

**2020**  
**Financial Statements**  
With Supplementary  
Information

**THE ARC OF TENNESSEE, INC.**

**FINANCIAL STATEMENTS**

**JUNE 30, 2020**

(With Independent Auditor's Report Thereon)

THE ARC OF TENNESSEE, INC.  
FINANCIAL STATEMENTS  
JUNE 30, 2020

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**THE ARC OF TENNESSEE, INC.**  
**ROSTER OF BOARD OF DIRECTORS**  
**JUNE 30, 2020**

Linda Brown	President – The Arc TN
Elise McMillan	Board President – The Arc US
Karen Downer	Vice President
David Hawk	Treasurer
Ann Curl	Past President
Robyn Lampley	Secretary
John Shouse	Development Committee Chair
Doria Panvini	Public Policy Chair
Malessa Fleenor	Board Member
Courtney Taylor	Board Member
Jenny Vogus	Board Member
Glenda Bond	Local Chapter Rep
Sharon Bottorff	Local Chapter Rep
Susan Carr	Local Chapter Rep
Russell Edwards	Local Chapter Rep
Alyson Edwards	Local Chapter Rep
Teresa Grimmett	Local Chapter Rep
Nikki Klumb	Local Chapter Rep
Kytrinia Miller	Local Chapter Rep
Sharon Webb	Local Chapter Rep
Shontie Brown	Regional Rep
Lexi Shelnett	Regional Rep
Marcus Thomas	Regional Rep



**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, 2020, 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, 2020, 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, roster of Board of Directors, and schedule of prior year findings 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 December 5, 2020, 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 & Bellantone*

December 5, 2020

**THE ARC OF TENNESSEE, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2020**

**ASSETS**

Current Assets:

Cash and restricted cash	\$ 904,725	
Investments	349,281	
Grants receivable	286,681	
Accounts receivable	69,163	
Prepaid expenses	4,270	
Total current assets		\$ 1,614,120

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
Total Assets		\$ 1,618,527

**LIABILITIES AND NET ASSETS**

Current Liabilities:

Current installment of note payable	\$ 95,229	
Accounts payable	195,560	
Accrued expenses	55,921	
Total current liabilities		\$ 346,710

Note payable		96,603
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Total Liabilities		443,313
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Net Assets:

Without donor restrictions	1,157,074	
With donor restrictions	18,140	
Total net assets		1,175,214
Total liabilities and net assets		\$ 1,618,527

**THE ARC OF TENNESSEE, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2020**

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenues:			
Gum vending	\$ 16,538	\$ -	\$ 16,538
Grant income	1,636,647	-	1,636,647
Contributions	45,244	-	45,244
In-kind contributions	13,554	-	13,554
Interest	74	3	77
Investment income, net	11,285	-	11,285
Other income	10,590	-	10,590
Affiliation fees	13,950	-	13,950
Registrations	3,395	-	3,395
Memberships	17,930	-	17,930
Net assets released from restrictions	-	-	-
Total support and revenues	<u>1,769,207</u>	<u>3</u>	<u>1,769,210</u>
Expenses:			
Program services:			
Advocacy, Education and Public Awareness	645,259	-	645,259
Secondary Transition Project	146,499	-	146,499
Healing Trust	29,525	-	29,525
Partners in Policymaking Workshop	33,108	-	33,108
Personal Assistance Services and Support (PASS)	145,456	-	145,456
Administration of the Real Choice Systems Change (PTP)	223,486	-	223,486
Family Engagement	189,745	-	189,745
People First	81,599	-	81,599
Pre-ets	7,685	-	7,685
AIMHiTN, ECF, Enabling Technology, SDM	105,571	-	105,571
PPP Loan	191,832	-	191,832
Total program services	<u>1,799,765</u>	<u>-</u>	<u>1,799,765</u>
Supporting services:			
Management and general	55,701	-	55,701
Fundraising	10,328	-	10,328
Total supporting services	<u>66,029</u>	<u>-</u>	<u>66,029</u>
Total expenses	<u>1,865,794</u>	<u>-</u>	<u>1,865,794</u>
Increase (decrease) in net assets	(96,587)	3	(96,584)
Net assets - beginning of year	<u>1,253,661</u>	<u>18,137</u>	<u>1,271,798</u>
Net assets - end of year	<u>\$ 1,157,074</u>	<u>\$ 18,140</u>	<u>\$ 1,175,214</u>

See accompanying notes to the financial statements.

**THE ARC OF TENNESSEE, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2020**

	Program Services						
	Advocacy, Education and Public <u>Awareness</u>	Secondary Transition Project	Healing Trust	Partners in Policymaking Workshop	Personal Assistance Services and Support (PASS)	Administration of the Real Choice Systems Change (PTP)	Family Engagement
Salaries	\$ 329,979	\$ 80,955	\$ 13,658	\$ 3,724	\$ 18,223	\$ 123,402	\$ 106,239
Payroll taxes and benefits	106,154	16,668	2,571	689	4,307	28,669	31,968
Total personnel costs	436,133	97,623	16,229	4,413	22,530	152,071	138,207
Professional Fees / Grant Awards	3,123	2,094	94	10,395	94,504	9,978	2,014
Supplies	4,616	1,810	87	1,567	150	886	3,520
Communication	7,853	2,450	760	421	387	2,300	3,659
Postage & Shipping	1,296	16	-	29	41	457	11
Occupancy	6,291	1,283	279	-	1,115	3,372	680
Equipment Rental & Maintenance	1,632	398	31	-	88	2,417	374
Printing & Publications	6,322	-	170	-	-	-	-
Travel / Conferences & Meetings	43,226	13,148	6,206	19	628	9,554	14,208
Insurance	-	-	-	-	-	-	-
Specific Assistance to Individuals	12,431	-	-	160	-	-	-
Other Non-Personnel	-	-	-	-	-	-	-
Indirect Cost	122,336	27,677	5,669	2,550	26,013	42,451	27,072
In-Kind Expense	-	-	-	13,554	-	-	-
Miscellaneous	-	-	-	-	-	-	-
Lobbying Expenses	-	-	-	-	-	-	-
Total expenses	<u>\$ 645,259</u>	<u>\$ 146,499</u>	<u>\$ 29,525</u>	<u>\$ 33,108</u>	<u>\$ 145,456</u>	<u>\$ 223,486</u>	<u>\$ 189,745</u>

See accompanying notes to the financial statements.

**THE ARC OF TENNESSEE, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2020**

	Program Services (continued)					Supporting Services		
			AIMHiTN ECF, Enabling Technology, SDM	PPP Loan	Total Program Services	Management and General	Fundraising	Total Expenses
	People First	Pre-ets						
Salaries	\$ 42,066	\$ 3,055	\$ 29,946	\$ 153,232	\$ 904,479	\$ 165,659	\$ 421	\$ 1,070,559
Payroll taxes and benefits	16,197	398	9,740	33,687	251,048	33,271	127	284,446
Total personnel costs	58,263	3,453	39,686	186,919	1,155,527	198,930	548	1,355,005
Professional Fees / Grant Awards	3,768	509	15,801	-	142,280	42,546	8,328	193,154
Supplies	195	8	14,929	-	27,768	9,530	2	37,300
Communication	1,750	589	895	-	21,064	7,700	162	28,926
Postage & Shipping	10	-	589	-	2,449	1,032	9	3,490
Occupancy	447	260	37	4,913	18,677	39,231	518	58,426
Equipment Rental & Maintenance	313	45	2,069	-	7,367	5,911	83	13,361
Printing & Publications	65	-	950	-	7,507	145	-	7,652
Travel / Conferences & Meetings	1,477	1,181	14,371	-	104,018	12,267	678	116,963
Insurance	-	-	-	-	-	6,341	-	6,341
Specific Assistance to Individuals	-	-	-	-	12,591	-	-	12,591
Other Non-Personnel	-	-	-	-	-	12,286	-	12,286
Indirect Cost	15,311	1,640	16,244	-	286,963	(286,963)	-	-
In-Kind Expense	-	-	-	-	13,554	-	-	13,554
Miscellaneous	-	-	-	-	-	5,155	-	5,155
Lobbying Expenses	-	-	-	-	-	1,590	-	1,590
Total expenses	\$ 81,599	\$ 7,685	\$ 105,571	\$ 191,832	\$ 1,799,765	\$ 55,701	\$ 10,328	\$ 1,865,794

See accompanying notes to the financial statements.

THE ARC OF TENNESSEE, INC.  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2020

Cash Flows From Operating Activities:		
Decrease in net assets	\$	(96,584)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Unrealized gain on investment	\$	(7,877)
Changes in:		
Grants receivable		243,911
Accounts receivable		6,147
Prepaid expenses		3,208
Accounts payable		37,192
Accrued expenses		8,140
		<u>290,721</u>
Net cash provided by operating activities		<u>194,137</u>
Cash Flows from Investing Activities:		
Sale of investments		58,034
Purchase of investments		<u>(63,870)</u>
Net cash used in investing activities		<u>(5,836)</u>
Cash Flows from Financing Activities:		
Issuance of long-term debt		<u>191,832</u>
Net cash provided by financing activities		<u>191,832</u>
Net increase in cash		380,133
Cash and restricted cash - beginning of year		<u>524,592</u>
Cash and restricted cash - end of year	\$	<u><u>904,725</u></u>

See accompanying notes to the financial statements.

**THE ARC OF TENNESSEE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**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 nonprofit 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**

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.

**Healing Trust**

The Healing Trust Advocacy grant provides unrestricted funding for The Arc TN to engage in advocacy and public policy work around issues that impact health outcomes for Tennesseans with intellectual and developmental disabilities.

**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 (PASS)**

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.

**THE ARC OF TENNESSEE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

NOTE 1 - Summary of Significant Accounting Policies (continued)

Program and Supporting Services (continued)

Family Engagement

The Family Engagement grant through the TN Department of Education focuses on empowering families to become more involved in the education of their children receiving special education services in our school systems. This year the Department expanded the work of the Family Engagement grant to four times significantly, adding nine FTE positions. At this time they also folded the Secondary Transition program into this contract.

People First of Tennessee

The People First grant through the TN Department of Intellectual and Developmental Disabilities (DIDD) funding to revitalize People First TN – a self-advocacy organization for self-advocates, run by self-advocates. People First TN is charged with growing membership, developing local chapters, providing training for self-advocates and addressing policy and systems issues important to people with disabilities across the state.

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.

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 of the five Pre-ETS: workplace readiness training, self-advocacy, postsecondary education counseling, job readiness, and work-based learning. The Arc of Tennessee collaborates with local school systems to implement these services across the state.

AIMHiTN

The AIMHiTN grant through AIMHiTN funds administrative support for AIMHiTN, a statewide non-profit dedicated to Infant Mental Health in Tennessee. Our staff assist with tasks such as event planning, coordinating board meetings, taking meeting minutes and other office tasks.

Supported Decision-Making (SDM)

The SDM grant through the TN Council on Developmental Disabilities funds a pilot project to provide formalized decision-making supports for people with I/DD who do not have any natural supports to assist them. It also created an SDM Advisory Group to discuss barriers to implementing decision-making supports other than conservatorship for people with I/DD and develop strategies for addressing those barriers.

**THE ARC OF TENNESSEE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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

**Enabling Tech**

The Enabling Tech grant through the TN Department of Intellectual and Developmental Disabilities provides funding for a variety of projects that advance the use of technology to increase the independence of people with I/DD. These projects are assigned to us by DIDD based on their need.

**Tennessee Disability 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 8.

**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:

Net assets without donor restrictions - Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of management and the board of directors.

Net assets with donor restrictions - Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by our actions or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity. Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

**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, 2020.

**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, 2020.

**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.

**THE ARC OF TENNESSEE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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

**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 11 and 12.

**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. Expenses that are specifically identifiable are allocated on an invoice by invoice basis. All other expenses are allocated on the basis of time and effort.

**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 \$42,283 during the year ended June 30, 2020.

**THE ARC OF TENNESSEE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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

**New Accounting Pronouncement**

The Financial Accounting Standards Board (FASB) issued two Accounting Standard Updates that will affect the Organization's revenue recognition. The first, Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* affects contracts with customers to transfer goods or services and contracts for the transfer of non-financial assets (unless those contracts are within the scope of other standards). The core principle of this Update is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the good or services. This Update requires entities to make new judgements and estimates and provide expanded disclosures about revenue. The second, Accounting Standards Update No. 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, establishes standards for characterizing grants and similar contracts with resource providers as either exchange transactions or conditional contributions. We have adopted these standards retrospectively during 2019. The adoption of this standard had no effect on beginning net assets on our statement of activities for the year ended June 30, 2020.

In November 2016, the FASB amended the Statement of Cash Flows topic of the Accounting Standards Codification to clarify how restricted cash is presented and classified on the statements of financial position and cash flows. The statements of financial position and cash flows have been presented to reflect this Accounting Standards Update at June 30, 2020.

**NOTE 2 - Availability and Liquidity**

Financial assets available for general expenditure within one year of the statement of financial position, consist of the following:

Financial assets for the year ended June 30, 2020

Cash	\$ 821,197
Grants receivable	286,681
Accounts receivable	69,163
	<u>\$ 1,177,041</u>

The Organization has certain donor-restricted assets limited to use which are only available for restricted programs. Accordingly, these assets have been excluded in the qualitative information above.

In the next fiscal year, we plan to receive the same level of contributions, and consider contributions for programs which are ongoing, major, and central to our annual operations to be available to meet cash needs for general expenditures. The Organization has minimal amounts of liabilities in order to maintain most of its financial assets to be readily available. We consider cash to be readily available. We manage our liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. If our analysis of liquid assets reveals inadequate funds for near-term operating needs, we will immediately reduce spending of program and management and general expenditures.

**THE ARC OF TENNESSEE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 3 – Fair Value**

Fair value is defined as the price that would be received to sell an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset. The modified cash basis of accounting establishes a fair value hierarchy that prioritizes investments based on those assumptions.

The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs). We group assets at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

These levels are:

Level 1 - Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date.

Level 2 - Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar assets/liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset/liability; and,
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 - Unobservable inputs that cannot be corroborated by observable market data.

**NOTE 4 - Investments**

Investment income, net, consisted of the following for the year ended June 30, 2020:

Interest and dividend income, reinvested	\$ 11,461
Unrealized/Realized gain	2,739
Investment fees	<u>(2,915)</u>
Investment income, net	<u>\$ 11,285</u>

At June 30, 2020, our investments are comprised of \$216,376 of equity securities, and \$132,905 of fixed income bonds, both of which we consider level 1 on the fair value hierarchy.

**NOTE 5 - Accounts Receivable**

Accounts receivable at June 30, 2020, are as follows:

Due from Member Units and customers	\$ 2,752
Sponsors and Other	66,411
	<u>\$ 69,163</u>

**THE ARC OF TENNESSEE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 6 - Grants Receivable**

At June 30, 2020, we are owed the following amounts for grants:

Advocacy, Education & Public Awareness	\$ 107,328
Secondary Transition Program (formerly LINK)	13,946
Enabling Technology	349
Family Engagement	34,382
Partners in Policymaking Workshop	14,851
Personal Assistance Services and Support	77,642
People Talking to People (PTP)	28,241
Pre-Employment Transition Services	144
People First (overpayment)	(1,846)
Employment and Community First CHOICES	394
AIMHITN	11,250
	<u>\$ 286,681</u>

**NOTE 7 - Line of Credit Payable and Long-term Debt**

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 5.00% at June 30, 2020, and expires on May 31, 2036. We did not draw any amounts on this line of credit during the year ended June 30, 2020, and we do not have a payable at June 30, 2020.

We also received the U.S. Small Business Administration Paycheck Protections Plan under the Coronavirus Aid, Relief, and Economic Security Act Loan during 2020. The amount of this loan was \$191,832, with monthly payments of \$10,795, including an interest rate of 1.00%, beginning October 2020, until maturity in March 2022. We intend to apply for forgiveness of this loan, as allowable by the U.S. Small Business Administration.

The following is a schedule of future maturities:

Year Ending	
<u>June 30,</u>	
2021	\$ 95,229
2022	<u>96,603</u>
	<u>\$ 191,832</u>

**NOTE 8 - 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. Due to the ongoing COVID 19 pandemic, the MegaConference was not held during 2020, however we did hold a virtual conference, which incurred expenses of \$5,824. Money not spent on the MegaConference is held by us by request of the other nonprofit participants for future MegaConferences. For the year ended June 30, 2020, the cumulative surplus was \$69,939 and is included in accounts payable.

**THE ARC OF TENNESSEE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 9 - Net Assets – Board Designated**

Board designated net assets consisted of the following at June 30, 2020:

Investments, including cash portion	\$ 360,424
Roger Blue Savings	3,172
ADID Future Conferences	2,727
Corporate Savings	38,500
DCE Funds for Future Training	5,584
People First	4,262
	<u>\$ 414,669</u>

As shown on the statement of financial position:

Cash	\$ 65,388
Investments	349,281
	<u>\$ 414,669</u>

**NOTE 10 - Net Assets with Donor Restrictions**

Net assets with donor restrictions were as follows at June 30, 2020:

Specific purpose, cash for:	
DSPAT (See NOTE 16)	\$ 1,809
Arc US Advocacy	3,546
AT&T	2,494
Frist Foundation	347
Supported Decision Making	136
Family Support	738
Conservatorship	1,763
Youth Act	721
Baptist Healing Trust (time restricted)	6,586
	<u>\$ 18,140</u>

**NOTE 11 - 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 2020, unless canceled by either party. Related to these contracts, we received \$16,538 during the year ended June 30, 2020.

**NOTE 12 - 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, 2020**

**NOTE 12 - Government Grants, Grant Revenue and Fees for Service (continued)**

Funds were received for the following grant activities as of June 30, 2020:

Advocacy, education and public awareness	\$ 644,559
Secondary Transition	128,328
Tennessee Leadership Institute	19,553
Personal Assistance & Support	145,455
Real Choice Systems Change	223,486
People First	75,000
Healing Trust	45,000
Pre-Employment Transition Services	11,799
Enabling Technology	36,645
Family Engagement	189,743
Employment and Community First CHOICES (ECF)	250
National Core Indicators ECF	48,000
AimHiTN	45,350
Other grants	23,479
	<u>\$ 1,636,647</u>

**NOTE 13 - 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 \$4,913 as of June 30, 2020, and increase each year. Monthly payments on four other operating leases range from \$148 to \$539, and will all have matured by September 2023.

Total lease expense for the year ended June 30, 2020, was \$71,787. The following is a schedule of minimum lease payments under the non-cancellable operating leases.

**Year Ending June 30,**

2021	\$ 69,927
2022	67,874
2023	37,587
2024	1,617
	<u>\$ 177,005</u>

**NOTE 14 - 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.

At June 30, 2020, 52% of all receivables was due from one grantor. At June 30, 2020, 87% of all revenue was received from four sources.

**THE ARC OF TENNESSEE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 14 - Concentration of Credit Risk (continued)**

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 15 – Contingencies**

We are currently seeking legal counsel regarding the potential of back payment of 403(b) benefits to current and former employees based on applicable employee benefit laws. Management believes a provision for these potential payments is not necessary as the amount is not estimable. It is reasonably possible that payments could be made.

**NOTE 16 - 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, 2020, 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, 2020, we collected \$13,950 from these entities.

**NOTE 16 - 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 \$1,803 as of June 30, 2020.

**NOTE 17 - 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, 2020, we recognized \$13,554 as in-kind revenue and expenses.

**NOTE 18 - New Pronouncements**

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, 2021, and for annual periods and interim periods thereafter with early adoption permitted. We are currently evaluating the impact of adopting this statement.

**NOTE 19 - Subsequent Events**

We have evaluated events subsequent to the year ended June 30, 2020. As of December 5, 2020, 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, 2020**

Federal Grantor Pass-Through Grantor	Program Name	CFDA Number	Pass-through Entity Identifying Number	Pass-through to Subrecipients	Expenditures
<b>Federal Awards</b>					
Pass-through Funding: 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	\$ -	\$ 128,328
U.S. Department of Education Office of Special Education and Rehabilitative Services Passed through the TN Department of Education Special Education - Grants to States Total Program 84.027A	Family Engagement	84.027A	33136-00119	-	189,743
					318,071
Pass-through Funding: 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	31614-80119	-	19,553
U.S. Department of Health and Human Services Passed through the TN Department of Finance and Admin. Division of TennCare	National Core Indicators Survey	Unknown	31865-00815	-	24,000
<b>TOTAL FEDERAL AWARDS</b>				\$ -	\$ 361,624
<b>State Financial Assistance</b>					
Department of Intellectual and Developmental Disabilities	Advocacy Program to DIDD Service Recipients	N/A	34401-99145	\$ -	\$ 644,559
Department of Intellectual and Developmental Disabilities	Personal Assistance Services and Support	N/A	34401-33146	-	145,455
Department of Intellectual and Developmental Disabilities	Real Choice Systems Change Program	N/A	34401-99147	-	223,486
Department of Intellectual and Developmental Disabilities	Enabling Technology	N/A	34401-99148	-	36,645
Department of Intellectual and Developmental Disabilities	People First	N/A	34401-99161	-	75,000
Department of Finance and Administration, Division of TennCare	National Core Indicators Survey	N/A	31865-00815	-	24,000
Department of Finance and Administration, Office of Criminal Justice Programs	Tennessee Courts (Census)	N/A	GE 04.01.19 NP	-	14,854
Department of Human Services	Pre-Employment Transition Services	N/A	34570-82719	-	11,799
<b>TOTAL STATE AWARDS</b>				-	1,175,798
<b>TOTAL FEDERAL &amp; STATE AWARDS</b>				\$ -	\$ 1,537,422

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, 2020, 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 December 5, 2020.

### **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) as a basis for designing 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 Hande & Bellentine*

December 5, 2020

THE ARC OF TENNESSEE, INC.  
SCHEDULE OF PRIOR YEAR FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2020

There were no prior findings reported.