

THE ARC OF HARRISON COUNTY, INC.

FINANCIAL STATEMENTS

JUNE 30, 2011

DHHR - Finance

JAN -5 2012

Date Received

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The Arc of Harrison County, Inc.

We have audited the accompanying statements of financial position of The Arc of Harrison County, Inc. (a nonprofit organization) as of June 30, 2011 and 2010, and the related statements of activities, functional expenses and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide 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 The Arc of Harrison County, Inc. as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Smith Denny & Alastanos, PLLC

Clarksburg, West Virginia
December 1, 2011

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Not received

I



THE ARC OF HARRISON COUNTY, INC
STATEMENTS OF FINANCIAL POSITION
 JUNE 30, 2011 AND 2010

ASSETS

	2011	2010
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 80,067	\$ 36,285
Grants Receivable	35,344	35,156
Accounts Receivable	174,238	242,168
Deposits and Prepaid Expenses	38,473	17,500
Total Current Assets	328,122	331,109
 INVESTMENTS, marketable equity securities (mutual funds)	88,430	88,842
 PROPERTY AND EQUIPMENT		
Land	120,080	120,080
Buildings	958,085	958,185
Furniture and Equipment	141,114	159,527
	1,219,279	1,237,792
Less: Accumulated Depreciation	304,096	300,823
	915,183	936,969
Construction in Progress	18,683	18,683
Net Property and Equipment	933,866	955,652
 RESTRICTED CASH	16,896	13,992
 TOTAL ASSETS	\$ 1,367,314	\$ 1,389,595

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Lines of Credit	\$ 332,966	\$ 263,233
Current Maturities of Long Term Debt	11,918	11,562
Accounts Payable and Accrued Expenses	278,583	355,198
Total Current Liabilities	623,467	629,993
 LONG TERM DEBT	460,951	469,760
 NET ASSETS		
Unrestricted Net Assets	(42,439)	(47,430)
Temporarily Restricted Net Assets	325,335	337,272
Total Net Assets	282,896	289,842
 TOTAL LIABILITIES AND NET ASSETS	\$ 1,367,314	\$ 1,389,595

The accompanying notes are an integral part of these financial statements

THE ARC OF HARRISON COUNTY, INC.
STATEMENTS OF ACTIVITIES
 YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
UNRESTRICTED REVENUES, GAINS AND OTHER SUPPORT		
Program Service Fees	\$ 2,952,390	\$ 3,020,456
Contributions	44,900	46,593
Rent Income	53,120	51,510
Investment Income	2,104	1,916
Grant Revenue	193,494	174,718
Unrealized Gain on Investments	29,042	9,942
Other Income	46,635	33,873
(Loss) on Sale of Assets	(1,089)	(20,401)
Total Unrestricted Revenues	3,320,596	3,318,607
Net assets released from restrictions	11,937	11,969
UNRESTRICTED EXPENSES		
Salaries and Wages	2,158,859	2,279,258
Payroll Taxes and Employee Benefits	536,203	561,995
Travel	143,022	174,282
Contracted Services	71,914	72,539
Telephone and Utilities	56,570	64,321
Medicaid Enhancement Taxes	136,395	140,609
Depreciation	34,518	34,199
Affiliation Fee	12,800	10,808
Supplies	52,023	77,876
Occupancy	25,108	24,012
Insurance	36,618	88,743
Bad Debt Expense	6,783	25,145
Interest Expense	44,719	41,853
Miscellaneous	12,010	10,661
Total Unrestricted Expenses	3,327,542	3,606,301
Increase (Decrease) in Unrestricted Net Assets	4,991	(275,725)
TEMPORARILY RESTRICTED NET ASSETS		
Net Assets Released from Restrictions	(11,937)	(11,969)
(Decrease) in Temporarily Restricted Net Assets	(11,937)	(11,969)
Change in Net Assets	(6,946)	(287,694)
NET ASSETS AT BEGINNING OF YEAR	289,842	577,536
NET ASSETS AT END OF YEAR	\$ 282,896	\$ 289,842

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

THE ARC OF HARRISON COUNTY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2011

	PROGRAM SERVICES	GENERAL AND ADMINISTRATIVE	TOTAL
EXPENSES			
Salaries and Wages	\$ 2,020,179	\$ 138,680	\$ 2,158,859
Payroll Taxes and Employee Benefits	515,132	21,071	536,203
Travel	140,521	2,501	143,022
Contracted Services	44,523	27,391	71,914
Telephone and Utilities	38,373	18,197	56,570
Medicaid Enhancement Taxes	136,395	-	136,395
Depreciation	22,099	12,419	34,518
Affiliation Fee	-	12,800	12,800
Supplies	30,114	21,909	52,023
Occupancy	25,108	-	25,108
Insurance	-	36,618	36,618
Bad Debt Expense	6,783	-	6,783
Interest Expense	24,572	20,147	44,719
Miscellaneous	3,260	8,750	12,010
Total Expenses	<u>\$ 3,007,059</u>	<u>\$ 320,483</u>	<u>\$ 3,327,542</u>

The accompanying notes are an integral part of these financial statements

THE ARC OF HARRISON COUNTY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2010

	PROGRAM SERVICES	GENERAL AND ADMINISTRATIVE	TOTAL
EXPENSES			
Salaries and Wages	\$ 2,023,839	\$ 255,419	\$ 2,279,258
Payroll Taxes and Employee Benefits	537,065	24,930	561,995
Travel	167,300	7,156	174,456
Contracted Services	46,301	26,238	72,539
Telephone and Utilities	43,046	21,275	64,321
Medicaid Enhancement Taxes	140,609	-	140,609
Depreciation	21,780	12,419	34,199
Affiliation Fee	-	10,808	10,808
Supplies	31,318	23,289	54,607
Occupancy	14,627	-	14,627
Insurance	-	88,743	88,743
Bad Debt Expense	25,145	-	25,145
Interest Expense	21,964	19,889	41,853
Miscellaneous	23,646	19,495	43,141
Total Expenses	<u>\$ 3,096,640</u>	<u>\$ 509,661</u>	<u>3,606,301</u>

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

THE ARC OF HARRISON COUNTY, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (6,946)	\$(287,694)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	34,518	34,199
Unrealized (Gain) on Investments	(29,042)	(9,942)
Loss on Sale of Property and Equipment	1,089	20,401
Decrease (Increase) in Assets:		
Grants Receivable	(188)	2,626
Accounts Receivable	67,930	50,379
Deposits and Prepaid Expenses	(20,973)	-
Employee Advances Receivable	-	3,295
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Expenses	(76,615)	22,550
Net Cash (Used By) Operating Activities	<u>(30,227)</u>	<u>(164,186)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(1,635)	(1,920)
Increase in Restricted Cash	(2,904)	(3,168)
Proceeds from Sale of Assets	30,000	25,000
Purchase of Property and Equipment	(12,732)	(15,267)
Net Cash Provided By Investing Activities	<u>12,729</u>	<u>4,645</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Line of Credit	69,733	152,391
Repayment on Line of Credit	-	-
Principal Payments on Long Term Debt	(8,453)	(11,311)
Net Cash Provided By Financing Activities	<u>61,280</u>	<u>141,080</u>
Increase (Decrease) in Cash and Cash Equivalents	43,782	(18,461)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>36,285</u>	<u>54,746</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 80,067</u>	<u>\$ 36,285</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Payments for Interest	\$ 45,230	\$ 40,989

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

THE ARC OF HARRISON COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of The Arc of Harrison County, Inc. (ARC) is presented to assist in the understanding and interpretation of the Organization's financial statements. The financial statements and notes are representations of the Organization's management who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of these financial statements.

Nature of Activities

The ARC is situated in Clarksburg, West Virginia, and is incorporated under laws of the State of West Virginia. The primary purpose of the organization is to promote opportunities and relationships for persons with developmental disabilities and to educate the community.

The ARC is exempt from federal income taxes as provided by Section 501(c) (3) of the Internal Revenue Code.

Grants and Accounts Receivable

Grants and accounts receivable are unsecured. The ARC routinely assesses the collectibility of its grant and contract receivables, and as a consequence, believes that its June 30, 2011 and 2010 grant and accounts receivable are fully collectible; accordingly, no allowance for uncollectible accounts is needed. Receivables are written off when they are determined to be uncollectible; however, historically, The ARC's bad debt expense has been extremely low. Charge offs are based on an account-by-account review.

Property and Equipment

Property and equipment are recorded at cost. Expenditures for new facilities or expenditures which extend the useful lives of existing property and equipment are capitalized. Maintenance and repairs are charged to operating costs and expensed as incurred.

Property and equipment are depreciated by the straight-line and an accelerated method over the following estimated useful lives.

Buildings	25-40 years
Furniture and equipment	5-7 years

Investments

Investments in marketable securities with readily determinable fair values are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

THE ARC OF HARRISON COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributed Services

A number of unpaid volunteers have made contributions of their time to develop the ARC's programs. No amounts have been reflected in the financial statements for those services since they do not meet the criteria for recognition as required by the Revenue Recognition for Not-for-Profit Entities Topic of the FASB Accounting Standard Codification.

Accounting 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 and disclosures. Accordingly, actual results could differ from those estimates.

Revenue Recognition

Services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The ARC is reimbursed at a tentative rate(s) based on types of services rendered to participants.

The ARC's method of accounting for cost reimbursement government contracts is to make no entry on the statement of financial position for the receipt of an approved grant award. Grant related assets are not reflected in the statement of financial position until costs have been incurred and revenue is not recognized in the statement of activities as unrestricted until project costs have been incurred.

Cash Equivalent

For purposes of reporting cash flows, cash is defined as cash held in demand deposit accounts at a federally insured financial institution. The ARC's cash equivalent consists of a money market account.

Classification of Net Assets

The ARC has adopted the Presentation of Financial Statements for Not-for-Profit Entities Topic of the FASB Accounting Standard Codification. This standard states that the statement of financial position shall report the amounts for each of three classes of net assets as unrestricted, temporarily restricted, or permanently restricted and the statement of activities shall report the amount of change in net assets for the period as unrestricted, temporarily restricted, or permanently restricted. In addition, the Organization is required to present a statement of cash flows. There were no permanently restricted net assets as of June 30, 2011 and 2010.

THE ARC OF HARRISON COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Grants and Contributions

Grants and contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions would be reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets would be reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Rent Income

The ARC owns facilities which provide services to adults with mental and physical disabilities. Residents are taught home and community-based independent living skills by professionally trained staff. Rental income from these facilities is recorded by the operating method as it is billed to the residents. There are no long-term commitments relative to these arrangements.

NOTE 2 CONCENTRATIONS

During the year ended June 30, 2011 and 2010, program service fees from the Medicaid program aggregated \$2,952,340 and \$3,020,356, respectively. A significant reduction in the level of this support, if this were to occur, may have an effect on The ARC's programs and activities. Accounts receivable from the Medicaid program are \$173,728 and \$231,781 at June 30, 2011 and 2010.

The ARC maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The ARC has not experienced any losses in such accounts. The ARC believes it is not exposed to any significant credit risk on its cash and cash equivalents.

NOTE 3 OCCUPANCY EXPENSE

The ARC rents office facilities under lease agreements for which there are no long-term commitments. Rent expense under these agreements totaled \$25,108 and \$24,012 for the years ended June 30, 2011 and 2010, respectively.

NOTE 4 TEMPORARILY RESTRICTED NET ASSETS

The ARC owns three facilities which were built with \$447,235 in grant monies received from the West Virginia Housing Development Fund. The ARC may be responsible for the full repayment of these grants if it fails to meet certain obligations of the grant contracts. These grants stipulate that the facilities are to be used as housing for adults with disabilities for 25 years.

THE ARC OF HARRISON COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 4 TEMPORARILY RESTRICTED NET ASSETS (continued)

Activity related to these three facilities built with grant funds are recorded on the Statements of Financial Position as temporarily restricted net assets at June 30, 2011 and 2010 of \$325,335 and \$337,272. Depreciation expense related to these facilities is recorded on the Statement of Activities at June 30, 2011 and 2010 as net assets released from restrictions of \$11,937 and \$11,969.

NOTE 5 TAX SHELTERED ACCOUNT

Effective May 28, 1993, The ARC instituted a tax-sheltered account (TSA) under Section 403(b) (7) of the Internal Revenue Code. The contributions that the employees make to the TSA are made with pre-tax dollars and along with the earnings are tax-deferred until withdrawn from the account. Employees may contribute up to 20% of their earnings to the plan with a maximum of \$16,500 in 2011 and 2010. The ARC makes no matching contributions. The plan is available to all employees.

NOTE 6 LINES OF CREDIT

The ARC maintained \$450,000 in bank lines of credit in 2011 and 2010. Bank advances on these credit lines are payable on demand and carry an interest rate based on the prime rate index. The lines are secured by investments of the ARC and various real estate. Borrowings against these lines were \$332,966 and \$263,233 at June 30, 2011 and 2010.

NOTE 7 NOTE PAYABLE

	<u>2011</u>	<u>2010</u>
USDA; installment note obligation payable in monthly installments of \$2,600 including interest of 4.125%; secured by real estate, matures in 2035	\$472,869	\$481,322
	472,869	481,322
Less current portion	<u>11,918</u>	<u>11,562</u>
	<u>\$460,951</u>	<u>\$469,760</u>

As of June 30, 2011, maturities are as follows:

Year ending June 30, 2012	\$ 11,918
2013	12,419
2014	12,941
2015	13,485
2016	14,052
Later Years	<u>408,054</u>
	<u>\$472,869</u>

THE ARC OF HARRISON COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 7 NOTES PAYABLE (continued)

The loan agreement with the USDA stipulates the establishment of a Debt Service Reserve Fund that is shown as restricted cash on the Statement of Financial Position and is required to deposit \$264 per month until a total of \$31,656 is achieved. The ARC has made its required deposits through June 30, 2011 and 2010.

NOTE 8 FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the organization in estimating its fair value disclosures for financial instruments.

Cash, cash equivalents, accounts receivable, and notes payable: The carrying amounts reported in the statement of financial position approximate fair values because of the short maturities of those instruments.

Investments

Fair value and unrealized appreciation of equity securities at June 30, 2010 and 2009, are summarized as follows:

	<u>2011</u>	<u>2010</u>
Fair Value of Equity Securities	\$ 88,430	\$ 88,842
Cost of Equity Securities	\$ 88,316	\$ 117,770
Unrealized Gain (Loss)	\$ 114	\$ (28,928)

NOTE 9 FUNCTIONAL CLASSIFICATIONS OF EXPENSES

Expenses by function for the years ended June 30, 2011 and 2010, are as follows:

	<u>2011</u>	<u>2010</u>
Program Services	\$ 3,007,059	\$ 3,096,640
Management and general	<u>320,483</u>	<u>509,661</u>
Total	\$ <u>3,327,542</u>	\$ <u>3,606,301</u>

THE ARC OF HARRISON COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 10 INFORMATION REQUIRED BY WEST VIRGINIA DEPARTMENT OF HEALTH AND HUMAN RESOURCES

Schedule of Department of Health and Human Resources Grant Funds for Fiscal Year Ended June 30, 2011

2011

	State Account Number	Allocation for year	Year to date billing	Amount collected by	Under billed on contract	Expended through
Supported Employment	0525-2010-2870 -219-252-258 2010-2011	<u>\$89,142</u>	<u>\$89,142</u>	6-30-11 <u>\$75,850</u>	<u>\$0</u>	6-30-11 <u>\$89,142</u>

	State Account Number	Allocation for year	Year to date billing	Amount collected by	Remaining on contract	Expended through
Supported Employment	0525-2010-2870 -219-252-258	<u>\$40,000</u>	<u>\$40,000</u>	6-30-11 <u>\$39,108</u>	<u>\$0</u>	6-30-11 <u>\$40,000</u>

2010

	State Account Number	Allocation for year	Year to date billing	Amount collected by	Under billed on contract	Expended through
Supported Employment	0525-2870-219-258 2009-2010	<u>\$89,142</u>	<u>\$89,142</u>	6-30-10 <u>\$74,736</u>	<u>\$14,406</u>	6-30-10 <u>\$89,142</u>

	State Account Number	Allocation for year	Year to date billing	Amount collected by	Remaining on contract	Expended through
Supported Employment	0525-2002-22870-219-258	<u>\$40,000</u>	<u>\$40,000</u>	6-30-10 <u>\$40,000</u>	<u>\$0</u>	6-30-10 <u>\$40,000</u>

THE ARC OF HARRISON COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 11 SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 1, 2011, the date on which the financial statements were available to be issued. As of the date of evaluation, there were no reportable subsequent events.

MANAGEMENT LETTER

MANAGEMENT LETTER

To the Board of Directors of
The Arc of Harrison County, Inc.
Clarksburg, West Virginia

In planning and performing our audit of the financial statements of The Arc of Harrison County, Inc. for the year ended June 30, 2011, we considered the Organization's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we became aware of the following matters that are opportunities for strengthening internal controls, operating efficiency, and compliance with laws, regulations, contracts, and grants.

Segregation of Duties

During our audit, we noted that two employees perform most of the accounting and financial duties. As a result, many aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing at The Arc of Harrison County, Inc. We recognize that the Organization is not large enough to make the employment of additional people for the purpose of segregating duties practicable from a financial standpoint, but we are required under our professional responsibilities to describe the situation.

Board of Directors Meeting Minutes

During our audit, we noted that the minutes to certain board of directors meetings were not available. The board should take the necessary steps to ensure that minutes are recorded and retained for all future board of directors meetings.

After you have had an opportunity to review these comments and recommendations, we would be pleased to discuss the points which you desire. We would like to thank you for the opportunity to serve you.

Smith Denny & Alastanos, PLLC

Clarksburg, West Virginia
December 1, 2011

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