

THE ARC OF NORTH CAROLINA, INC.

FINANCIAL STATEMENTS

**For the year ended
June 30, 2011**

THE ARC OF NORTH CAROLINA, INC.

C O N T E N T S

June 30, 2011

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APPLE, KOCEJA & ASSOCIATES, PA

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Officers and Directors
The Arc of North Carolina, Inc.
Raleigh, North Carolina

We have audited the statement of financial position of The Arc of North Carolina, Inc. as of June 30, 2011, and the related statements of activities, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of The Arc of North Carolina, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit. Information for the year ended June 30, 2010 is presented for comparative purposes only and was extracted from the financial statements for that year, on which an unqualified opinion dated January 21, 2011, was expressed.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 **The Arc of North Carolina, 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.

Apple, Kocaja & Associates, PA

Certified Public Accountants
October 21, 2011

THE ARC OF NORTH CAROLINA, INC.

STATEMENT OF FINANCIAL POSITION

As of June 30, 2011

(with comparative totals for June 30, 2010)

ASSETS	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2011	Total 2010
CURRENT ASSETS					
Cash and cash equivalents	\$147 723	\$5 815	\$ -	\$153 538	\$332 200
Receivables - program services (net of \$179,618 and \$200,874 allowance for uncollectibles for 2011 and 2010 respectively)	1 528 921	-	-	1 528 921	1 899 686
Receivables - other	114 211	-	-	114 211	110 364
Receivable from related party (Note 11)	399 457	-	-	399 457	126 601
Promise to give	-	-	-	-	15 225
Prepaid expenses	196 069	-	-	196 069	197 294
Total current assets	<u>2 386 381</u>	<u>5 815</u>	<u>-</u>	<u>2 392 196</u>	<u>2 681 370</u>
OTHER ASSETS					
Investments (at fair market value) (Note 4)	61 622	630 277	183 126	875 025	735 578
Prepaid expenses - long-term	-	-	-	-	14 167
Long-term portion of receivable	25 503	-	-	25 503	25 503
Deposits	40 652	-	-	40 652	41 689
Total other assets	<u>127 777</u>	<u>630 277</u>	<u>183 126</u>	<u>941 180</u>	<u>816 937</u>
PROPERTY AND EQUIPMENT					
Land	2 520	-	-	2 520	2 520
Furniture and equipment	490 292	-	-	490 292	395 773
Less accumulated depreciation	(346 347)	-	-	(346 347)	(307 295)
Net property and equipment	<u>146 465</u>	<u>-</u>	<u>-</u>	<u>146 465</u>	<u>90 998</u>
Total assets	<u>\$2 660 623</u>	<u>\$636 092</u>	<u>\$183 126</u>	<u>\$3 479 841</u>	<u>\$3 589 305</u>
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable	\$196 260	\$ -	\$ -	\$196 260	\$432 126
Bank line of credit (Note 10)	-	-	-	-	1 000 000
Accrued wages and other liabilities	1 110 818	-	-	1 110 818	649 514
Funds held in trust	118 613	-	-	118 613	112 501
Current maturities of long-term debt	50 069	-	-	50 069	113 170
Accrued vacation payroll	282 513	-	-	282 513	231 824
Total current liabilities	<u>1 758 273</u>	<u>-</u>	<u>-</u>	<u>1 758 273</u>	<u>2 539 135</u>
LONG-TERM LIABILITIES					
Long-term debt (Note 12)	-	-	-	-	49 781
Total long-term liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>49 781</u>
NET ASSETS					
Unrestricted	902 350	-	-	902 350	259 255
Temporarily restricted (Note 5)	-	636 092	-	636 092	558 008
Permanently restricted	-	-	183 126	183 126	183 126
Total net assets	<u>902 350</u>	<u>636 092</u>	<u>183 126</u>	<u>1 721 568</u>	<u>1 000 389</u>
Total liabilities and net assets	<u>\$2 660 623</u>	<u>\$636 092</u>	<u>\$183 126</u>	<u>\$3 479 841</u>	<u>\$3 589 305</u>

See notes to financial statements

THE ARC OF NORTH CAROLINA, INC.

STATEMENT OF ACTIVITIES

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>Permanently Restricted</u>	<u>Year Ended June 30, 2011</u>	<u>Year Ended June 30, 2010</u>
PUBLIC SUPPORT					
Contributions	\$58 756	\$ -	\$ -	\$58 756	\$204 501
Fair share support	37 117	-	-	37 117	37 362
Government grants and contracts	998 732	-	-	998 732	1 030 004
	<u>1 094 605</u>	<u>-</u>	<u>-</u>	<u>1 094 605</u>	<u>1 271 867</u>
OTHER REVENUE					
Housing management fees	2 290 670	-	-	2 290 670	1 333 502
Conference revenue	20 391	-	-	20 391	15 299
Investment income	5 391	9 758	-	15 149	14 373
Net realized and unrealized gains (losses) on investments	31 509	92 789	-	124 298	62 529
Program service fees	16 573 546	-	-	16 573 546	17 046 740
Proceeds from HUD surplus funds	329 582	-	-	329 582	437 279
Miscellaneous	21 565	-	-	21 565	37 515
	<u>19 272 654</u>	<u>102 547</u>	<u>-</u>	<u>19 375 201</u>	<u>18 947 237</u>
Net assets released from restrictions	24 463	(24 463)	-	-	-
Total revenue and net asset releases	<u>20 391 722</u>	<u>78 084</u>	<u>-</u>	<u>20 469 806</u>	<u>20 219 104</u>
ALLOCATIONS AND EXPENSES					
Allocation of support to Arc/USA, Inc.	9 349	-	-	9 349	10 775
Functional expenses:					
Assistance to individuals	16 154 727	-	-	16 154 727	16 441 910
Advocacy and member services	705 371	-	-	705 371	779 546
Housing management	913 253	-	-	913 253	912 883
Management and general	1 951 281	-	-	1 951 281	2 065 706
Fund raising	14 646	-	-	14 646	19 761
Total allocations and expenses	<u>19 748 627</u>	<u>-</u>	<u>-</u>	<u>19 748 627</u>	<u>20 230 581</u>
Change in net assets	643 095	78 084	-	721 179	(11 477)
Net assets - beginning of year	<u>259 255</u>	<u>558 008</u>	<u>183 126</u>	<u>1 000 389</u>	<u>1 011 866</u>
Net assets - end of year	<u>\$902 350</u>	<u>\$636 092</u>	<u>\$183 126</u>	<u>\$1 721 568</u>	<u>\$1 000 389</u>

See notes to financial statements

THE ARC OF NORTH CAROLINA, INC.

STATEMENT OF CASH FLOWS

For the year ended June 30, 2011

(with comparative totals for the year ended June 30, 2010)

	Year Ended June 30, 2011	Year Ended June 30, 2010
Cash flows from operating activities:		
Increase (decrease) in net assets	\$721 179	(\$11 477)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation	39 052	31 052
(Gain) loss from investments	(124 298)	(62 529)
(Gain) loss from disposal of property and equipment	-	(7 604)
(Increase) decrease in:		
Receivables	370 765	329 658
Prepaid expenses	15 392	(10 486)
Promise to give	15 225	(15 225)
Increase (decrease) in:		
Accounts payable	(235 866)	(33 640)
Bank overdraft	-	-
Accrued liabilities and other liabilities	518 105	108 918
Net cash from operating activities	<u>1 319 554</u>	<u>328 667</u>
Cash flows from investing activities:		
Purchase of property and equipment	(94 519)	(24 062)
Proceeds from sale of equipment	-	10 910
(Increase) decrease in deposits	1 037	12 661
(Increase) in other receivables	(3 847)	(72 704)
Investment income retained in investments	(15 149)	(14 373)
Net cash from investing activities	<u>(112 478)</u>	<u>(87 568)</u>
Cash flows from financing activities:		
Net line of credit draws (repayments)	(1 000 000)	125 000
Advances and repayments to related parties	(272 856)	(52 695)
Principal loan repayments	(112 882)	(104 115)
Net cash from financing activities	<u>(1 385 738)</u>	<u>(31 810)</u>
 Increase (decrease) in cash and equivalents	 (178 662)	 209 289
Cash and equivalents, beginning of year	<u>332 200</u>	<u>122 911</u>
Cash and equivalents, end of year	<u>\$153 538</u>	<u>\$332 200</u>

See notes to financial statements

THE ARC OF NORTH CAROLINA, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2011

(with comparative totals for the year ended June 30, 2010)

	Program Services			Total Program Services
	Assistance to Individuals	Advocacy and Member Services	Housing Management	
Salaries	\$10 628 819	\$474 983	\$580 236	\$11 684 038
Employee benefits	1 446 012	47 155	78 559	1 571 726
Payroll taxes	912 656	37 150	48 438	998 244
Total salaries and related expenses	12 987 487	559 288707 233		14 254 008
Professional fees	259 623	18 000	11 467	289 090
Contract supplies	465 788	-	-	465 788
Office expense	144 922	1 564	39 361	185 847
Telephone	310 257	11 817	15 842	337 916
Occupancy	454 791	46 232	70 895	571 918
Travel	493 652	9 345	17 583	520 580
Contracted services	637 819	-	-	637 819
Equipment lease and maintenance	85 383	-	13 446	98 829
Conferences and conventions	7 081	42 457	-	49 538
Repairs and maintenance	(5 423)	-	17 719	12 296
Insurance	6 509	-	-	6 509
Dues and subscriptions	9 534	2 919	7 871	20 324
Training	23 682	231	5 989	29 902
Program related expenses	192 812	-	-	192 812
Interest	-	-	-	-
Employment related expense	21 490	10	2 695	24 195
Miscellaneous	25 137	11 980	1 286	38 403
Total expenses before depreciation	16 120 544	703 843911 387		17 735 774
Depreciation	34 183	1 528	1 866	37 577
Total	<u>\$16 154 727</u>	<u>\$705 371</u>	<u>\$913 253</u>	<u>\$17 773 351</u>

Supporting Services				
Management and General	Fund Raising	Total Supporting Services	Total Expenses	
			2011	2010
\$448 798	\$10 047	\$458 845	\$12 142 883	\$12 043 353
184 116	1 581	185 697	1 757 423	1 518 038
138 970	846	139 816	1 138 060	1 032 471
771 884	12 474	784 358	15 038 366	14 593 862
516 504	-	516 504	805 594	794 483
-	-	-	465 788	1 248 947
71 596	112	71 708	257 555	212 222
89 034	286	89 320	427 236	376 992
45 603	940	46 543	618 461	683 612
93 557	668	94 225	614 805	844 098
65 402	-	65 402	703 221	528 749
8 102	-	8 102	106 931	148 183
33 750	68	33 818	83 356	77 129
8 195	-	8 195	20 491	35 204
75 083	-	75 083	81 592	32 999
6 474	44	6 518	26 842	70 570
80 686	17	80 703	110 605	129 622
-	-	-	192 812	247 196
51 363	-	51 363	51 363	65 179
26 764	1	26 765	50 960	55 681
5 841	4	5 845	44 248	44 026
1 949 838	14 614	1 964 452	19 700 226	20 188 754
1 443	32	1 475	39 052	31 052
<u>\$1 951 281</u>	<u>\$14 646</u>	<u>\$1 965 927</u>	<u>\$19 739 278</u>	<u>\$20 219 806</u>

See notes to financial statements

THE ARC OF NORTH CAROLINA, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Note 1. Nature of Organization

The Arc of North Carolina, Inc. is a nonprofit organization committed to securing for all people with intellectual and developmental disabilities the opportunity to choose and realize their goals of where and how they learn, live, work, and play.

Note 2. Summary of Significant Accounting Policies

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Donor-restricted contributions are reported as temporarily restricted and are then reclassified to unrestricted net assets upon expiration of the time restriction and/or satisfaction of the program restriction. Restricted contributions whose restrictions are met in the same fiscal period are reported as unrestricted. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Accounts Receivable

The Organization records accounts receivable at total unpaid balance, less any allowance for doubtful accounts. The Organization estimates the allowance for doubtful accounts based on a combination of factors, including historical loss experience and management's knowledge of the current composition of receivables. Receivables that management believes to be uncollectible are written off upon that determination. Management considers the allowance for doubtful accounts of \$179,618 as of June 30, 2011 to be adequate.

Property and Equipment

Furniture and equipment are stated at cost or at estimated fair value at date of donation in the case of donated assets. Depreciation is computed by the straight-line method using estimated lives of 5 to 10 years. Property and equipment with an estimated life of three or more years and a cost of at least \$500 is capitalized.

Income Taxes

The Organization is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code except on net income derived from unrelated business activities. For the year ended June 30, 2011, the Organization has determined that no income taxes are due for its activities. Accordingly, no provision for income tax has been recorded in the accompanying financial statements.

THE ARC OF NORTH CAROLINA, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2011

Note 2. Summary of Significant Accounting Policies (continued)

Investments

Investments in equity and debt securities are reported in the statement of financial position at fair value with realized and unrealized gains and losses included in the statement of activities.

Cash Equivalents and Supplemental Disclosure for Statement of Cash Flows

For purposes of reporting cash flows, the Organization considers all checking accounts and savings accounts to be cash equivalents. The Organization paid \$51,363 of interest and no income taxes during the year ended June 30, 2011.

Subsequent Events

The Organization has evaluated events and transactions through October 21, 2011, which is the date the financial statements were available to be issued.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the 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.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and administrative activities benefited.

Note 3. Operating Leases

The Organization leases office equipment and office space under non-cancelable operating leases having remaining terms in excess of one year. Rental expense for the year was \$692,568. As of June 30, 2011, the minimum lease commitment for each of the next five years and in the aggregate is:

<u>Year ending</u>	<u>Office Space</u>	<u>Equipment</u>	<u>Total</u>
June 30, 2012	\$ 378 208	\$ 39 054	\$ 417 262
2013	282 823	24 696	307 519
2014	195 489	1 728	197 217
2015	164 592	288	164 880
2016	106 212	-	106 212
Total	<u>\$1 127 324</u>	<u>\$ 65 766</u>	<u>\$1 193 090</u>

THE ARC OF NORTH CAROLINA, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2011

Note 4. Investments

Investments at June 30, 2011 are carried at the quoted market value as follows:

	<u>Cost</u>	<u>Market</u>
Money funds	\$ 111 784	\$ 111 784
Corporate stocks	373 502	522 851
Corporate bonds	233 548	240 390
	<u>\$ 718 834</u>	<u>\$ 875 025</u>

Unrealized gains from investments at June 30, 2011 amounted to \$156,191. Statement of Financial Accounting Standards 157 (SFAS 157) for fair value measurements of investments that are recognized and disclosed at fair value in the financial statements on a recurring basis, establishes a fair value hierarchy. This hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy identifies Level 1 inputs as quoted prices (unadjusted) in active markets for identical investments that the Organization has the ability to access at the measurement date. All investments of the Organization are considered to be Level 1 valuations. Expenses of \$7,587 relating to investment income on these funds have been netted against investment income in the accompanying financial statements.

Note 5. Temporarily Restricted Net Assets

At June 30, 2011, temporarily restricted net assets were available for the following purposes and time restrictions:

Housing funds	\$ 630 277
Lifeguardianship Protégé Fund	<u>5 815</u>
	<u>\$ 636 092</u>

The housing funds of \$630,277 are invested and must be used for housing purposes. \$127,003 must be used for cash management purposes for the HUD properties managed by the Organization. The balance of the funds must be utilized for housing purposes recommended by the Housing Committee of The Arc of North Carolina.

Note 6. Net Assets Released From Restrictions

Net assets are released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. \$24,463 of temporarily restricted donations was released from restrictions during the year ended June 30, 2011.

Note 7. Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2011 consisted of an endowment fund established to provide for the operation of the Lifeguardianship program. Income from the endowment fund can be used for this purpose.

THE ARC OF NORTH CAROLINA, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2011

Note 7. Permanently Restricted Net Assets (continued)

The Board of Directors has interpreted the State Uniform Management of Institutional Funds Act (SUMIFA) as requiring the preservation of the fair value of original gifts as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by SUMIFA.

During the year ended June 30, 2011, the Organization had the following endowment-related activities:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beginning of year	\$ 24 722	\$ 183 126	\$207 848
Interest & dividends	5 391	-	5 391
Increase (decrease) in market value	31 509	-	31 509
End of year	<u>\$ 61 622</u>	<u>\$ 183 126</u>	<u>\$244 748</u>

Note 8. Retirement Plan

The Organization has a 401(k) plan covering all employees who meet eligibility requirements regarding term of service and age. The Organization matches up to 4% of each participating employee's annual salary to the plan. This year's contribution to eligible employees' retirement accounts totaled \$158,086.

Note 9. Concentration of Credit Risk

The Organization maintains its cash balances in financial institutions located in North Carolina. The Federal Deposit Insurance Corporation insures the balances up to \$250,000 at each institution. At June 30, 2011, the Organization's cash balance was fully insured.

Note 10. Line of Credit

The Organization has a secured line of credit in the amount of \$1,250,000 from a local bank. The credit line carries a variable interest rate payable monthly (5.5% at June 30, 2011). There was no outstanding balance at June 30, 2011. Any outstanding principal is due May 21, 2012.

Note 11. Advance to Related Party

The Organization has advanced funds to related parties. There is no requirement to pay interest on these funds. The balance outstanding at June 30, 2011 was \$399,457.

THE ARC OF NORTH CAROLINA, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2011

Note 12. Long-term Debt

Long-term debt consisted of the following at June 30, 2011:

Note payable with a bank, payable \$10,165 monthly through November 2011 including interest at 8.00%. The note is secured by assets of the Organization.	\$ 50 069
Less current maturities	<u>(50 069)</u>
	<u>\$ -</u>

Maturities of debt are as follows:

Year ending June 30, 2012	\$ 50 069
Thereafter	<u>-</u>
	<u>\$ 50 069</u>

Note 13. Prior Year Comparative Totals

The financial statements include 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 Organization's financial statements for the year ended June 30, 2010, from which the summarized information was derived. Certain items in the 2010 financial statements have been re-classified to conform to the 2011 presentation.