

# 2018

## Financial Statements

**THE ARC OF TENNESSEE, INC.**

**FINANCIAL STATEMENTS**

**JUNE 30, 2018**

(With Independent Auditor's Report Thereon)

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**The Arc of Tennessee, Inc.**  
**Roster of Board of Directors**  
**June 30, 2018**

Ann Curl	President – The Arc TN
Elise McMillan	Board president – The Arc US
Linda Brown	Vice President Chair
Mary La Haie	Treasurer
John Lewis	Secretary
John Shouse	Past President
Glenda Bond	Local Chapter Representative
Maleesa Fleenor	Local Chapter Representative
Sandra Hawkins	Local Chapter Representative
Ginny Miceli	Local Chapter Representative
Christina Pearce	Local Chapter Representative
Brittany Carter	Regional Representative
Karen Downer	Regional Representative
Nelia Jobe	Regional Representative
Kate Deitzer	Local Chapter Representative
Sharon Bottorff	Committee Chair
Robyn Lampley	Committee Chair
Courtney Taylor	Committee Chair
Brenda Farley	Committee Chair
Donna Isbell	Committee Chair
Doria Panvini	Committee Chair
Terry Long	Board Member
Donna Lankford	Board Member
Jennifer Heflin	Board Member
Joe Pitts	Board Member



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

Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT**

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of The Arc of Tennessee, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year 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 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 from material misstatement.

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Arc of Tennessee, Inc. as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



## **Other Matters**

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal and State Awards, as required by the Tennessee Comptroller of the Treasury Division of Local Government Audit, 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 October 19, 2018, 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 solely 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 effectiveness of The Arc of Tennessee, Inc.'s 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 of Tennessee, Inc.'s internal control over financial reporting and compliance.

*Patterson Handley & Bellentine*

October 19, 2018

THE ARC OF TENNESSEE, INC.  
STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2018

ASSETS

Current Assets:

Cash	\$ 629,078	
Grants receivable	414,536	
Accounts receivable	65,161	
Prepaid expenses	15,150	
Total current assets		\$ 1,123,925

Property and Equipment:

Furniture and equipment	160,187	
Less: accumulated depreciation	(160,187)	
Total property and equipment		-

Other Assets:

Security deposit	4,407	
Total other assets		4,407

Assets Whose Use Is Limited:

Cash	42,527	
Investments	326,635	
Accounts receivable	30,000	
		399,162
Total Assets		<u>\$ 1,527,494</u>

THE ARC OF TENNESSEE, INC.  
STATEMENT OF FINANCIAL POSITION (continued)  
JUNE 30, 2018

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable	\$ 183,701	
Accrued expenses	<u>64,370</u>	
Total current liabilities		<u>\$ 248,071</u>

Net Assets:

Unrestricted:

Undesignated	880,261	
Board-designated	<u>344,233</u>	
Total unrestricted net assets		1,224,494

Temporarily restricted	<u>54,929</u>	
Total temporarily restricted net assets		<u>54,929</u>

Total net assets		<u>1,279,423</u>
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Total liabilities and net assets		<u><u>\$ 1,527,494</u></u>
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**THE ARC OF TENNESSEE, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenues:				
Gum vending	\$ 36,966	\$ -	\$ -	\$ 36,966
Grant income	1,328,781	8,270	-	1,337,051
Contributions	35,471	-	-	35,471
In-kind contributions	43,809	-	-	43,809
Interest	126	12	-	138
Investment income, net	8,755	-	-	8,755
Roger Blue Memorial Fund income	30	-	-	30
Affiliation fees	13,300	-	-	13,300
Mega Conference administration fee	15,000	-	-	15,000
Registrations	6,938	-	-	6,938
Memberships	22,969	-	-	22,969
Net assets released from restrictions	39,266	(39,266)	-	-
Total support and revenues	1,551,411	(30,984)	-	1,520,427
Expenses:				
Program services:				
Advocacy, Education and Public Awareness	699,875	-	-	699,875
Secondary Transition Project (formerly LINK)	165,593	-	-	165,593
Baptist Healing Trust	37,529	-	-	37,529
Partners in Policymaking Workshop	115,725	-	-	115,725
Personal Assistance Services and Support (PASS)	152,511	-	-	152,511
Administration of the Real Choice Systems Change (PTP)	248,587	-	-	248,587
Other grants	14,235	-	-	14,235
SEAT, ECF, Future Planning, SDM	9,004	-	-	9,004
Total program services	1,443,059	-	-	1,443,059
Supporting services:				
Management and general	63,126	-	-	63,126
Fundraising	52,080	-	-	52,080
Total supporting services	115,206	-	-	115,206
Total expenses	1,558,265	-	-	1,558,265
Decrease in net assets	(6,854)	(30,984)	-	(37,838)
Net assets - beginning of year	1,231,348	85,913	-	1,317,261
Net assets - end of year	\$ 1,224,494	\$ 54,929	\$ -	\$ 1,279,423

**THE ARC OF TENNESSEE, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	Program Services								Supporting Services			
	Advocacy, Education and Public Awareness	Secondary Transition Project	Baptist Healing Trust	Partners in Policymaking Workshop	Personal Assistance Services and Support (PASS)	Administration of the Real Choice Systems Change (PTP)	Other Grants	SEAT, ECF, Future Planning, SDM	Total Program Services	Management and General	Fundraising	Total Expenses
Salaries	\$ 337,152	\$ 87,553	\$ 14,776	\$ 894	\$ 21,850	\$ 138,603	\$ 5,457	\$ 4,132	\$ 610,417	\$ 153,694	\$ 35,417	\$ 799,528
Payroll taxes and benefits	106,502	21,434	2,159	176	6,487	25,233	2,178	1,022	165,191	35,405	8,343	208,939
Total personnel costs	443,654	108,987	16,935	1,070	28,337	163,836	7,635	5,154	775,608	189,099	43,760	1,008,467
Professional Fees / Grant Awards	3,598	1,313	2,954	22,258	92,896	9,117	33	1	132,170	30,879	4,012	167,061
Supplies	8,840	2,199	136	209	423	3,285	126	256	15,474	7,784	914	24,172
Communication	7,094	3,226	30	-	292	1,722	3	168	12,535	7,541	572	20,648
Postage & Shipping	1,833	39	-	-	37	109	-	-	2,018	(278)	164	1,904
Occupancy	6,603	244	332	-	934	4,556	25	-	12,694	35,921	2,072	50,687
Equipment Rental & Maintenance	3,236	1,171	54	-	82	862	21	26	5,452	5,420	280	11,152
Printing & Publications	7,864	98	2,244	487	-	-	121	-	10,814	159	82	11,055
Travel / Conferences & Meetings	68,585	16,359	7,475	8,860	290	18,469	4,203	2,017	126,258	17,842	224	144,324
Insurance	-	-	-	-	-	-	-	-	-	6,467	-	6,467
Specific Assistance to Individuals	11,681	-	-	30,785	-	-	-	-	42,466	100	-	42,566
Other Non-Personnel	-	-	-	-	-	-	-	-	-	12,136	-	12,136
Indirect Cost	136,887	31,957	7,369	8,247	29,220	46,631	2,068	1,382	263,761	(263,761)	-	-
In-Kind Expense	-	-	-	43,809	-	-	-	-	43,809	-	-	43,809
Miscellaneous	-	-	-	-	-	-	-	-	-	1,668	-	1,668
Lobbying Expenses	-	-	-	-	-	-	-	-	-	690	-	690
Bad Debt Provision	-	-	-	-	-	-	-	-	-	7,893	-	7,893
Edith Wright Fund	-	-	-	-	-	-	-	-	-	2,566	-	2,566
Roger Blue Fund	-	-	-	-	-	-	-	-	-	1,000	-	1,000
Total expenses	\$ 699,875	\$ 165,593	\$ 37,529	\$ 115,725	\$ 152,511	\$ 248,587	\$ 14,235	\$ 9,004	\$ 1,443,059	\$ 63,126	\$ 52,080	\$ 1,558,265

See accompanying notes to the financial statements.

THE ARC OF TENNESSEE, INC.  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2018

Cash Flows From Operating Activities:		
Decrease in net assets	\$	(37,838)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Investment income, net	\$	(8,755)
Changes in:		
Certificates of deposit		38,650
Grants receivable		(73,793)
Accounts receivable		(27,405)
Prepaid expenses		6,177
Assets whose use is limited		31,970
Accounts payable		(12,737)
Accrued vacation		22,040
		<u>(23,853)</u>
Net cash used in operating activities		(61,691)
Net decrease in cash		(61,691)
Cash - beginning of year		<u>690,769</u>
Cash - end of year	\$	<u><u>629,078</u></u>

**THE ARC OF TENNESSEE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

**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 ("I/DD"). 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 the United States provides national leadership and information and offers education and training. We function independently of any control by The Arc of the United States.

**Program and Supporting Services**

**Advocacy, Education and Public Awareness**

The Advocacy and Awareness project covers a variety of services to people with I/DD and their families including individual advocacy; information and referral; and educational workshops in a variety of topics including person centered practices, self-advocacy and self-determination, healthy relationships and others. This project also allows for a limited amount of emergency financial assistance to individuals with I/DD who are in need of help.

**Secondary Transition Project (formerly LINK)**

The Secondary Transition Project helps families and students prepare for the significant challenges of secondary transition. Families, students, and educators gain knowledge of the secondary transition process, resources, and opportunities in local communities across the state and on the internet, so that young adults transition into adulthood with quality lives they and their families design. The Project promotes collaboration between families, students, and educators to help meet the student's secondary transition goals.

**Partners in Policymaking Workshop**

We serve as an administrative "pass-through" for the Council on Developmental Disabilities to operate these programs in an efficient manner. We are able to provide a faster turnaround on paying invoices and reimbursing other expenses than the state is able to do. Partners in Policymaking trains individuals with disabilities and family members to become advocates. Graduates from the program have gone on to participate on the boards of various non-profit advocacy organizations and to become active in public policy. Youth Leadership Forum provides leadership skills training to young adults with disabilities.

**Personal Assistance Services and Support**

Personal Assistance Supports and Services (PASS) is funded through the Department of Intellectual and Developmental Disabilities. The grant enhances community support by demonstrating a model of self-directed personal assistance that shifts the existing system in Tennessee from an institutional provider system to self-directed services. The system provides tools, mentoring, and training that allows individuals with a disability to access personal assistance and successfully manage and control the quality of care and service delivery.

**Administration of the Real Choice Systems Change (PTP)**

We assist the Department of Intellectual and Developmental Disabilities with quality assurance and quality improvement by empowering service recipients to give honest feedback regarding the services they receive through participation in a survey that covers four key areas: choice and control, respect and dignity, access to care, and community inclusion. We also conduct NCI (National Core Indicators) surveys that allow Tennessee to compare itself to other states.



**THE ARC OF TENNESSEE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

NOTE 1 - Summary of Significant Accounting Policies (continued)

Program and Supporting Services (continued)

Employment and Community First Choices (ECF)

This is a fee-for-service home-and-community-based supports program administered through TennCare and managed by the Managed Care Organizations (MCOs). The Arc of Tennessee is an approved provider of services that are designed to enhance self-advocacy skills of people with I/DD and empower families to better support their family member with I/DD.

Pre-Employment Transition Services (Pre-ETS)

The Workforce Investment and Opportunity Act (WIOA) requires Vocational Rehabilitation (VR) to offer Pre-ETS to all students with disabilities aged 14-22. The Arc of Tennessee is a contracted provider with VR to provide three of the five Pre-ETS: workplace readiness training, self-advocacy, self-determination and self-direction training, and post-secondary education counseling. The Arc of Tennessee collaborates with local school systems to implement these services.

MegaConference

We are one of several organizations that collaborate to host the Tennessee Disability MegaConference every year. This conference is the largest cross-disability conference in Tennessee and draws between 400 - 1,000 attendees every year. The Council on Developmental Disabilities, as well as other organizations, provides funding for stipends to help people with disabilities, their family and/or support staff to attend the conference. See NOTE 6.

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.

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 no cash equivalents as of June 30, 2018.

Accounts Receivable

We recognize accounts receivable as services are provided. 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, 2018.

**THE ARC OF TENNESSEE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 1 - Summary of Significant Accounting Policies (continued)**

**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 \$2,500 for any land, building, and equipment purchased. Expenditures for repairs and maintenance are charged to expense as incurred.

**Revenue Recognition**

We receive much of our income through grants from the State of Tennessee Department of Intellectual and Developmental Disabilities, Department of Education, Division of Special Populations, Tennessee Council on Developmental Disabilities, and trade receivables. We record income from the grants in the period that the applicable expenditures are incurred. We also receive income for providing services related to certain activities. This income is recorded as services are provided. See notes 6 and 9.

**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.

**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. We do not believe there are any uncertain tax positions. Further, we do not believe that we have any unrelated business income, which would be subject to federal taxes.

**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.

**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.

**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. Current assets and current liabilities are categorized as level 1 in the fair value hierarchy.

**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 \$35,760 during the year ended June 30, 2018.



**THE ARC OF TENNESSEE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 2 - Investments**

Investment income, net, consisted of the following for the year ended June 30, 2018:

Interest and dividend income, reinvested	\$ 4,390
Unrealized/Realized gain	6,505
Investment fees	<u>(2,140)</u>
Investment income, net	<u>\$ 8,755</u>

**NOTE 3 - Grants Receivable**

At June 30, 2018, we are owed the following amounts for grants:

Advocacy, Education & Public Awareness	\$ 200,787
Secondary Transition Program (formerly LINK)	30,686
Partners in Policymaking Workshop	11,828
Personal Assistance Services and Support	80,803
Administration of the Real Choice Systems Change	89,407
Pre-Employment Transition Services	<u>1,025</u>
	<u>\$ 414,536</u>

**NOTE 4 - Accounts Receivable**

Accounts receivable at June 30, 2018 are as follows:

Due from Member Units and customers	\$ 7,624
Sponsors and Other	<u>57,537</u>
	<u>\$ 65,161</u>

**NOTE 5 - 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 5.75% at June 30, 2018, and expires on May 31, 2036. We did not draw any amounts on this line of credit during the year ended June 30, 2018, and we do not have a payable at June 30, 2018.

**NOTE 6 - MegaConference - Future Years**

We, along with other nonprofit entities, participate in a MegaConference each year. We provide administration of receipts and disbursements for the funds related to this MegaConference; however, this was not a program for us. Total receipts for the MegaConference for the year ended June 30, 2018, were \$149,111. Total disbursements for the MegaConference for the year ended June 30, 2018, were \$174,711. Money not spent on the MegaConference is held by us by request of the other non-profit participants for future MegaConferences. For the year ended June 30, 2018, the cumulative surplus was \$72,302 and is included in accounts payable. We received \$15,000 for providing administrative fees during the year ended June 30, 2018.

**THE ARC OF TENNESSEE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 7 - Net Assets – Board Designated**

Board designated net assets consisted of the following at June 30, 2018:

Investments, including cash portion	\$ 330,734
Roger Blue Savings	3,160
ADID Future Conferences	2,717
Corporate Savings	807
DCE Funds for Future Training	5,564
People First	1,251
	<hr/>
	\$ 344,233

**NOTE 8 - Net Assets - Temporarily Restricted**

Temporarily restricted net assets consisted of the following at June 30, 2018:

DSPAT (See NOTE 14)	\$ 2,301
Arc US Advocacy	3,546
AT&T	2,494
Frist Foundation	347
People First	7,964
Supported Decision Making	136
Family Support	738
Conservatorship	1,763
Youth Act	721
Baptist Healing Trust (time restricted)	34,919
	<hr/>
	\$ 54,929

**NOTE 9 - Gum Vending**

We have entered into contracts with third parties to maintain gum 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 2018, unless canceled by either party. Related to these contracts, we received \$36,966 during the year ended June 30, 2018.

**NOTE 10 - Government Grants, Grant Revenue and Fees for Service**

We earned grant monies from the State of Tennessee Department of Intellectual and Developmental Disabilities (DIDD), the Tennessee Council on Developmental Disabilities, the Department of Education as well as private companies and foundations. Our largest source of revenue is from the DIDD, which consists of three contracts: Advocacy and Awareness; People Talking to People (PTP); and Personal Assistance (PASS).

**THE ARC OF TENNESSEE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 10 – Government Grants, Grant Revenue and Fees for Service (continued)**

Funds were received for the following grant activities as of June 30, 2018:

Advocacy, education and public awareness	\$ 699,875
Secondary Transition	144,326
Future Planning	3,000
FSRTC Arc US	2,000
Partners	67,366
Personal Assistance & Support	152,511
People Talking to People (PTP)	248,588
Pre-Employment Transition Services	3,816
People First	10,000
Special Education Advocacy Training	1,000
Employment and Community First CHOICES	2,069
Other Grants	2,500
	<hr/>
	\$ 1,337,051

**NOTE 11 - Lease Agreements**

We lease office space, storage, and equipment under non-cancellable leases classified as operating leases. The facility lease is a seven year agreement that matures December 31, 2022. Monthly payments are \$4,653 as of June 30, 2018, and increase each year. Monthly payments on four other operating leases range from \$148 to \$411, and will all have matured by October 31, 2020.

Total lease expense for the year ended June 30, 2018, was \$50,687. The following is a schedule of minimum lease payments under the non-cancellable operating leases.

**Year Ending June 30,**

2019	\$ 64,866
2020	60,095
2021	59,762
2022	61,406
2023	31,119
Thereafter	<hr/>
	\$ 277,248

**NOTE 12 - 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 would have an effect on our programs and activities.

**THE ARC OF TENNESSEE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 12 – Concentration of Credit Risk (continued)**

At June 30, 2018, 64% of all receivables were due from two sources. At June 30, 2018, 84% of all revenue was received from three sources.

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 we are exposed to any significant credit risk on our cash.

**NOTE 13 - Related Parties and Affiliate Dues**

The Arc of the United States bills us annually for affiliate dues, which is a revenue sharing agreement between the two entities. The Arc of the 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, 2018, we paid \$9,396 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, 2018, we collected \$13,300 from these entities.

**NOTE 14 - Agency Relationships**

We hold funds for other groups. DSPAT was a program in which we acted as the administrator of the grant fund. The intention was for DSPAT to become its own 501(c)(3) organization. DSPAT was a program through a grant from DIDD that ended June 30, 2012. DSPAT was also a membership program. At the conclusion of the grant, the members of DSPAT voted to use the membership dollars to fund the \$500 Above & Beyond award given annually at The Arc of Tennessee awards banquet. We are holding the dues collected on behalf of DSPAT, which were \$2,300 as of June 30, 2018.

**NOTE 15 - 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, 2018, we recognized \$44,370 as in-kind revenue and expenses.

**NOTE 16 - New Pronouncements**

In May 2014, FASB issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The Update provides guidance about recording contract revenue on an organization's statement of activities. The amendments in this Update are effective for annual periods beginning after December 15, 2018, and for annual periods and interim periods thereafter with early adoption permitted for annual periods beginning after December 15, 2016. We are currently evaluating the impact of adopting this statement.

In February 2016, FASB issued Accounting Standards Update 2016-02, *Leases (Topic 842)*. The Update provides guidance about recording lease transactions on an organization's statements of financial position and activities. The amendments in this Update are effective for annual periods beginning after December 15, 2019, and for annual periods and interim periods thereafter with early adoption permitted. We are currently evaluating the impact of adopting this statement.

In August 2016, FASB issued Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The Update provides guidance about the presentation of financial statements for non-profit organizations. The amendments in this Update are effective for annual periods beginning after December 15, 2017, and for annual periods and interim periods thereafter with early adoption permitted. We are currently evaluating the impact of adopting this statement.

**THE ARC OF TENNESSEE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 19 - Subsequent Events**

We have evaluated events subsequent to the year ended June 30, 2018. As of October 19, 2018, the date that the financial statements were available to be issued, we are not aware of any material subsequent events which would require recognition or disclosure in the accompanying financial statements.

## **SUPPLEMENTARY INFORMATION**



The Arc of Tennessee, Inc.  
Schedule of Expenditures of Federal and State Awards  
For The Year Ended June 30, 2018

Federal Grantor Pass-Through Grantor	Program Title	CFDA Number	Contract Number	Passed Through to Subrecipients	Expenditures
<u>Federal Awards</u>					
U.S. Department of Education Office of Special Education and Rehabilitative Services Passed through the TN Department of Education Special Education - Grants to States	Secondary Transition Project	84.027A	33136-01116		144,326
U.S. Department of Health and Human Services Administration for Community Living Passed through the TN Department of Intellectual and Developmental Disabilities	Partners in Policymaking Workshop	93.630	34401-80215		61,900
TOTAL FEDERAL AWARDS					\$ 206,226
<u>State Financial Assistance</u>					
Department of Intellectual and Developmental Disabilities	Advocacy Program to DIDD Service Recipients	N/A	34401-99075		699,875
Department of Intellectual and Developmental Disabilities	Personal Assistance Services and Support	N/A	34401-00461		152,511
Department of Intellectual and Developmental Disabilities	Real Choice Systems Change Program	N/A	34401-00434		248,588
TOTAL STATE AWARDS					1,100,974
TOTAL FEDERAL & STATE AWARDS					\$ 1,307,200

NOTE: This schedule was prepared on a modified accrual basis in accordance with the format prescribed  
by the Tennessee Comptroller of the Treasury Division of Local Government Audit.

**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**



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

Certified Public Accountants

**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  
The Arc of Tennessee, Inc.

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 of Tennessee, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, 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 October 19, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered The Arc of Tennessee, Inc.'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 of Tennessee, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of The Arc of Tennessee, Inc.'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 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether The Arc of Tennessee, Inc.'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*.

**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 organization'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.

*Patterson Harder & Bellentine*

October 19, 2018

**THE ARC OF TENNESSEE, INC.**  
**SCHEDULE OF PRIOR YEAR FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

Financial Statement Findings:

There were no prior findings reported.