The Arc™

of the Virginia Peninsula

FINANCIAL REPORT

JUNE 30, 2011 AND 2010

The Arc of the Virginia Peninsula, Inc.

FINANCIAL REPORT

JUNE 30, 2011 AND 2010

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WITT MARES

THE POWER TO MAKE A DIFFERENCE. THE PEOPLE TO MAKE IT COUNT.℠

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Arc of the Virginia Peninsula, Inc.

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

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 the Virginia Peninsula, 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.

Witt Mares, PLC

Newport News, Virginia
March 9, 2012

FINANCIAL STATEMENTS

THE ARC OF THE VIRGINIA PENINSULA, INC.

Statements of Financial Position

June 30, 2011 and 2010

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 2,963,359**	$ 2,388,967
Accounts receivable, net	**3,789,970**	3,641,732
Account receivable - Medicaid	**130,233**	-
Pledges receivable, net	**140,472**	131,198
Advances to affiliates	**4,635**	36,381
Prepaid expenses	**91,185**	57,479
Total current assets	**7,119,854**	6,255,757
PROPERTY AND EQUIPMENT, NET	**6,803,689**	6,771,373
OTHER ASSETS		
Land held for sale	**97,313**	97,313
Pledges receivable, net of current portion	**47,942**	63,499
Deposits, insurance	**63,634**	-
Resident security deposits and custodial bank accounts	**27,588**	31,108
Total other assets	**236,477**	191,920
Total assets	**$ 14,160,020**	$ 13,219,050

THE ARC OF THE VIRGINIA PENINSULA, INC.

Statements of Financial Position

June 30, 2011 and 2010

	2011	2010
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt	**$ 278,220**	$ 259,148
Accounts payable	**812,946**	588,310
Account payable - Medicaid	**398,375**	347,513
Accrued expenses	**2,813,790**	2,576,548
Total current liabilities	**4,303,331**	3,771,519
LONG-TERM LIABILITIES		
Long-term debt, less current maturities	**3,515,585**	3,921,077
Resident security deposits and custodial bank accounts	**27,588**	31,108
Total long-term liabilities	**3,543,173**	3,952,185
Total liabilities	**7,846,504**	7,723,704
NET ASSETS		
Unrestricted	**5,139,541**	4,455,820
Unrestricted, board designated	**1,000,000**	835,166
Temporarily restricted	**173,975**	204,360
Total net assets	**6,313,516**	5,495,346
Total liabilities and net assets	**$ 14,160,020**	$ 13,219,050

See accompanying notes.

THE ARC OF THE VIRGINIA PENINSULA, INC.

Statements of Activities

Year Ended June 30, 2011

	Unrestricted	Temporarily Restricted	Total
PUBLIC SUPPORT AND REVENUES			
Public support:			
Contributions	$ 71,208	$ 114,665	$ 185,873
United Way of the Virginia Peninsula	-	99,000	99,000
Net assets released from restriction			
Expiration of time restriction	244,050	(244,050)	-
Total public support	315,258	(30,385)	284,873
Revenues:			
State and local grants	430,050	-	430,050
Fee revenues	7,838,907	-	7,838,907
Contract sales and commissions	18,979,093	-	18,979,093
Other	335,227	-	335,227
Total revenues	27,583,277	-	27,583,277
Total public support and revenues	27,898,535	(30,385)	27,868,150
EXPENSES			
Program expenses:			
Work programs	20,004,982	-	20,004,982
Non-work programs	2,912,275	-	2,912,275
Intermediary Care Facility for the			
Mentally Retarded (ICF/MR)	3,968,056	-	3,968,056
Total program expenses	26,885,313	-	26,885,313
Supporting services:			
Management and general expenses	173,412	-	173,412
Total expenses	27,058,725	-	27,058,725
Change in net assets from operations	839,810	(30,385)	809,425
OTHER CHANGES			
Interest	5,917	-	5,917
Gain on disposal of fixed assets	2,828	-	2,828
Total other changes	8,745	-	8,745
Change in net assets	848,555	(30,385)	818,170
NET ASSETS			
Beginning	5,290,986	204,360	5,495,346
Ending	$ 6,139,541	$ 173,975	$ 6,313,516

See accompanying notes.

THE ARC OF THE VIRGINIA PENINSULA, INC.

Statements of Activities

Year Ended June 30, 2010

	Restated Unrestricted	Temporarily Restricted	Total
PUBLIC SUPPORT AND REVENUES			
Public support:			
Contributions	$ 117,320	$ 39,765	$ 157,085
United Way of the Virginia Peninsula	-	99,000	99,000
Net assets released from restriction			
Expiration of time restriction	164,213	(164,213)	-
Total public support	281,533	(25,448)	256,085
Revenues:			
State and local grants	598,341	-	598,341
Fee revenues	7,204,675	-	7,204,675
Contract sales and commissions	14,686,224	-	14,686,224
Other	301,309	-	301,309
Total revenues	22,790,549	-	22,790,549
Total public support and revenues	23,072,082	(25,448)	23,046,634
EXPENSES			
Program expenses:			
Work programs	16,472,718	-	16,472,718
Non-work programs	3,092,825	-	3,092,825
Intermediary Care Facility for the			
Mentally Retarded (ICF/MR)	3,605,781	-	3,605,781
Total program expenses	23,171,324	-	23,171,324
Supporting services:			
Management and general expenses	152,858	-	152,858
Total expenses	23,324,182	-	23,324,182
Change in net assets from operations	(252,100)	(25,448)	(277,548)
OTHER CHANGES			
Interest	5,900	-	5,900
Loss on disposal of fixed assets	(50,794)	-	(50,794)
Total other changes	(44,894)	-	(44,894)
Change in net assets	(296,994)	(25,448)	(322,442)
NET ASSETS			
Beginning	5,587,980	229,808	5,817,788
Ending	$ 5,290,986	$ 204,360	$ 5,495,346

See accompanying notes.

THE ARC OF THE VIRGINIA PENINSULA, INC.

Statements of Cash Flows

Year Ended June 30, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	**$ 818,170**	$ (322,442)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	**367,133**	380,504
Provision for bad debts	**90,489**	(81,325)
(Gain) loss on disposal of fixed assets	**(2,828)**	50,794
Changes in assets and liabilities:		
Accounts receivable	**(238,727)**	(272,697)
Account receivable - Medicaid	**(130,233)**	-
Account payable - Medicaid	**50,862**	248,362
Pledges receivable, net	**6,283**	47,580
Advances to affiliates	**31,746**	(25,771)
Prepaid expenses	**(33,706)**	218,411
Deposits, insurance	**(63,634)**	-
Accounts payable	**224,636**	88,955
Accrued expenses	**237,242**	856,828
Net cash provided by operating activities	**1,357,433**	1,189,199
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	**(176,171)**	(277,291)
Proceeds on disposal of property and equipment	**3,550**	500
Net cash used in investing activities	**(172,621)**	(276,791)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	**(610,420)**	(229,034)
Net cash used in financing activities	**(610,420)**	(229,034)
Net increase in cash and cash equivalents	**574,392**	683,374

(Continued)

See accompanying notes.

THE ARC OF THE VIRGINIA PENINSULA, INC.
Statements of Cash Flows
Years Ended June 30, 2011 and 2010

(Concluded)

	2011	2010
CASH AND CASH EQUIVALENTS		
Beginning	**$ 2,388,967**	$ 1,705,593
Ending	**$ 2,963,359**	$ 2,388,967
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Cash paid for interest	**$ 237,171**	$ 225,065
SUPPLEMENTAL DISCLOSURES OF NON-CASH ACTIVITIES		
Property and equipment purchased with debt	**$ 224,000**	$ 52,838
Disposal of fully depreciated fixed assets	**$ 76,794**	$ 45,775

See accompanying notes.

THE ARC OF THE VIRGINIA PENINSULA, INC.

Statement of Functional Expenses

Year Ended June 30, 2011

	Work Programs	Non-Work Programs	ICF/MR	Management and General	Total
Direct costs					
Personnel costs	$ 9,389,497	$ 2,005,576	$ 2,550,383	$ 894,945	$ 14,840,401
Staff development	49,417	3,052	4,344	18,071	74,884
Subcontractors	8,568,310	-	-	-	8,568,310
Facility expenses	123,189	117,839	126,411	426,732	794,171
Equipment and supplies	437,119	199,643	241,241	150,637	1,028,640
Professional fees	96,297	8,456	144,233	61,688	310,674
Interest expense	41,130	26,103	51,740	118,284	237,257
Other	697,725	43,732	45,131	417,800	1,204,388
Total direct costs	19,402,684	2,404,401	3,163,483	2,088,157	27,058,725
Indirect costs					
Allocation of management and general expenses	602,298	507,874	804,573	(1,914,745)	-
Total costs	$ 20,004,982	$ 2,912,275	$ 3,968,056	$ 173,412	$ 27,058,725

See accompanying notes.

THE ARC OF THE VIRGINIA PENINSULA, INC.
Statement of Functional Expenses
Year Ended June 30, 2010

	Work Programs	Non-Work Programs	ICF/MR	Management and General	Total
Direct costs					
Personnel costs	$ 6,815,333	$ 2,223,281	$ 2,482,501	$ 1,138,521	$ 12,659,636
Staff development	39,460	1,378	6,568	25,348	72,754
Subcontractors	7,693,468	-	-	-	7,693,468
Facility expenses	63,547	72,928	110,526	319,583	566,584
Equipment and supplies	312,719	170,734	233,169	167,426	884,048
Professional fees	36,469	607	160,513	86,017	283,606
Interest expense	84,617	18,603	47,075	74,123	224,418
Other	499,996	74,050	49,949	315,673	939,668
Total direct costs	15,545,609	2,561,581	3,090,301	2,126,691	23,324,182
Indirect costs					
Allocation of management and general expenses	927,109	531,244	515,480	(1,973,833)	-
Total costs	$ 16,472,718	$ 3,092,825	$ 3,605,781	$ 152,858	$ 23,324,182

See accompanying notes.

NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The Arc of the Virginia Peninsula, Inc. ("The Arc") is a non-profit, non-stock corporation. Founded in 1953 by a group of concerned families, The Arc has a proud history of service to people with developmental disabilities and their families. The Arc serves more than 1,600 individuals with developmental and related disabilities annually in employment, community living, day support and early childhood programs. Services range from providing developmental screenings for children to helping elderly caregivers plan for the future of their aging loved ones with disabilities. The Arc's service area includes Hampton, Newport News, Poquoson and York County, as well as the ten rural counties on the Middle Peninsula/Northern Neck of Virginia.

Basis of Presentation

Financial statement presentation follows the recommendations of FASB Accounting Standards Codification (ASC) 958, Not-for-Profit Entities. Under ASC 958, the organization is required to report 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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of these financial statements, The Arc considers all highly liquid investments, purchased with a maturity of three months or less, to be cash equivalents.

Accounts Receivable

Accounts receivable represents revenues earned pursuant to various contracts or other agreements entered into by The Arc and are stated at the amount management expects to collect from outstanding balances. The organization does not accrue finance charges on outstanding accounts receivable. Most accounts receivable are due from governmental bodies, which pay The Arc interest at a variable rate if the account is not settled within 30 days of the invoice date. The Arc records this interest income as received.

(Continued)

NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts receivable are considered past due based on the payment terms of the various contracts and agreements. Receivables past due 90 or more days totaled $294,669 and $211,260 as of June 30, 2011 and 2010, respectively. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The allowance amount as of June 30, 2011 and 2010 was $205,949 and $115,460, respectively.

Pledges Receivable

Pledges are recognized when the donor makes a promise to give to The Arc that is, in substance, unconditional. Pledges that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire or are otherwise satisfied in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions.

The pledges receivable represent amounts due from the United Way expected to be received in the next fiscal year and amounts from capital campaigns. These amounts are temporarily restricted.

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets that range from three to forty years.

Maintenance and repairs, including replacement of minor items of physical properties, are charged to expense; major additions are capitalized. The Arc follows the practice of capitalizing all expenditures for equipment in excess of $5,000.

Land Held for Sale

The Arc holds a vacant parcel of land at its Hampton location that is being actively marketed.

Resident Security Deposits and Custodial Bank Accounts

The Arc holds security deposits for individuals living in residential homes as well as custodial bank accounts for participants in The Arc's programs.

(Continued)

NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses

Functional expenses have been allocated between program services and management and general expenses based on an analysis of personnel time, space, supplies and equipment utilized for the related activities.

Donated Materials and Services

Contributed property and equipment is recorded at fair value at date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

The Arc recognizes the estimated fair value of contributed services that meet the following criteria:

- The services rendered either create or enhance non-financial assets.
- The services received require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by contribution.

Although a number of volunteers donate significant amounts of time to The Arc, no services meeting these criteria were donated.

Income Taxes

The Arc is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Furthermore, it is classified as a publicly supported charitable organization under Section 509(a)(l) of the Internal Revenue Code and qualifies for the maximum charitable contribution deduction for its donors. The Arc is subject to income taxes on profits, if any, from unrelated business activities.

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Organization's management has evaluated the impact of this guidance on its financial statements. The Organization is not aware of any material uncertain tax positions, and has not accrued the effect of any uncertain tax positions as of June 30, 2011. With few exceptions, the Organization is no longer subject to income tax examinations by federal, state or local tax authorities for years before 2007.

The Organization's policy is to classify income tax related interest and penalties in interest expense and other expenses, respectively.

(Continued)

NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Concluded)

Fee Revenues

Fee revenues include the estimated net realizable amounts from third party payers, patients and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are recorded on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Advertising

Advertising costs are expensed when incurred and totaled $20,534 and $22,190 for 2011 and 2010, respectively.

Contributions and Net Assets

The organization reports information regarding financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The financial statements report amounts separately by class of asset, when applicable, as follows:

Unrestricted amounts are those currently available at the discretion of the organization's Board of Directors and are used for operations. The Board of Directors previously designated $1,000,000 for capital and operating reserves in the amount of $500,000 each. As of June 30, 2010, the capital reserve had a balance of $335,166 and operating reserve had a balance of $500,000.

For the year ended June 30, 2011 The Board of Directors resolved to restructure the designated funds to one operating reserve totaling $1,000,000.

Temporarily restricted amounts are those which are stipulated by donors for specific operating purposes or future years. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Temporarily restricted net assets consist of amounts restricted for future years and for use in connection with the Puller Center.

Permanently restricted amounts are restricted to investments in perpetuity, the income from which is expendable in accordance with the conditions of each specific donation. The organization has no permanently restricted net assets.

Reclassifications

Certain amounts for the year ended June 30, 2010 have been reclassified in these comparative financial statements. These reclassifications had no effect on the change in net assets previously reported.

NOTE 2. PLEDGES RECEIVABLE

The pledges receivable are unconditional and are as follows:

	2011	2010
Receivable in less than one year	$ 155,467	$ 154,567
Receivable in one to five years	47,942	74,810
Total unconditional pledges	203,409	229,377
Less allowance for uncollectible pledges receivable	(14,995)	(34,680)
Net unconditional pledges receivable	$ 188,414	$ 194,697

NOTE 3. PROPERTY AND EQUIPMENT

As of June 30, 2011 and 2010, major classes of property and equipment consisted of the following:

	2011	2010
Land	$ 779,575	$ 721,575
Land and leasehold improvements	176,967	176,967
Buildings	6,617,394	6,331,154
Vehicles	902,354	929,518
Furniture and fixtures	1,157,898	1,152,319
	9,634,188	9,311,533
Less accumulated depreciation	2,830,499	2,540,160
	$ 6,803,689	$ 6,771,373

Depreciation expense for the years ended June 30, 2011 and 2010 was $367,133 and $380,504, respectively.

NOTE 4. ACCOUNTS RECEIVABLE/PAYABLE - MEDICAID

In accordance with their reimbursement agreement and as determined in their year-end cost report, The Arc has recorded $130,233 as a receivable from Medicaid at June 30, 2011.

The Arc owed $203,289 to the Department of Medical Assistance Services (DMAS) for settlement of the cost report for June 30, 2010. The Arc is paying the balance due in monthly installments of $29,625 which includes interest of 6%. The balance due to DMAS of $398,375 also includes $195,086 for the fiscal year 2011 retroactive cash adjustment.

NOTE 5. LINE OF CREDIT

At June 30, 2010, The Arc had available a line of credit of $350,000 with SunTrust Bank. At June 30, 2010, draws against the line were collateralized by a money market account that was required to maintain a minimum balance of $466,666 at all times. Interest at LIBOR plus 2.50%, with a minimum interest rate of 3.00%, was payable monthly. This line of credit matured February 28, 2011.

On March 31, 2011, The Arc obtained a line of credit of $350,000 with Wells Fargo Bank, N.A. Draws against the line are collateralized by a security interest and a lien on the organization's equipment, deposit accounts and other personal property outlined in the security agreement with the financial institution. Interest accrues on the unpaid principal balance of each draw at a rate equal to the greater of 1-month LIBOR plus 3.50% or 5.00%. The line of credit provides that the organization maintain a minimum tangible net worth of $4 million. The Arc was in compliance with this financial covenant at June 30, 2011. This line of credit matures January 31, 2012.

The Arc had no outstanding balances on the lines of credit at June 30, 2011 and 2010.

NOTE 6. LONG-TERM DEBT

Long-term debt at June 30, 2011 and 2010 is as follows:

	2011	2010
Chesapeake Bank, installment note, secured by deed of trust, due monthly at $4,351 including interest at 6.15%, maturing November 2028	**$ 207,258**	$ 574,611
SunTrust Bank, installment notes, secured by deed of trust or collateralized by furniture, fixtures, equipment and vehicles, due monthly at $5,267 including interest at 6.98%, maturing through August 2014	**176,785**	225,627
Old Point National Bank, installment notes, secured by deeds of trust, due monthly at $656 to $14,202 including interest at 4.125% to 6.000 %, interest rates are subject to a review every 60 months, maturing through July 2034	**3,284,494**	3,210,740

(Continued)

NOTE 6. LONG-TERM DEBT (Concluded)

	2011	2010
TowneBank, promissory notes, secured by vehicles and equipment, due monthly at $263 to $894 including interest at 5.6% to 8%, maturing through November 2016	**$ 125,268**	$ 169,247
	3,793,805	4,180,225
Less current maturities	**278,220**	259,148
	$ 3,515,585	$ 3,921,077

Future principal maturities of long-term debt are as follows:

2012	$ 278,220
2013	281,240
2014	275,395
2015	221,329
2016	380,994
Thereafter	2,356,627
	$ 3,793,805

NOTE 7. RETIREMENT PLAN

Up until November 30, 2009, the Arc had a group tax deferred annuity plan. Under this plan, The Arc contributed an amount equal to 5% of each eligible employee's gross salary. Eligible employees are "classified staff" (as defined in the Plan documents) who worked over 1,000 hours during the calendar year, have attained age twenty-one, and completed one year of service. Vesting in employer contributions occurred over a graduated six-year schedule. Employees were allowed to contribute additional amounts up to the maximum permitted under Internal Revenue Code regulations. In November, 2009, the Board of Directors voted to terminate the tax deferred annuity plan effective November 30, 2009.

On July 27, 2010, The Arc made a submission to the Internal Revenue Service under the Voluntary Correction with Service Approval Program to correct certain plan defects with the tax deferred annuity plan. The Arc received a favorable Compliance Statement dated June 15, 2011.

Effective September 1, 2009, The Arc established a 401(k) profit sharing plan that covers most employees. Eligible employees may elect to have their compensation deferred up to 100% of gross pay. The Arc contributed an amount equal to 5% of each eligible employee's gross salary through May 31, 2010. Effective June 1, 2010, The Arc changed the 401(k) profit sharing plan to match employee contributions up to 5% of each eligible employee's gross salary.

(Continued)

NOTE 7. RETIREMENT PLAN (Concluded)

Effective September 1, 2009, The Arc established a 457(b) deferred compensation plan that covers a select group of management.

Retirement expense under these retirement plans for the years ended June 30, 2011 and 2010 was $166,241 and $291,745, respectively.

The Arc also recorded a contribution of $0.75 per hour worked, totaling $42,213 for the year ended June 30, 2011, to separate 401(k) accounts for employees subject to a collective bargaining agreement. There were no employees covered by a collective bargaining agreement during the year ended June 30, 2010.

NOTE 8. RELATED PARTY TRANSACTIONS

The Arc has management agreements for three homes for very low-income people with disabilities. These agreements provide for a management fee of 13.7% - 14.75% of rents collected to be paid to the Arc. Management fees for each of the years ended June 30, 2011 and 2010 were $8,347 and $7,160, respectively. Advances to affiliates represent operating advances to three affiliated corporations operating these residential homes that were established with capital grants from the U. S. Department of Housing and Urban Development.

NOTE 9. FUNDRAISING

Management and general expenses include total fundraising expenses of $42,922 and $32,777 for the years ended June 30, 2011 and 2010, respectively.

NOTE 10. CONCENTRATIONS

Financial instruments that potentially subject The Arc to concentrations of credit risk include cash and cash equivalents, accounts receivable, Medicaid reimbursement receivable and pledges receivable.

All cash and cash equivalents are deposited with various financial institutions. Each bank's collected balances are insured in the aggregate by the Federal Deposit Insurance Corporation. At June 30, 2011 and 2010, The Arc had no amounts on deposit in excess of the insured amounts.

(Continued)

NOTE 10. CONCENTRATIONS (Concluded)

In the normal course of business, The Arc provides credit to customers under standard terms without collateral. Government contract revenue is a significant component of the revenues of certain employment programs of The Arc. Other program activities such as ICF/MR and supported and sheltered employment are dependent on third party reimbursement arrangements. The Arc is subject to review by the Department of Medical Assistance Services with regard to revenues in the ICF/MR programs. This has resulted in paybacks and reimbursements in the past and may result in subsequent revenue adjustments. The Arc does not believe these adjustments will be material to the organization.

During the year ended June 30, 2011, approximately 13% of The Arc's employees were subject to a collective bargaining agreement (CBA). The CBA will expire September 30, 2012.

NOTE 11. INSURANCE PROGRAMS

Effective March 1, 2008, The Arc adopted The Arc of the Virginia Peninsula, Inc., Group Health & Welfare Benefit Plan. The Plan required The Arc to act as a self-insurer for certain insurable risks consisting of employee health insurance benefits. Losses and claims were accrued as incurred. The Arc of the Virginia Peninsula, Inc., Group Health & Welfare Benefit Plan was terminated August 31, 2009.

NOTE 12. RENTAL REVENUE

The Organization leases warehouse and retail space to two unrelated businesses, under non-cancelable operating leases. Total rents received for the years ended June 30, 2011 and 2010 were $72,719 and $73,213, respectively.

Minimum future rentals on non-cancelable tenant operating leases at June 30, 2011 are as follows:

Years ending June 30

2012	$ 55,222
2013	34,554
2014	23,341
	$ 113,117

NOTE 13. LEASE COMMITMENT

In June 2011, the Organization entered into an operating agreement to lease a facility for use in its operations. The lease is non-cancellable as long as the Organization has a valid government contract in force. The lease contains one three-year renewal option. If the option is exercised, the base rent will escalate 3% per year.

Minimum future rentals on non-cancelable operating lease payments at June 30, 2011 are as follows for each fiscal year:

2012	$	32,000
2013		48,000
2014		48,960
2015		50,421
2016		51,936
Thereafter		17,483
	$	248,800

NOTE 14. SUBSEQUENT EVENT

The Arc has evaluated all events subsequent to the statement of financial position date of June 30, 2011 through March 9, 2012, which is the date these financial statements were available to be issued. The Arc has determined that there are no subsequent events that require disclosure pursuant to the FASB Accounting Standards Codification except as disclosed below.

In August 2011, The Arc entered into an extended repayment agreement (ERA) with the Department of Medicaid Assistance Services to pay the balance due on the previous ERA plus the fiscal year retroactive cash adjustment over a 12-month period. Accordingly, beginning in August 2011, the balance of $369,766 is being paid at $31,741 per month including interest at 6%.

In November 2011, The Arc negotiated an agreement with a labor union for bonus and pension benefits earned during the fiscal year ended June 30, 2011, and has accrued $63,601 for this obligation.

In December 2011, pursuant to completion of a workers compensation audit, The Arc recognized an additional liability of $55,211 for workers compensation insurance expense related to a specific group of employees performing services under a government contract and matching contract revenue receivable since the workers compensation insurance expense is reimbursable under the contract's terms.