

ARNETTE HOUSE, INC.

**Financial Statements and
Independent Auditors' Report**

**As of and for the Year Ended
June 30, 2010**

ARNETTE HOUSE, INC.

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INDEPENDENT AUDITORS' REPORT

December 3, 2010

To the Board of Directors of
Arnette House, Inc.
Ocala, Florida

We have audited the accompanying statement of financial position of Arnette House, Inc. (a nonprofit organization) as of June 30, 2010 and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Arnette House, Inc.'s fiscal 2009 financial statements and, in our report dated November 2, 2009, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arnette House, Inc. as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2010, on our consideration of Arnette House, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Board of Directors of
Arnette House, Inc.
Ocala, Florida

December 3, 2010

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Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Arnette House, Inc. taken as a whole. The accompanying schedule of expenditures of state financial assistance is presented for purposes of additional analysis as required by Rules of the Auditor General, Chapter 10.650 "Florida Single Audit Act Audits, Nonprofit and For-Profit Organizations" and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Duggan, Joiner & Company

ARNETTE HOUSE, INC.
Statement of Financial Position
June 30, 2010

ARNETTE HOUSE, INC.
Statement of Financial Position
June 30, 2010
With Comparative Totals at June 30, 2009

	<u>2010</u>	<u>2009</u>
<u>Assets</u>		
Current Assets		
Cash and cash equivalents	\$ 198,987	\$ 293,646
Certificate of deposit	52,801	51,745
Grants and contracts receivable	324,486	287,808
Prepaid expenses and other assets	<u>29,871</u>	<u>7,512</u>
Total Current Assets	<u>606,145</u>	<u>640,711</u>
Property and Equipment		
Property and equipment, net of accumulated depreciation	<u>735,916</u>	<u>787,674</u>
Other Assets		
Notes receivable	220,000	220,000
Accrued interest receivable	26,682	14,677
Deposits	<u>650</u>	<u>650</u>
Total Other Assets	<u>247,332</u>	<u>235,327</u>
Total Assets	<u>\$ 1,589,393</u>	<u>\$ 1,663,712</u>

Liabilities and Net Assets

	<u>2010</u>	<u>2009</u>
Current Liabilities		
Accounts payable	\$ 8,971	\$ 27,000
Program fees payable	3,700	0
Accrued payroll taxes and fringe benefits	7,130	23,755
Accrued vacation	<u>68,641</u>	<u>69,422</u>
Total Current Liabilities	<u>88,442</u>	<u>120,177</u>
Net Assets		
Unrestricted:		
Investment in property and equipment	735,916	787,674
Other unrestricted net assets	756,562	747,233
Temporarily restricted	<u>8,473</u>	<u>8,628</u>
Total Net Assets	<u>1,500,951</u>	<u>1,543,535</u>
Total Liabilities and Net Assets	<u>\$ 1,589,393</u>	<u>\$ 1,663,712</u>

**The accompanying notes are an integral
part of these financial statements.**

ARNETTE HOUSE, INC.
Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2010
With Comparative Totals For the Year Ended June 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2010</u>	<u>Total 2009</u>
Support and Revenue				
Emergency shelter and care	\$ 345,815	\$ 0	\$ 345,815	\$ 334,098
Food and nutrition services	28,861	0	28,861	27,481
Emergency food and shelter	0	24,260	24,260	7,500
Basic center	120,000	0	120,000	120,000
Transitional living	57,779	0	57,779	178,150
Americorp	24,024	0	24,024	13,366
Runaway shelter care	977,110	0	977,110	976,496
Federal Title IV-E	34,604	0	34,604	33,785
Group homes	258,909	0	258,909	51,191
Program fees - Independent living	83,721	0	83,721	57,377
Community development block grant	5,000	0	5,000	20,000
United Way of Marion County, Inc.	95,000	0	95,000	105,000
Donations	74,092	11,861	85,953	121,553
In-kind donations	11,499	0	11,499	20,078
Client fees	2,686	0	2,686	3,494
Interest	15,681	0	15,681	18,416
Miscellaneous	5,892	0	5,892	3,661
Net assets released from restrictions	<u>36,276</u>	<u>(36,276)</u>	<u>0</u>	<u>0</u>
Total Support and Revenue	<u>2,176,949</u>	<u>(155)</u>	<u>2,176,794</u>	<u>2,091,646</u>
Expenses				
General and administrative	273,659	0	273,659	263,801
Fund-raising costs	18,282	0	18,282	19,256
Short-term residential	1,133,747	0	1,133,747	1,164,978
Nonresidential	259,828	0	259,828	285,618
Transitional living program	136,545	0	136,545	197,159
Group homes	314,013	0	314,013	101,512
Independent living program	<u>83,304</u>	<u>0</u>	<u>83,304</u>	<u>59,781</u>
Total Expenses	<u>2,219,378</u>	<u>0</u>	<u>2,219,378</u>	<u>2,092,105</u>
Change in Net Assets	(42,429)	(155)	(42,584)	(459)
Net Assets, Beginning of Year	<u>1,534,907</u>	<u>8,628</u>	<u>1,543,535</u>	<u>1,543,994</u>
Net Assets, End of Year	<u>\$ 1,492,478</u>	<u>\$ 8,473</u>	<u>\$ 1,500,951</u>	<u>\$ 1,543,535</u>

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

ARNETTE HOUSE, INC.
Statement of Functional Expenses
For the Year Ended June 30, 2010
With Comparative Totals for the Year Ended June 30, 2009

	<u>General and Administrative</u>	<u>Fund-raising Costs</u>	<u>Short-term Residential</u>	<u>Nonresidential</u>	<u>Transitional Living</u>	<u>Group Homes</u>	<u>Independent Living</u>	<u>Total 2010</u>	<u>Total 2009</u>
Expenses									
Personnel Expenses:									
Salary & Wages	\$ 133,323	\$ 2,241	\$ 794,131	\$ 153,411	\$ 81,361	\$ 181,229	\$ 0	\$ 1,345,696	\$ 1,307,126
Payroll Taxes	10,593	194	63,957	12,214	6,958	15,460	0	109,376	106,034
Health Insurance	13,867	0	82,305	25,250	9,822	12,720	0	143,964	151,420
Life Insurance	<u>214</u>	<u>0</u>	<u>948</u>	<u>308</u>	<u>122</u>	<u>174</u>	<u>0</u>	<u>1,766</u>	<u>1,718</u>
Total Personnel Expenses	<u>157,997</u>	<u>2,435</u>	<u>941,341</u>	<u>191,183</u>	<u>98,263</u>	<u>209,583</u>	<u>0</u>	<u>1,600,802</u>	<u>1,566,298</u>
Nonpersonnel Expenses:									
Travel	1,562	0	11,495	11,816	2,204	3,225	0	30,302	27,372
Advertising	1,415	0	5,413	3,024	550	2,084	0	12,486	1,299
Bank Charges	1,896	0	0	0	0	0	0	1,896	1,352
Dues & Subscriptions	6,164	0	5,064	4,285	1,250	805	0	17,568	20,376
Office Expense	1,170	0	4,363	1,940	559	1,116	0	9,148	9,147
Equipment	0	0	820	0	324	0	0	1,144	1,919
Professional Fees	6,251	0	11,645	5,800	1,850	1,454	0	27,000	21,683
Contract Services	2,361	0	13,422	6,470	6,758	1,185	0	30,196	46,311
Insurance - General	14,016	0	23,490	7,724	3,179	4,937	0	53,346	56,356
Postage	300	0	928	1,020	174	335	0	2,757	3,698
Printing	61	0	215	161	139	31	0	607	728
Repairs & Maintenance	1,386	0	22,538	2,045	4,085	9,453	280	39,787	24,087
Depreciation	64,468	0	0	0	0	0	0	64,468	64,551
Food	0	0	32,659	0	5,205	16,524	0	54,388	44,224
Supplies - Non-Food	129	0	11,098	193	1,943	4,027	0	17,390	17,077
Education & Recreation	0	0	4,646	0	297	1,298	0	6,241	3,239
Rent	0	0	0	0	0	33,100	77,211	110,311	73,037
Client Expenses	0	0	10,166	560	1,354	6,722	5,813	24,615	10,047
Taxes & Licenses	0	0	135	0	0	0	0	135	110
Conference Expenses/Training	254	0	5,887	4,157	1,342	1,550	0	13,190	7,837
Telephone	4,926	0	7,273	10,183	2,095	4,885	0	29,362	25,586
Utilities	5,070	0	20,725	9,017	4,897	11,699	0	51,408	43,636
Fund Raising Expenses	0	15,847	0	0	0	0	0	15,847	16,465
Computer Expenses	80	0	270	0	0	0	0	350	1,912
Miscellaneous	<u>4,153</u>	<u>0</u>	<u>154</u>	<u>250</u>	<u>77</u>	<u>0</u>	<u>0</u>	<u>4,634</u>	<u>3,758</u>
Total Nonpersonnel Expenses	<u>115,662</u>	<u>15,847</u>	<u>192,406</u>	<u>68,645</u>	<u>38,282</u>	<u>104,430</u>	<u>83,304</u>	<u>618,576</u>	<u>525,807</u>
Total Expenses	<u>\$ 273,659</u>	<u>\$ 18,282</u>	<u>\$ 1,133,747</u>	<u>\$ 259,828</u>	<u>\$ 136,545</u>	<u>\$ 314,013</u>	<u>\$ 83,304</u>	<u>\$ 2,219,378</u>	<u>\$ 2,092,105</u>

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

ARNETTE HOUSE, INC.
Statement of Cash Flows
For the Year Ended June 30, 2010
With Comparative Totals for the Year Ended June 30, 2009

	<u>2010</u>	<u>2009</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (42,584)	\$ (459)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	64,468	64,551
In-kind donation of equipment	0	(3,950)
Decreases (Increases) in assets:		
Accrued interest receivable	(12,005)	(9,718)
Grants and contracts receivable	(36,678)	(11,821)
Prepaid expenses and other assets	(22,359)	943
Increases (Decreases) in liabilities:		
Accounts payable	(18,029)	3,522
Accrued payroll taxes and fringe benefits	(16,625)	1,540
Program fees payable	3,700	0
Accrued vacation	<u>(781)</u>	<u>12,661</u>
 Net Cash Provided (Used) by Operating Activities	 <u>(80,893)</u>	 <u>57,269</u>
 Cash Flows from Investing Activities		
Purchase of certificate of deposit	(52,801)	(53,259)
Proceeds from redemption of certificate of deposit	51,745	157,269
Purchase of property and equipment	(12,710)	(83,927)
Proceeds from sale of property and equipment	0	1,900
Increase in note receivable	<u>0</u>	<u>(29,251)</u>
 Net Cash Used by Investing Activities	 <u>(13,766)</u>	 <u>(7,268)</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	 (94,659)	 50,001
 Cash and Cash Equivalents, Beginning of Year	 <u>293,646</u>	 <u>243,645</u>
 Cash and Cash Equivalents, End of Year	 <u>\$ 198,987</u>	 <u>\$ 293,646</u>

Supplemental Schedule of Noncash Investing and Financing Activities:

Noncash activities include in-kind donations of office space, equipment, supplies, food and clothing.

**The accompanying notes are an integral
part of these financial statements.**

ARNETTE HOUSE, INC.
Notes to Financial Statements
June 30, 2010

Note 1 - Organization and Purpose

Arnette House, Inc. (the Corporation) is a non-profit corporation organized under the laws of the State of Florida on April 22, 1981. The Corporation was established to provide temporary shelter for troubled adolescents between the ages of 10 and 17, who are runaways or are experiencing a family crisis, until adequate disposition is made for the youth. In 2004 an additional building, the Vernon Arnette Center, was constructed to house the Transitional Living Program as well as the Learning Center. Clients participating in the Transitional Living Program live on campus while learning life skills to become self-sufficient. The Learning Center offers an alternative to teenagers who struggle with the traditional school institution. The Corporation serves Marion and Lake Counties.

In August 2008 the Corporation established the Independent Living Program for young adults ages 18-21 who live in apartment housing while learning real-world life skills in a supportive environment. In March 2009 the Corporation established the Group Home Program which is a permanent home for children ages 13-18 who live in two separate group homes (one for boys and one for girls) to provide a stable, long-term home-like environment.

Arnette House Foundation, Inc. was formed in 1996 for the benefit of the Corporation. Historically the Foundation's contributions were combined with those of the Corporation for financial reporting purposes. In 2003 the Foundation was dissolved and its net assets were transferred to the Corporation.

The Corporation is supported primarily by grants from the State of Florida Department of Juvenile Justice (DJJ), Kids Central, Inc. (KCI) and the U.S. Department of Health and Human Services. At June 30, 2010, those grants approximated 85% of the Corporation's total support and revenue. The Corporation also receives annual funding from the United Way of Marion County, Inc.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting

The Corporation follows standards of accounting and financial reporting prescribed for nonprofit voluntary health and welfare agencies. It uses the accrual basis of accounting, which recognizes revenue when earned and expenses as incurred. Federal and state grants are recorded as support and revenue when performance occurs under the terms of the grant agreement.

Net assets, revenues and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Corporation 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 actions of the Corporation and/or the passage of time.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Corporation.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

ARNETTE HOUSE, INC.
Notes to Financial Statements
June 30, 2010

Note 2 - Summary of Significant Accounting Policies, (Continued)

Cash and Equivalents

For the purpose of the statement of cash flows, cash equivalents include all highly liquid investments purchased with a maturity of three months or less.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, grants and contracts receivable approximates fair value.

Property, Equipment and Depreciation

Purchased property and equipment is recorded at cost. Acquisitions in excess of \$500 are capitalized. Donated property and equipment is recorded at its fair value on the date of donation.

Depreciation is calculated on the straight-line method over the following estimated useful lives:

Buildings	30 Years
Equipment	5-10 Years
Furniture and Fixtures	7-10 Years
Vehicles	6 years

Allocation of Expenditures

Expenses are allocated among the various program services to the extent a direct relationship can be established. Salaries and other expenses which are associated with a specific program are allocated directly to that program. Salaries and other expenses which benefit various programs are allocated to the program services based on the relative benefit provided. The following is a summary description of the Corporation's functional expense categories:

General and Administrative

Those costs associated with administration of the Corporation, including finance, accounting, staff supervision, Board operations and human resources.

Fund-raising Costs

Those costs associated with all fund-raising, including advertising costs associated directly to the specific event.

Short-term Residential

Those costs associated with maintaining the temporary shelter, including meals, clothing, supplies, recreation and related personnel costs.

ARNETTE HOUSE, INC.
Notes to Financial Statements
June 30, 2010

Note 2 - Summary of Significant Accounting Policies, (Continued)

Allocation of Expenditures, (Continued)

Nonresidential

Those costs associated with providing family counseling, specialized groups, parenting classes, including class materials, training and outreach prevention.

Transitional Living Program

Those costs associated with maintaining the transitional living program, including meals, clothing, supplies, skills training, recreation and personnel costs.

Group Homes

Those costs associated with maintaining the group homes, including meals, clothing, supplies, skills training, recreation and personnel costs.

Independent Living Program

Those costs associated with maintaining the independent living program, including rents, client expenses and other costs.

Income Taxes

The Corporation is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation. Accordingly, the financial statements do not reflect a provision for income taxes.

The Corporation adopted the provisions FASB ASC 740-10 on July 1, 2009. Interest and penalties charged related to federal income tax positions are included in operating income; no interest and penalties are recorded in the year ended June 30, 2010. The Corporation is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before fiscal year 2007.

Use of Estimates

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

In-kind Contributions

The Corporation records in-kind revenues and expenses for the value of contributed goods and services such as fixed assets and supplies. In the current year the Corporation received donated food and supplies which has been recorded as in-kind revenue and expense.

ARNETTE HOUSE, INC.
Notes to Financial Statements
June 30, 2010

Note 2 - Summary of Significant Accounting Policies, (Continued)

Comparative Totals

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Corporation's financial statements for the year ended June 30, 2009, from which the summarized information was derived.

Subsequent Events

The Corporation has evaluated events and transactions for potential recognition or disclosure in the financial statements through the date the financial statements were available to be issued, or December 3, 2010. No subsequent events have been recognized or disclosed.

Note 3 - Certificate of Deposit

The Corporation has purchased a certificate of deposit with a twelve month maturity with an interest rate of 1.49%.

Note 4 - Grants and Contracts Receivable

At June 30, 2010 grants and contracts receivable were as follows:

Department of Juvenile Justice	\$ 163,364
Kids Central, Inc.	91,654
Department of Health & Human Services	45,000
Other Grants	<u>24,468</u>
Total Grants and Contracts Receivable	<u>\$ 324,486</u>

An allowance for uncollectible receivables has not been recorded as all amounts are deemed collectible.

Note 5 - Property and Equipment

Property and equipment consist of the following at June 30, 2010:

Land	\$ 60,000
Buildings and Improvements	1,023,078
Furniture and Fixtures	308,050
Machinery and Equipment	128,075
Vehicles	<u>75,381</u>
	1,594,584
Accumulated Depreciation	<u>(858,668)</u>
Net Property and Equipment	<u>\$ 735,916</u>

Depreciation expense for the year ended June 30, 2010, is \$64,468.

ARNETTE HOUSE, INC.
Notes to Financial Statements
June 30, 2010

Note 6 - Notes Receivable

In fiscal 2008, the Corporation took part in the organization of a 501(c)(3) entity - Coalition for Youth, Inc. (CFY) and two 501(c)(2) entities - 14th Street Apartments, Inc. (14th St) and 44th Court Property Inc. (44th Court). The governing board of CFY includes the Corporation's CEO and two board members. The officers of 14th St and 44th Court include the Corporation's CEO as its secretary.

In December 2007 an individual living complex was acquired by 14th St; apartment space is leased to the Corporation for use in the Independent Living program. Funding for purchase of the apartment complex was provided by a grant, a bank mortgage (see Note 9) and a loan from the Corporation for \$185,000. The note is secured by the land and building of 14th St. Interest accrues at 5% per annum on the unpaid balance; accrued interest on this note at June 30, 2010 is \$24,894. Monthly payments of principal and interest (\$1,377) were scheduled to begin on July 1, 2009; payments are to apply first to accrued interest. Subsequent to June 30, 2010 the Board of Directors approved postponement of the first payment.

In April 2009 the Corporation loaned \$35,000 to 14th St. The note is secured by the land and building of 14th St. Interest accrues at 5% per annum on the unpaid balance; accrued interest on this note at June 30, 2010 is \$1,788. Monthly payments of principal and interest (\$243) were scheduled to begin on July 1, 2009; payments are to apply first to accrued interest. Subsequent to June 30, 2010 the Board of Directors approved postponement of the first payment.

Note 7 - Compensated Absences

The Corporation accrues the liability for employees' rights to receive compensation for future absences. The accumulated earned vacation at ended June 30, 2010, is \$68,641 and is recorded as a current liability.

Note 8 - Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2010, are donor-imposed for program operations and total \$8,473.

Note 9 - Contingencies and Concentrations

The Corporation receives a substantial amount of its support from federal and state governments. A significant reduction in the level of this support, if this were to occur, may have an effect on the Corporation's program activities.

Grants and contracts require the fulfillment of certain conditions set forth in the instrument of grant. Failure to fulfill the conditions could result in the return of the funds to the grantor. Although this is a possibility, the Board deems the contingency remote, since by accepting the grants and their terms, it has adapted to the objectives of the grantors' provisions of the contract.

ARNETTE HOUSE, INC.
Notes to Financial Statements
June 30, 2010

Note 9 - Contingencies and Concentrations, (Continued)

Periodically throughout the year, the Corporation may have a cash balance in excess of the Federal Deposit Insurance Corporation (FDIC) coverage. There was no uninsured cash balance at June 30, 2010.

On December 20, 2007 the Corporation, Silver River Mentoring and Instruction, Inc. and 14th St, as co-borrowers, entered into a \$600,000 bank mortgage note for financing an apartment building purchased by 14th St for \$1.45 million. In addition to the bank loan the purchase was funded by a \$720,000 state grant and a loan from the Corporation. See Note 6. The bank loan, whose balance is \$578,052 as of June 30, 2010, is a reported liability of 14th St and is collateralized by the land and building. The Corporation leases the apartment building from 14th St. See Note 11.

Note 10 - Annuity Plan

All full-time employees are eligible to participate in a deferred compensation annuity plan. The plan is entirely employee deferral. The Corporation does not contribute for the employees.

Note 11 - Operating Leases

The Corporation began leasing three copiers under a thirty-six month lease which began August 1, 2008. The monthly lease payment is \$670. Total rent for fiscal 2010 is \$8,040.

The Corporation began leasing a 28 bed apartment building on 14th Street in Ocala FL under a twelve month lease which began August 1, 2008. The monthly rent is \$400 per unit and is charged based on use of the apartments by young adults participating in the Independent Living program. Total rent for fiscal 2010 is \$77,211.

The Corporation began leasing two group homes on 44th Court in Ocala, FL under a twelve month lease which began March 1, 2009. According to the lease monthly rent is \$2,000 per month. Beginning July 1, 2009 the monthly rent increased to \$2,700 per month. Total rent for fiscal 2010 is \$33,100.

Rent expense was \$118,351 for fiscal year ended June 30, 2010. Minimum future lease payments under non-cancelable operating leases having remaining terms in excess of one year as of June 30, 2010 and for each of the next five years and in the aggregate are as follows:

<u>June 30:</u>	
2011	\$ 8,035
2012	670
2013-2015	<u>0</u>
Total Future Minimum Lease Payments	<u>\$ 8,705</u>

ARNETTE HOUSE, INC.
Notes to Financial Statements
June 30, 2010

Note 12 - Related Party Transactions

The Corporation is affiliated with two organizations, CFY and 14th St. Two members of the Corporation's board and CEO serve on CFY's board of directors and the Corporation's CEO serves as an officer of 14th St.

The Corporation has outstanding loans to these organizations; details of the loans are described in Note 6. At June 30, 2010 the balance of the notes receivable is \$220,000. During fiscal 2010 the Corporation accrued interest due on the note totaling \$12,055; the accrued interest due at June 30, 2010 is \$26,682.

The Corporation is a co-borrower on a bank mortgage note for financing an apartment building purchased by 14th St. See Note 9.

The Corporation is leasing an apartment building from 14th St and two group homes from CFY. See Note 11. The 14th St lease is classified as an operating lease and provides for monthly rentals based on young adults participating in the Independent Living program. The CFY lease is classified as an operating lease and provides for minimum annual rentals of \$32,400. During fiscal year 2010 rents totaled \$110,311 on these facilities.

Note 13 - Federal Single Audit Requirement

For fiscal year ended June 30, 2010, less than \$500,000 was expended in federal financial awards qualifying under OMB Circular A-133 and, accordingly, no Federal Single Audit was required.

**Additional Information Required by
Government Auditing Standards
and Rules of the Auditor General**

ARNETTE HOUSE, INC.
Schedule of Expenditures of State Financial Assistance
For the Year Ended June 30, 2010

<u>State Agency and Project Title</u>	<u>State CSFA Number</u>	<u>Program or Award Amount</u>	<u>State Expenditures</u>
State of Florida Department of Juvenile Justice Passed Through the Florida Network of Youth and Family Services			
Children and Families in Need of Service July 1, 2009 - June 30, 2010	80.005	\$ 977,110	<u>\$ 977,110</u>

Note: The schedule of expenditures of state financial assistance was prepared on the accrual basis of accounting.



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**INDEPENDENT AUDITORS' 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**

December 3, 2010

To the Board of Directors of
Arnette House, Inc.
Ocala, Florida

We have audited the financial statements of Arnette House, Inc., (a nonprofit organization), as of and for the year ended June 30, 2010, and have issued our report thereon dated December 3, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in

To the Board of Directors of
Arnette House, Inc.
Ocala, Florida

December 3, 2010

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internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of Arnette House, Inc. in a separate letter dated December 3, 2010.

This report is intended solely for the information and use of management, the Board of Directors, the Audit Committee, others within the entity, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Duggan, Joiner & Company



**DUGGAN, JOINER
& COMPANY**
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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR STATE PROJECT
AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH CHAPTER 10.650,
RULES OF THE AUDITOR GENERAL**

December 3, 2010

To the Board of Directors of
Arnette House, Inc.
Ocala, Florida

Compliance

We have audited the compliance of Arnette House, Inc., (a nonprofit organization), with the types of compliance requirements described in the Executive Office of the Governor's State Projects Compliance Supplement that could have a direct and material effect on each of its major state projects for the year ended June 30, 2010. Arnette House, Inc.'s major state projects are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major state project is the responsibility of Arnette House, Inc.'s management. Our responsibility is to express an opinion on Arnette House, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.650, Rules of the Auditor General. Those standards and Chapter 10.650, Rules of the Auditor General, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state project occurred. An audit includes examining, on a test basis, evidence about Arnette House, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Arnette House, Inc.'s compliance with those requirements.

In our opinion, Arnette House, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major state project for the year ended June 30, 2010.

To the Board of Directors of
Arnette House, Inc.
Ocala, Florida

December 3, 2010

Page 2 of 2

Internal Control Over Compliance

Management of Arnette House, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to state projects. In planning and performing our audit, we considered Arnette House, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major state project in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with Chapter 10.650, Rules of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Arnette House, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state project on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state project will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, the Audit Committee, others within the entity, state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Duggan, Joiner & Company

ARNETTE HOUSE, INC.
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

Section I - Summary of Auditors' Results

Financial Statements

- Type of Auditors' Report Issued
Unqualified opinion.
- Internal Control over Financial Reporting
No deficiencies in internal control over financial reporting and its operation were noted. No material weaknesses were identified.
- Noncompliance Material to Financial Statements
Results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

State Projects

- Internal Control over Major State Projects
No deficiencies in internal control over major state projects were noted. No material weaknesses were identified.
- Type of Auditors' Report Issued on Compliance for Major State Projects
Unqualified opinion.
- Audit Findings Disclosed that are Required to be Reported in Accordance with Chapter 10.650, Rules of the Auditor General
No findings required to be reported under Chapter 10.650, Rules of the Auditor General were noted.
- Identification of Major Projects
Florida Department of Juvenile Justice
CSFA 80.005 Children and Families in Need of Service
- Dollar Threshold Used to Distinguish Between Type A and Type B Projects
\$300,000 for major state projects

ARNETTE HOUSE, INC.
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

Section II - Financial Statement Findings

No findings required to be reported in accordance with GAGAS and Rules of the Auditor General were noted.

A management letter as defined in Chapter 10.654(1)(e), Rules of the Auditor General is not required because there were no findings required to be reported.

Section III - Findings and Questioned Costs

No audit findings as defined in Chapter 10.654(1)(h), Rules of the Auditor General were noted.

Section IV - Other Issues

No Summary Schedule of Prior Audit Findings is required because there were no prior audit findings related to state projects.

No Corrective Action Plan is required because there were no findings required to be reported under the Florida Single Audit Act.