

# 2011

## Financial Statements

THE ARC OF TENNESSEE, INC.

FINANCIAL STATEMENTS

JUNE 30, 2011

(With Independent Auditor's Report Thereon)

THE ARC OF TENNESSEE, INC.  
FINANCIAL STATEMENTS  
JUNE 30, 2011

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PATTERSON, HARDEE & BALLENTINE, P.C.

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
The Arc of Tennessee, Inc.

We have audited the accompanying statement of financial position for The Arc of Tennessee, Inc. as of June 30, 2011, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Tennessee, Inc. as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 18, 2011, on our consideration of The Arc of Tennessee, Inc.'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 important for assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements for The Arc of Tennessee, Inc. taken as a whole. The accompanying Schedule of Expenditures of Federal and State Awards is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as whole.

*Patterson Hardee & Ballentine*

August 18, 2011

THE ARC OF TENNESSEE, INC.  
STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2011

ASSETS

Current Assets:

Cash and cash equivalents	\$ 382,173	
Certificates of deposit	60,536	
Grants receivable	425,359	
Contracts receivable	169,339	
Accounts receivable	22,471	
Total current assets		\$ 1,059,878

Property and Equipment:

Furniture and equipment	160,187	
Less: accumulated depreciation	(137,627)	
Total property and equipment		22,560

Other Assets:

Prepaid expenses	26,843	
Security deposit	5,393	
Total other assets		32,236

Assets Whose Use Is Limited:

Cash		35,255
Total assets		<u>\$ 1,149,929</u>

THE ARC OF TENNESSEE, INC.  
STATEMENT OF FINANCIAL POSITION (continued)  
JUNE 30, 2011

LIABILITIES AND NET ASSETS

Current Liabilities:

Current portion of capitalized lease obligation	\$ 3,949	
Accounts payable	163,514	
Accrued expenses	54,890	
Deferred revenue	<u>265,575</u>	
Total current liabilities		\$ 487,928

Capitalized lease obligation, less current portion	<u>5,206</u>
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Total Liabilities	<u>493,134</u>
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Net Assets:

Unrestricted:

Undesignated	615,535	
Board-designated	<u>6,005</u>	
Total unrestricted net assets		621,540

Temporarily restricted	<u>35,255</u>	
Total restricted net assets		<u>35,255</u>

Total net assets	<u>656,795</u>
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Total liabilities and net assets	<u><u>\$ 1,149,929</u></u>
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**THE ARC OF TENNESSEE, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenues:			
Gum vending	\$ 62,187	\$ -	\$ 62,187
Grant income	1,856,716	-	1,856,716
Contract revenue - non government	865,952	-	865,952
Contributions	10,209	-	10,209
In-kind contributions	47,576	-	47,576
Interest	202	99	301
Affiliation fees	9,525	-	9,525
Mega-Conference administration fee	900	-	900
Miscellaneous	10,000	-	10,000
Memberships	5,833	-	5,833
Fundraising	2,107	-	2,107
Net assets released from restrictions	1,500	(1,500)	-
	<u>2,872,707</u>	<u>(1,401)</u>	<u>2,871,306</u>
Total support and revenues			
	<u>2,872,707</u>	<u>(1,401)</u>	<u>2,871,306</u>
Expenses:			
Program services:			
Public awareness - Legislative Monitor	50,942	-	50,942
Advocacy, education and public awareness	341,908	-	341,908
Secondary Transition Program - Formerly LINK	110,831	-	110,831
TEIS	22,359	-	22,359
Advocacy, Class Member Advocacy Services (CMAS)	528,703	-	528,703
Wal-Mart Grant	22,986	-	22,986
Support and assistance services (DSPAT)	91,367	-	91,367
Partners in Policymaking workshop	156,377	-	156,377
Personal assistance services and support (PASS)	96,160	-	96,160
Administration of the Real Choices Systems Change (PTP)	224,485	-	224,485
Choices	193,741	-	193,741
Mega-Conference	13,333	-	13,333
Support brokerage / financial administration	440,844	-	440,844
GNRC	11,008	-	11,008
	<u>2,305,044</u>	<u>-</u>	<u>2,305,044</u>
Supporting services:			
Management and general	434,222	-	434,222
Fundraising	1,824	-	1,824
	<u>436,046</u>	<u>-</u>	<u>436,046</u>
Total supporting services			
	<u>436,046</u>	<u>-</u>	<u>436,046</u>
Total expenses			
	<u>2,741,090</u>	<u>-</u>	<u>2,741,090</u>
Unallocated payments to affiliated organizations	8,700	-	8,700
	<u>8,700</u>	<u>-</u>	<u>8,700</u>
Increase in net assets	122,917	(1,401)	121,516
Net assets - beginning of year	498,623	36,656	535,279
	<u>498,623</u>	<u>36,656</u>	<u>535,279</u>
Net assets - end of year	\$ 621,540	\$ 35,255	\$ 656,795
	<u>\$ 621,540</u>	<u>\$ 35,255</u>	<u>\$ 656,795</u>

See accompanying notes to the financial statements.

**THE ARC OF TENNESSEE, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	Program Services								
	Public Awareness Legislative Monitor	Advocacy Education & Public Awareness	Secondary Transition Project Formerly LINK		Advocacy DMRS	Wal-Mart Grant	Support & Assistance Services, DSPAT	Partners in Policymaking Workshop	Personal Assistance Services & Support
Salaries	\$ 14,895	\$ 185,323	\$ 67,596	\$ 16,053	\$ 333,086	\$ 11,241	\$ 30,127	\$ 511	\$ 9,877
Payroll taxes and benefits	4,130	65,820	22,267	4,818	113,748	4,436	7,799	168	3,109
Total personnel costs	19,025	251,143	89,863	20,871	446,834	15,677	37,926	679	12,986
Bad debts	-	-	-	-	-	-	-	-	-
Communication	332	6,167	3,633	-	15,078	-	1,933	-	708
Contracted services	-	-	-	-	-	-	-	-	-
Donations	-	-	-	-	54	-	-	-	-
Dues and subscriptions	-	-	-	-	-	-	-	-	-
Equipment lease	14,540	13,976	100	-	72	129	419	-	322
Individual assistance	-	10,999	-	-	-	-	40,453	26,727	-
In-kind	-	-	-	-	-	4,868	-	39,375	-
Insurance	-	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-	-	-
Lobbying	-	-	-	-	-	-	-	-	-
PA direct services	-	-	-	-	-	-	-	-	75,656
Postage	4,251	1,808	17	-	60	-	294	-	-
Printing	750	39	801	-	113	-	55	2,133	-
Professional memberships	-	-	-	-	250	-	200	-	-
Professional services	7,140	933	773	-	1,856	-	1,124	23,806	3,557
Rent	741	6,384	26	26	2,235	51	3,920	-	1,577
Repairs and maintenance	-	-	-	-	-	-	-	-	-
Supplies	3,593	2,627	952	585	2,026	2,075	3,445	2,018	1,354
Travel and transportation	570	47,832	14,666	877	60,125	186	1,598	61,639	-
Volunteer stipends	-	-	-	-	-	-	-	-	-
Total expenses before depreciation	50,942	341,908	110,831	22,359	528,703	22,986	91,367	156,377	96,160
Depreciation	-	-	-	-	-	-	-	-	-
Gain/loss on sale of fixed assets	-	-	-	-	-	-	-	-	-
Total expenses	\$ 50,942	\$ 341,908	\$ 110,831	\$ 22,359	\$ 528,703	\$ 22,986	\$ 91,367	\$ 156,377	\$ 96,160

See accompanying notes to the financial statements.



**THE ARC OF TENNESSEE, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	Administration					Supporting Services			
	Real Choice Systems Change	Choices	Mega conference	Support Brokerage Financial Administration	GNRC	Total Program Services	Management and General	Fundraising	Total Expenses
Salaries	\$ 145,527	\$ 128,940	\$ -	\$ 282,622	\$ 7,400	\$ 1,233,198	\$ 222,260	\$ -	\$ 1,455,458
Payroll taxes and benefits	36,614	41,226	-	90,899	2,718	397,752	56,573	-	454,325
Total personnel costs	182,141	170,166	-	373,521	10,118	1,630,950	278,833	-	1,909,783
Bad debts	-	-	-	-	-	-	5,155	-	5,155
Communication	3,977	4,818	-	17,728	227	54,601	16,890	-	71,491
Contracted services	-	-	-	-	-	-	12,000	-	12,000
Donations	-	-	-	-	-	54	385	-	439
Dues and subscriptions	-	-	-	-	-	-	-	-	-
Equipment lease	602	-	-	712	-	30,872	6,306	704	37,882
Individual assistance	-	500	13,333	-	-	92,012	100	-	92,112
In-kind	-	-	-	-	-	44,243	-	-	44,243
Insurance	-	-	-	-	-	-	4,718	-	4,718
Interest	-	-	-	-	-	-	1,655	-	1,655
Miscellaneous	-	-	-	-	-	-	9,725	-	9,725
Lobbying	-	-	-	-	-	-	1,080	-	1,080
PA direct services	-	-	-	-	-	75,656	-	-	75,656
Postage	315	594	-	2,987	5	10,331	4,003	513	14,847
Printing	19	130	-	74	-	4,114	266	-	4,380
Professional memberships	-	-	-	-	-	450	1,223	-	1,673
Professional services	1,025	585	-	7,055	-	47,854	29,471	-	77,325
Rent	5,918	2,183	-	4,622	555	28,238	35,605	-	63,843
Repairs and maintenance	-	-	-	-	-	-	-	-	-
Supplies	622	674	-	2,087	-	22,058	9,849	513	32,420
Travel and transportation	29,866	14,091	-	32,058	103	263,611	8,203	94	271,908
Volunteer stipends	-	-	-	-	-	-	-	-	-
Total expenses before depreciation	224,485	193,741	13,333	440,844	11,008	2,305,044	425,467	1,824	2,732,335
Depreciation	-	-	-	-	-	-	8,755	-	8,755
Gain/loss on sale of fixed assets	-	-	-	-	-	-	-	-	-
Total expenses	\$ 224,485	\$ 193,741	\$ 13,333	\$ 440,844	\$ 11,008	\$ 2,305,044	\$ 434,222	\$ 1,824	\$ 2,741,090

See accompanying notes to the financial statements.

**THE ARC OF TENNESSEE, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

Cash Flows From Operating Activities:		
Increase in net assets	\$	121,516
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	\$	8,755
Interest earned on certificates of deposit		(181)
Changes in:		
Grants receivable		(77,534)
Contracts receivable		(106,831)
Accounts receivable		(1,659)
Prepaid expenses		(3,471)
Accounts payable		101,438
Accrued expenses		(50,149)
Deferred revenue		36,000
		<u>(93,632)</u>
Net cash provided by operating activities		27,884
Cash Flows from Investing Activities:		
Purchase of Property and Equipment		(8,741)
Net change in cash whose use is limited		1,401
Net cash used in investing activities		<u>(7,340)</u>
Cash Flows from Financing Activities:		
Payments on long-term debt		(3,528)
Net cash used in financing activities		<u>(3,528)</u>
Net increase in cash and cash equivalents		17,016
Cash and cash equivalents - beginning of year		<u>365,157</u>
Cash and cash equivalents - end of year	\$	<u><u>382,173</u></u>

**SUPPLEMENTAL CASH FLOW INFORMATION:**

Interest paid during the year ended June 30, 2011, was \$1,211.

**THE ARC OF TENNESSEE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**NOTE 1 - Summary of Significant Accounting Policies**

a. **Nature of Activities**

In these financial statements, the terms "Organization", "we", "our", or "us" mean The Arc of Tennessee, Inc. We are a nonprofit corporation chartered by the State of Tennessee for the purpose of promoting the general well-being of all citizens with intellectual and/or developmental disabilities. We provide advocacy, local unit development, direct client assistance, training, education, counseling, referral and public awareness services statewide. The membership consists of individuals comprising local units in counties across the State of Tennessee and at-large members. All member units are autonomous, community-based non-profit entities. We maintain membership in the national organization of The Arc of the United States. The Arc of United States provides national leadership and information and offers education and training. We are autonomous and function independently of any control by The Arc of the United States.

b. **Basis of Presentation**

The accompanying financial statements have been prepared on an accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, our net assets 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 our actions and/or the passage of time. Restrictions that are fulfilled in the same accounting period in which the contributions are received are reported in the Statement of Activities as unrestricted.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that are permanent in nature. Generally, the donors of these assets permit us to use all or part of the income earned and any related investments for general or specific purposes.

c. **Cash and Cash Equivalents**

For purposes of the Statement of Cash Flows, we consider all unrestricted cash and investment instruments purchased with original maturities of three months or less to be cash equivalents. We have one cash equivalent, which is a certificate of deposit in the amount of \$11,052.

d. **Accounts Receivable**

Bad debts are recognized on the allowance method based on historical experience and our evaluation of outstanding accounts. We do not consider any amounts to be uncollectible at June 30, 2011.

e. **Property and Equipment**

Property and equipment are recorded at cost or, if donated, at the estimated fair market value at the date of donation. Depreciation is provided utilizing the straight-line method over the estimated useful lives of the respective assets. Our capitalization policy is to capitalize any expenditure over \$500 for any land, building, and equipment purchased. Expenditures for repairs and maintenance are charged to expense as incurred.

Certain equipment has been purchased, in part, with grant funds and is subject to return to the grantor either upon its ultimate disposition or for failure to comply with the terms and conditions of the grant contract for the useful life of the equipment.

**THE ARC OF TENNESSEE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

NOTE 1 - Summary of Significant Accounting Policies (continued)

f. Revenue Recognition

We receive much of our income through grants from the State of Tennessee Department of Finance and Administration, Division of Intellectual Disability Services, Department of Education, Division of Special Education, and the Tennessee Council on Developmental Disabilities. We record income from the grants in the period that the applicable expenditures are incurred.

g. Donated Services

Volunteers make contributions of time in various administrative, fundraising, and program functions. The value of contributed time is only reported as revenue and expenses in our financial statements as allowed by generally accepted accounting principles. The value of contributed time is allowed to be used as a match in some government grants.

h. Income Tax Status

We are a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, and are classified as an organization that is not a private foundation as defined in Section 509(a) of the Internal Revenue Code. Therefore, no provision for federal income taxes is included in the accompanying financial statements.

i. Functional Allocation of Expenses

The costs of providing program services and supporting services have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

j. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

k. Fair Values of Financial Instruments

The carrying values of current assets and current liabilities approximate fair values due to the short maturities of these instruments.

The fair value of the capitalized lease obligation approximates the carrying amount and is estimated based on current rates offered to us.

l. Pension Plan

We maintain a defined contribution plan, which provides for retirement benefits based on the actual value of contributions at the time of retirement. Employees must be 21 years of age and must have completed three months of service before they are eligible to participate. Contributions to the plan are based on the participant's salary. The costs of this plan are charged to fringe benefits expense and totaled \$60,337 during the year ended June 30, 2011.

**THE ARC OF TENNESSEE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**NOTE 2 – Certificates of Deposit**

We have five certificates of deposit with First Tennessee Bank. The amounts, maturities, and interest rates are as follows:

<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount</u>
.4%	4/13/12	\$ 11,269
.4%	4/13/12	11,255
.4%	4/13/12	15,760
.3%	9/27/11	11,126
.3%	9/27/11	11,126
		<hr/>
		\$ 60,536

**NOTE 3 - Grants Receivable**

At June 30, 2011, we are owed the following amounts for grants:

Public awareness – Legislative Monitor	\$ 4,652
Advocacy, education & public awareness	60,630
Secondary Transition Program – (formerly LINK)	45,490
Mega Conference	20,000
Partners in Policymaking workshop	5,855
Personal assistance services and support	7,951
Administration of the Real Choice Systems Change	21,872
CMAS - Advocacy	200,000
Direct Support Professionals of Tennessee	32,612
Tennessee's Early Intervention System	26,297
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	\$ 425,359

**NOTE 4 - Contract Receivable**

We provide financial administration and support brokerage services to qualifying participants via our contracts with Public Partnership, LLC. As of June 30, 2011, Public Partnership, LLC owed us the following amount as follows:

Greater Nashville Regional Council	\$ 6,293
Tennessee CHOICES Consumer-Direction Waiver	45,860
Support Brokerage	117,186
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	\$ 169,339

**THE ARC OF TENNESSEE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**NOTE 5 - Accounts Receivable**

We are due amounts from member units and registrations as follows:

Due from Member Units	\$ 4,092
Fundraising	200
Mega-Conference Registrations	14,906
Other	3,273
	<hr/>
	\$ 22,471

**NOTE 6 - Line of Credit Payable**

We have a line of credit with First Tennessee with an available amount of \$75,000. This line of credit carries an interest rate of 2% above the lender's base commercial rate, which was 3.04% at June 30, 2011 (5.04%) and expires in April 2012. At June 30, 2011, we have not drawn any amounts on this line of credit.

**NOTE 7 - Accrued Expenses**

At June 30, 2011, accrued expenses consisted of the following:

Accrued vacation	\$ 54,890
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**NOTE 8 - Mega-Conference - Future Years**

We, along with other nonprofit entities, participate in a Mega-Conference each year. We provide the capability for the receipts and disbursements of the funds related to this Mega-Conference; however, this was not a program for us. Total receipts for the Mega-Conference for the year ended June 30, 2011, were \$135,950. Total disbursements for the Mega-Conference for the year ended June 30, 2011, were \$91,414. Money not spent on the Mega-Conference is held by us by request of the other non-profit participants for future Mega-Conferences. For the year ended June 30, 2011, this amount was \$50,186 and is included in accounts payable.

**NOTE 9 - Deferred Revenue**

We have an agreement with the State of Tennessee, whereas they remit \$50,000 each month as advance payments on our CMAS grant agreement. In accordance with our revenue recognition policies listed in Note 1, we recognize revenue as expenses are incurred with regards to our matching grant programs. Any additional amounts that we have received and have not incurred matching expenses are reported as deferred revenue. At June 30, 2011, we have billed \$222,884 in funds from the State for which we have not incurred matching expenses.

We also have received \$42,691, from the Wal-Mart Foundation/The Arc of the United States for which we have not incurred matching expenses. This gift is restricted for the school to community transition project and is currently listed as deferred revenue.

The total amount of deferred revenue at June 30, 2011, is \$265,575.

**THE ARC OF TENNESSEE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**NOTE 10 - Net Assets - Temporarily Restricted**

During a previous year, we received restricted funds from a private donor to be used for Edith Wright supported living activities. As of June 30, 2011, the amount restricted for Edith Wright supported living activities is \$30,006. We also hold funds on behalf of DSPAT (see NOTE 17) in the amount of \$5,249. At June 30, 2011, \$35,255 was restricted for all projects and funds.

**NOTE 11 - Gum Vending**

We have entered into contracts with third parties to maintain vending containers throughout the State of Tennessee that solicit contributions for us. We are not responsible for any of the operating expenses or any resulting legal liability as related to maintaining the containers on a monthly basis. The contracts are subject to automatic renewal in 2015, unless canceled by either party. We received \$62,187 for the year ended June 30, 2011.

**NOTE 12 - Lease Agreements**

We rent our facilities and equipment under both non-cancelable lease agreements, which expire at various dates through 2013, and month-to-month lease agreements. The non-cancelable lease agreements generally provide for renewal for various periods at stipulated rates. All leases have been classified as operating leases, except for the accounting software lease, as described in the next paragraph.

We lease our accounting software under a leasing arrangement classified as a capital lease. The lease is for a period of sixty months with monthly lease payments of \$399 with an interest rate of 11.92%. This lease matures in August 2013.

Total lease expense for the year ended June 30, 2011, including both capital and operating leases was \$101,725. The following is a schedule of minimum lease payments under the non-cancellable operating and capital leases.

<u>Year Ending June 30,</u>	<u>Capital</u>	<u>Operating</u>
2012	\$ 4,784	\$ 39,111
2013	4,784	876
2014	798	-
	<u>10,366</u>	<u>\$ 39,987</u>
Less: amount representing interest	( 1,211)	
Present value of net minimum lease payments	<u>9,155</u>	
Less: current installments	( 3,949)	
	<u>\$ 5,206</u>	

A summary of assets utilized under the capitalized leases is as follows:

Cost	\$ 18,205
Accumulated depreciation	( 10,316)
	<u>\$ 7,889</u>

**THE ARC OF TENNESSEE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**NOTE 13 - Government Grants and Grant Revenue**

We earned grant monies from the State of Tennessee Department of Finance and Administration, Division of Intellectual Disability Services, the Tennessee Council on Developmental Disabilities and the Bureau of TennCare, the Department of Education, Division of Special Education as well as private companies. Funds were received for the following grant activities as of June 30, 2011:

Public awareness – Legislative Monitor	\$ 42,794
Advocacy, education and public awareness	402,134
Secondary Transition Program – formerly LINK	119,924
Advocacy – CMAS	621,832
Wal – Mart Grant	22,168
Partners in Policymaking workshop	136,766
Personal assistance services & support	113,099
Administration of the Real Choice Systems Change	254,241
Direct Support Professionals of Tennessee	107,461
Mega – Conference	10,000
Tennessee’s Early Intervention System	26,297
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	\$ 1,856,716

**NOTE 14 - 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 the properness or eligibility. A questioned cost may not be reimbursed by the State or a State agency may require that the funds already expended be refunded back to the State. These amounts can be “questioned” by the State for the specific grant to which they apply. The determination as to whether such costs will be allowed or disallowed under the grants will be made by the individual grantor agencies at a later date. No liability is needed as of June 30, 2011, for these costs as no determination has been made by the grantor agencies as to any amount for any grant. Our Board deems the contingency to be remote, as we have accommodated our objective to the provisions of the grant.

**NOTE 15 - Concentration of Credit Risk**

Financial instruments that potentially subject us to concentrations of credit risk consist of account and grant receivables. Accounts receivable consist of amounts due from member units and third-party gum vending entities. These receivables are widely dispersed over the State of Tennessee and mitigate credit risk. Grants receivable represent concentrations of credit risk to the extent that they are received from concentrated sources. We receive a substantial amount of our support from member units, gum vending and governmental grants. A significant reduction in the levels of this support, if this were to occur, could have an effect on our programs and activities. Based on the upcoming fiscal year’s budget, this funding is expected to continue.

We maintain our cash in bank accounts which, at times, may exceed federally insured limits. We have not experienced any losses in such accounts and do not believe that it is exposed to any significant credit risk on our cash.



**THE ARC OF TENNESSEE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**NOTE 16 - Related Parties and Affiliate Dues**

The Arc of the United States bills us monthly for affiliate dues, which is a revenue sharing agreement between the two entities. The Arc of United States provides national leadership and information and offers education and training. We are autonomous and function independently of any control by The Arc of the United States. During the year ended June 30, 2011, we paid \$8,700 to the Arc of the United States for affiliate dues.

We also collect affiliate dues from various regional Arc entities in the State of Tennessee. During the year ended, June 30, 2011, we collected \$8,480 from these entities.

**NOTE 17 - Agency Relationships**

We hold funds for other non-profit entities. DSPAT is a program in which The Arc acts as an administrator of the grant fund. The intention of DSPAT is to break off and become its own 501(c) 3) organization. The Arc is holding the dues collected on behalf of DSPAT, which was \$5,249 as of June 30, 2011.

**NOTE 18 - In-Kind Revenue and Expenses**

We receive a significant amount of donated services from volunteers who assist in our Organization. During the year ended June 30, 2011, we recognized \$47,576 in in-kind revenues.

**NOTE 19 - Subsequent Events**

We have evaluated events subsequent to the year ending June 30, 2011. As of August 18, 2011, the date that the financial statements were available to be issued, no events subsequent to the balance sheet date are considered necessary to be included in the financial statements for the year ended June 30, 2011.

## **SUPPLEMENTARY INFORMATION**

The Arc of Tennessee, Inc.  
Schedule of Expenditures of Federal and State Awards  
For The Year Ended June 30, 2011

Pass-Through Grantor	CFDA Number	Contract Number	Beginning (Accrued) Deferred	Cash Receipts	Expenditures	Ending (Accrued) Deferred
<u>Federal Financial Assistance</u>						
TN Department of Education	84.393A	DGA-C000035	\$ -	\$ -	\$ (26,297)	\$ (26,297)
TN Department of Education	84.027A	GR102898400	(38,550)	112,985	(119,924)	(45,489)
TN Division of Mental Retardation Services	93.778	GR1132401	(10,407)	47,831	(53,730)	(16,306)
TN Council on Developmental Disabilities	93.630	GR1135695	(10,000)	-	(10,000)	(20,000)
TN Council on Developmental Disabilities	93.630	GR1132090	(23,227)	151,139	(133,767)	(5,855)
TN Council on Developmental Disabilities	93.630	GR1132091	(8,761)	46,903	(42,794)	(4,652)
TOTAL FEDERAL AWARDS			(90,945)	358,858	(386,512)	(118,599)
<u>State Financial Assistance</u>						
TN Division of Mental Retardation Services	N/A	GR092521100	(46,301)	387,805	(402,134)	(60,630)
TN Division of Mental Retardation Services	N/A	GR0927085	29,716	615,000	(621,832)	22,884
TN Division of Mental Retardation Services	N/A	GR1132401	(10,407)	47,831	(53,731)	(16,307)
TN Division of Mental Retardation Services	N/A	GR092521200	(3,944)	109,092	(113,099)	(7,951)
TN Division of Mental Retardation Services	N/A	GR092521000	(31,228)	263,597	(254,241)	(21,872)
TOTAL STATE AWARDS			(62,164)	1,423,325	(1,445,037)	(83,876)
TOTAL FEDERAL & STATE AWARDS			\$ (153,109)	\$ 1,782,183	\$ (1,831,549)	\$ (202,475)

Note The accompanying Schedule of Expenditures of Federal and State Awards summarizes the expenditures of The Arc of TN, Inc. under programs of the state government for year ended June 30, 2011. The schedule is presented in conformity with the State of Tennessee subrecipient contract payments. Consequently, some amounts presented in this schedule may differ from the amounts presented in or used in the preparation of the basic financial statements. Such differences are the result of timing differences between the State reporting system and generally accepted accounting principles.

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



## PATTERSON, HARDEE & BALLENTINE, P.C.

Certified Public Accountants

### 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  
The Arc of Tennessee, Inc.

We have audited the financial statements of The Arc of Tennessee, Inc. as of and for the year ended June 30, 2011, and have issued our report thereon dated August 18, 2011. 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

Management of The Arc of Tennessee, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered The Arc of Tennessee, Inc.'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 Arc of Tennessee, Inc.'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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is reasonable possibility that a material misstatement of the Organization'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 Arc of Tennessee, Inc.'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*.

We noted certain matters that we reported to management and the Board of Directors of The Arc of Tennessee, Inc. in a separate letter dated August 18, 2011.

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

*Patterson Handley & Ballentine*

August 18, 2011

