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THE ARC OF VERMILION, INC.

Erath, Louisiana

Financial Report

Years Ended June 30, 2011 and 2010

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The ARC of Vermilion, Inc.
Erath, Louisiana 70533

We have audited the accompanying statements of financial position of The ARC of Vermilion, Inc. (a nonprofit organization) as of and for the years ended 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The ARC of Vermilion, 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.

In accordance with Government Auditing Standards, we have also issued our report December 20, 2011, on our consideration of the organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the result of our audit.

Kolder, Champagne, Slaven & Company, LLC
Certified Public Accountants

Abbeville, Louisiana
December 20, 2011

FINANCIAL STATEMENTS

THE ARC OF VERMILION, INC.
Erath, Louisiana

Statements of Financial Position
June 30, 2011 and 2010

	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	$377,247	$317,962
Accounts receivable	17,493	22,514
Prepaid Expenses	13,605	-
Total current assets	408,345	340,476
Property and equipment:		
Buildings and equipment	289,592	281,364
Automobiles	117,763	117,763
Accumulated depreciation	(265,159)	(235,716)
Total net property and equipment	142,196	163,411
Total assets	$550,541	$503,887
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 9,707	$ 4,009
Accrued salaries and related benefits	8,545	9,354
Total current liabilities	18,252	13,363
Net assets:		
Unrestricted net assets	532,289	490,524
Total liabilities and net assets	$550,541	$503,887

The accompanying notes are an integral part of this statement.

THE ARC OF VERMILION, INC.
Erath, Louisiana

Statements of Activities
For The Years Ended June 30, 2011 and 2010

	2011	2010
Operating revenue:		
OCDD reimbursement	$ 137,622	$ 152,394
Day program reimbursement	264,560	202,007
Store sales	76,330	59,058
Donations	30,488	28,838
Maintenance contracts	19,699	17,609
Other income	24,524	28,318
Total operating revenue	553,223	488,224
Operating expenses:		
Program services	128,489	110,339
Management and general	382,969	397,073
Total operating expenses	511,458	507,412
Operating income (loss)	41,765	(19,188)
Non operating expenses:		
Loss on disposal of assets	-	(4,900)
Change in net assets	41,765	(24,088)
Net assets, beginning of year	490,524	514,612
Net assets, end of year	$ 532,289	$ 490,524

The accompanying notes are an integral part of this statement.

THE ARC OF VERMILION, INC.
Erath, Louisiana

Statement of Functional Expenses
For The Year Ended June 30, 2011

	Program Services	Management and General	Total
Auto expense	$ 65,022	$ -	$ 65,022
Dues	-	3,190	3,190
Employee benefits	-	3,485	3,485
Liability insurance	-	27,924	27,924
Medical insurance	-	5,198	5,198
Miscellaneous	5,461	1,199	6,660
Office supplies	-	6,646	6,646
Payroll taxes	2,410	21,682	24,092
Professional fees	-	5,250	5,250
Rent	7,800	-	7,800
Repairs and maintenance	-	4,300	4,300
Salaries	31,362	262,622	293,984
Store expenses	6,222	-	6,222
Supplies	3,517	-	3,517
Telephone	1,161	4,587	5,748
Training in-service	466	963	1,429
Utilities	5,068	6,480	11,548
Total expenses before depreciation	128,489	353,526	482,015
Depreciation expense	-	29,443	29,443
Total expenses	$ 128,489	$ 382,969	$ 511,458

The accompanying notes are an integral part of this statement.

THE ARC OF VERMILION, INC.
Erath, Louisiana

Statement of Functional Expenses
For The Year Ended June 30, 2010

	Program Services	Management and General	Total
Auto expense	$ 44,261	$ -	$ 44,261
Dues	-	2,295	2,295
Employee benefits	-	4,771	4,771
Liability insurance	-	33,053	33,053
Medical insurance	-	7,988	7,988
Miscellaneous	5,245	6,859	12,104
Office supplies	-	7,293	7,293
Payroll taxes	2,237	20,139	22,376
Professional fees	-	4,650	4,650
Rent	7,800	-	7,800
Repairs and maintenance	-	5,085	5,085
Salaries	31,511	258,400	289,911
Store expenses	6,945	-	6,945
Supplies	4,156	-	4,156
Telephone	1,023	6,282	7,305
Training in-service	395	686.00	1,081
Utilities	6,766	5,102	11,868
Total expenses before depreciation	110,339	362,603	472,942
Depreciation expense	-	34,470	34,470
Total expenses	$ 110,339	$ 397,073	$ 507,412

The accompanying notes are an integral part of this statement.

THE ARC OF VERMILION, INC.
Erath, Louisiana

Statements of Cash Flows
For The Years Ended June 30, 2011 and 2010

	2011	2010
Cash flows provided by operating activities		
Operating income (loss)	$ 41,765	$ (19,188)
Adjustments to reconcile changes in net assets to net cash flow from operating activities:		
Depreciation	29,443	34,470
Decrease (increase) in operating assets		
Accounts receivable	5,021	2,765
Prepaid Expenses	(13,605)	-
Increase (decrease) in operating liabilities		
Accounts payable	5,698	(453)
Accrued payroll taxes	(809)	8,538
Total adjustments	25,748	45,320
Net cash provided by operating activities	67,513	26,132
Cash flows from investing activities		
Payment for property and equipment	(8,228)	(8,860)
Net increase in cash	59,285	17,272
Cash and cash equivalents, beginning of period	317,962	300,690
Cash and cash equivalents, end of period	$ 377,247	$ 317,962

The accompanying notes are an integral part of this statement.

THE ARC OF VERMILION, INC.
Erath, Louisiana

Notes to Financial Statements

(1) Summary of Significant Accounting Policies

A. Nature of Activities

The ARC of Vermilion, Inc., is a non-profit organization exempt from income tax under section 501(c)(3) of the Internal Revenue Code. The corporation was created to promote and advance charitable, educational, and scientific purposes and to provide for the general welfare of persons who are retarded citizens of the Parish of Vermilion and surrounding areas.

The board of directors of the corporation is elected by the members of the corporation, serve variable terms, and receive no compensation.

B. Financial Statement Presentation

The ARC of Vermilion, Inc. 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.

C. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The financial statements of the corporation are presented on the accrual basis of accounting.

D. Cash and Cash Equivalents

Cash and cash equivalents is comprised of interest-bearing deposits which are stated at cost, which approximates market. All short-term investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the date of purchase, they have a maturity date no longer than three months.

E. Income Taxes

Income taxes are not provided for in the financial statements since the organization is exempt from federal and state income taxes under section 501(c)(3) of the Internal Revenue Code and similar state provisions. The organization is not classified as a private foundation.

F. Property and Equipment

Land, buildings and equipment are valued at cost, or fair market value in the case of dated property. The ARC of Vermilion, Inc. maintains a threshold level of $500 or more for capitalizing assets. Depreciation is computed on a straight-line basis over the applicable recovery periods which range from 5 to 31.5 years.

G. Compensated Absences

Vacation and sick leave are recorded as expenditures of the period in which paid and can be carried over from year to year, not to exceed thirty days. Any liability The ARC of Vermilion, Inc. might have in this regard at June 30, 2011 and 2010 is considered immaterial; therefore, no liability has been recorded in the accounts.

H. Statement of Cash Flows

The ARC of Vermilion, Inc. considers all highly liquid investments with maturity of three months or less at the date of acquisition to be cash equivalents.

I. Total Columns

Total columns are presented to facilitate financial analysis. Data in these columns do not present financial position, results of operations and changes in net assets in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation.

J. 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.

(2) Property and Equipment

Property and equipment consisted of the following at June 30, 2011 and 2010:

	2011	2010
Buildings and Equipment	$289,592	$281,364
Automobiles	117,763	117,763
Total	407,355	399,127
Less: Accumulated depreciation	(265,159)	(235,716)
Net property and equipment	$142,196	$163,411

Depreciation expense totaled $29,443 at June 30, 2011, and $34,470 at June 30, 2010.

(3) Social Security System

Employees of The ARC of Vermilion, Inc. are members of the Social Security System. The organization and its employees contribute a percentage of each employee's salary to the System (7.65 percent each). The organization's contribution was $24,092 and $22,376 during the years ended June 30, 2011 and 2010, respectively.

(4) Employee Benefit Plan

The ARC of Vermilion, Inc. has a defined contribution retirement plan which allows an employee that has completed one year of service and has attained age 21 to participate in the plan. The employee is allowed to contribute up to 10% of their salary and The ARC of Vermilion, Inc. contributes up to 2% of the eligible employee's salary. An employee is considered vested once they have five years of service with The ARC of Vermilion, Inc. The amount of pension expense incurred was $3,485 and $4,771 for the years ended June 30, 2011 and 2010, respectively.

(5) Litigation

There is no litigation pending against The ARC of Vermilion, Inc. at June 30, 2011 or 2010.

(6) Related Party Transactions

The ARC of Vermilion, Inc. paid $50 and $1,755 during the years ended June 30, 2011 and 2010, respectively, in maintenance and repair cost to a company that is owned by a family member of The ARC of Vermilion, Inc board member.

The ARC of Vermilion, Inc. also paid $2,916 and $1,318 for the year ended June 30, 2011 and 2010, respectively, in payroll to a family member of The ARC of Vermilion, Inc., Executive Director.

(7) Subsequent Events

The ARC of Vermilion, Inc. has evaluated subsequent events through December 20, 2011, the date which the financial statements were available to be issued.

INTERNAL CONTROL,

COMPLIANCE,

AND

OTHER MATTERS

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
The ARC of Vermilion, Inc.
Erath, Louisiana

We have audited the financial statements of The ARC of Vermilion, Inc. (a nonprofit organization), as of and for the years ended June 30, 2011 and 2010, and have issued our report thereon dated December 20, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The ARC of Vermilion, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The ARC of Vermilion, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of The ARC of Vermilion, Inc.'s internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of current year audit findings and management's corrective action plan as items 11-1 and 11-2, that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The ARC of Vermilion, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Vermilion Association for Retarded Citizens, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of current year audit findings and management's corrective action plan. We did not audit The ARC of Vermilion, Inc.'s response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Kolder, Champagne, Slaven & Company, LLC
Certified Public Accountants

Abbeville, Louisiana
December 20, 2011

THE ARC OF VERMILION, INC.
Erath, Louisiana

Schedule of Current and Prior Year Audit Findings
and Management's Corrective Action Plan
Year Ended June 30, 2011

Part I: Current Year Findings and Management's Corrective Action Plan

A. Internal Control Over Financial Reporting

11-1 Inadequate Segregation of Accounting Functions

CONDITION: The ARC of Vermilion, Inc. did not have adequate segregation of functions within the accounting system.

CRITERIA: SAS109, *Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement*, AU§314.43 defines internal control as follows:

> "Internal control is a process, affected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations."

Additionally, Statements on Standards for Attestation Engagements (SSAE) AT§501.03 states:

> "An entity's internal control over financial reporting includes those policies and procedures that pertain to an entity's ability to record, process, summarize, and report financial data consistent with the assertions embodied in either annual financial statements or interim financial statements, or both."

CAUSE: The cause of the condition is the fact that The ARC of Vermilion, Inc. does not have a sufficient number of staff performing administrative and financial duties so as to provide adequate segregation of accounting and financial duties.

EFFECT: Failure to adequately segregate accounting and financial functions increases the risk that errors and/or irregularities including fraud and/or defalcations may occur and not be prevented and/or detected.

RECOMMENDATION: Due to the size of the operation and the cost-benefit of additional personnel, it may not be feasible to achieve complete segregation of duties.

MANAGEMENT'S CORRECTIVE ACTION PLAN: The Board members have determined that it is not cost effective to achieve complete segregation of duties within the accounting department. No plan is considered necessary.

THE ARC OF VERMILION, INC.
Erath, Louisiana

Schedule of Current and Prior Year Audit Findings
and Management's Corrective Action Plan
Year Ended June 30, 2011

11-2 Application of Generally Accepted Accounting Principles (GAAP) (Qualifications and Training)

Fiscal year finding initially occurred: Unknown

CONDITION: The ARC of Vermilion, Inc. does not have a staff person who has the qualifications and training to apply generally accepted accounting principles (GAAP) in recording the entity's financial transactions or preparing its financial statements, including the related notes.

CRITERIA: SAS 115, *Communicating Internal Control Related Matters Identified in an Audit*, AU§325.05, states, in pertinent part:

> "A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.
>
> A deficiency in design exists when:
> - A control necessary to meet the control objectives is missing, or
> - An existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met.
>
> A deficiency in operation exists when:
> - The person performing the control does not possess the necessary authority or competence to perform the control effectively."

Furthermore, AU §325.29 identifies the following as a deficiency in the design of (internal) controls:

> "Employees or management who lack the qualifications and training to fulfill their assigned functions. For example, in an entity that prepares financial statements in accordance with generally accepted accounting principles, the person responsible for the accounting and reporting function lacks the skills and knowledge to apply generally accepted accounting principles in recording the entity's financial transactions or preparing its financial statements."

CAUSE: The cause of the condition is the result of a failure to design or implement policies and procedures necessary to achieve adequate internal control.

EFFECT: Financial statements and related supporting transactions may reflect a material departure from generally accepted accounting principles.

RECOMMENDATION: The additional costs required to achieve the desired benefit may not be economically feasible.

MANAGEMENT'S CORRECTIVE ACTION PLAN: The board of The ARC of Vermilion, Inc. has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of The ARC of Vermilion, Inc. to outsource this task to its independent auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their contents and presentation.

Part II: Prior Year Findings:

A. Internal Control Over Financial Reporting

10-1 Inadequate Segregation of Accounting Functions

CONDITION: The ARC of Vermilion, Inc. did not have adequate segregation of functions within the accounting system.

RECOMMENDATION: Based upon the cost-benefit of additional personnel, it would not be feasible to achieve complete segregation of duties.

CURRENT STATUS: Unresolved. See item 11-1.

10-2 Application of Generally Accepted Accounting Principles (GAAP)

CONDITION: The ARC of Vermilion, Inc. does not have a staff person who has the qualifications and training to apply generally accepted accounting principles (GAAP) in recording the entity's financial transactions or preparing its financial statements, including the related notes.

RECOMMENDATION: The additional costs required to achieve the desired benefit may not be economically feasible.

CURRENT STATUS: Unresolved. See item 11-2.