

2019

Financial Statements

THE ARC OF TENNESSEE, INC.

FINANCIAL STATEMENTS

JUNE 30, 2019

(With Independent Auditor's Report Thereon)

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

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THE ARC OF TENNESSEE, INC.
ROSTER OF BOARD OF DIRECTORS
JUNE 30, 2019

Ann Curl	President – The Arc TN
Elise McMillan	Board President – The Arc US
Linda Brown	Vice President Chair
Mary La Haie	Treasurer
John Shouse	Past President
Joe Pitts	Secretary
Glenda Bond	Local Chapter Representative
Sandra Hawkins	Local Chapter Representative
Susan Carr	Local Chapter Representative
Malessa Fleenor	Local Chapter Representative
Cindy Gardner	Local Chapter Representative
Karen Downer	Regional Representative
Caitlin Bernstein	Regional Representative
Shontie Brown	Regional Representative
Sharon Bottorff	Committee Chair, Local Chapter Representative
Robyn Lampley	Committee Chair, Local Chapter Representative
Courtney Taylor	Board Member
Nathan Fields	Committee Chair
Brenda Farley	Board Member
Doria Panvini	Committee Chair
Jennifer Heflin	Board Member



PATTERSON, HARDEE & BALLENTINE, P.C.

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of The Arc of Tennessee, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, 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, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2019, 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 Handee & Bellentine

October 18, 2019

THE ARC OF TENNESSEE, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019

ASSETS

Current Assets:

Cash	\$ 447,399	
Grants receivable	530,592	
Accounts receivable	75,310	
Prepaid expenses	7,478	
Total current assets		\$ 1,060,779

Property and Equipment:

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

Other Assets:

Security deposit	4,407	
Total other assets		4,407

Assets Whose Use Is Limited:

Cash	77,193	
Investments	335,568	
		412,761

Total Assets		<u>\$ 1,477,947</u>
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LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable	\$ 158,368	
Accrued expenses	47,781	
Total current liabilities		\$ 206,149

Net Assets:

Without donor restrictions	1,253,661	
With donor restrictions	18,137	
Total net assets		1,271,798

Total liabilities and net assets		<u>\$ 1,477,947</u>
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THE ARC OF TENNESSEE, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenues:			
Gum vending	\$ 37,470	\$ -	\$ 37,470
Grant income	1,511,109	-	1,511,109
Contributions	16,793	-	16,793
In-kind contributions	53,208	-	53,208
Interest	74	4	78
Investment income, net	18,405	-	18,405
Other income	2,597	-	2,597
Affiliation fees	13,375	-	13,375
Mega Conference administration fee	15,000	-	15,000
Meetings and conferences	924	-	924
Registrations	3,500	-	3,500
Memberships	19,879	-	19,879
Net assets released from restrictions	36,796	(36,796)	-
Total support and revenues	1,729,130	(36,792)	1,692,338
Expenses:			
Program services:			
Advocacy, Education and Public Awareness	675,219	-	675,219
Secondary Transition Project (formerly LINK)	167,430	-	167,430
Healing Trust	28,332	-	28,332
Partners in Policymaking Workshop	116,421	-	116,421
Personal Assistance Services and Support (PASS)	156,581	-	156,581
Administration of the Real Choice Systems Change (PTP)	252,729	-	252,729
Family Engagement	106,602	-	106,602
People First	62,194	-	62,194
Pre-ets	11,069	-	11,069
AIMHiTN, ECF, Enabling Technology, SDM	53,589	-	53,589
Total program services	1,630,166	-	1,630,166
Supporting services:			
Management and general	48,648	-	48,648
Fundraising	21,149	-	21,149
Total supporting services	69,797	-	69,797
Total expenses	1,699,963	-	1,699,963
Increase (decrease) in net assets	29,167	(36,792)	(7,625)
Net assets - beginning of year	1,224,494	54,929	1,279,423
Net assets - end of year	\$ 1,253,661	\$ 18,137	\$ 1,271,798

See accompanying notes to the financial statements.

THE ARC OF TENNESSEE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

	Program Services					
	Advocacy, Education and Public Awareness	Secondary Transition Project	Healing Trust	Partners in Policymaking Workshop	Personal Assistance Services and Support (PASS)	Administration of the Real Choice Systems Change (PTP)
Salaries	\$ 346,312	\$ 93,224	\$ 12,492	\$ 818	\$ 30,598	\$ 133,874
Payroll taxes and benefits	105,692	20,378	2,668	276	6,663	28,829
Total personnel costs	452,004	113,602	15,160	1,094	37,261	162,703
Professional Fees / Grant Awards	4,280	1,914	1,008	20,634	95,120	13,677
Supplies	4,243	2,364	851	278	183	1,380
Communication	7,001	3,058	-	-	306	1,865
Postage & Shipping	1,777	7	-	-	61	269
Occupancy	7,414	1,560	147	-	1,735	4,287
Equipment Rental & Maintenance	2,314	1,302	67	-	58	1,175
Printing & Publications	5,476	-	-	-	-	-
Travel / Conferences & Meetings	64,125	16,164	6,655	9,009	484	27,024
Insurance	-	-	-	-	-	-
Specific Assistance to Individuals	13,576	-	-	23,953	-	-
Other Non-Personnel	-	-	-	-	-	-
Indirect Cost	113,009	27,459	4,444	8,245	21,373	40,349
In-Kind Expense	-	-	-	53,208	-	-
Miscellaneous	-	-	-	-	-	-
Lobbying Expenses	-	-	-	-	-	-
Total expenses	\$ 675,219	\$ 167,430	\$ 28,332	\$ 116,421	\$ 156,581	\$ 252,729

See accompanying notes to the financial statements.

THE ARC OF TENNESSEE, INC.
STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

	Program Services (continued)				Supporting Services		
	Family Engagement	People First	Pre-ets	AIMHTN ECF, Enabling Technology, SDM	Total Program Services	Management and General	Fundraising Expenses
Salaries	\$ 60,529	\$ 32,056	\$ 3,771	\$ 26,943	\$ 740,617	\$ 123,230	\$ 2,534
Payroll taxes and benefits	15,737	10,478	3,432	7,330	201,483	30,748	6,956
Total personnel costs	76,266	42,534	7,203	34,273	942,100	153,978	9,490
Professional Fees / Grant Awards	1,402	866	299	8,922	148,122	32,067	8,895
Supplies	4,256	2,655	98	1,946	18,254	6,644	373
Communication	1,305	892	61	-	14,488	8,566	1,104
Postage & Shipping	9	5	-	75	2,203	752	9
Occupancy	745	1,116	168	43	17,215	43,581	799
Equipment Rental & Maintenance	86	149	28	385	5,564	6,336	103
Printing & Publications	65	65	-	-	5,606	-	-
Travel / Conferences & Meetings	9,029	6,034	457	2,817	141,798	17,094	376
Insurance	-	-	-	-	-	10,211	-
Specific Assistance to Individuals	-	-	-	-	37,529	-	-
Other Non-Personnel	-	-	-	-	-	9,636	-
Indirect Cost	13,439	7,878	2,755	5,128	244,079	(244,079)	-
In-Kind Expense	-	-	-	-	53,208	-	-
Miscellaneous	-	-	-	-	-	1,505	-
Lobbying Expenses	-	-	-	-	-	2,357	-
Total expenses	\$ 106,602	\$ 62,194	\$ 11,069	\$ 53,589	\$ 1,630,166	\$ 48,648	\$ 21,149
							\$ 1,699,963

See accompanying notes to the financial statements.

THE ARC OF TENNESSEE, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019

Cash Flows From Operating Activities:		
Decrease in net assets	\$	(7,625)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Investment income, net	\$	(18,405)
Changes in:		
Grants receivable		(116,056)
Accounts receivable		(10,149)
Prepaid expenses		7,672
Assets whose use is limited		4,806
Accounts payable		(25,333)
Accrued vacation		(16,589)
		<u>(174,054)</u>
Net cash used in operating activities		(181,679)
Net decrease in cash		(181,679)
Cash - beginning of year		<u>629,078</u>
Cash - end of year	\$	<u><u>447,399</u></u>

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

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 (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 (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.

Administration of the Real Choice Systems Change (PTP)

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

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 - Summary of Significant Accounting Policies (continued)

Program and Supporting Services (continued)

Employment and Community First Choices (ECF)

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

Pre-Employment Transition Services (Pre-ETS)

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

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.

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.

People First

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.

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.

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 Council 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, 2019

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.

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 7.

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 not subject to donor-imposed stipulations.

Net assets with donor restrictions - Net assets subject to donor-imposed stipulations, which may or will be met, either by our actions and/or by the passage of time. Restrictions fulfilled in the same accounting period in which the contributions are received are reported in the Statement of Activities as unrestricted. Net assets subject to donor-imposed stipulations which require the assets to be permanently maintained. 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. We had no permanently restricted net assets as of June 30, 2019.

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, 2019.

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, 2019.

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, 2019

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 10 and 11.

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 \$35,889 during the year ended June 30, 2019.

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 - Summary of Significant Accounting Policies (continued)

New Accounting Pronouncement

On August 8, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively and has not affected the beginning balance of net assets.

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, 2019

Cash	\$ 447,399
Grants receivable	530,592
Accounts receivable	<u>75,310</u>
	<u>\$ 1,053,301</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.

NOTE 3 - Investments

Investment income, net, consisted of the following for the year ended June 30, 2019:

Interest and dividend income, reinvested	\$ 10,521
Unrealized/Realized gain	10,666
Investment fees	<u>(2,782)</u>
Investment income, net	<u>\$ 18,405</u>

NOTE 4 - Accounts Receivable

Accounts receivable at June 30, 2019 are as follows:

Due from Member Units and customers	\$ 4,166
Sponsors and Other	<u>71,144</u>
	<u>\$ 75,310</u>

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 5 - Grants Receivable

At June 30, 2019, we are owed the following amounts for grants:

Advocacy, Education & Public Awareness	\$ 204,625
Secondary Transition Program (formerly LINK)	28,161
Enabling Technology	12,730
Family Engagement	40,145
Partners in Policymaking Workshop	32,749
Personal Assistance Services and Support	83,062
People Talking to People (PTP)	97,614
Pre-Employment Transition Services	27
People First	19,634
Supported Decision Making	2,782
Employment and Community First CHOICES	1,263
AIMHiTN	7,800
	<hr/>
	\$ 530,592

NOTE 6 - Line of Credit Payable

We have a line of credit with First Tennessee with an available amount of \$75,000. This line of credit carries an interest rate of 5.00% at June 30, 2019, and expires on May 31, 2036. We did not draw any amounts on this line of credit during the year ended June 30, 2019, and we do not have a payable at June 30, 2019.

NOTE 7 - MegaConference - Future Years

We, along with other nonprofit entities, participate in a MegaConference each year. We provide administration of receipts and disbursements for the funds related to this MegaConference; however, this was not a program for us. Total receipts for the MegaConference for the year ended June 30, 2019, were \$145,070. Total disbursements for the MegaConference for the year ended June 30, 2019, were \$139,103. 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, 2019, the cumulative surplus was \$75,763 and is included in accounts payable. We received \$15,000 for providing administrative fees during the year ended June 30, 2019.

NOTE 8 - Net Assets – Board Designated

Board designated net assets consisted of the following at June 30, 2019:

Investments, including cash portion	\$ 349,139
Roger Blue Savings	3,168
ADID Future Conferences	2,723
Corporate Savings	29,763
DCE Funds for Future Training	5,576
People First	4,255
	<hr/>
	\$ 394,624

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 9 - Net Assets - Temporarily Restricted

Temporarily restricted net assets consisted of the following at June 30, 2019:

DSPAT (See NOTE 16)	\$ 1,806
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>\$ 18,137</u>

NOTE 10 - 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 2019, unless canceled by either party. Related to these contracts, we received \$37,470 during the year ended June 30, 2019.

NOTE 11 - 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).

Funds were received for the following grant activities as of June 30, 2019:

Advocacy, education and public awareness	\$ 675,213
Secondary Transition	150,342
Tennessee Leadership Institute	63,214
Personal Assistance & Support	156,582
Real Choice Systems Change	252,729
People First	49,000
Supported Decision Making	10,668
Pre-Employment Transition Services	5,985
Enabling Technology	16,568
Family Engagement	106,602
Employment and Community First CHOICES	806
AimHiTN	23,400
	<u>\$ 1,511,109</u>

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 12 - 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 \$4,781 as of June 30, 2019, 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, 2019, was \$73,598. The following is a schedule of minimum lease payments under the non-cancellable operating leases.

Year Ending June 30,

2020	\$ 70,537
2021	69,927
2022	67,874
2023	37,587
2024	1,617
	<hr/>
	\$ 247,542

NOTE 13 - 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, 2019, 64% of all receivables was due from one source. At June 30, 2019, 98% of all revenue was received from three sources.

We maintain our cash in bank accounts which, at times, may exceed federally insured limits. We have not experienced any losses in such accounts and do not believe that we are exposed to any significant credit risk on our cash.

NOTE 14 – 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 15 - 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, 2019, 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, 2019, we collected \$13,375 from these entities.

THE ARC OF TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

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 \$1,805 as of June 30, 2019.

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, 2019, we recognized \$53,208 as in-kind revenue and expenses.

NOTE 18 - New Pronouncements

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

In February 2016, FASB issued Accounting Standards Update 2016-02, *Leases (Topic 842)*. The Update provides guidance about recording lease transactions on an organization's statements of financial position and activities. The amendments in this Update are effective for annual periods beginning after December 15, 2020, and for annual periods and interim periods thereafter with early adoption permitted. We are currently evaluating the impact of adopting this statement.

In June 2018, FASB issued Accounting Standards Update 2018-08, *Not-for-Profit Entities (Topic 958)*. The update will assist organizations in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance. This update will also assist in determining whether a contribution is conditional. This update should be applied on a modified prospective basis for annual periods beginning after December 15, 2018. We are currently evaluating the impact of adopting this statement.

In August 2016, FASB amended the Statement of Cash Flows topic of the Accounting Standards Codification to clarify how certain cash receipts and cash payments are presented and classified in the Statement of Cash Flows. The amendments will be effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. We are currently evaluating the impact of adopting this statement.

In November 2016, FASB amended the Statement of Cash Flows topic of the Accounting Standards Codification to clarify how restricted cash is presented and classified in the statement of cash flows. The amendments will be effective for the organization for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, with early adoption permitted. We are currently evaluating the impact of adopting this guidance on the financial statements.

NOTE 19 - Subsequent Events

We have evaluated events subsequent to the year ended June 30, 2019. As of October 18, 2019, 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, 2019

Federal Grantor Pass-Through Grantor	Program Title	CFDA Number	Contract Number	Passed Through to Subrecipients	Expenditures
Federal Awards 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 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 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 U.S. Department of Health and Human Services Administration for Community Living Passed through Quality Trust for Individuals with Disabilities, Inc. Total Program 90,630 TOTAL FEDERAL AWARDS State Financial Assistance Department of Intellectual and Developmental Disabilities Department of Intellectual and Developmental Disabilities Department of Intellectual and Developmental Disabilities Department of Intellectual and Developmental Disabilities Department of Intellectual and Developmental Disabilities Department of Intellectual and Developmental Disabilities Department of Human Services TOTAL STATE AWARDS TOTAL FEDERAL & STATE AWARDS	Secondary Transition Project	84,027A	33136-01116	\$ -	\$ 150,342
	Family Engagement	84,027A	33136-00119	-	106,602
					256,944
	Partners in Policymaking Workshop	93,630	31614-80119	-	63,214
	Supported Decision Making	93,630	31614-81119	-	10,668
				\$ -	\$ 73,882
	Advocacy Program to DIDD Service Recipients	N/A	34401-99145	-	\$ 675,219
	Personal Assistance Services and Support	N/A	34401-33146	-	156,581
	Real Choice Systems Change Program	N/A	34401-99147	-	252,729
	Enabling Technology	N/A	34401-99148	-	16,569
	People First	N/A	34401-99161	-	49,000
	Pre-Employment Transition Services	N/A	34570-82719	-	5,985
				-	1,156,083
				\$ -	\$ 1,486,909

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, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 18, 2019.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Patterson Harder & Ballentine

October 18, 2019

THE ARC OF TENNESSEE, INC.
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019

There were no prior findings reported.