957)	8,872
Prepaid expenses	2,923	(6,625)
Accounts payable and accrued expenses	3,142	(18,383)
Contract refund payable	21,909	-
Deferred revenue	(24,826)	(1,125)
Net cash provided by operating activities	157,607	121,736
Cash flows from investing activities:		
Purchases of investments	(6,894)	(120,799)
Sales of investments	10,977	124,505
Purchases of office furniture and equipment	(16,871)	-
Net cash (used in) provided by investing activities	(12,788)	3,706
Cash flows from financing activities:		
Proceeds from issuance of line of credit	51,000	1,200
Repayments on line of credit	(51,000)	(19,599)
Net cash used in financing activities	-	(18,399)
Change in cash and cash equivalents	144,819	107,043
Cash and cash equivalents, beginning of year	182,832	75,789
Cash and cash equivalents, end of year	$ 327,651	$ 182,832

See accompanying notes.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The Arc Davidson County & Greater Nashville (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 has no temporarily restricted net assets at June 30, 2017 and 2016.
>
> **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, 2017 and 2016.

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.

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 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:

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Values (Continued)

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, 2015 through June 30, 2017.

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, 2017 and 2016.

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.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2017. Additionally, the Organization has not recognized any tax related interest and penalties in the accompanying 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, 2017 and 2016. Employee retirement plan expense for the years ended June 30, 2017 and 2016 was $18,098 and $17,376 respectively.

The Organization evaluated subsequent events through November 21, 2017, when these financial statements were available to be issued. Except for the matter noted in Note 12, 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.

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, 2017:

NOTE 2 – INVESTMENTS (Continued)

	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

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of June 30, 2016:

	Level 1	Level 2	Level 3	Total
Money market funds	$ 6,712	$ -	$ -	$ 6,712
Mutual funds:				
Growth funds	72,787	-	-	72,787
Large-cap funds	67,326	-	-	67,326
Equities funds	59,510	-	-	59,510
Intermediate-term bond funds	52,226	-	-	52,226
Mid-cap funds	36,850	-	-	36,850
Small-cap funds	32,942	-	-	32,942
Real estate funds	15,186	-	-	15,186
Total mutual funds	336,827	-	-	336,827
Alternative funds	16,432	-	-	16,432
Total investments	$ 359,971	$ -	$ -	$ 359,971

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

	2017	2016
Realized and unrealized gains (losses)	$ 49,519	$ (3,311)

NOTE 3 – GOVERNMENT GRANTS AND CONTRACTS

The Organization was due $153,590 and $155,456 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, 2017 and 2016, respectively. Under this arrangement, the Organization earned contract revenues totaling $912,711 and $982,879, for the support coordination program for the years ended June 30, 2017 and 2016, respectively.

During the years ended June 30, 2017 and 2016, the Organization earned grant monies totaling $784,951 and $701,276, respectively, for the family support program.The Organization was due $55,976 and $93,307 from the State of Tennessee Department of Finance and Administration, Division of Intellectual and Developmental Disabilities for grant monies expended during the years ended June 30, 2017 and 2016, respectively.

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 relocated its office in 2015 and signed a 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. The annual lease payments totaled $80,739 and $68,666 for each of the years ended June 30, 2017 and 2016, respectively. 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, 2017 are as follows:

Year ending June 30,	
2018	$ 91,738
2019	90,045
2020	84,742
2021	21,132
	$ 287,657

NOTE 5 – OPERATING LEASE COMMITMENTS (Continued)

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 $218,000 per 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 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 $332,591 and $254,468 under this arrangement for the years ended June 30, 2017 and 2016, 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 $109,417 and $111,925 under this arrangement for the years ended June 30, 2017 and 2016, respectively. As of June 30, 2017 and 2016, $106,998 and $113,677 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 2018 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 $667,209 and $596,085 during the years ended June 30, 2017 and 2016, respectively, to eligible persons for family support services.

The Organization receives 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 and $95,410 during the years ended June 30, 2017 and 2016, respectively, to eligible persons under these programs.

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. and matured in October 2017. 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, 2017 and 2016. The line of credit matured in October 2017 and is in the process of being renewed.

NOTE 11 – ARCABILITY, LLC

The Organization 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.

NOTE 11 – ARCABILITY, LLC (Continued)

ArcAbility receives management services from and is governed by the same board of directors as the Organization. The activity for ArcAbility for the years ended June 30, 2017 and 2016 is minimal and is not included in the Organization's financial statements.

NOTE 12 – SUBSEQUENT EVENT

On July 1, 2017, the Organization received a five-year grant from the State of Tennessee Department of Health to provide services for persons with traumatic brain injury and their families. The fiscal year 2018 grant award is $280,000.

SUPPLEMENTAL INFORMATION

THE ARC DAVIDSON COUNTY & GREATER NASHVILLE
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
For the year ended June 30, 2017

	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
		33401-99094		83,675
Total State Awards			$	784,951

NOTES TO THE SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE

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 under programs of the state governments for the year ended June 30, 2017. 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.

FRASIERDEAN HOWARDCPAs

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 (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017 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 November 21, 2017.

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. We did

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identify deficiencies in internal control, described below, that we consider to be significant deficiencies in 2017 and 2016.

2017-001 Contract Expense Reimbursement

During fiscal year 2017, management identified instances under its support coordination contract with the State of Tennessee whereby The Arc Davidson County & Greater Nashville submitted claims for reimbursement for services not provided. Only charges for actual services provided should be submitted under the support coordination contract.

The Arc Davidson County & Greater Nashville Response: The Arc Davidson County & Greater Nashville conducted an internal investigation relating to services provided under the contract and determined amounts overbilled to the State of Tennessee. Additionally, The Arc Davidson County & Greater Nashville has contacted the State of Tennessee and discussed plans for repayment and has recorded a liability in its financial statements for amounts billed incorrectly. The Arc Davidson County & Greater Nashville has strengthened internal controls surrounding the support coordination program.

2015-001 Segregation of Duties

We noted that two people have 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 previously. 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.

Frasier, Dean & Howard, PLLC

Nashville, Tennessee
November 21, 2017

THE ARC DAVIDSON COUNTY & GREATER NASHVILLE
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2017

Financial Statement Findings

Finding Number	Finding Title	Status
2015-001	Segregation of Duties	Repeated