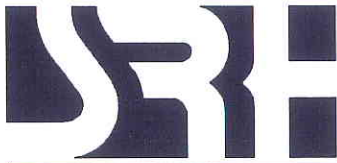


PROGRESSIVE DIRECTIONS, INC.  
AUDITED FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2011 AND 2010

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Progressive Directions, Inc.  
Clarksville, Tennessee

We have audited the accompanying statements of financial position of Progressive Directions, Inc. (a nonprofit organization) as of June 30, 2011 and 2010, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our 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 Progressive Directions, Inc. as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2011, on our consideration of Progressive Directions, 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 should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements of Progressive Directions, Inc. taken as a whole. The accompanying schedule of federal and state financial assistance listed as other information in the table of contents is presented for purposes of additional analysis as required by the State of Tennessee, Department of Audit, *Audit Manual*, 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 taken as a whole.

*Stone Rudolph & Henry, PLC*

December 3, 2011



PROGRESSIVE DIRECTIONS, INC.  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2011 AND 2010

	<u>ASSETS</u>	
	<u>2011</u>	<u>2010</u>
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 8,864	\$ 87,373
Accounts receivable	741,244	671,210
Inventory	1,806	1,997
Prepaid expenses	53,143	43,376
Total current assets	<u>805,057</u>	<u>803,956</u>
<u>PROPERTY AND EQUIPMENT</u>		
Land	363,771	363,771
Building	2,251,529	2,244,440
Equipment	419,810	401,052
Vehicles	605,453	622,149
Total property and equipment	<u>3,640,563</u>	<u>3,631,412</u>
Less: accumulated depreciation	<u>1,588,391</u>	<u>1,446,112</u>
Net property and equipment	<u>2,052,172</u>	<u>2,185,300</u>
<u>OTHER ASSETS</u>		
Customer deposits	<u>1,000</u>	<u>925</u>
Total assets	<u>\$ 2,858,229</u>	<u>\$ 2,990,181</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 205,359	\$ 120,366
Accrued payroll	406,370	398,540
Other accrued liabilities	26,484	20,211
Line of credit	138,223	100,000
Current portion of notes payable	207,952	205,153
Total current liabilities	<u>984,388</u>	<u>844,270</u>
<u>LONG-TERM LIABILITIES</u>		
Notes payable - net of current portion	<u>1,290,744</u>	<u>1,494,978</u>
Total liabilities	<u>2,275,132</u>	<u>2,339,248</u>
<u>NET ASSETS</u>		
Unrestricted	<u>583,097</u>	<u>650,933</u>
Total liabilities and net assets	<u>\$ 2,858,229</u>	<u>\$ 2,990,181</u>

The accompanying notes are an integral part of the financial statements.

PROGRESSIVE DIRECTIONS, INC.  
STATEMENTS OF ACTIVITIES  
YEARS ENDED JUNE 30, 2011 AND 2010

<u>CHANGES IN UNRESTRICTED NET ASSETS</u>	<u>2011</u>	<u>2010</u>
Revenues:		
Fees and services	\$ 6,312,768	\$ 5,963,522
Grants	519,461	629,780
Contributions	139,260	304,625
Interest	719	2,434
Total revenues	<u>6,972,208</u>	<u>6,900,361</u>
Expenses:		
Program services		
Adult program services	5,765,580	5,640,630
Early intervention services	537,339	517,619
Total program services	<u>6,302,919</u>	<u>6,158,249</u>
Administrative supporting services	<u>736,761</u>	<u>737,594</u>
Total expenses	<u>7,039,680</u>	<u>6,895,843</u>
Loss on disposal of property and equipment	<u>(364)</u>	<u>(14,149)</u>
<u>DECREASE IN UNRESTRICTED NET ASSETS</u>	<u>(67,836)</u>	<u>(9,631)</u>
<u>NET ASSETS - BEGINNING</u>	<u>650,933</u>	<u>660,564</u>
<u>NET ASSETS - ENDING</u>	<u>\$ 583,097</u>	<u>\$ 650,933</u>

The accompanying notes are an integral part of the financial statements.

PROGRESSIVE DIRECTIONS, INC.  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Decrease in net assets	\$ (67,836)	\$ (9,631)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	168,998	162,411
Loss on disposal	364	14,149
Donated property and equipment	-	(152,000)
Changes in:		
Accounts receivable	(70,034)	11,851
Inventory	191	93
Prepaid expenses	(9,767)	3,057
Customer deposits	(75)	975
Accounts payable	84,993	(22,737)
Accrued payroll	7,830	33,295
Accrued liabilities	6,273	(6,869)
Net cash provided by operating activities	<u>120,937</u>	<u>34,594</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Proceeds from sale of fixed assets	4,561	10,030
Purchases of fixed assets	(40,795)	(184,708)
Net cash used in investing activities	<u>(36,234)</u>	<u>(174,678)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Proceeds from line of credit	38,223	100,000
Repayment of notes payable	(201,435)	(203,736)
Net cash used in financing activities	<u>(163,212)</u>	<u>(103,736)</u>
<u>NET DECREASE IN CASH AND CASH EQUIVALENTS</u>	<u>(78,509)</u>	<u>(243,820)</u>
<u>CASH AND CASH EQUIVALENTS - BEGINNING</u>	<u>87,373</u>	<u>331,193</u>
<u>CASH AND CASH EQUIVALENTS - ENDING</u>	<u>\$ 8,864</u>	<u>\$ 87,373</u>

During the year ended June 30, 2010, the Organization received donated property with an appraised value of \$152,000 which increased property and equipment and contribution revenue.

The accompanying notes are an integral part of the financial statements.



PROGRESSIVE DIRECTIONS, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2011

	Program Services			Total Program Services	Administrative Supporting Services	Total Expenses
	Adult Program Services	Early Intervention Services				
Advertising and public relations	\$ 18,421	\$ -	\$	18,421	\$ 13,712	\$ 32,133
Communication	34,450	7,168		41,618	12,934	54,552
Depreciation	115,024	30,169		145,193	23,805	168,998
Dues, memberships and licenses	6,648	-		6,648	9,065	15,713
Food	51,194	-		51,194	-	51,194
Fringe benefits	611,476	47,617		659,093	98,285	757,378
Grants and subsidies	18,870	-		18,870	-	18,870
Insurance	69,279	3,284		72,563	21,664	94,227
Interest expense	43,921	8,442		52,363	35,832	88,195
Personnel	4,417,227	358,896		4,776,123	364,415	5,140,538
Professional services	23,763	3,530		27,293	99,529	126,822
Rentals	7,799	8,776		16,575	-	16,575
Repairs and maintenance	41,845	4,405		46,250	24,184	70,434
Supplies	45,829	11,333		57,162	11,756	68,918
Travel and entertainment	9,749	42,364		52,113	1,574	53,687
Vehicle operations	205,610	-		205,610	4,353	209,963
Utilities	44,475	11,355		55,830	15,653	71,483
Total expenses	\$ 5,765,580	\$ 537,339	\$	6,302,919	\$ 736,761	\$ 7,039,680

The accompanying notes are an integral part of the financial statements.



**PROGRESSIVE DIRECTIONS, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2010**

	Program Services			Administrative		Total
	Adult Program Services	Early Intervention Services	Total Program Services	Supporting Services	Expenses	
Advertising and public relations	\$ 15,617	\$ -	\$ 15,617	\$ 9,874	\$ 25,491	
Communication	30,071	7,229	37,300	16,537	53,837	
Depreciation	115,527	23,839	139,366	23,045	162,411	
Dues, memberships and licenses	14,547	845	15,392	8,370	23,762	
Food	40,803	-	40,803	-	40,803	
Fringe benefits	600,682	46,117	646,799	98,491	745,290	
Grants and subsidies	14,637	-	14,637	-	14,637	
Insurance	70,666	3,890	74,556	19,951	94,507	
Interest expense	50,330	10,000	60,330	34,514	94,844	
Personnel	4,202,137	337,174	4,539,311	364,407	4,903,718	
Professional services	131,334	-	131,334	100,465	231,799	
Rentals	8,000	8,575	16,575	-	16,575	
Repairs and maintenance	48,070	10,386	58,456	27,199	85,655	
Supplies	68,866	17,719	86,585	14,003	100,588	
Travel and entertainment	9,258	39,048	48,306	1,047	49,353	
Vehicle operations	184,954	854	185,808	3,251	189,059	
Utilities	35,131	11,943	47,074	16,440	63,514	
Total expenses	\$ 5,640,630	\$ 517,619	\$ 6,158,249	\$ 737,594	\$ 6,895,843	

The accompanying notes are an integral part of the financial statements.

PROGRESSIVE DIRECTIONS, INC.  
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Organization and Nature of Activities

Progressive Directions, Inc. (the Organization) is a private, nonprofit corporation that operates programs designed to train and support persons with varying degrees of developmental disabilities, mental retardation, cerebral palsy, and other handicapping conditions who live in Montgomery and surrounding counties. The primary source of revenue is from state grants and fees for service. Revenue is also received from contributions and contracts. Fee for service revenue is also received from Kids Depot, a licensed day care facility that serves children ages one to five years with differing levels of abilities.

The Organization is qualified as a tax-exempt organization under 501(c)(3) of the Internal Revenue Code and has not been determined to be a private foundation. Accordingly, no provision for income taxes has been made.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and those variances could be material to the financial statements.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America.

Resources are classified as unrestricted, temporarily restricted or permanently restricted net assets, based on the existence or absence of donor-imposed restrictions, as follows:

(1) Unrestricted

Unrestricted net assets are free of donor-imposed restrictions. All revenues, gains and losses that are not temporarily or permanently restricted by donors are included in this classification. All expenditures are reported in the unrestricted class of net assets since the use of restricted contributions in accordance with the donors' stipulations results in the release of the restriction.

(2) Temporarily Restricted

Temporarily restricted net assets are limited as to use by donor-imposed restrictions that expire with the passage of time or that can be satisfied by use for the specific purpose. The Organization had no temporarily restricted net assets at June 30, 2011 and 2010.

(3) Permanently Restricted

Permanently restricted net assets are amounts required by donors to be held in perpetuity, including gifts requiring that the principal be invested and the income or specific portions thereof be used for operations. The Organization had no permanently restricted net assets at June 30, 2011 and 2010.



PROGRESSIVE DIRECTIONS, INC.  
NOTES TO FINANCIAL STATEMENTS (CONT'D)

1. Summary of Significant Accounting Policies (Cont'd)

Concentrations of Credit Risk

Financial instruments that are potentially subject to significant concentrations of credit risk consist principally of cash and accounts receivable. The Organization places its cash with federally-insured financial institutions. Substantially all receivables are from agencies of the State of Tennessee (the State) and no collateral is obtained.

Cash and Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments which are readily convertible into cash within ninety days of purchase.

Accounts Receivable

An allowance for uncollectible accounts has not been made based on management's determination that such amount, if any, would be immaterial. Bad debts are recognized using the specific identification method. Delinquency is determined based upon contractual payment dates.

Inventory

Inventory consists of operating supplies and is valued at cost.

Property and Equipment

Property and equipment, including leasehold improvements, are recorded at historical cost or, if contributed, at estimated fair value at the date of receipt. Property and equipment acquired in excess of \$1,000 and with a useful life of more than three years are capitalized. Expenditures for additions, major renovations and improvements are capitalized while those for maintenance and repairs are charged to expense as incurred. Capitalized assets are depreciated over their estimated useful life using the straight-line method.

Accrued Compensated Absences

Employees of the Organization are entitled to paid vacation based upon length of service. The estimated liability for accumulated leave was \$171,388 and \$172,904 at June 30, 2011 and 2010, respectively. Any amounts owed to employees are paid upon termination.

Revenues

Revenues are reported net of discounts.

Functional Expenses

Expenses are charged directly to program or administrative categories based on specific identification.

Date of Management's Review

Subsequent events have been evaluated through December 3, 2011, which is the date the financial statements were available to be issued.

PROGRESSIVE DIRECTIONS, INC.  
NOTES TO FINANCIAL STATEMENTS (CONT'D)

2. Cash and Cash Equivalents

Cash and cash equivalents were represented by bank deposits of \$20,966 and \$95,142 at June 30, 2011 and 2010, respectively. All of these amounts were insured by the Federal Deposit Insurance Corporation.

3. Accounts Receivable

Accounts receivable from grants and contracts consisted of the following:

	<u>2011</u>	<u>2010</u>
Medicaid Waiver	\$ 498,707	\$ 418,360
Grants	141,629	99,691
Other	100,908	153,159
Total	<u>\$ 741,244</u>	<u>\$ 671,210</u>

4. Notes Payable

Notes payable consisted of the following:

	<u>2011</u>	<u>2010</u>
7.94% note payable to TCF Equipment Finance, secured by vehicles with carrying amount of \$12,660 at June 30, 2010, payable in monthly installments of \$1,022 in principal and interest, matured September 2010.	\$ -	\$ 2,047
5.60% note payable to Legends Bank, secured by vehicles with carrying amount of \$4,367 and \$13,141 at June 30, 2011 and 2010, respectively, payable in monthly installments of \$1,919 in principal and interest, through March 2012.	16,883	38,270
5.25% note payable to Legends Bank, secured by real estate with carrying amount of \$334,067 and \$344,280 at June 30, 2011 and 2010, respectively, payable in monthly installments of \$5,817 in principal and interest, through May 2013, with a balloon payment of \$546,862 due June 2013.	624,015	656,680
7.4% note payable to TCF Equipment Finance, secured by vehicles with carrying amount of \$48,450 and \$67,830 at June 30, 2011 and 2010, respectively, payable in monthly installments of \$1,926 in principal and interest, through February 2014.	54,191	72,908



PROGRESSIVE DIRECTIONS, INC.  
NOTES TO FINANCIAL STATEMENTS (CONT'D)

4. Notes Payable (Cont'd)

	<u>2011</u>	<u>2010</u>
4.18% note payable to Legends Bank, secured by real estate with carrying amounts of \$865,840 and \$909,590 at June 30, 2011 and 2010, respectively, payable in monthly installments of \$8,873 in principal and interest, through September 2015.	413,495	500,333
5.69% note payable to Legends Bank, secured by real estate with carrying amount of \$1,020,740 and \$1,068,952 at June 30, 2011 and 2010, respectively, payable in monthly installments of \$5,302 in principal and interest, through January 2019.	<u>390,112</u>	<u>429,893</u>
Total notes payable	1,498,696	1,700,131
Less : current portion	<u>207,952</u>	<u>205,153</u>
Total long-term portion of notes payable	<u>\$ 1,290,744</u>	<u>\$ 1,494,978</u>

Future payments on long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>
2012	\$ 207,952	\$ 71,973
2013	746,554	61,679
2014	159,666	23,910
2015	153,239	16,505
2016	80,811	10,295
2017-2019	<u>150,474</u>	<u>11,198</u>
	<u>\$ 1,498,696</u>	<u>\$ 195,560</u>

Cash payments for interest were \$88,196 and \$94,844 for the years ended June 30, 2011 and 2010, respectively.

5. Line of Credit

The Organization maintains a \$250,000 unsecured bank line of credit of which \$111,777 remained unused at June 30, 2011. The line of credit has a variable interest rate which was 6.00% at June 30, 2011 and is payable monthly. The line of credit matures in August 2011.

6. Retirement

The Organization provides pension benefits to all salaried employees through a 401(k) defined contribution retirement plan. Substantially all employees who have completed one year of service and reached age 21 are eligible to participate. The Organization makes matching contributions equal to 50% of the lesser of: (1) each participant's total contributions, or (2) 6% of the participant's earnings. Additionally, the Organization has the option of making a discretionary contribution to the Plan each Plan year. The Organization exercised the option to make discretionary contributions to the Plan of 3% during the years ended June 30, 2011 and 2010.

PROGRESSIVE DIRECTIONS, INC.  
NOTES TO FINANCIAL STATEMENTS (CONT'D)

6. Retirement (Cont'd)

The Organization provides pension benefits to all hourly employees through a 401(k) defined contribution retirement plan. Substantially all employees who have completed one year of service and reached age 21 are eligible to participate. The Organization makes matching contributions equal to 50% of the lesser of: (1) each participant's total contributions, or (2) 4% of the participant's earnings. Additionally, the Organization has the option of making a discretionary contribution to the Plan each Plan year. The Organization exercised the option to make discretionary contributions to the Plan of 2% during the years ended June 30, 2011 and 2010.

During the fiscal years ended June 30, 2011 and 2010, contributions to both the hourly and salary plans totaling \$72,283 and \$75,968, respectively, were paid and expensed by the Organization. Employee contributions to the hourly and salary plans were \$68,419 and \$71,109 for the years ended June 30, 2011 and 2010, respectively.

7. Contracts

Progressive Directions, Inc. enters into program administrative contracts with the State Division of Intellectual Disabilities Services and the Department of Education. These contracts are for the purpose of providing mental retardation services in accordance with applicable federal and state laws, regulations, program guidelines, service definitions and stated goals. Revenues under these contracts were \$5,236,782 and \$4,853,682 and amounted to 75% and 70% of total revenues for the years ended June 30, 2011 and 2010, respectively. A major reduction in funding by one or more of these State departments could have a significant effect on the future operations of the Organization.

8. Operating Leases

The Organization is the lessee under two operating lease agreements involving a building and office equipment. The building lease is noncancellable and expires in 2012. The equipment lease is on a month-to-month basis. The following is a schedule of future building lease payments by year:

<u>Year Ending June 30,</u>	<u>Amount</u>
2012	<u>6,708</u>
	<u>\$ 6,708</u>

For 2011 and 2010, rental expense amounted to \$16,575 and \$16,575, respectively.

9. Contingencies

Partial funding of the Organization's programs is provided by state and local government agencies. These funds are to be used for designated purposes only. If, based on the grantor's review, the funds are considered not to have been used for the intended purpose or in accordance with the terms of the grant, the grantor may request a refund of monies advanced or refuse to reimburse the Organization for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the Organization's programs is predicated upon the compliance of the Organization with the grant terms and the grantor's intent to continue their programs.



PROGRESSIVE DIRECTIONS, INC.  
NOTES TO FINANCIAL STATEMENTS (CONT'D)

10. Subsequent Event

On July 1, 2011, the Organization gained control over the Montgomery County Association of Retarded Citizens (ARC) Thrift Store, a 501(c)(3) organization, in a partnership to advance the Organization's opportunities to those with developmental disabilities and to advocate for those with special needs. Two members of the Organization's management are officers of the ARC Thrift Store with decision-making authority. The Organization contributed \$350 for change in the cash drawer of the ARC Thrift Store. The amount is reported as a receivable on the Organization's books. The Organization plans to consolidate the ARC Thrift Store as a department of the Organization effective January 1, 2012, which is the first day of the new fiscal year for the ARC Thrift Store.

PROGRESSIVE DIRECTIONS, INC.  
SCHEDULE OF FEDERAL AND STATE FINANCIAL ASSISTANCE  
YEAR ENDED JUNE 30, 2011

<u>Grantor/Program Title</u>	<u>Grant Number or Pass-Through Grantor's Contract Number</u>	<u>Federal CFDA Number</u>	<u>Accrued Receivable June 30, 2010</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Accrued Receivable June 30, 2011</u>
<u>Department of Education:</u>						
Early Intervention Services, Recovery Act	DGA-C000010	84.393A	\$ 22,292	\$ 47,129	\$ 49,491	\$ 24,654
Early Intervention Services	DGA-C000010	84.393A	77,399	430,388	469,964	116,975
Total			<u>\$ 99,691</u>	<u>\$ 477,517</u>	<u>\$ 519,455</u>	<u>\$ 141,629</u>

**NOTE - Basis of Presentation**

The accompanying schedule of state grant activity is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the State of Tennessee, Department of Audit, Audit Manual. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



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*

Board of Directors  
Progressive Directions, Inc.  
Clarksville, Tennessee

We have audited the financial statements of Progressive Directions, Inc. (a nonprofit organization) as of and for the year ended June 30, 2011, and have issued our report thereon dated December 3, 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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the 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.

11-01 Dual Signatures: One of seventeen checks tested did not have dual signatures..

Recommendation: We recommend that management implement review procedures to ensure all checks have dual signatures.

Management Response: Management will ensure that all checks have the required two signatures by utilizing one of the administrative assistants to check each batch of signed checks for the signatures prior to releasing to the fiscal department.



### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Organization did not resolve prior-year finding number 10-01 and 10-02 related to compliance. These occurred in the current audit and are reported as findings 11-02 and 11-03, respectively.

- 11-02 (Recurring finding) Grant Expense Reimbursement: One of twenty-four expenses tested was substantiated by travel requests that were calculated incorrectly. The Organization subsequently requested and received reimbursement through a grant for the overstated expense totaling \$34.68.

Recommendation: We recommend that management implement review procedures to ensure that expenses charged to grants are properly substantiated.

Management Response: The travel claims will be reviewed by the Director of the early intervention program on a line by line basis prior to authorization. Additionally, a new travel form will be required to be utilized each month to avoid the potential for formula errors to occur. A new travel claim form has been developed that has all cells except for the from-to and mileage amount cells to be locked. An additional form will be required for other than mileage reimbursement elements.

- 11-03 (Recurring finding) Compliance with ARRA Grant TRAM Directives: We noted that a risk assessment and action plan were not prepared for a grant funded under the American Recovery and Reinvestment Act. We also noted that ARRA expenses were not coded to separate accounts. TRAM directives 8, 9 and 2 require all subrecipients of ARRA funds to complete these items.

Recommendation: We recommend that management implement procedures to ensure that a risk assessment and action plan are prepared for each ARRA grant and to code ARRA grant expenses in separate accounts.

Management Response: Management will undertake to implement a risk assessment and action plan as well as code ARRA grant expenses to separate accounts.

The Organization's responses to the findings identified in our audit are described above and on the previous page. We did not audit the Organization's responses and, accordingly, we express no opinion on them.

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

*Stone Rudolph & Henry, PLC*

December 3, 2011