

**THE ARC OF DAVIDSON COUNTY**  
**AUDITED FINANCIAL STATEMENTS**

**Years ended June 30, 2009 and 2008**

# THE ARC OF DAVIDSON COUNTY

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of financial position of The Arc of Davidson County (a nonprofit corporation) as of June 30, 2009 and 2008, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Arc of Davidson County as of June 30, 2009 and 2008 and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2009 on our consideration of The Arc of Davidson County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of The Arc of Davidson County taken as a whole. The accompanying schedule of expenditures of state awards is presented for purposes of additional analysis and is not a required part of the financial statements of the Organization. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Frasier, Dean & Howard, PLLC*

Nashville, Tennessee  
December 3, 2009

**THE ARC OF DAVIDSON COUNTY**  
**STATEMENTS OF FINANCIAL POSITION**  
June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 224,626	\$ 381,879
Investments	28,930	27,844
Government grant receivables	146,192	-
Government contract receivables	76,808	147,648
Receivables - other - no allowance necessary	13,750	10,425
Prepaid expenses	13,352	13,733
Total current assets	<u>503,658</u>	<u>581,529</u>
Property and equipment:		
Office furniture and equipment	42,506	42,506
Less accumulated depreciation	<u>(39,366)</u>	<u>(37,680)</u>
Net property and equipment	<u>3,140</u>	<u>4,826</u>
Total assets	<u><u>\$ 506,798</u></u>	<u><u>\$ 586,355</u></u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 76,472	\$ 71,656
Loan from State of Tennessee	17,020	102,130
Deferred revenues	<u>-</u>	<u>7,500</u>
Total current liabilities	<u>93,492</u>	<u>181,286</u>
Net assets:		
Unrestricted:		
Operating	396,416	387,317
Furniture and equipment	<u>3,140</u>	<u>4,826</u>
Total unrestricted net assets	399,556	392,143
Temporarily restricted	<u>13,750</u>	<u>12,926</u>
Total net assets	<u>413,306</u>	<u>405,069</u>
Total liabilities and net assets	<u><u>\$ 506,798</u></u>	<u><u>\$ 586,355</u></u>

See accompanying notes.

**THE ARC OF DAVIDSON COUNTY**  
**STATEMENT OF ACTIVITIES**  
For the year ended June 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and other support:			
United Way	\$ 19,166	\$ 11,000	\$ 30,166
Government grants:			
Family support program	637,191	-	637,191
Respite program	46,357	-	46,357
Government contracts:			
Support coordination program	919,921	-	919,921
Cart revenues	240,497	-	240,497
Contributions	15,063	2,750	17,813
Interest	10,213	-	10,213
Memberships	1,465	-	1,465
Net assets released from restrictions - satisfaction of program restrictions	<u>12,926</u>	<u>(12,926)</u>	<u>-</u>
Total revenues and other support	<u>1,902,799</u>	<u>824</u>	<u>1,903,623</u>
Expenses:			
Program services:			
Support coordination	806,519	-	806,519
Family support	648,304	-	648,304
Respite	40,613	-	40,613
Development and membership	38,889	-	38,889
Legal advocacy	66,001	-	66,001
Support services:			
Management and general	<u>295,060</u>	<u>-</u>	<u>295,060</u>
Total expenses	<u>1,895,386</u>	<u>-</u>	<u>1,895,386</u>
Change in net assets	7,413	824	8,237
Net assets, beginning of year	<u>392,143</u>	<u>12,926</u>	<u>405,069</u>
Net assets, end of year	<u><u>\$ 399,556</u></u>	<u><u>\$ 13,750</u></u>	<u><u>\$ 413,306</u></u>

See accompanying notes.

**THE ARC OF DAVIDSON COUNTY**  
**STATEMENT OF ACTIVITIES**  
For the year ended June 30, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and other support:			
United Way	\$ 6,210	\$ 10,425	\$ 16,635
Government grants:			
Family support program	745,082	-	745,082
Respite program	46,357	-	46,357
Government contracts:			
Support coordination program	862,009	-	862,009
Cart revenues	233,000	-	233,000
Contributions	10,175	2,501	12,676
Interest	10,568	-	10,568
Memberships	920	-	920
Net assets released from restrictions - satisfaction of program restrictions	<u>10,425</u>	<u>(10,425)</u>	<u>-</u>
Total revenues and other support	<u>1,924,746</u>	<u>2,501</u>	<u>1,927,247</u>
Expenses:			
Program services:			
Support coordination	758,492	-	758,492
Family support	722,359	-	722,359
Respite	42,022	-	42,022
Development and membership	34,995	-	34,995
Legal advocacy	46,760	-	46,760
Educational advocacy	26,967	-	26,967
Support services:			
Management and general	<u>304,302</u>	<u>-</u>	<u>304,302</u>
Total expenses	<u>1,935,897</u>	<u>-</u>	<u>1,935,897</u>
Change in net assets	(11,151)	2,501	(8,650)
Net assets, beginning of year	<u>403,294</u>	<u>10,425</u>	<u>413,719</u>
Net assets, end of year	<u>\$ 392,143</u>	<u>\$ 12,926</u>	<u>\$ 405,069</u>

See accompanying notes.

**THE ARC OF DAVIDSON COUNTY**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
For the year ended June 30, 2009

	<b>Support Coordination</b>	<b>Family Support</b>	<b>Respite</b>	<b>Development and Membership</b>	<b>Legal Advocacy</b>	<b>Total Program Services</b>	<b>Management and General</b>	<b>Total Expenses</b>
Salaries	\$ 506,072	\$ 69,406	\$ -	\$ -	\$ 48,876	\$ 624,354	\$ 173,333	\$ 797,687
Client benefits	-	541,612	40,000	-	-	581,612	-	581,612
Employee benefits	127,209	15,509	-	-	8,472	151,190	24,383	175,573
Travel	69,896	379	-	-	264	70,539	-	70,539
Payroll taxes	36,438	5,156	-	-	3,864	45,458	12,018	57,476
Office rent	28,558	3,336	507	4,044	1,416	37,861	4,044	41,905
Postage	6,452	2,091	103	21,550	15	30,211	796	31,007
Telephone	21,247	771	-	-	866	22,884	5,057	27,941
Professional services	2,184	488	-	-	1,587	4,259	22,446	26,705
Supplies	7,882	1,435	3	1,028	234	10,582	13,558	24,140
Insurance	-	-	-	-	-	-	22,938	22,938
Equipment rental and maintenance	-	-	-	-	-	-	8,456	8,456
Affiliation fees	-	-	-	7,346	-	7,346	-	7,346
Conferences	384	137	-	4,903	372	5,796	708	6,504
Specific assistance	-	5,060	-	-	-	5,060	-	5,060
Miscellaneous	-	2,924	-	-	-	2,924	7	2,931
Other rent	-	-	-	-	-	-	2,394	2,394
Printing and publications	197	-	-	15	-	212	1,520	1,732
Depreciation	-	-	-	-	-	-	1,686	1,686
License and fees	-	-	-	3	-	3	1,193	1,196
Subscriptions	-	-	-	-	35	35	523	558
	<u>\$ 806,519</u>	<u>\$ 648,304</u>	<u>\$ 40,613</u>	<u>\$ 38,889</u>	<u>\$ 66,001</u>	<u>\$ 1,600,326</u>	<u>\$ 295,060</u>	<u>\$ 1,895,386</u>

See accompanying notes.



**THE ARC OF DAVIDSON COUNTY**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
For the year ended June 30, 2008

	<u>Support Coordination</u>	<u>Family Support</u>	<u>Respite</u>	<u>Development and Membership</u>	<u>Legal Advocacy</u>	<u>Educational Advocacy</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Total Expenses</u>
Salaries	\$ 492,323	\$ 63,969	\$ -	\$ -	\$ 38,462	\$ 23,389	\$ 618,143	\$ 167,109	\$ 785,252
Client benefits	-	633,319	40,000	-	-	-	673,319	-	673,319
Employee benefits	105,092	9,104	-	-	-	-	114,196	23,792	137,988
Travel	63,359	398	-	-	844	-	64,601	437	65,038
Payroll taxes	35,671	5,808	-	-	2,942	1,595	46,016	12,761	58,777
Office rent	25,974	3,596	1,998	1,598	799	799	34,764	5,195	39,959
Supplies	8,228	1,131	-	177	1,981	280	11,797	17,276	29,073
Postage	4,840	3,331	24	19,716	77	34	28,022	854	28,876
Telephone	20,239	1,067	-	-	155	595	22,056	6,766	28,822
Insurance	-	-	-	-	-	-	-	26,000	26,000
Professional services	1,143	-	-	-	125	160	1,428	22,823	24,251
Equipment rental and maintenance	-	-	-	-	-	-	-	9,700	9,700
Affiliation fees	-	-	-	8,019	-	-	8,019	-	8,019
Conferences	69	597	-	4,090	596	-	5,352	862	6,214
Miscellaneous	-	-	-	53	550	-	603	3,210	3,813
Printing and publications	1,286	39	-	1,338	79	115	2,857	933	3,790
Other rent	-	-	-	-	-	-	-	2,402	2,402
Depreciation	-	-	-	-	-	-	-	2,275	2,275
License and fees	18	-	-	4	-	-	22	1,462	1,484
Subscriptions	250	-	-	-	150	-	400	445	845
	<u>\$ 758,492</u>	<u>\$ 722,359</u>	<u>\$ 42,022</u>	<u>\$ 34,995</u>	<u>\$ 46,760</u>	<u>\$ 26,967</u>	<u>\$ 1,631,595</u>	<u>\$ 304,302</u>	<u>\$ 1,935,897</u>

See accompanying notes.

**THE ARC OF DAVIDSON COUNTY**  
**STATEMENTS OF CASH FLOWS**  
For the years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Change in net assets	\$ 8,237	\$ (8,650)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	1,686	2,275
Realized and unrealized (gain) loss on investments	(1,086)	(1,030)
Changes in current assets and liabilities:		
Government grant receivables	(146,192)	11,461
Government contract receivables	70,840	(143,722)
Prepaid expenses	381	(97)
Receivables - other	(3,325)	-
Accounts payable and accrued expenses	4,816	9,588
Deferred revenue	(7,500)	-
Net cash used in operating activities	<u>(72,143)</u>	<u>(130,175)</u>
Cash flows from financing activities:		
Payments on loan from State of Tennessee	(85,110)	-
Proceeds from loan from State of Tennessee	<u>-</u>	<u>102,130</u>
Net cash (used in) provided by financing activities	<u>(85,110)</u>	<u>102,130</u>
Change in cash and cash equivalents	(157,253)	(28,045)
Cash and cash equivalents, beginning of year	<u>381,879</u>	<u>409,924</u>
Cash and cash equivalents, end of year	<u><u>\$ 224,626</u></u>	<u><u>\$ 381,879</u></u>

See accompanying notes.

**THE ARC OF DAVIDSON COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2009 and 2008**

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

**Nature of Organization**

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 Mental Retardation Services and the Nashville Area United Way provide partial 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 follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards ("SFAS") No. 117, *Financial Statements of 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.

**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, 2009 and 2008.

**Cash Equivalents**

Cash equivalents consist of short-term, highly liquid investments with original maturities of ninety days or less.

**Revenue and Support**

The Arc of Davidson County receives much of its income from grants and contracts from the State of Tennessee Department of Finance and Administration, Division of Mental Retardation Services and the Council on Developmental Disabilities. The Organization records income from the grants and contracts in the period that the applicable expenditures are incurred.

**THE ARC OF DAVIDSON COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**June 30, 2009 and 2008**

**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.

**Unconditional Promises to Give**

The Organization has also adopted SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. In accordance with SFAS No. 116, contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

**Investments**

The Organization has adopted the provisions of SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under SFAS No. 124, 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.

**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. Generally accepted accounting principles 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 ARC OF DAVIDSON COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**June 30, 2009 and 2008**

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

**Fair Values (Continued)**

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.

**Property and Equipment**

Property and equipment are carried at cost. Donated equipment is recorded at market value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, 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 the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**THE ARC OF DAVIDSON COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**June 30, 2009 and 2008**

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

**Income Taxes**

The Arc of Davidson County 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.

**Pension 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 costs of this employee benefit plan are charged to expense. The Organization contributes 6% of employee salaries into the annuity annually. Pension expense for the years ended June 30, 2009 and 2008 was \$53,293 and \$40,248, respectively.

**NOTE 2 – GOVERNMENT GRANT RECEIVABLES AND CONTRACT RECEIVABLES**

The Organization was due \$76,808 and \$147,648 from the State of Tennessee Department of Finance and Administration, Division of Mental Retardation Services for contract monies for support coordination activities for the years ended June 30, 2009 and 2008, respectively. At June 30, 2009 and 2008, the Organization was also owed \$146,192 and \$0, respectively, from the State of Tennessee under its family support and respite programs.

**NOTE 3 – GOVERNMENT GRANTS AND CONTRACTS**

During the years ended June 30, 2009 and 2008, the Organization earned grant monies from the State of Tennessee Department of Finance and Administration, Division of Mental Retardation Services totaling \$683,548 and \$791,439, respectively, consisting of the following:

	<u>2009</u>	<u>2008</u>
Respite activities	\$ 46,357	\$ 46,357
Family support services	<u>637,191</u>	<u>745,082</u>
	<u>\$ 683,548</u>	<u>\$ 791,439</u>

During the years ended June 30, 2009 and 2008, the Organization earned contract monies from the State of Tennessee Department of Finance and Administration, Division of Mental Retardation Services totaling \$919,921 and \$862,009, respectively, for support coordination services.

**THE ARC OF DAVIDSON COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**June 30, 2009 and 2008**

**NOTE 4 – INVESTMENTS**

Investments are stated at fair value with fair value determined based on active markets (Level 1) and are held in a long-term government bond fund and as of June 30, 2009 and 2008 and totaled \$28,930 and \$27,844 at June 30, 2009 and 2008, respectively.

The following schedule summarizes investment return at June 30:

	<u>2009</u>	<u>2008</u>
Realized and unrealized gains	\$ <u>1,086</u>	\$ <u>1,030</u>

**NOTE 5 – 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. No liability is recorded as of June 30, 2009 and 2008 for any refundable costs.

**NOTE 6 – OPERATING LEASE COMMITMENTS**

The Organization leases its office space under a lease that expires August 31, 2011. Under terms of the lease agreement, the agreement may be terminated with 90 days notice. The annual lease payments totaled \$41,905 and \$39,959, respectively for the years ended June 30, 2009 and 2008.

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, 2009 are as follows:

<u>Year ending</u> <u>June 30,</u>	
2010	\$ 3,991
2011	3,991
2012	1,725
2013	1,272
2014	<u>1,166</u>
	\$ <u>12,145</u>

**THE ARC OF DAVIDSON COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**June 30, 2009 and 2008**

**NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS**

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

	<u>2009</u>	<u>2008</u>
United Way grants for the coming year	\$ 11,000	\$ 10,425
Contributions	<u>2,750</u>	<u>2,501</u>
	<u>\$ 13,750</u>	<u>\$ 12,926</u>

**NOTE 8 – 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. These type of goods donated to the Organization are generally 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. Amounts payable to the Organization in excess of the minimum are determined and paid in the January following each calendar year. Effective January 1, 2009, the contracts with J&I and B&R were terminated. Under provisions of a new contract, J&I will solicit, transport and acquire goods from the Organization. The Organization received \$240,497 and \$233,000 under this arrangement for the years ended June 30, 2009 and 2008, respectively.

**NOTE 9 – CLIENT BENEFITS**

In 1993, the Organization began receiving monies from the State of Tennessee Department of Finance and Administration, Division of Mental Retardation Services 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 \$541,612 and \$633,319 during the years ended June 30, 2009 and 2008, to eligible persons for family support services.



**THE ARC OF DAVIDSON COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**June 30, 2009 and 2008**

**NOTE 10 – 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 concentrated 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.

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

**NOTE 11 – LINE OF CREDIT**

During 2007, the Organization obtained a bank line of credit arrangement allowing for maximum borrowings of \$100,000, with interest on any outstanding balances based on a rate of prime plus 1%. No draws were made from the line of credit during the years ended June 30, 2009 and 2008, respectively.

**NOTE 12 – LOAN FROM STATE OF TENNESSEE**

During 2008, the Organization received a loan from the State of Tennessee Department of Finance and Administration in the amount of \$102,130 in order to have adequate working capital to continue services to eligible recipients under the support coordination program. This arrangement is non-interest bearing and amounts loaned to the Organization will be recouped from payments to be made to the Organization during 2009. At June 30, 2009, the Organization owed \$17,020 under this arrangement.

## **SUPPLEMENTAL INFORMATION**

**THE ARC OF DAVIDSON COUNTY**  
**SCHEDULE OF EXPENDITURES OF STATE AWARDS**  
For the year ended June 30, 2009

	<u>Grant Number</u>	<u>Balance Receivable June 30, 2008</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Balance Receivable June 30, 2009</u>
<b>State Awards:</b>					
Tennessee Department of Finance and Administration					
Tennessee Division of Mental Retardation Services					
Family Support Services Program	Z-05-022077-04	\$ -	\$ 496,749	\$ 637,191	\$ 140,442
Respite Services Program	Z-05-022080-04	-	40,607	46,357	5,750
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total State Awards		<u>\$ -</u>	<u>\$ 537,356</u>	<u>\$ 683,548</u>	<u>\$ 146,192</u>

**NOTES TO THE SCHEDULE OF STATE AWARDS**

Note 1 - Basis of Accounting - The Supplementary Schedule of Expenditures of State Awards is prepared on the accrual basis of accounting.



**FRASIER, DEAN & HOWARD, PLLC**

CERTIFIED PUBLIC ACCOUNTANTS

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

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

We have audited the financial statements of The Arc of Davidson County as of and for the year ended June 30, 2009, and have issued our report thereon dated December 3, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is 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.

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws,

regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

*Frasier, Deane Howard, PLLC*

Nashville, Tennessee  
December 3, 2009

**THE ARC OF DAVIDSON COUNTY**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDING**  
**Year ended June 30, 2009**

**2008-1: Statement of Condition:** 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 the Organization's audited financial statements. The Organization currently does not have a certified public accountant ("CPA") or individual with similar experience on staff 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.

**Auditor's Recommendation:** Management should consider establishing a year-end close process that does not require adjustments to be made through its year-end audit. We recommend that the Board and management evaluate the cost/benefit of engaging the resources on staff to interpret GAAP and prepare its audited financial statements.

**Organization Response:** While in fact we do not have a CPA on staff, we have CPAs on our Board of Directors who are always willing to assist in any questions that might arise. Also, the Treasurer of the Board is a CPA and reviews the financials monthly. The Treasurer has taken an active role in reviewing the financial statements prior to the commencement of audit procedures.