

**THE ARC OF TENNESSEE, INC.**  
**AUDITED FINANCIAL STATEMENTS**  
**Year Ended June 30, 2007**

**Nancy C. Crabtree**  
**Certified Public Accountant**

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## TABLE OF CONTENTS

	<u>Page(s)</u>
Independent Auditor's Report.....	1
Statement of Financial Position.....	2
Statement of Activities.....	3
Statement of Functional Expenses.....	4 - 6
Statement of Cash Flows.....	7 - 8
Notes to the Financial Statements.....	9 - 13
Supplemental Information:	
Schedule of Federal and State Awards .....	14 - 15
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u> .....	16 - 17
Management Letter Comments .....	18 - 19

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CERTIFIED PUBLIC ACCOUNTANT  
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INDEPENDENT AUDITOR'S REPORT

Board of Directors  
The Arc of Tennessee, Inc.  
Nashville, Tennessee

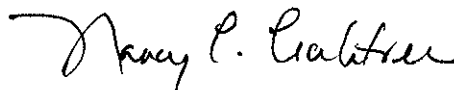
I have audited the accompanying statement of financial position of the Arc of Tennessee (a nonprofit corporation) as of June 30, 2007, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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 I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Arc of Tennessee as of June 30, 2007 and the changes in 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, I have also issued my report dated November 16, 2007 on my consideration of the Arc of Tennessee's internal control over financial reporting and on my 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 my 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. The report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

My audit was performed for the purpose of forming an opinion on the basic financial statements of the Arc of Tennessee taken as a whole. The accompanying Schedule of Federal and State Awards is presented for 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 my opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.



Nashville, Tennessee  
November 16, 2007

THE ARC OF TENNESSEE, INC.  
STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2007

ASSETS

Current Assets:	
Cash and cash equivalents	\$ 207578
Grant receivable – Note B	133283
Contract receivable – Note C	38036
Account receivable – other – no allowance necessary – Note D	11276
Due from MegaConference – Note G	8892
Prepaid expenses	9427
Security deposit	<u>6692</u>
Total Current Assets	<u>\$ 415184</u>
Property and Equipment:	
Office furniture and equipment	\$ 123340
Less accumulated depreciation	<u>(106408)</u>
Total Property and Equipment	<u>\$ 16932</u>
Total Assets	<u>\$ 432116</u>

LIABILITIES AND NET ASSETS

Current Liabilities:	
Accounts payable	\$ 124032
Accrued expenses	33877
Line of Credit – Suntrust Bank – Note E	25000
Sensory Course – Future Years – Note F	<u>153</u>
Total Current Liabilities / Total Liabilities	<u>\$ 183062</u>
Net Assets:	
Unrestricted:	
Operating	\$ 192499
Board designated for endowment campaign	3821
Furniture and equipment	<u>16932</u>
	<u>\$ 213252</u>
Temporarily Restricted – Note H	<u>35802</u>
Total Net Assets	<u>\$ 249054</u>
Total Liabilities and Net Assets	<u>\$ 432116</u>

See accompanying notes to the financial statements.

THE ARC OF TENNESSEE, INC.  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2007

	Unrestricted	Temporarily Restricted	Total
Revenues and Other Support:			
Gum vending	\$ 81977	\$	\$ 81977
Government grants	1470415		1470415
Contract revenue – nongovernment	121804		121804
Contributions	14995		14995
Interest	912	953	1865
Rental income	4044		4044
Affiliation fees	11348		11348
MegaConference administrative fee	6000		6000
Miscellaneous	50		50
Memberships	5687		5687
Net assets released from restrictions:			
Satisfaction of program restrictions	2075	( 2075)	
Total Revenues and Other Support	\$ 1719307	\$ ( 1122)	\$ 1718185
Expenses:			
Program Services:			
Public awareness - Legislative Monitor	\$ 45728	\$	\$ 45728
Advocacy, education and public awareness	336519		336519
Support collaboration for special education	101928		101928
TnWorkFORCE	162522		162522
Support and assistance services (DSPAT)	167517		167517
Partners in Policymaking workshop	111974		111974
Personal assistance services and support	169052		169052
Administration of the Real Choice Systems Change	182171		182171
Supported Employment	6959		6959
MegaConference	10000		10000
Support brokerage / financial administration	74993		74993
Support Services:			
Management and general	349699		349699
Total Expenses	\$ 1719062	\$	\$ 1719062
Increase (Decrease) in Net Assets	\$ 245	\$ ( 1122)	\$ ( 877)
Net Assets at the beginning of the year	213007	36924	249931
Net Assets at the end of the year	\$ 213252	\$ 35802	\$ 249054

See accompanying notes to the financial statements.

THE ARC OF TENNESSEE, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2007

	Public Awareness- Legislative Monitor	Advocacy, Education, & Public Awareness	Support Collaboration- Special Education	TnWorkFORCE
Salaries	\$ 13217	\$ 171811	\$ 64444	\$ 2327
Fringe benefits	3678	47798	17887	651
Rent	375	2438		48
Travel	66	53633	10993	192
Communication		5010	4649	
Printing	1675	52	5	
Supplies	1418	3616	1162	2
Professional services	8655	1227	215	159300
Insurance				
Meetings & conferences		9846	2024	
Memberships				
Miscellaneous				
Affiliation fees				
Individual assistance	4000	30500		
Equipment lease & maintenance	6689	8532	244	2
Donations				
Postage	5955	2056	305	
Lobbying expenses				
Edith Wright disbursements				
Personal assistance direct services				
Depreciation				
Total	\$ 45728	\$ 336519	\$ 101928	\$ 162522

See accompanying notes to the financial statements.

THE ARC OF TENNESSEE, INC.  
STATEMENT OF FUNCTIONAL EXPENSES (continued)  
FOR THE YEAR ENDED JUNE 30, 2007

	Support & Assistance Services (DSPAT)	Partners in Policymaking Workshop	Personal Assistance Services & Support	Administration- Real Choice Systems Change	Supported Employment
Salaries	\$ 76765	\$ 809	\$ 61055	\$ 126682	\$ 4219
Fringe benefits	21511	227	17054	35365	1181
Rent	2946		1421	2748	100
Travel	22819	56160	6037	12184	1029
Communication	1724		284	1344	
Printing	110	1848			
Supplies	1454	2001	2178	1209	45
Professional services	7485	25807	7165	95	
Insurance					
Meetings & conferences	904		1567	511	257
Memberships					
Miscellaneous					
Affiliation fees					
Individual assistance	30090	25002			
Equipment lease & maintenance	1503	120	549	1279	75
Donations					
Postage	206		253	754	53
Lobbying expenses					
Edith Wright disbursements					
Personal assistance direct services			71489		
Depreciation					
Total	\$ 167517	\$ 111974	\$ 169052	\$ 182171	\$ 6959

See accompanying notes to the financial statements.



THE ARC OF TENNESSEE, INC.  
STATEMENT OF FUNCTIONAL EXPENSES (continued)  
FOR THE YEAR ENDED JUNE 30, 2007

	Megaconference	Support Brokerage / Financial Administration	Total Program Expenses	Management and General	Total Expenses
Salaries	\$	\$ 50481	\$ 571810	\$ 159944	\$ 731754
Fringe benefits		14135	159487	35397	194884
Rent		72	10148	40748	50896
Travel		7163	170276	5196	175472
Communication		1950	14961	12436	27397
Printing		290	3980		3980
Supplies		503	13588	10005	23593
Professional services			209949	25658	235607
Insurance				3956	3956
Meetings & conferences		320	15429	1693	17122
Memberships				328	328
Miscellaneous				4865	4865
Affiliation fees				8040	8040
Individual assistance	10000		99592	1011	100603
Equipment lease & maintenance		21	19014	15942	34956
Donations				200	200
Postage		58	9640	3068	12708
Lobbying				13397	13397
Edith Wright disbursements				2075	2075
Personal assistance direct services			71489		71489
Depreciation				5740	5740
Total	\$ 10000	\$ 74993	\$ 1369363	\$ 349699	\$ 1719062

See accompanying notes to the financial statements.

THE ARC OF TENNESSEE, INC.  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2007

Cash Flows from Operating Activities:

Cash received from support and revenues	\$ 216853
Cash received from government grants	1611956
Interest received	1865
Cash paid to suppliers and employees	<u>( 1729830)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 100844</u>

Cash Flows from Financing Activities:

Net proceeds from Line of Credit	<u>\$ 25000</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 125844
Cash and Cash Equivalents at beginning of the year	<u>81734</u>
Cash and Cash Equivalents at end of the year	<u><u>\$ 207578</u></u>

See accompanying notes to the financial statements.

THE ARC OF TENNESSEE, INC.  
STATEMENT OF CASH FLOWS (continued)  
FOR THE YEAR ENDED JUNE 30, 2007

RECONCILIATION OF DECREASE IN NET ASSETS TO NET CASH PROVIDED (USED)  
BY OPERATING ACTIVITIES:

Decrease in Net Assets \$( 877)

Adjustments of reconcile the increase in net assets to  
Net cash provided (used) by operating activities:

Depreciation	5740
(Increase) decrease in:	
Grant receivable	141541
Contract receivable	( 38036)
Account receivable	8984
Due from Megaconference	( 32868)
Prepaid expenses	( 758)
Security deposits	( 5392)
Increase (decrease) in:	
Account payable	23056
Accrued expenses	<u>( 546)</u>

Net Cash provided (used) by operating activities \$ 100844

See accompanying notes to the financial statements.

THE ARC OF TENNESSEE, INC.  
NOTES TO THE FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements follow:

1. Nature of Organization. The Arc of Tennessee, Inc. is a nonprofit corporation chartered by the State of Tennessee for the purpose of promoting the general wellbeing of all citizens with mental retardation. 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 nonprofit entities. The Corporation maintains membership in the national organization of The Arc of the US, and transmits a portion of individual membership dues to The Arc of the US. The Arc of US provides national leadership and information and offers education and training. The Corporation is autonomous and functions independently of any control by The Arc of the US. The Corporation provides advocacy, local unit development, direct client assistance, training, education, counseling, referral and public awareness services statewide.
2. Basis of Presentation. The Arc of Tennessee, Inc. reports information regarding its financial position and activities in accordance with the Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS 117, the Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets, based upon the existence or absence of donor-imposed restrictions. (The Corporation has no assets that meet the definition of permanently restricted net assets.) In addition, the Corporation reports information regarding contributions in accordance with SFAS No. 11, Accounting for Contributions Received and Contributions Made. In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. (The Corporation has received no contributions with donor-imposed restrictions that would result in permanently restricted net assets.)
3. Basis of Accounting. The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principle
4. Cash Equivalents. Cash equivalents consist of short-term, highly liquid investments which are readily convertible into cash within ninety days of purchase.
5. Revenue and Support. The Arc of Tennessee, Inc. receives much of its income from grants from the State of Tennessee Department of Finance and Administration, Division of Mental Retardation Services, the State of Tennessee Department of Education, Division of Special Education, and the Tennessee Council on Developmental Disabilities as well as from a grant from the U.S. Department of Labor. The Corporation records income from the grants in the period that the applicable expenditures are incurred.
6. Contributions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted. 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 Statement of Activities as net assets released from restrictions.

THE ARC OF TENNESSEE, INC.  
NOTES TO THE FINANCIAL STATEMENTS (continued)

7. 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, presently five to ten years. 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.
8. Donated Services. Unpaid volunteers make contributions of time in various administrative, fund-raising, 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. The value of contributed time is allowed to be used as a match in some government grants.
9. Functional Allocation of Expenses. The costs of providing the various programs and other activities 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.
10. Estimates. The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
11. Income Taxes. The Arc of Tennessee, Inc. is exempt from federal income taxes under Section 501 ( c ) (3) of the Internal Revenue Code and therefore no provision has been made for federal income taxes in the accompanying financial statements.
12. Pension Plan. The Arc of Tennessee, Inc. maintains 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 total \$ 31200 for the year ended June 30, 2007.

NOTE B – GRANTS RECEIVABLE:

The Arc of Tennessee is due monies from the State of Tennessee Department of Finance and Administration, Division of Mental Retardation Services, the Tennessee Council on Developmental Disabilities, the Bureau of TennCare and the State of Tennessee Department of Education, Division of Special Education for grant expenses incurred through June 30, 2007 that total \$ 133283. Monies due from State grants are for:

Public awareness - Legislative Monitor	\$ 14223
Advocacy, education & public awareness	16299
Support collaboration for special education	8182
Support & assistance services	28242
Partners in Policymaking workshop	8274
Personal assistance services and support	18164
Administration of the Real Choice Systems Change	27604
Supported Employment	2295
MegaConference	10000
Total	<u>\$ 133283</u>

THE ARC OF TENNESSEE, INC.  
NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE C – CONTRACT RECEIVABLE:

The Arc of Tennessee, Inc. entered into a contract with Public Partnership LLC in February 2007. The Arc of Tennessee is to provide financial administration and support brokerage services to qualifying participants. As of June 30, 2007, Public Partnership LLC owed The Arc of Tennessee, Inc. \$ 38036.

NOTE D – ACCOUNTS RECEIVABLE:

Accounts receivable consist of:

Monies due form member units	\$ 1986
Monies due from gum vendors	5885
Tennessee Disability Coalition Olmstead refund	1500
Megaconference registrations	422
Others	<u>1483</u>
Total	<u>\$ 11276</u>

NOTE E – LINE OF CREDIT – SUNTRUST BANK:

During the year, The Arc of Tennessee, Inc. drew monies down from its line of credit with Suntrust Bank. As of June 30, 2007, The Arc of Tennessee, Inc. owed \$ 25000 on its line of credit. The interest rate at June 30, 2007 was 8.25%.

NOTE F – SENSORY COURSES – FUTURE YEARS:

As a result of a request from the Division of Mental Retardation Services, The Arc of Tennessee, Inc. participated in making available Sensory courses for interested persons. This activity was actually an activity of the Division of Mental Health Retardation Services and monies not spent on these sensory courses, as of June 30, 2007, are being held by The Arc of Tennessee, Inc. for future sensory courses. Total monies being held by The Arc of Tennessee, Inc. as of June 30, 2007 was \$ 153.

NOTE G – MEGACONFERENCE – FUTURE YEARS:

The Arc of Tennessee, Inc., in collaboration with other nonprofit entities, participated in a MegaConference. The Arc of Tennessee, Inc. provided the capabilities for the receipts and disbursements of funds related to this MegaConference, but this was not a program for The Arc of Tennessee, Inc. In the past, monies not spent on the MegaConference were being held by The Arc of Tennessee, Inc. on the request of the other nonprofit participants for future MegaConferences. However, for the year ended June 30, 2007, the MegaConference overspent its collected dollars and the Arc of Tennessee made up the difference. Monies are due to The Arc of Tennessee, Inc. for this overextension, and total \$ 8892 as of June 30, 2007.

THE ARC OF TENNESSEE, INC.  
NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE H – NET ASSETS – TEMPORARILY RESTRICTED:

During the year ended June 30, 2001, The Arc of Tennessee, Inc. received gifts totaling \$ 40716 from an estate. These gifts are restricted for the building or modifying of homes in relation to supported living activities. During the year ended June 30, 2007, \$ 2075 was expended for supported living activities.

NOTE I – GUM VENDING:

The Arc of Tennessee, Inc. has entered into contracts with third parties to maintain vending containers throughout the State of Tennessee that then solicit contributions for The Arc of Tennessee, Inc. The Corporation is not responsible for any of the operating expenses or any resulting legal liability as related to maintaining the containers. The Corporation receives a percentage of the gross receipts collected from the containers on a monthly basis. The contracts are subject to automatic renewal in 2008, unless canceled by either party. The Corporation received \$ 81977 from gum vending for the year ended June 30, 2007.

NOTE J – GOVERNMENT GRANTS:

During the year ended June 30, 2007, The Arc of Tennessee, Inc. earned \$ 163882 from the U.S. Department of Labor for a WorkFORCE action continuation grant. The Arc of Tennessee, Inc. also earned grant monies from the State of Tennessee Department of Finance and Administration, Division of Mental Retardation Services, the Tennessee Council on Developmental Disabilities and the Bureau of TennCare, as well as the State of Tennessee Department of Education, Division of Special Education in the amount of \$ 1306533. Monies received from State of Tennessee were received for the following grant activities:

Public awareness - Legislative Monitor	\$ 41714
Advocacy, education and public awareness	409232
Support collaboration for special education	79453
Support & assistance services	203635
Partners in Policymaking workshop	127352
Personal assistance services and support	205578
Administration of the Real Choice Systems Change	221567
Supported Employment	8002
MegaConference	<u>10000</u>
Total	<u>\$ 1306533</u>

Total grant monies received from both federal and state sources totaled \$ 1470415.

THE ARC OF TENNESSEE, INC.  
NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE K – 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 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, 2007 for these costs as no determination has been made by the grantor agencies as to any amount for any grant. The Board deems the contingency to be remote, as the Corporation has accommodated the objective of the Corporation to the provisions of the grant.

NOTE L – COMMITMENTS:

The Arc of Tennessee, Inc. leases its office space under a lease that requires a monthly payment of \$ 4697. The annual lease payment totaled \$ 50896 for the year ended June 30, 2007. This lease is in effect until September 2011, and includes rent increases at twelve month intervals. Office equipment is leased under various operating agreements. No lease is considered a capital lease under FASB Statement 13. Future minimum rental payments for leases with initial lease terms exceeding one year follow:

<u>Year Ended</u>	<u>Amount</u>
June 30, 2008	\$ 57928
June 30, 2009	60016
June 30, 2010	62103
June 30, 2011	64191
June 30, 2012	16178
Total	<u>\$ 260416</u>

NOTE M – CONCENTRATION OF CREDIT RISK:

Financial instruments that potentially subject the Corporation to concentrations of credit risk consist of account and grant receivables. Account receivables consist of member units and third party gum vending entities. These receivables are widely dispersed over the State of Tennessee and mitigate credit risk. Grant receivables represent concentrations of credit risk to the extent that they are received from concentrated sources. The Corporation receives a substantial amount of its 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 the Corporation’s programs and activities. Based on the upcoming fiscal year’s budget, this funding is expected to continue for the current year.



## SUPPLEMENTAL INFORMATION



Balance June 30, 2006	Receipts or Revenues Recognized (2)	Federal Disbursements / Expenditures	State Disbursements / Expenditures	Total Expenditures	Balance June 30, 2007 (1)
\$ ( 16859)	\$ 119078 16859	\$ 127352	\$	\$ 127352	\$ ( 8274)
( 10000)	10000	10000		10000	( 10000)
( 100)	100				
( 4106)	27491 4106	41714		41714	( 14223)
( 34566)	209959		203635	203635	( 28242)
( 51644)	392933 51644		409232	409232	( 16299)
( 14076)	153799 54239	25704	181403 14459	181403 40163	( 27604)
( 11699)	187415 11699		205579	205579	( 18164)
	5707		8002	8002	( 2295)
( 17062)	71271 17062	39726	39727	79453	( 8182)
(114712)	278594	163882		163882	
<u>\$(274824)</u>	<u>\$ 1611956</u>	<u>\$ 408378</u>	<u>\$ 1062037</u>	<u>\$ 1470415</u>	<u>\$( 133283)</u>