

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

**ARNETTE HOUSE, INC.  
OCALA, FLORIDA**

**JUNE 30, 2012**

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

**ARNETTE HOUSE, INC.  
OCALA, FLORIDA**

**JUNE 30, 2012**

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**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Arnette House, Inc.  
Ocala, Florida

We have audited the accompanying statement of financial position of Arnette House, Inc. (a nonprofit organization) for the year ended June 30, 2012, and the related statement of activities and changes in net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Arnette House, Inc.'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 2011 financial statements. The financial statements of Arnette House, Inc. as of June 30, 2011, were audited by other auditors whose opinion dated December 5, 2011, was unqualified. As discussed in Note 13, Arnette House, Inc. has restated its 2011 financial statements during the current year to report an allowance for loan loss. The other auditors reported on the 2011 financial statements before the restatement. We were not engaged to audit, review, or apply any procedures to Arnette House Inc.'s 2011 financial statements other than with respect to the adjustments and, accordingly we do not express an opinion or any other form of assurance on the 2011 financial statements as a whole.

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. for the year ended June 30, 2012, 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.

We also audited the adjustments described in Note 13, that were applied to restate the 2011 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2013, on our consideration of Arnette House, Inc.'s internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial

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Board of Directors  
Arnette House, Inc.  
Ocala, Florida

**INDEPENDENT AUDITORS' REPORT**  
*(Concluded)*

reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 Chapter 10.650, *Rules of the Auditor General*, 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 themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of state financial assistance is fairly stated in all material respects in relation to the financial statements as a whole.

*Purvis, Gray and Company, LLP*

January 24, 2013  
Ocala, Florida

## **FINANCIAL STATEMENTS**

**STATEMENT OF FINANCIAL POSITION  
FOR THE YEAR ENDED JUNE 30, 2012  
ARNETTE HOUSE, INC. - OCALA, FLORIDA**

**ASSETS**

	<b>2012</b>	<b>Total (Memorandum Only) 2011</b>
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 403,457	\$ 324,800
Grants and Contracts Receivable	267,276	285,142
Prepaid Expenses and Other Assets	21,619	37,478
Miscellaneous Receivables	9,496	0
<b>Total Current Assets</b>	701,848	647,420
<b>Property and Equipment</b>		
Property and Equipment, Net of Accumulated Depreciation	713,457	741,468
<b>Other Assets</b>		
Notes and Loan Receivable, Net of Allowance	0	0
Deposits	650	650
<b>Total Other Assets</b>	650	650
<b>Total Assets</b>	1,415,955	1,389,538

**LIABILITIES AND NET ASSETS**

<b>Current Liabilities</b>		
Accounts Payable	12,970	27,749
Accrued Payroll and Fringe Benefits	55,736	21,384
Accrued Vacations	55,834	55,610
Accrued Litigation Settlement	0	5,000
Current Portion of Obligation Under Capital Lease	8,187	7,504
<b>Total Current Liabilities</b>	132,727	117,247
<b>Long-term Liabilities</b>		
Obligation under capital lease, net of current portion	7,389	15,576
<b>Total Liabilities</b>	140,116	132,823
<b>Net Assets</b>		
Unrestricted:		
Investment in Property and Equipment	697,881	718,388
Other Unrestricted Net Assets	574,691	525,602
Temporarily Restricted	3,267	12,725
<b>Total Net Assets</b>	1,275,839	1,256,715
<b>Total Liabilities and Net Assets</b>	\$ 1,415,955	\$ 1,389,538

See accompanying notes.

**STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2012  
ARNETTE HOUSE, INC. - OCALA, FLORIDA**

	General and Administrative	Fund-raising Costs	Short-Term Residential	Non- Residential	Group Homes	Independent Living	Total	Total (Memorandum Only) 2011
<b>Expenses</b>								
Personnel Expenses:								
Salaries	\$ 241,899	\$ 0	\$ 653,102	\$ 112,833	\$ 195,671	\$ 0	\$ 1,203,505	\$ 1,182,948
Payroll Taxes	7,212	0	70,624	11,672	22,277	0	111,785	113,196
Health Insurance	28,157	0	66,114	9,645	15,464	0	119,380	128,108
Life Insurance	0	0	0	0	0	0	0	1,438
<b>Total Personnel Expenses</b>	<b>277,268</b>	<b>0</b>	<b>789,840</b>	<b>134,150</b>	<b>233,412</b>	<b>0</b>	<b>1,434,670</b>	<b>1,425,690</b>
Nonpersonnel Expenses:								
Insurance	5,315	0	21,991	4,801	11,490	0	43,597	43,090
Food and Drink	0	0	25,353	0	18,195	0	43,548	48,058
Food and Drink, In-kind	0	0	3,516	0	1,200	0	4,716	0
Client Expenses	232	0	4,419	378	6,262	250	11,541	8,369
Contractual Services	3,947	0	13,470	3,083	3,739	0	24,239	26,883
Utilities	3,374	0	23,140	3,735	11,028	0	41,277	49,439
Repairs and Maintenance	276	0	10,675	518	7,475	0	18,944	27,472
Professional Fees and Services	26,280	0	2,750	1,200	2,474	0	32,704	29,498
Office Expenses	2,129	137	6,085	1,452	1,995	0	11,798	13,676
Printing	238	535	381	134	87	0	1,375	93
Telephone	184	0	15,224	3,450	5,953	0	24,811	24,318
Dues and Subscriptions	2,264	0	2,355	1,277	470	0	6,366	12,589
Supplies	215	8	9,978	262	5,084	0	15,547	18,059
Supplies In-kind	0	0	2,755	0	540	0	3,295	0
Education and Recreation	2,317	0	1,969	49	2,829	0	7,164	10,921
Education and Recreation In-kind	0	0	880	0	0	0	880	0
Travel	2,696	0	1,792	5,810	594	0	10,892	14,259
Taxes and licenses	451	0	135	0	0	0	586	898
Conferences and Training	1,691	0	5,402	299	412	0	7,804	5,358
Postage	359	0	1,028	539	240	0	2,166	2,026
Advertising	829	1,687	838	294	324	0	3,972	6,023
Bank Charges	1,078	23	0	0	0	0	1,101	2,042
Computer Expenses	333	0	0	0	0	0	333	2,322
Interest expense	1,722	0	0	160	0	0	1,882	924
Litigation Settlement	0	0	0	0	0	0	0	5,000
Fund-raising	10	23,421	0	0	0	0	23,431	10,383
Miscellaneous	3,887	200	64	0	0	0	4,151	5,498
Equipment	297	0	180	0	411	0	888	781
Depreciation	72,164	0	0	0	0	0	72,164	69,793
Rent	0	0	0	0	32,400	470	32,870	82,197
Bad Debt	10,000	0	8,542	0	0	0	18,542	22,500
<b>Total Nonpersonnel Expenses</b>	<b>142,288</b>	<b>26,011</b>	<b>162,922</b>	<b>27,441</b>	<b>113,202</b>	<b>720</b>	<b>472,584</b>	<b>542,469</b>
<b>Total Expenses</b>	<b>\$ 419,556</b>	<b>\$ 26,011</b>	<b>\$ 952,762</b>	<b>\$ 161,591</b>	<b>\$ 346,614</b>	<b>\$ 720</b>	<b>\$ 1,907,254</b>	<b>\$ 1,968,159</b>

See accompanying notes.

**NOTES TO FINANCIAL STATEMENTS**  
**ARNETTE HOUSE, INC. OCALA, FLORIDA**

**Note 1 - Summary of Significant Accounting Policies**

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements is as follows:

**Organization and Nature of Activities**

Arnette House, Inc. (the Corporation) is a not-for-profit corporation organized under the laws of the State of Florida on April 22, 1981. The Corporation is 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. The Corporation serves Marion and Lake Counties.

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.

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. The Independent Living Program was discontinued in fiscal year 2011. 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 and long-term home-like environment.

The Corporation is supported primarily by grants from the State of Florida Department of Juvenile Justice (DJJ), Kids Central, Inc. (KCI), and the Department of Health and Human Services. At June 30, 2012, those grants approximated 90% of the Corporation's total support and revenue. The Corporation also receives annual funding from the United Way of Marion County, Inc.

**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, state, and other public 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 passage of time nor can be fulfilled or otherwise removed by actions of the Corporation.

**NOTES TO FINANCIAL STATEMENTS**  
**ARNETTE HOUSE, INC. - OCALA, FLORIDA**  
*(Continued)*

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**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**  
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.
- **Nonresidential**  
Those costs associated with providing family counseling, specialized groups, parenting classes, including class materials, training and outreach, and 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 Tax Status**

The Corporation is currently exempt from state and federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC), and is not a private foundation. Accordingly, no provision has been made for income tax liabilities or expenses.

It is the policy of management to evaluate its tax position on an ongoing basis and to disclose any such positions it believes would have a material impact on the financial statements and related notes. Management also believes that no such required disclosures currently exist.

The Corporation is no longer subject to U.S. federal or state income tax examinations by tax authorities for years before 2009. The Corporation would recognize interest accrued related to unrecognized tax benefits in interest expense and penalties, if any, in operating expenses.

**NOTES TO FINANCIAL STATEMENTS**  
**ARNETTE HOUSE, INC. - OCALA, FLORIDA**  
*(Continued)*

**Note 3 - Property and Equipment**

Property and equipment consist of the following at June 30, 2012:

Land	\$ 60,000
Buildings and Improvements	1,047,492
Furniture and Fixtures	332,202
Machinery and Equipment	190,138
Vehicles	<u>69,753</u>
	1,699,585
(Accumulated Depreciation)	<u>(986,128)</u>
<b>Property and Equipment, Net</b>	<b><u>\$ 713,457</u></b>

Depreciation expense for the period ended June 30, 2012, is \$72,164.

**Note 4 - Notes Receivable and Loan Receivable**

The Corporation is a member in the Coalition for Youth Inc., a related party as discussed in Note 11. The Coalition for Youth has a 501(c)(2) entity, the 14<sup>th</sup> Street Apartments, Inc., which in December 2007 acquired an apartment complex, which was subsequently leased to the Corporation for use in the Independent Living Program. Funding for the original purchase of the apartment complex was provided by a grant through the County, a bank mortgage (see Note 7) and a loan from the Corporation for \$185,000. The Note is secured by the land and building of the apartment complex, with interest accruing at 5% per annum on the unpaid balance, and monthly payments of principal and interest (\$1,377) were scheduled to begin on July 1, 2009.

In April 2009, the Corporation loaned an additional \$35,000 to 14<sup>th</sup> St. Apartments, Inc. The note is secured by the land and building of the apartment complex. Monthly payments of principal and interest (\$243) were scheduled to begin on July 1, 2009.

During fiscal years 2011 and 2012, the Corporation loaned an additional \$10,000 in each year, to 14<sup>th</sup> St. Apartments, Inc., bringing the total principal outstanding to \$240,000.

The Independent Living Program was later terminated by the Corporation effective June 30, 2011. During fiscal year 2011, the Board of Directors approved the modification of use of the property for rentals to low-income persons to Workforce Housing rentals. The modification was approved by the County, the grantor and holder of the second mortgage in September 2011. Management of 14<sup>th</sup> Street Apartments, Inc. rehabilitated apartments and began renting as Workforce Housing rentals during fiscal year 2012.

The Corporation has not received any payments of interest and principal under the loans. While the original use of the property for the Independent Living Program and the subsequent change in use to Workforce Housing rentals was intended to provide sufficient cash flow for repayment of the note, those future cash-flows are uncertain as to timing and amount. Due to the uncertainty of the future cash-flows and the declining real estate market, since the original purchase of the property, as well as the ultimate plan for use or disposition of the property, the Corporation has assessed collection as unlikely, and therefore the loan as impaired.

**NOTES TO FINANCIAL STATEMENTS**  
**ARNETTE HOUSE, INC. - OCALA, FLORIDA**  
*(Continued)*

**Note 9 - Operating Lease**

The Corporation began leasing two group homes on 44<sup>th</sup> Court in Ocala, FL under a twelve month lease which began March 1, 2009, and is renewed annually. According to the lease, monthly rent is \$2,700 per month. Total rent for fiscal year 2012 is \$32,400.

**Note 10 - 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 \$8,533, respectively at June 30, 2012. The assets are being 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, 2012, for each of the next five years and in the aggregate are:

	2013		\$ 9,226
	2014		<u>7,688</u>
Total Future Minimum Lease Payments			\$ 16,914
Less: Amount Representing Interest			<u>(1,338)</u>
Present Value of Net Minimum Lease Payments			<u>\$ 15,576</u>

In September 2012, the Corporation entered into an operating lease agreement for three new copiers. The new operating lease agreement included the replacement, payoff, and satisfaction of the above capital lease.

**Note 11 - Related Party Transactions**

During fiscal year 2008, the Corporation participated in the organization of a 501(c)(3) entity, the Coalition for Youth, Inc. The Coalition for Youth established two subsidiary 501 (c)(2) entities, the 14<sup>th</sup> Street Apartments, Inc. and the 44<sup>th</sup> Court Property, Inc. The Corporation is a member of the Coalition for Youth, Inc., as identified in its organizing documents. The entities hold the title for their respective property, collect income, and remit the entire income, less expenses, to the Coalition for Youth. The Governing Board of Coalition for Youth includes the Corporation's CEO and two Board members. The officers of 14<sup>th</sup> St. Apartments and 44<sup>th</sup> Court Property include the Corporation's CEO as its secretary.

The Corporation has outstanding loans to the 14<sup>th</sup> Street Apartments; details of the loans are described in Note 4. At June 30, 2012, the principal balance of the notes receivable is \$240,000, with an allowance for loan loss of \$240,000, and a net carrying value of \$0.

The Corporation is a co-borrower on a bank mortgage note for financing an apartment building purchased by 14<sup>th</sup> Street Apartments, as described in Note 7.

Prior to fiscal year 2012, the Corporation was leasing an apartment building from 14<sup>th</sup> Street Apartments for the Independent Living Program, which ended June 30, 2011. The Corporation is also leasing two group homes, as described in Note 9. The expenses under the lease were \$32,400 during fiscal year 2012.

**ADDITIONAL ELEMENTS OF REPORT PREPARED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*,  
ISSUED BY THE COMPTROLLER GENERAL OF THE UNITED  
STATES; AND *THE RULES OF THE AUDITOR GENERAL*  
OF THE STATE OF FLORIDA**

**SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE  
FOR THE YEAR ENDED 2012  
ARNETTE HOUSE, INC. - OCALA, FLORIDA**

<u>State Agency and Project Title</u>	<u>State CSFA Number</u>	<u>Program or Award Amount</u>	<u>State Expenditures</u>
<b>State of Florida Department of Juvenile Justice Passed Through the Florida Network of Youth and Family Services</b>			
Children and Families in Need of Services July 1, 2011 - June 30, 2012	80.005	\$ 998,205	\$ <u>998,205</u>
<b>Total</b>			<b>\$ <u>998,205</u></b>

Note: The accompanying schedule of expenditures of state financial assistance includes the state grant activity of Arnette House, Inc., for the year ended June 30, 2012. The schedule of expenditures of state financial assistance was prepared on the accrual basis of accounting.

**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**

Board of Directors  
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, 2012, and have issued our report thereon dated January 24, 2013. 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**

Management of Arnette House, Inc. is responsible for establishing and maintaining effective 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control over financial reporting that we consider to be material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness: 2012-1.

**Certified Public Accountants**

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Board of Directors  
Arnette House, Inc.  
Ocala, Florida

**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  
(Concluded)**

**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 object 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 January 24, 2013.

Arnette House, Inc.'s response to the findings identified in our audit is described in the Corrective Action Plan and in the Management's Response section. 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 the Board of Directors, management, 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.

*Purvis, Gray and Company, LLP*

January 24, 2013  
Ocala, Florida

**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**

Board of Directors  
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 its major state projects for year-end June 30, 2012. 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 each of its major state projects 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 on Arnette House, Inc.'s compliance with those requirements.

In our opinion, Arnette House, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major state projects for year ended June 30, 2012.

**Internal Control Over Compliance**

Management of Arnette House, Inc. is responsible for establishing and maintaining effective internal control over compliance with 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 requirements that could have a direct and material effect on a major state project in order to determine our 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 Arnett House, Inc.'s internal control over compliance.

**Certified Public Accountants**

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Board of Directors  
Arnette House, Inc.  
Ocala, Florida

**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  
(Concluded)**

**Internal Control Over Compliance (Concluded)**

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 a 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 federal program 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 the Board of Directors, management, 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.

*Purvis, Gray and Company, LLP*

January 24, 2013  
Ocala, Florida

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
STATE FINANCIAL ASSISTANCE PROJECTS  
ARNETTE HOUSE, INC. - OCALA, FLORIDA**

1. **Summary of Audit Results**

I. **Type of Audit Report Issued on Financial Statements**

Unqualified Opinion

II. **Significant Deficiencies and/or Material Weaknesses in Internal Control**

A significant deficiency in internal control disclosed during the audit of the financial statements is reported as finding 2012-1. The significant deficiency is considered a material weakness.

III. **Noncompliance Material to Auditee Financial Statements**

No instances of noncompliance material to the financial statements were disclosed.

IV. **Significant Deficiencies and/or Material Weaknesses in Internal Control Over Major State Financial Assistance Projects**

Audit disclosed no instances of reportable conditions in internal control over state major projects or reportable conditions which were material weaknesses in internal control over state programs.

V. **Type of Audit Report Issued on Compliance with Requirements Applicable to Major State Financial Assistance Projects**

Unqualified Opinion

VI. **Audit Findings Relative to Chapter 10.650, *Rules of the Auditor General***

The audit disclosed no findings required to be reported under Chapter 10.650, *Rules of the Auditor General*.

VII. **Major State Financial Assistance Project**

- State Project:
  - Department of Juvenile Justice
    - ▶ Children and Families in Need of Services - CSFA 80.005

VIII. **Dollar Threshold Used to Distinguish Between Type A and Type B State Financial Assistance Projects**

\$ 299,461

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**STATE FINANCIAL ASSISTANCE PROJECTS**  
**ARNETTE HOUSE, INC. - OCALA, FLORIDA**  
*(Concluded)*

2. **Findings Related to the Financial Statements Required to be Reported Under GAGAS**

**2012-1—Related Party Transactions**

Arnette House, Inc. participated in the organization of and is a member of the Coalition for Youth, Inc. since the fiscal year 2008. The Coalition for Youth, Inc.'s structure includes two 501(c)(2) entities under its control, the 14<sup>th</sup> Street Apartments, Inc. and the 44<sup>th</sup> Court Property, Inc. Since the organization of the Coalition for Youth, the Corporation has participated in several related party transactions, including lease agreements, loans, and advances.

During our audit procedures to obtain and understanding of these relationships and transactions, management had difficulty locating and obtaining copies of the originating documents and loan agreements. Management did not have a documented understanding of the arrangement or a completed analysis of the expected future activity with the Coalition for Youth, including the repayments of the loans made to the 14<sup>th</sup> Street Apartments, Inc. Subsequent procedures were performed by management to develop a formal analysis of these relationships and the method and timing of repayment of the loans. The analysis of the loan, which had not been previously formally performed, resulted in a discovery of an error in determining the value of the loan and interest accrued on the loan. To correct the error, management recorded a prior period adjustment to restate the 2011 financial statements by \$246,000, as described in Note 13.

To ensure accurate reporting of all nonroutine transactions, we recommend that management establish a secure documentation system to ensure the ongoing maintenance of significant corporate documents. Further, due to the complexity surrounding the Coalition for Youth and other related parties, we recommend management establish a process for the semi-annual or more frequent analysis of the relationship, the status of the loans, or other nonroutine transactions, including complete documentation of the analysis to be provided to the Board and the retention with corporate records.

3. **Findings and Questioned Costs for Major Federal Awards**

Not Applicable

4. **Findings and Questioned Costs for Major State Financial Assistance Projects**

The audit disclosed no findings that are required to be reported under Chapter 10.650, *Rules of the Auditor General*.

5. **Schedule of Prior Audit Findings**

No summary schedule of prior audit findings is required because there were no prior audit findings related to federal programs or state projects.

**CORRECTIVE ACTION PLAN  
STATE FINANCIAL ASSISTANCE PROJECTS  
ARNETTE HOUSE, INC. - OCALA, FLORIDA**

**2012-1—Related Party Transactions**

Arnette House, Inc. management agrees with the audit recommendation to establish a secure documentation system to ensure ongoing maintenance of significant corporate documents. Management will be meeting with its Treasurer in June to develop a system.

In addition, all significant nonroutine transactions will have complete and proper documentation with CEO, finance committee, or Board approval. Arnette House, Inc. will establish quarterly review and analysis of its relationship with CFY, loans status at its quarterly CFY Board meetings. Proper minutes will be recorded of each meeting.

**MANAGEMENT LETTER**

Board of Directors  
Arnette House, Inc.  
Ocala, Florida

We have audited the financial statements of Arnette House, Inc., as of and for the year ended June 30, 2012, and have issued our report thereon dated January 24, 2013.

We conducted our audit 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*. We have issued our Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*, 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*, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated January 24, 2013, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.650, *Rules of the Auditor General*, which requires disclosure in the management letter of violations of provisions of contracts or grant agreements, or abuse, that have an effect on the financial statements or State project amounts that is less than material but more than inconsequential. In addition, for matters that have an inconsequential effect on the financial statements or State project amounts, considering both quantitative and qualitative factors, the following may be reported based on professional judgment: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse that have occurred, or are likely to have occurred; (2) deficiencies in internal control that are not significant deficiencies. In connection with our audit, the following matters are required to be disclosed:

**2012-2—Fixed Assets**

During our review of the fixed asset subsidiary schedule, we noted the city water septic connection project was recorded at the incorrect original cost and new flooring and roof replacement were not recorded on the fixed asset schedule. The item recorded at the incorrect cost, has accumulated depreciation dating back to fiscal year 2009. This resulted in an overstatement of accumulated depreciation of \$2,612 in the financial statements. We recommend that the organization review the fixed asset subsidiary schedule to ensure all assets are currently in use have been recorded at the correct amounts and that the organization create a system to maintain a more organized fixed asset subsidiary schedule to reduce the probability of future errors.

**Certified Public Accountants**

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Board of Directors  
Arnette House, Inc.  
Ocala, Florida

**MANAGEMENT LETTER**  
*(Concluded)*

**2012-3—Policies and Procedures**

Management is responsible for the design and operation of sound internal controls. Well documented policies and procedures, that are effectively communicated to employees provides management a manner in which to implement internal controls. Our review of the organization's policies and procedures noted several areas that did not have documented policies and procedures. We recommend that management review all current policies and procedures, with particular attention to developing or modifying the written policies and procedures for the following:

- Approval Process for Accounts Receivable Write-offs
- Preservation and Tracking all Significant Agreements, Including Organizational Documents, Board Minutes and Related Reports and Contracts
- Remove References to External Auditors in the Internal Control for Accounts Receivable Financial Processes, as External Auditor Should not be a Component of the Organization's Internal Control
- Journal Entry Approval and Documentation Process, Ensuring Complete Supporting Documentation
- Adoption of a Formal Fraud Policy
- Establishment of a Written Capitalization Policy

We have noted many recent changes to the finance department, including a new Finance Director, which has addressed and resolved many previous issues. We recommended the above comments to further assist management with their ongoing process to improve internal control in the future.

Pursuant to Chapter 119, Florida Statutes this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of management and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to take this opportunity to express our appreciation for the courtesies which have been extended to our staff. If you have any questions or comments about the contents of this letter, or the information accompanying this letter, please do not hesitate to contact us.

*Purvis, Gray and Company, LLP*

January 24, 2013  
Ocala, Florida



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



January 24, 2013

Arnette House, Inc. respectfully submits the following corrective action plan for the year ended June 30, 2012.

Purvis Gray & Company LLC  
2347 SE 17<sup>th</sup> Street  
Ocala, Florida 34471

Audit Period: June 30, 2012

Management Letter Recommendations:

Recommendation: Purvis Gray & Co has recommended the following;

Fixed Assets: Fixed asset subsidiary schedule be reviewed to ensure all assets are currently in use have been recorded at the correct amounts and create a more organized subsidiary schedule.

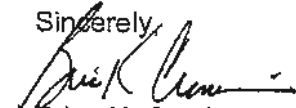
Policies and Procedures: Recommend a review of all current policies and procedures with attention to the following:

- Approval process for accounts receivable write-offs
- Preservation and tracking all significant agreements, including organizational documents, Board minutes and related reports and contracts
- Remove references to external auditors in the internal control for accounts receivable financial processes
- Journal entry approval and documentation process to ensure complete documentation
- Adoption of formal fraud policy
- Establishment of a written capitalization policy

Response: Arnette House, inc. concurs with the recommendations and will implement them immediately.

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

Sincerely

  
Brian K. Cronin  
CFO

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

Shelter: 352-622-6135 / Fax 352-622-2049 • Family Counseling Center & Administrative Offices: 352-622-4432 / Fax 352-622-2830

