

THE ARC HAMILTON COUNTY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
with
INDEPENDENT AUDITORS' REPORT

The Board of Directors
The Arc Hamilton County

Independent Auditors' Report

We have audited the accompanying statement of financial position of The Arc Hamilton County (The Arc) as of December 31, 2006, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of The Arc'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 The Arc's 2005 financial statements and, in our report dated June 21, 2006, 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. 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 Hamilton County as of December 31, 2006, 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.

Rippe & Kingston CO PSC

March 18, 2008

THE ARC HAMILTON COUNTY

STATEMENT OF FINANCIAL POSITION

December 31, 2006 with Summarized Financial Information at December 31, 2005

	2006			2005
	Unrestricted	Temporarily Restricted	Permanently Restricted	Summarized Total December 31,
ASSETS				
Cash and cash equivalents	\$ -	\$ 575,390	\$ 10,050	\$ 557,181
Accounts, pledges and grants receivable	12,689	95,424	1,000	154,452
Prepaid expenses	7,198	419	-	2,624
Investments	363,251	-	30,950	320,501
Due (to) from Furniture and office equipment, at cost, less accumulated depreciation of \$47,126 and \$42,742 at December 31, 2006 and 2005, respectively	(37,329)	37,329	-	-
	3,424	-	-	4,373
Total assets	\$ 349,233	\$ 708,562	\$ 42,000	\$ 1,039,131

LIABILITIES AND NET ASSETS

LIABILITIES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 26,207	\$ 87,848	\$ -	\$ 97,445
Refundable advances - agency transactions	-	537,718	-	394,503
Total liabilities	26,207	625,566	-	491,948
Net assets:				
Current	323,026	-	-	372,113
Community Chest allocation	-	60,000	-	120,487
Miscellaneous grants	-	22,996	-	23,633
Endowment	-	-	42,000	30,950
Total net assets	323,026	82,996	42,000	547,183
Total liabilities and net assets	\$ 349,233	\$ 708,562	\$ 42,000	\$ 1,039,131

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

THE ARC HAMILTON COUNTY
STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2006 with Summarized Financial Information at December 31, 2005

	2006			2005
	Unrestricted	Temporarily Restricted	Permanently Restricted	Summarized Total December 31.
CHANGES IN NET ASSETS: SUPPORT AND REVENUE:				
Public support:				
Allocation of funds from The Community Chest and Council of the Cincinnati Area, Inc.	\$ -	\$ 60,448	\$ -	\$ 120,492
Direct contributions, grants and memberships	97,772	30,000	11,050	76,337
Special events, net of expenses of \$11,009 in 2006 and \$18,975 in 2005	6,837	-	-	16,001
Total public support	104,609	90,448	11,050	212,830
Other revenue:				
Government contracts	442,136	-	-	430,171
Program service fees	33,460	-	-	24,340
Interest income	53,182	-	-	18,379
Realized and unrealized investment gain (loss)	(3,833)	-	(3,833)	22,092
Miscellaneous income	3,910	-	-	3,849
Total other revenue	528,855	-	-	498,831
Total public support and other revenue	633,464	90,448	11,050	711,661
Net assets released from (satisfaction of) program restrictions	151,572	(151,572)	-	-
Total	785,036	(61,124)	11,050	711,661

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

THE ARC HAMILTON COUNTY

STATEMENT OF ACTIVITIES (CONTINUED)

For the Year Ended December 31, 2006 with Summarized Financial Information at December 31, 2005

	2006			2005
	Unrestricted	Temporarily Restricted	Permanently Restricted	Summarized Total December 31,
EXPENSES:				
Program services:				
Information and referral	61,848	-	-	62,646
Support to families and individuals	537,402	-	-	454,592
Education and training	108,851	-	-	117,620
Total program services	708,101	-	-	634,858
Management and general Fundraising	61,208	-	-	42,928
	64,814	-	-	53,989
Total expenses	834,123	-	-	731,775
Increase (decrease) in net assets	(49,087)	(61,124)	11,050	(20,114)
NET ASSETS:				
Beginning of year	372,113	144,120	30,950	567,297
End of year	\$ 323,026	\$ 82,996	\$ 42,000	\$ 547,183

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

THE ARC HAMILTON COUNTY

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2006 with Summarized Financial Information for 2005

	2006					2005		
	Information and Referral	Support to Families and Individuals	Education and Training	Total Program Services	Management and General	Fundraising	Total	Summarized Total December 31,
Salaries	\$ 42,864	\$ 360,610	\$ 57,665	\$ 461,139	\$ 20,842	\$ 19,374	\$ 501,355	\$ 465,096
Fringe benefits	3,666	42,543	8,642	54,851	2,994	3,874	61,719	55,599
Payroll taxes	3,260	27,002	5,718	35,980	2,059	3,583	41,622	39,996
Total salaries and related expenses	49,790	430,155	72,025	551,970	25,895	26,831	604,696	560,691
Professional fees	1,697	8,469	1,852	12,018	11,723	23,477	47,218	40,627
Supplies	467	3,010	971	4,448	854	167	5,469	3,501
Telephone	2,178	4,266	1,050	7,494	1,128	616	9,238	7,930
Postage	1,208	7,621	1,629	10,458	1,755	987	13,200	9,915
Occupancy	3,336	21,893	3,447	28,676	3,583	2,000	34,259	24,420
Equipment	1,382	16,103	1,611	19,096	1,712	1,314	22,122	12,693
Printing and publications	600	4,696	666	5,962	650	1,561	8,173	7,070
Travel	218	6,927	2,186	9,331	1,763	266	11,360	9,788
Conferences, conventions and meetings	135	6,952	2,745	9,832	3,021	5,829	18,682	9,660
Membership dues	155	314	19,643	20,112	200	1,185	21,497	20,322
Awards and grants	75	22,957	233	23,265	866	-	24,131	11,600
Insurance	607	4,039	793	5,439	688	581	6,708	6,522
Donated services	-	-	-	-	2,984	-	2,984	2,598
Depreciation	-	-	-	-	4,386	-	4,386	4,438
Total expenses	\$ 61,848	\$ 537,402	\$ 108,851	\$ 708,101	\$ 61,208	\$ 64,814	\$ 834,123	\$ 731,775

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

THE ARC HAMILTON COUNTY

STATEMENT OF CASH FLOWS

For the Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Decrease in net assets	(\$ 99,161)	(\$ 20,114)
Adjustments to reconcile decrease in net assets to net cash provided by (used in) operating activities		
Depreciation	4,386	4,438
Realized and unrealized investment (gain) loss	3,833	(22,092)
Changes in assets - decrease (increase):		
Accounts, pledges and grants receivable	45,339	(32,243)
Prepaid expenses	(4,993)	-
Changes in liabilities - increase (decrease):		
Accounts payable and accrued liabilities	16,610	29,375
Refundable advances - agency transactions	<u>143,215</u>	<u>(103,790)</u>
Net cash provided by (used in) operating activities	109,229	(144,426)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of furniture and office equipment	(3,437)	-
Purchase of investments	(362,162)	(1,950)
Proceeds from sale of investments	<u>284,629</u>	<u>16,091</u>
Net cash provided by (used in) investing activities	<u>(80,970)</u>	<u>14,141</u>
Net increase (decrease) in cash	28,259	(130,285)
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>557,181</u>	<u>687,466</u>
End of year	<u>\$ 585,440</u>	<u>\$ 557,181</u>

The accompanying notes are an integral
part of these financial statements

THE ARC HAMILTON COUNTY
NOTES TO FINANCIAL STATEMENTS

December 31, 2006

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Nature of Operations - The purpose of The Arc Hamilton County (The Arc) is to promote equal opportunities for people with developmental disabilities in Hamilton, Clermont and Butler Counties, Ohio, by providing public education regarding the needs of such persons and advocating improvements to services provided to them by other health and welfare organizations. The Arc is incorporated in the state of Ohio as a charitable organization. Funding from the Community Chest and the Hamilton County and Butler County Boards of Mental Retardation and Developmental Disabilities is a significant portion of The Arc's public support and revenue. Continued funding from the Community Chest is dependent upon levels of private contributions. Renewal of the contracts with the Hamilton County, Butler County and Clermont County Boards of Mental Retardation is dependent upon certain performance criteria and available funds at the state and county level.

The Arc is affiliated with both the state and national organizations of the same name. Fees paid to these organizations aggregated approximately \$19,000 in 2006.

Basis of Accounting - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Prior Period Information - 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 Arc's financial statements for the year ended December 31, 2005, from which the summarized information was derived.

Support and Expenses - Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The Arc reports gifts of cash and other assets as temporarily restricted or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The expenses associated with the transfer of these temporarily restricted contributions are reported as unrestricted net assets on the statement of activities. Donor-restricted contributions whose restrictions are met in the same reporting period are

THE ARC HAMILTON COUNTY
NOTES TO FINANCIAL STATEMENTS

December 31, 2006

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

reported as unrestricted support.

The Arc reports gifts of goods and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, The Arc reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Expenses are recorded when incurred in accordance with the accrual basis of accounting.

Cash and Cash Equivalents and Credit Risk - For purposes of the statement of cash flows, The Arc considers all money market accounts to be cash equivalents. The money market funds are generally invested in government backed or similar risk securities and, consequently, are considered to have a high degree of liquidity and safety. Cost equals the market value of these money market accounts. Investments in money market funds, aggregating \$88,826, are not insured or guaranteed by the U. S. Government. At December 31, 2006, The Arc has cash deposits with a bank in excess of federally insured limits in the amount of \$453,852.

Due (To) From - The due to and due from balance represents the amount owed to temporarily restricted net assets from unrestricted net assets. This is a result of The Arc utilizing temporarily restricted cash for unrestricted purposes.

Furniture and Office Equipment - The cost of furniture and office equipment is capitalized and is depreciated on the straight-line method over their estimated useful lives ranging from 3 to 10 years. Maintenance and repairs are charged to expense as incurred; major additions, renewals and betterments are capitalized.

Investments - Investments are recorded at fair market value.

Donated Goods and Services - A substantial number of volunteers have donated a significant number of hours to The Arc's programs during the year; however, these donated services are not reflected in the financial statements since the services do not require specialized skills. Donated specialized services are reflected in the statement of activities at fair value in the amount of \$2,984 for 2006. Materials and other assets donated to The Arc are recorded and reflected in the statements at the fair value at the date of receipt. The Arc did not receive donated materials in 2006.

THE ARC HAMILTON COUNTY
NOTES TO FINANCIAL STATEMENTS

December 31, 2006

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Refundable Advances - Advance payments received under cost reimbursement contracts are recorded as a liability until the associated disbursement has been incurred.

Functional Expenses - Salaries and related expenses are charged to program services based on the estimated time spent by personnel on the related programs. Direct expenses are charged to programs based upon the cost incurred when specifically identifiable with a program. Management and general expenses represent unallocable administrative costs associated with managing the agency.

Income Taxes - The Arc has tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation.

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.

2. **INVESTMENTS**

The following is a summary of investments at December 31, 2006:

	<u>Cost</u>	<u>Market</u>
Mutual funds	<u>\$376,420</u>	<u>\$394,201</u>

Mutual funds consist of investments in equities and bonds. The market value of the mutual funds is based upon current trading information.

3. **GOVERNMENT CONTRACTS**

The Arc administers the Family Resource Services programs for the Hamilton County (HCBMR/DD), Clermont County (CCBMR/DD), and the Butler County (BCBMR/DD) Boards of Mental Retardation and Developmental Disabilities. These programs reimburse eligible families for sustained home goods and services. The Arc administers the Individual Budget Program for the HCBMR/DD and BCBMR/DD. These programs were designed to provide job training and daily living skill training for persons with developmental disabilities. The Arc reimburses qualified trainers for services provided to individuals selected by the county boards. The Arc administers

THE ARC HAMILTON COUNTY
NOTES TO FINANCIAL STATEMENTS

December 31, 2006

3. **GOVERNMENT CONTRACTS** (Continued)

the One Time Costs Program for the HCBMR/DD. This program was designed to serve as a payor of last resort for needed items to benefit consumers. In 2002, The Arc started administering the Summer Fund Program for the HCBMR/DD. The fund pays for recreational items and services for individuals served by the HCBMR/DD. The Arc acts as an agent on behalf of this organization transferring funds received to the individuals identified by the organization. During 2006, The Arc disbursed \$1,505,188 under these programs. In accordance with Statement of Financial Accounting Standards No. 136, *Transfers of Assets to a Not-For-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others*, these amounts have not been recorded as a contribution received (revenue) or contribution made (expense) as The Arc has no discretion in determining the individuals that benefit from the program. The Arc also contracts with the HCBMR/DD for the provision of Quality Assurance for Supported Living. The fees earned by The Arc for administering all of the above programs for the counties amounted to \$442,136 in 2006.

4. **LEASES**

The Arc leases its office space and office equipment under non-cancelable operating leases. The leases expire at various times through February 2011. Rent expense for 2006 was approximately \$37,000. The aggregate minimum payments required under these leases are as follows:

Year Ending <u>December 31,</u>	
2007	\$ 35,018
2008	35,124
2009	36,188
2010	35,208
2011	<u>5,899</u>
	<u>\$147,437</u>

5. **TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consist of the following at December 31, 2006:

Community Chest allocation	\$60,000
Individual Case Advocacy	20,000
Client Emergency Fund	1,528

THE ARC HAMILTON COUNTY
NOTES TO FINANCIAL STATEMENTS

December 31, 2006

5. **TEMPORARILY RESTRICTED NET ASSETS** (Continued)

Dater Foundation for the Hamilton County Augmentative Communication Program	853
Fifth Third Bank for the Families Empowering Families Program	<u>615</u>
	<u>\$82,996</u>

6. **PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable for unrestricted purposes, the asset based community program and the covenant of support program.

7. **RETIREMENT PLAN**

Effective January 1, 2003, The Arc switched from a simple IRA plan to a 403(B) plan that covers substantially all employees upon date of hire. The Arc may make a matching contribution at their discretion. For the year ended December 31, 2006, matching contributions totaled \$8,279.