

ARNETTE HOUSE, INC.

**Financial Statements and
Independent Auditors' Report**

**As of and for the Year Ended
June 30, 2011**

ARNETTE HOUSE, INC.

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INDEPENDENT AUDITORS' REPORT

December 5, 2011

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, 2011 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 2010 financial statements and, in our report dated December 3, 2010, 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, 2011, 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 5, 2011, 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 5, 2011

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Our audit was conducted for the purpose of forming an opinion on the financial statements 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 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 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.

Duggan, Joiner & Company

ARNETTE HOUSE, INC.
Statement of Financial Position
June 30, 2011

ARNETTE HOUSE, INC.
Statement of Financial Position
June 30, 2011
With Comparative Totals at June 30, 2010

Assets

	<u>2011</u>	<u>2010</u>
Current Assets		
Cash and cash equivalents	\$ 324,800	\$ 198,987
Certificate of deposit	0	52,801
Grants and contracts receivable	285,142	324,486
Prepaid expenses and other assets	<u>37,478</u>	<u>29,871</u>
Total Current Assets	<u>647,420</u>	<u>606,145</u>
Property and Equipment		
Property and equipment, net of accumulated depreciation	<u>741,468</u>	<u>735,916</u>
Other Assets		
Notes and loan receivable	230,000	220,000
Accrued interest receivable	39,303	26,682
Deposits	<u>650</u>	<u>650</u>
Total Other Assets	<u>269,953</u>	<u>247,332</u>
Total Assets	<u><u>\$ 1,658,841</u></u>	<u><u>\$ 1,589,393</u></u>

Liabilities and Net Assets

	<u>2011</u>	<u>2010</u>
Current Liabilities		
Accounts payable	\$ 27,749	\$ 8,971
Program fees payable	0	3,700
Accrued payroll taxes and fringe benefits	21,384	7,130
Accrued vacation	55,610	68,641
Accrued litigation settlement	5,000	0
Current portion of obligation under capital lease	<u>7,504</u>	<u>0</u>
Total Current Liabilities	<u>117,247</u>	<u>88,442</u>
Long-Term Liabilities		
Obligation under capital lease, net of current portion	<u>15,576</u>	<u>0</u>
Total Long-Term Liabilities	<u>15,576</u>	<u>0</u>
Total Liabilities	<u>132,823</u>	<u>88,442</u>
Net Assets		
Unrestricted:		
Investment in property and equipment	718,388	735,916
Other unrestricted net assets	794,905	756,562
Temporarily restricted	<u>12,725</u>	<u>8,473</u>
Total Net Assets	<u>1,526,018</u>	<u>1,500,951</u>
Total Liabilities and Net Assets	<u>\$ 1,658,841</u>	<u>\$ 1,589,393</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, 2011
With Comparative Totals For the Year Ended June 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2011</u>	<u>Total 2010</u>
Support and Revenue				
Emergency shelter and care	\$ 269,628	\$ 0	\$ 269,628	\$ 345,815
Food and nutrition services	27,404	0	27,404	28,861
Emergency food and shelter	0	9,000	9,000	24,260
Basic center	120,000	0	120,000	120,000
Americorp	2,723	0	2,723	24,024
Runaway shelter care	993,310	0	993,310	977,110
Federal Title IV-E	34,970	0	34,970	34,604
Group homes	273,039	0	273,039	258,909
Program fees - Independent living	57,051	0	57,051	83,721
Community development block grant	13,964	0	13,964	5,000
Transitional living	0	0	0	57,779
United Way of Marion County, Inc.	60,000	0	60,000	95,000
Donations	65,016	14,916	79,932	85,953
In-kind donations	17,740	0	17,740	11,499
Client fees	9,100	0	9,100	2,686
Interest	14,989	0	14,989	15,681
Miscellaneous	1,002	0	1,002	5,892
Net assets released from restrictions	<u>19,664</u>	<u>(19,664)</u>	<u>0</u>	<u>0</u>
Total Support and Revenue	<u>1,979,600</u>	<u>4,252</u>	<u>1,983,852</u>	<u>2,176,794</u>
Expenses and Losses				
General and administrative	345,623	0	345,623	273,659
Fund-raising costs	16,811	0	16,811	18,282
Short-term residential	958,593	0	958,593	1,133,747
Nonresidential	254,070	0	254,070	259,828
Group homes	330,240	0	330,240	314,013
Independent living program	52,822	0	52,822	83,304
Transitional living program	0	0	0	136,545
Loss on disposition of assets	<u>626</u>	<u>0</u>	<u>626</u>	<u>0</u>
Total Expenses and Losses	<u>1,958,785</u>	<u>0</u>	<u>1,958,785</u>	<u>2,219,378</u>
Change in Net Assets	20,815	4,252	25,067	(42,584)
Net Assets, Beginning of Year	<u>1,492,478</u>	<u>8,473</u>	<u>1,500,951</u>	<u>1,543,535</u>
Net Assets, End of Year	<u>\$ 1,513,293</u>	<u>\$ 12,725</u>	<u>\$ 1,526,018</u>	<u>\$ 1,500,951</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, 2011
With Comparative Totals for the Year Ended June 30, 2010

	<u>General and Administrative</u>	<u>Fund-raising Costs</u>	<u>Short-term Residential</u>	<u>Nonresidential</u>	<u>Group Homes</u>	<u>Independent Living</u>	<u>Total 2011</u>	<u>Total 2010</u>
Expenses								
Personnel Expenses:								
Salary and wages	\$ 155,508	\$ 2,705	\$ 682,048	\$ 163,001	\$ 179,686	\$ 0	\$ 1,182,948	\$ 1,345,696
Payroll taxes	20,132	0	62,411	12,756	17,897	0	113,196	109,376
Health insurance	19,142	0	64,733	22,736	21,497	0	128,108	143,964
Life insurance	<u>208</u>	<u>0</u>	<u>810</u>	<u>187</u>	<u>233</u>	<u>0</u>	<u>1,438</u>	<u>1,766</u>
Total Personnel Expenses	<u>194,990</u>	<u>2,705</u>	<u>810,002</u>	<u>198,680</u>	<u>219,313</u>	<u>0</u>	<u>1,425,690</u>	<u>1,600,802</u>
Nonpersonnel Expenses:								
Travel	2,351	277	3,396	6,656	1,579	0	14,259	30,302
Advertising	508	2,249	1,623	946	697	0	6,023	12,486
Bank charges	2,042	0	0	0	0	0	2,042	1,896
Dues and subscriptions	2,456	0	4,171	2,412	3,550	0	12,589	17,568
Office expense	2,536	61	7,096	2,016	1,967	0	13,676	9,148
Equipment	0	0	572	0	209	0	781	1,144
Professional fees	9,808	0	13,967	5,050	673	0	29,498	27,000
Contract services	3,821	0	9,012	10,067	3,983	0	26,883	30,196
Insurance - general	5,266	0	20,792	10,086	6,946	0	43,090	53,346
Postage	242	0	775	743	266	0	2,026	2,757
Printing	93	0	0	0	0	0	93	607
Repairs and maintenance	981	0	9,247	845	14,985	1,414	27,472	39,787
Depreciation	69,793	0	0	0	0	0	69,793	64,468
Food	438	1,136	29,293	0	17,191	0	48,058	54,388
Supplies - non-food	401	0	11,871	83	5,665	39	18,059	17,390
Education and recreation	1,445	0	7,674	0	1,802	0	10,921	6,241
Rent	0	0	0	0	32,400	49,797	82,197	110,311
Client expenses	0	0	3,128	834	2,931	1,476	8,369	24,615
Taxes and licenses	763	0	135	0	0	0	898	135
Conference expenses/training	1,582	0	1,932	1,173	671	0	5,358	13,190
Telephone	12,172	0	2,485	5,518	4,072	71	24,318	29,362
Utilities	7,839	0	21,317	8,961	11,322	0	49,439	51,408
Fund-raising expenses	0	10,383	0	0	0	0	10,383	15,847
Computer expenses	2,247	0	75	0	0	0	2,322	350
Interest expense	924	0	0	0	0	0	924	0
Bad debt expense	12,500	0	0	0	0	0	12,500	0
Litigation settlement	5,000	0	0	0	0	0	5,000	0
Miscellaneous	<u>5,425</u>	<u>0</u>	<u>30</u>	<u>0</u>	<u>18</u>	<u>25</u>	<u>5,498</u>	<u>4,634</u>
Total Nonpersonnel Expenses	<u>150,633</u>	<u>14,106</u>	<u>148,591</u>	<u>55,390</u>	<u>110,927</u>	<u>52,822</u>	<u>532,469</u>	<u>618,576</u>
Total Expenses	<u>\$ 345,623</u>	<u>\$ 16,811</u>	<u>\$ 958,593</u>	<u>\$ 254,070</u>	<u>\$ 330,240</u>	<u>\$ 52,822</u>	<u>\$ 1,958,159</u>	<u>\$ 2,219,378</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, 2011
With Comparative Totals for the Year Ended June 30, 2010

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 25,067	\$ (42,584)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	69,793	64,468
In-kind donation of equipment	(6,650)	0
Loss on disposition of assets	626	0
Decreases (Increases) in assets:		
Accrued interest receivable	(12,621)	(12,005)
Grants and contracts receivable	39,344	(36,678)
Prepaid expenses and other assets	(7,607)	(22,359)
Increases (Decreases) in liabilities:		
Accounts payable	18,778	(18,029)
Accrued payroll taxes and fringe benefits	14,254	(16,625)
Program fees payable	(3,700)	3,700
Other accrued liabilities	<u>(8,031)</u>	<u>(781)</u>
Net Cash Provided (Used) by Operating Activities	<u>129,253</u>	<u>(80,893)</u>
Cash Flows from Investing Activities		
Purchase of certificate of deposit	(400)	(52,801)
Proceeds from redemption of certificate of deposit	53,201	51,745
Purchase of property and equipment	(43,821)	(12,710)
Proceeds from sale of property and equipment	500	0
Increase in loan receivable	<u>(10,000)</u>	<u>0</u>
Net Cash Used by Investing Activities	<u>(520)</u>	<u>(13,766)</u>
Cash Flows from Financing Activities		
Payments on capital lease	<u>(2,920)</u>	<u>0</u>
Net Cash Used by Financing Activities	<u>(2,920)</u>	<u>0</u>
Net Increase (Decrease) in Cash and Cash Equivalents	125,813	(94,659)
Cash and Cash Equivalents, Beginning of Year	<u>198,987</u>	<u>293,646</u>
Cash and Cash Equivalents, End of Year	<u>\$ 324,800</u>	<u>\$ 198,987</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, 2011
With Comparative Totals for the Year Ended June 30, 2010

	<u>2011</u>	<u>2010</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	\$ <u>924</u>	\$ <u>0</u>
Supplemental Schedule of Noncash Investing and Financing Activities:		
Acquisition of property and equipment	\$ 76,471	
Donated valued of property and equipment	(6,650)	
Capital lease obligation	<u>(26,000)</u>	
 Cash paid for purchases of property and equipment	 <u>\$ 43,821</u>	

Noncash activities include in-kind donations of 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, 2011

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 Learning Center as well as the Transitional Living Program. The Learning Center offers an alternative to teenagers who struggle with the traditional school institution. The Transitional Living Program was discontinued in fiscal year 2010. 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, 2011, those grants approximated 87.8% 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, 2011

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

Unless otherwise indicated, the fair value of all reported assets and liabilities which represent financial instruments approximate the carrying value of such amounts.

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, 2011

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.

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, 2011. 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 2008.

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. The Corporation also received office furniture and a discount on the purchase of a van which have been recorded as in-kind revenue and equipment.

ARNETTE HOUSE, INC.
Notes to Financial Statements
June 30, 2011

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, 2010, 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 5, 2011.

Note 3 - Grants and Contracts Receivable

At June 30, 2011 grants and contracts receivable were as follows:

Department of Juvenile Justice	\$ 172,249
Kids Central, Inc.	72,062
Department of Health & Human Services	32,500
Other Grants	<u>8,331</u>
Total Grants and Contracts Receivable	<u>\$ 285,142</u>

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

Note 4 - Property and Equipment

Property and equipment consist of the following at June 30, 2011:

Land	\$ 60,000
Buildings and Improvements	1,023,078
Furniture and Fixtures	312,464
Machinery and Equipment	190,138
Vehicles	<u>69,752</u>
	1,655,432
Accumulated Depreciation	<u>(913,964)</u>
Net Property and Equipment	<u>\$ 741,468</u>

Depreciation expense for the year ended June 30, 2011, is \$69,793.

ARNETTE HOUSE, INC.
Notes to Financial Statements
June 30, 2011

Note 5 - Notes Receivable and Loan 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 was leased to the Corporation for use in the Independent Living Program. The Independent Living Program was terminated effective June 30, 2011. Funding for purchase of the apartment complex was provided by a grant, a bank mortgage (see Note 8) 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, 2011 is \$35,632. Monthly payments of principal and interest (\$1,377) were scheduled to begin on July 1, 2009; payments are to apply first to accrued interest. During fiscal year 2011 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, 2011 is \$3,671. Monthly payments of principal and interest (\$243) were scheduled to begin on July 1, 2009; payments are to apply first to accrued interest. During fiscal year 2011 the Board of Directors approved postponement of the first payment. Approval was obtained from Marion County to change the approved use of the property from rentals to low-income persons to rentals to moderate-income persons. Management of 14th St plans to rent the rehabilitated apartments to young professionals with moderate income and intends to use future cash flow from the rentals to begin repayment of the notes.

In addition to the notes receivable, the Corporation loaned \$10,000 to 14th St during fiscal year 2011; there is not a signed note for this amount and interest has not been accrued on this balance.

Note 6 - Compensated Absences

The Corporation accrues the liability for employees' rights to receive compensation for future absences. The accumulated earned vacation at ended June 30, 2011, is \$55,610 and is recorded as a current liability.

Note 7 - Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2011, are donor-imposed for program operations and total \$12,725.

Note 8 - 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.

ARNETTE HOUSE, INC.
Notes to Financial Statements
June 30, 2011

Note 8 - Contingencies and Concentrations, (Continued)

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.

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, 2011.

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 5. The bank loan, whose balance is \$567,497 as of June 30, 2011, 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 10.

Note 9 - 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 10 - Operating Leases

The Corporation was leasing three copiers under a thirty-six month lease which began August 1, 2008. The monthly lease payment is \$670. The copiers are no longer being used by the Corporation and were returned to the lessor in August 2011. Total rent for fiscal 2011 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 2011 is \$49,797.

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 2011 is \$32,400.

Note 11 - Obligation under Capital Lease

In January 2011, the Corporation entered into a capital lease for 3 copiers. The lease expires in 2014. The assets and liability under the capital lease are recorded at the lower of the present value of the minimum lease payments or the fair market value of the assets. The gross cost and accumulated depreciation of the assets held under the capital lease is \$26,000 and \$3,333, respectively at June 30, 2011. The assets are being

ARNETTE HOUSE, INC.
Notes to Financial Statements
June 30, 2011

Note 11 - Obligation under Capital Lease, (Continued)

depreciated over the term of the lease. Depreciation of assets held under the capital lease is included in depreciation expense.

Minimum future lease payments under the capital lease as of June 30, 2011 for each of the next five years and in the aggregate are:

2012	\$ 9,226
2013	9,226
2014	7,688
2015-2016	<u>0</u>
Total Future Minimum Lease Payments	26,140
Less: Amount Representing Interest	<u>(3,060)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 23,080</u>

The interest rate included on the capitalized leases is 8.741%. The amount of interest cost incurred was \$924 for fiscal 2011, all of which was charged to operations.

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 5. At June 30, 2011 the balance of the notes receivable is \$220,000. During fiscal 2011 the Corporation accrued interest due on the note totaling \$12,621; the accrued interest due at June 30, 2011 is \$39,303.

The Corporation loaned these organizations \$10,000 during fiscal year 2011. See Note 5.

The Corporation is a co-borrower on a bank mortgage note for financing an apartment building purchased by 14th St. See Note 8.

The Corporation is leasing an apartment building from 14th St and two group homes from CFY. See Note 10. 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 2011 rents totaled \$82,197 on these facilities.

ARNETTE HOUSE, INC.
Notes to Financial Statements
June 30, 2011

Note 13 - Federal Single Audit Requirement

For fiscal year ended June 30, 2011, less than \$500,000 was expended in federal financial awards qualifying under OMB Circular A-133 and, accordingly, no Federal Single Audit was required.

Note 14 - Subsequent Events

A claim was filed by a former employee in June 2011 against the Corporation. In August 2011, a settlement agreement in the amount of \$5,000 was reached, which has been charged to operations in the accompanying financial statements for fiscal year 2011.

Subsequent to June 30, 2011, the Corporation loaned an additional \$10,000 to 14th St. Also subsequent to June 30, 2011, the Board of Directors approved termination of the deferred compensation annuity plan.

**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, 2011

<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, 2010 - June 30, 2011	80.005	\$ 993,310	<u>\$ 993,310</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 5, 2011

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, 2011, and have issued our report thereon dated December 5, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered 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 the Organization's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or 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 5, 2011

Page 2 of 2

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. However, we identified certain deficiencies in internal control over financial reporting, described as item 11-1 in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency in internal control over financial reporting. 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.

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*.

Arnette House, Inc.'s response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Arnette House, Inc.'s response and, accordingly, we express no opinion on it.

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 THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR STATE PROJECT AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
CHAPTER 10.650, RULES OF THE AUDITOR GENERAL**

December 5, 2011

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

Compliance

We have audited Arnette House, Inc.'s, compliance 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 Arnette House, Inc.'s major state projects for the year ended June 30, 2011. 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, 2011.

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

December 5, 2011

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, 2011

Section I - Summary of Auditors' Results

Financial Statements

- Type of Auditors' Report Issued
Unqualified opinion.
- Internal Control over Financial Reporting
Instances of control deficiencies involving the 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 control deficiencies involving the internal control over major state projects which were considered to be significant deficiencies were reported. 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

Section II - Financial Statement Findings

Internal Control over Financial Reporting:

- 11-1 – Internal Controls

Condition: The Corporation adopted fiscal policies/procedures to comply with generally accepted accounting principles and the accounting requirements of each funding source. The policies/procedures are designed to enhance the safeguarding of assets and reliability of the Corporation's financial records.

ARNETTE HOUSE, INC.
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011

Section II - Financial Statement Findings, (Continued)

Internal Control over Financial Reporting:

- 11-1 – Internal Controls, (Continued)

During our audit of the financial statements we noted the following matters:

- Paychecks dated July 5, 2011 for the last pay period of fiscal 2011 were altered in the general ledger by changing their date to June 30, 2011. According to staff, this was done to avoid accruing salaries at year-end.
- Several journal entries during the year (8 of 20 entries examined) were incorrect. Entries were posted to incorrect accounts, entries recorded did not agree with supporting documentation and certain entries were recorded twice.
- Grants receivable were not correct at June 30, 2011. A duplicate cash receipt dated December 16, 2010 was recorded in the general ledger which overstated cash and understated grants receivable, several receivables were not recorded at year-end and the subsidiary ledger did not agree with the receivable balance in the general ledger at June 30, 2011.
- Fixed assets were not properly capitalized or disposed of in the general ledger: computer equipment and canoes were expensed; a van was capitalized at cash paid but did not include an in-kind donation for a "discounted" purchase price, rather the discount was posted as travel expense; office furniture donated to the Corporation was not recorded; copiers acquired by capital lease were not capitalized; two vehicle dispositions were not recorded. The fixed asset/depreciation listing included an acquisition date of June 30, 2011 for several items versus the date assets were acquired and mathematical errors were also noted.
- Prepaid expenses, accrued liabilities and payroll tax liabilities required adjustment at June 30, 2011.
- During our examination of the post-audit adjusted trial balance, we noted a "grant" invoice for fiscal year 2011 was posted to the general ledger after the pre-audit trial balance was provided to the firm, resulting in an overstatement of grants receivable.

Effect: Errors in recording of financial transactions were not detected by the Corporation on a timely basis. Financial statements may not be accurate.

Recommendation: We recommend that fiscal policies and procedures be followed consistently throughout the year. Journal entries should be reviewed for accuracy and also include documentation with each entry which supports the adjustment. Account balances, subsidiary ledgers and the fixed asset listing should be analyzed and reconciled on a regular basis to ensure accurate financial information is provided to management and the Board of Directors.

Response: We concur with the auditor's recommendation. Refer to the Corrective Action Plan.

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.

Section V – Corrective Action Plan

Refer to page 23 for corrective action plan for current year audit finding.



Reaching out to help families... 'til life's storms are over



CORRECTIVE ACTION PLAN

December 5, 2011

State of Florida
Dept. of Juvenile Justice

Arnette House, Inc. respectfully submits the following corrective action plan for the year ended June 30, 2011.

Duggan, Joiner & Company
Certified Public Accountants
334 NW 3rd Avenue
Ocala, Florida 34475

Audit Period: June 30, 2011

Significant Deficiency
11-1 Internal Controls

Recommendation: Duggan, Joiner & Company has recommended that fiscal policies and procedures be followed consistently throughout the year. Journal entries should be reviewed for accuracies and also include documentation with each entry which supports the adjustments. Account balances, subsidiary ledgers and the fixed asset listing should be analyzed and reconciled on a regular basis to insure accurate financial information is provided to management and the board of directors.

We concur with the recommendations and will implement them immediately.

To insure that audit deficiencies are corrected, management will take the following actions;

- Payroll – No date changes are allowed.
- Account analysis performed regularly. All Journal Entries will be reviewed,
- Fixed Assets – Insure proper monitoring for all assets including new and existing assets as well as disposed assets.
- Duplicate receivables – All efforts have been made to stop duplicate Cash Receivables similar to the one found in December, 2010. The CFO will monitor on a monthly basis to insure no duplicate cash receipts are posted.

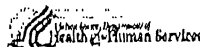
If the State of Florida Dept. of Juvenile Justice has questions regarding this plan, please call Brian Cronin at 352-622-4432.

Sincerely yours,

Brian K. Cronin

Marion County Shelter: 2310 N.E. 24th Street • Ocala, FL 34470

Shelter: 352-822-8135 / Fax 352-622-2049 • Family Counseling Center & Administrative Offices: 352-622-4432 / Fax 352-822-2830



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