

THE ARC OF TENNESSEE, INC.

FINANCIAL STATEMENTS

JUNE 30, 2016

(With Independent Auditor's Report Thereon)

THE ARC OF TENNESSEE, INC.
FINANCIAL STATEMENTS
JUNE 30, 2016

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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, 2016, 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, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal and State Awards, as required by the Tennessee Comptroller of the Treasury Division of Local Government Audit, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 2016, on our consideration of The Arc of Tennessee, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

September 2, 2016

THE ARC OF TENNESSEE, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016

ASSETS

Current Assets:

Cash	\$ 654,965	
Certificates of deposit	38,534	
Grants receivable	457,545	
Accounts receivable	22,614	
Prepaid expenses	<u>11,202</u>	
Total current assets		\$ 1,184,860

Property and Equipment:

Furniture and equipment	160,187	
Less: accumulated depreciation	<u>(159,020)</u>	
Total property and equipment		1,167

Other Assets:

Security deposit	<u>9,800</u>	
Total other assets		9,800

Assets Whose Use Is Limited:

Cash	30,767	
Investments	<u>284,965</u>	
		<u>315,732</u>

Total Assets		<u><u>\$ 1,511,559</u></u>
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THE ARC OF TENNESSEE, INC.
STATEMENT OF FINANCIAL POSITION (continued)
JUNE 30, 2016

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable	\$ 257,146	
Accrued vacation	50,557	
Deferred revenue	<u>8,581</u>	
Total current liabilities		<u>\$ 316,284</u>
Net Assets:		
Unrestricted:		
Undesignated	879,543	
Board-designated	<u>301,567</u>	
Total unrestricted net assets		1,181,110
Temporarily restricted	<u>14,165</u>	
Total restricted net assets		<u>14,165</u>
Total net assets		<u>1,195,275</u>
Total liabilities and net assets		<u><u>\$ 1,511,559</u></u>

See accompanying notes to the financial statements.

THE ARC OF TENNESSEE, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenues:				
Gum vending	\$ 49,210	\$ -	\$ -	\$ 49,210
Grant income	1,428,330	-	-	1,428,330
Contributions	41,755	-	-	41,755
In-kind contributions	48,860	-	-	48,860
Interest	-	55	-	55
Investment income, net	(6,140)	-	-	(6,140)
Other income	420	-	-	420
Roger Blue Memorial Fund income	600	-	-	600
Rental income	2,355	-	-	2,355
Affiliation fees	13,300	-	-	13,300
Mega Conference administration fee	10,000	-	-	10,000
Meetings and conferences	4,675	-	-	4,675
Memberships	9,571	-	-	9,571
Net assets released from restrictions	5,642	(5,642)	-	-
	<u>1,608,578</u>	<u>(5,587)</u>	<u>-</u>	<u>1,602,991</u>
Total support and revenues				
Expenses:				
Program services:				
Advocacy, Education and Public Awareness	582,515	-	-	582,515
Secondary Transition Project (formerly LINK)	161,585	-	-	161,585
Partners in Policymaking Workshop	175,720	-	-	175,720
Personal Assistance Services and Support (PASS)	129,237	-	-	129,237
Administration of the Real Choice Systems Change	196,499	-	-	196,499
Other grants	21,363	-	-	21,363
	<u>1,266,919</u>	<u>-</u>	<u>-</u>	<u>1,266,919</u>
Supporting services:				
Management and general	279,188	-	-	279,188
Fundraising	65,205	-	-	65,205
	<u>344,393</u>	<u>-</u>	<u>-</u>	<u>344,393</u>
Total supporting services				
Total expenses	<u>1,611,312</u>	<u>-</u>	<u>-</u>	<u>1,611,312</u>
Decrease in net assets	(2,734)	(5,587)	-	(8,321)
Net assets - beginning of year	<u>1,183,844</u>	<u>19,752</u>	<u>-</u>	<u>1,203,596</u>
Net assets - end of year	<u>\$ 1,181,110</u>	<u>\$ 14,165</u>	<u>\$ -</u>	<u>\$ 1,195,275</u>

See accompanying notes to the financial statements.

THE ARC OF TENNESSEE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

	Program Services						Total Program Services	Supporting Services		Total Expenses
	Advocacy, Education and Public Awareness	Secondary Transition Project	Partners in Policymaking Workshop	Personal Assistance Services and Support (PASS)	Administration of Real Choice Systems Change (PTP)	Other Grants		Management and General	Fundraising	
Salaries	\$ 354,477	\$ 104,749	\$ 864	\$ 32,236	\$ 136,064	\$ 3,220	\$ 631,610	\$ 117,343	\$ 42,706	\$ 791,659
Payroll taxes and benefits	108,157	29,076	249	8,532	27,159	156	173,329	28,811	11,753	213,893
Total personnel costs	462,634	133,825	1,113	40,768	163,223	3,376	804,939	146,154	54,459	1,005,552
Professional Fees / Grant Awards	7,372	1,500	27,725	85,650	7,849	2,755	132,851	38,234	1,805	172,890
Supplies	1,802	860	247	886	1,754	1,142	6,691	7,528	3,784	18,003
Communication	8,465	5,735	-	352	848	-	15,400	9,524	1,325	26,249
Postage & Shipping	2,329	287	-	38	153	-	2,807	647	1	3,455
Occupancy	6,314	432	-	1,193	5,047	-	12,986	41,587	1,904	56,477
Equipment Rental & Maintenance	3,407	1,288	-	73	1,220	195	6,183	6,332	185	12,700
Printing & Publications	7,489	47	1,055	-	315	-	8,906	842	24	9,772
Travel / Conferences & Meetings	72,399	17,611	70,344	277	16,090	2,058	178,779	6,792	1,682	187,253
Insurance	-	-	-	-	-	-	-	6,626	-	6,626
Specific Assistance to Individuals	10,304	-	26,376	-	-	6,490	43,170	554	-	43,724
Other Non-Personnel	-	-	-	-	-	-	-	12,094	-	12,094
In-Kind Expense	-	-	48,860	-	-	-	48,860	-	-	48,860
Miscellaneous	-	-	-	-	-	200	200	1,024	36	1,260
Lobbying Expenses	-	-	-	-	-	-	-	1,250	-	1,250
Edith Wright Fund	-	-	-	-	-	5,147	5,147	-	-	5,147
Total expenses	\$ 582,515	\$ 161,585	\$ 175,720	\$ 129,237	\$ 196,499	\$ 21,363	\$ 1,266,919	\$ 279,188	\$ 65,205	\$ 1,611,312

See accompanying notes to the financial statements.

THE ARC OF TENNESSEE, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

Cash Flows From Operating Activities:	
Decrease in net assets	\$ (8,321)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:	
Unrealized loss on investments	\$ 3,610
Dividends and interest reinvested	(14,747)
Investment fees	2,225
Changes in:	
Grants receivable	68,590
Accounts receivable	(6,056)
Prepaid expenses	5,109
Assets whose use is limited	20,848
Accounts payable	117,495
Accrued vacation	(541)
Deferred revenue	1,767
	198,300
Net cash provided by operating activities	189,979
Cash Flows from Investing Activities:	
Purchase of investments	(33)
Net cash used in investing activities	(33)
Net increase in cash	189,946
Cash - beginning of year	465,019
Cash - end of year	\$ 654,965

See accompanying notes to the financial statements.

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - Summary of Significant Accounting Policies

Nature of Activities

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

Programs and Supporting Services

Advocacy, Education and Public Awareness

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

Secondary Transition Project (formerly LINK)

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

Partners in Policymaking Workshop

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

Personal Assistance Services and Support

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

Administration of Real Choice Systems Change (PTP)

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

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - Summary of Significant Accounting Policies (continued)

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:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by our actions and/or the passage of time. Restrictions that are fulfilled in the same accounting period in which the contributions are received are reported in the Statement of Activities as unrestricted.

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

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, we consider all unrestricted cash and investment instruments purchased with original maturities of three months or less to be cash equivalents. We have no cash equivalents as of June 30, 2016.

Accounts Receivable

Bad debts are recognized on the allowance method based on historical experience and our evaluation of outstanding accounts. We do not consider any amounts to be uncollectible at June 30, 2016.

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 \$2500 for any land, building, and equipment purchased. Expenditures for repairs and maintenance are charged to expense as incurred.

Revenue Recognition

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

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - Summary of Significant Accounting Policies (continued)

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. We are not subject to examination by U.S. federal or state taxing authorities for years before 2013.

Functional Allocation of Expenses

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

Use of Estimates

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

Fair Values of Financial Instruments

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

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 \$37,760 during the year ended June 30, 2016.

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2 – Certificates of Deposit

We have three certificates of deposit with First Tennessee Bank. These assets have been named as collateral for the line of credit. See NOTE 7. The amounts, maturities, and interest rates are as follows:

<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount</u>
.10%	4/13/2017	\$ 11,354
.10%	4/13/2017	11,301
.10%	4/13/2017	15,879
		<hr/>
		\$ 38,534

NOTE 3 - Investments

Investments consisted of the following at June 30, 2016:

	<u>Market Value</u>	<u>Cost</u>
Mutual Funds	<u>\$ 284,965</u>	<u>\$ 286,709</u>

Investment income (loss) consisted of the following for the year ended June 30, 2016:

Interest and dividend income	\$ 14,747
Unrealized loss - net	(3,610)
Realized loss - net	(15,552)
Investment fees	<u>(1,725)</u>
Investment income - net	<u>\$ (6,140)</u>

See NOTE 4.

NOTE 4 - Fair Value Measurements

We use a framework for measuring fair value and disclosing fair values. We define fair value at the price which would be received to sell an asset in an orderly transaction between market participants at the measurement date. We use this framework for all assets and liabilities measured and reported on a fair value basis and enable the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. Each asset and liability carried at fair value is classified into one of the following categories:

- Level 1 - Quoted market prices in active markets for identical assets or liabilities
- Level 2 - Observable market based inputs or unobservable inputs corroborated by market data
- Level 3 - Unobservable inputs not corroborated by market data.

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4 - Fair Value Measurements (continued)

The following table summarizes our financial assets measured at fair value on a recurring basis segregated by level of valuation inputs within the fair value hierarchy utilized to measure fair value as of June 30, 2016:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Mutual Funds	\$ 284,965	\$ 284,965	\$ -	\$ -

There were no transfers between Level 1, Level 2, and Level 3 investments during the year ended June 30, 2016.

NOTE 5 - Grants Receivable

At June 30, 2016, we are owed the following amounts for grants:

Advocacy, education & public awareness	\$ 203,346
PTP	93,436
Partners in Policymaking workshop	66,818
Secondary Transition Program (formerly LINK)	40,713
Personal assistance services and support	39,225
Administration of the Real Choice Systems Change	4,580
Health Matters	2,267
Other	17,065
CMAS – Advocacy (overpayment)	(9,905)
	\$ 457,545

NOTE 6 - Accounts Receivable

We are due amounts from Member Units, customers and registrations as follows:

Due from Member Units and customers	\$ 2,539
Other	20,075
	\$ 22,614

NOTE 7 - Line of Credit Payable

We have a line of credit with First Tennessee with an available amount of \$75,000. This line of credit carries an interest rate of .75% above the lender's base commercial rate, which was 5.25% at June 30, 2016, and expires on April 30, 2017. During the year ended June 30, 2016, we did not incur any interest charges. Certificates of deposit have been designated as collateral for this line of credit. See NOTE 2. At June 30, 2016, we have not drawn any amounts on this line of credit.

NOTE 8 - MegaConference - Future Years

We, along with other nonprofit entities, participate in a MegaConference each year. We provide the capability for the receipts and disbursements of the funds related to this MegaConference; however, this was not a program for us. Total receipts for the MegaConference for the year ended June 30, 2016, were \$142,118. Total disbursements for the MegaConference for the year ended June 30, 2016, were \$128,671. Money not spent on the MegaConference is held by us by request of the other non-profit participants for future

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

MegaConferences. For the year ended June 30, 2016, the cumulative surplus was \$96,464 and is included in accounts payable.

NOTE 9 - Deferred Revenue

In accordance with our revenue recognition policies listed in NOTE 1, we recognize revenue as expenses are incurred with regards to our matching grant programs. Any additional amounts that we have received and have not incurred matching expenses are reported as deferred revenue. The total amount of deferred revenue at June 30, 2016, is \$8,581.

NOTE 10 - Net Assets – Board Designated

Board designated net assets consisted of the following at June 30, 2016:

Investments including cash portion	\$ 288,339
Roger Blue Savings	4,154
ADID Future Conferences	2,713
Corporate Savings	805
DCE Funds for Future Training	5,556
	\$ 301,567
	\$ 301,567

NOTE 11 - Net Assets - Temporarily Restricted

Temporarily restricted net assets consisted of the following at June 30, 2016:

Edith Wright	\$ 11,368
DSPAT (See NOTE 17)	2,797
	\$ 14,165
	\$ 14,165

NOTE 12 - 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 2016, unless canceled by either party. We received \$49,210 for the year ended June 30, 2016, from gum vending.

NOTE 13 - Government Grants and Grant Revenue

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, Supports and Services (PASS). A portion of the activities included in the Advocacy and Awareness contract are tied to a longstanding lawsuit, which should be settled by the end of fiscal year 2017. If history repeats itself, there is a possibility that this contract could be reduced by as much as 40%. The Arc of Tennessee is actively working with DIDD to develop a new scope of services for the future that justifies the current amount of the contract. If the funding of this contract is not maintained at its current level, it will have a material effect on our operations.

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 13 - Government Grants and Grant Revenue (continued)

Funds were received for the following grant activities as of June 30, 2016:

Advocacy, education and public awareness	\$ 699,014
FSRTC Arc USA	3,847
Future Planning	4,580
TN Leadership Institute	144,582
Secondary Transition Program	174,512
Personal Assistance Service & Support	155,672
MegaConference	5,000
People Talking to People	237,124
Health Matters	2,914
Youth Act	1,085
	<hr/>
	<u>\$ 1,428,330</u>

NOTE 14 - Lease Agreements

We rent our facilities under a five-year lease agreement. Our facilities' lease agreements have monthly lease payments of \$5,555, which were set to increase with each year of the lease. In July 2015, our facility was purchased, and our new landlord cancelled our lease to allow us to move to a new location. The monthly lease payment in our new location is \$4,407, which will increase with each year of the lease. The future minimum lease payments of the new location are included in the schedule below. All leases have been classified as operating leases.

Total lease expense for the year ended June 30, 2016, was \$69,754. The following is a schedule of minimum lease payments under the non-cancellable operating leases.

Year Ending June 30.

2017	\$ 66,683
2018	58,510
2019	60,070
2020	61,673
2021	63,321
Thereafter	25,933
	<hr/>
	<u>\$ 336,190</u>

NOTE 15 - Concentration of Credit Risk

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

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

At June 30, 2016, 79% of all receivables were due from three sources. At June 30, 2016, 89% of all revenue was received from one source.

NOTE 15 - 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 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 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, 2016, we paid \$8,700 to the Arc of the United States for affiliate dues.

We also collect affiliate dues from various regional Arc entities in the State of Tennessee. During the year ended June 30, 2016, we collected \$13,300 from these entities.

NOTE 17 - 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 501c3 organization. DSPAT was a program through a grant from DIDD that ended June 30, 2012. DSPAT was also a membership program. At the conclusion of the grant, the members of DSPAT voted to use the membership dollars to fund the \$500 Above & Beyond award given annually at The Arc of Tennessee awards banquet. We are holding the dues collected on behalf of DSPAT, which were \$2,797 as of June 30, 2016.

NOTE 18 - In-kind Revenue and Expenses

We receive a significant amount of donated services from volunteers who assist in our Organization. During the year ended June 30, 2016, we recognized \$48,860 in in-kind revenues.

NOTE 19 - Subsequent Events

We have evaluated our June 30, 2016, financial statements for subsequent events through September 2, 2016, 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, 2016

Federal Grantor Pass-Through Grantor Grant Program Title	CFDA Number	Contract Number	Expenditures
<u>Federal Awards</u>			
U.S. Department of Labor's Office of Disability Employment Policy / Institute for Educational Leadership Direct National Collaborative on Workforce and Disability for Youth	17.720	OD-23804-12-75-4-11	\$ 1,085
U.S. Department of Education Office of Special Education and Rehabilitative Services Passed through the TN Department of Education Special Education - Grants to States	84.027A	33136-01116	174,512
U.S. Department of Health and Human Services Administration for Community Living Passed through the TN Department of Intellectual and Developmental Disabilities Tennessee Disability MegaConference	93.630	34401-80815	5,000
Passed through the TN Department of Intellectual and Developmental Disabilities Tennessee Leadership Institute	93.630	34401-80215	144,582
Total Program 93.630			149,582
TOTAL FEDERAL AWARDS			\$ 325,179
<u>State Financial Assistance</u>			
Department of Intellectual and Developmental Disabilities Advocacy Program to DIDD Service Recipients	N/A	34401-99039	699,014
Department of Intellectual and Developmental Disabilities Personal Assistance Services and Support	N/A	34401-00461	155,672
Department of Intellectual and Developmental Disabilities Real Choice Systems Change Program	N/A	34401-00434	237,124
TOTAL STATE AWARDS			1,091,810
TOTAL FEDERAL & STATE AWARDS			\$ 1,416,989

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**

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, 2016, 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 September 2, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Arc of Tennessee, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Arc of Tennessee, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of The Arc of Tennessee, Inc.'s internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Arc of Tennessee, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

September 2, 2016

THE ARC OF TENNESSEE, INC.
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

Financial Statement Findings:

There were no prior findings reported.