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June 17, 2009

Board of Directors  
Johnson County Association  
for Retarded Citizens, Inc.  
3500 N. Morton, P.O. Box 216  
Franklin, IN 46131

We have reviewed the audit report prepared by Mid-America Audit & Tax, Inc., Independent Public Accountants, for the period January 1, 2007 to December 31, 2007. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Johnson County Association for Retarded Citizens, Inc., as of December 31, 2007, and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

STATE BOARD OF ACCOUNTS

**JOHNSON COUNTY ASSOCIATION**  
**FOR RETARDED CITIZENS, INC.**

Financial Statements

For the Years Ended December 31, 2007 and 2006

JOHNSON COUNTY ASSOCIATION FOR RETARDED CITIZENS, INC.

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# Mid-America Audit & Tax, Inc.

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## Independent Auditors' Report

To the Board of Directors  
Johnson County Association for Retarded Citizens, Inc.  
Franklin, Indiana

We have audited the accompanying statements of financial position of Johnson County Association for Retarded Citizens, Inc. (a nonprofit organization) as of December 31, 2007 and 2006, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Johnson County Association for Retarded Citizens, Inc., as of December 31, 2007 and 2006, and the changes in its net assets and 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 dated September 29, 2008, on our consideration of Johnson County Association for Retarded Citizens, Inc.'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 results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Johnson County Association for Retarded Citizens, Inc. taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Mid-America Audit & Tax, Inc.*

Mid-America Audit & Tax, Inc.

September 29, 2008

**JOHNSON COUNTY ASSOCIATION FOR RETARDED CITIZENS, INC.**

Statements of Financial Position  
December 31, 2007 and 2006

<u>ASSETS</u>	<u>2007</u>	<u>2006</u>
Current Assets:		
Cash and cash equivalents	\$ 1,414	\$ 26,335
Accounts receivable-grants and contracts, net	197,186	100,099
Prepaid expenses	<u>8,594</u>	<u>8,609</u>
Total Current Assets	<u>207,194</u>	<u>135,043</u>
Property and Equipment:		
Land	50,000	72,687
Building, leasehold improvements, and equipment, net of accumulated depreciation	<u>554,075</u>	<u>601,322</u>
Total Property and Equipment, net	<u>604,075</u>	<u>674,009</u>
Other Assets:		
Escrowed cash	<u>-</u>	<u>19,411</u>
Total Assets	<u>\$ 811,269</u>	<u>\$ 828,463</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts payable	\$ 81,043	\$ 40,008
Accrued wages and payroll taxes	62,505	50,917
Accrued vacation and annual leave	48,601	48,785
Other accrued expenses	56,324	52,750
Lines of credit	15,759	167,000
Current portion of long-term debt	<u>17,967</u>	<u>20,942</u>
Total Current Liabilities	<u>282,199</u>	<u>380,402</u>
Long-term Liabilities:		
Mortgage payable, less current portion	-	164,971
Notes payable, less current portion	<u>9,747</u>	<u>12,507</u>
Total Long-term Liabilities	<u>9,747</u>	<u>177,478</u>
Total Liabilities	<u>291,946</u>	<u>557,880</u>
Net Assets:		
Unrestricted	423,553	202,559
Temporarily restricted	<u>95,770</u>	<u>68,024</u>
Total Net Assets	<u>519,323</u>	<u>270,583</u>
Total Liabilities and Net Assets	<u>\$ 811,269</u>	<u>\$ 828,463</u>

See notes to financial statements.

**JOHNSON COUNTY ASSOCIATION FOR RETARDED CITIZENS, INC.**

Statement of Activities  
Year Ended December 31, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2007 Total</u>
Public Support:				
United Way	\$ 59,405	\$ -	\$ -	\$ 59,405
Contributions	10,904	-	-	10,904
Special events	<u>26,705</u>	<u>-</u>	<u>-</u>	<u>26,705</u>
Total Public Support	<u>97,014</u>	<u>-</u>	<u>-</u>	<u>97,014</u>
Revenue:				
Government agencies	1,947,463	77,934	-	2,025,397
Fees – client activity	10,504	-	-	10,504
Fees – transportation	103,785	-	-	103,785
Work crew income	101,548	-	-	101,548
Interest income	627	-	-	627
Membership dues	25	-	-	25
Miscellaneous	28,789	-	-	28,789
Lease income and management fees	20,786	-	-	20,786
Contract services	31,281	-	-	31,281
Gain on sale of assets	<u>91,939</u>	<u>-</u>	<u>-</u>	<u>91,939</u>
Total Revenue	<u>2,336,747</u>	<u>77,934</u>	<u>-</u>	<u>2,414,681</u>
Net assets released from restrictions	<u>50,188</u>	<u>( 50,188)</u>	<u>-</u>	<u>-</u>
Total Public Support and Revenue	<u>2,483,949</u>	<u>27,746</u>	<u>-</u>	<u>2,511,695</u>
Expenses:				
Program services				
Community based	735,741	-	-	735,741
Facility based	127,857	-	-	127,857
Early intervention	34,131	-	-	34,131
Transportation	1,048,947	-	-	1,048,947
Group home	<u>54,642</u>	<u>-</u>	<u>-</u>	<u>54,642</u>
Total program services	<u>2,001,318</u>	<u>-</u>	<u>-</u>	<u>2,001,318</u>
Supporting services				
General and administrative	256,265	-	-	256,265
Fund raising	<u>5,372</u>	<u>-</u>	<u>-</u>	<u>5,372</u>
Total supporting services	<u>261,637</u>	<u>-</u>	<u>-</u>	<u>261,637</u>
Total Expenses	<u>2,262,955</u>	<u>-</u>	<u>-</u>	<u>2,262,955</u>
Change in Net Assets	<u>220,994</u>	<u>27,746</u>	<u>-</u>	<u>248,740</u>
Net Assets, beginning of year	<u>202,559</u>	<u>68,024</u>	<u>-</u>	<u>270,583</u>
Net Assets, end of year	<u>\$ 423,553</u>	<u>\$ 95,770</u>	<u>\$ -</u>	<u>\$ 519,323</u>

See notes to financial statements.

**JOHNSON COUNTY ASSOCIATION FOR RETARDED CITIZENS, INC.**

Statement of Activities  
Year Ended December 31, 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2006 Total</u>
Public Support:				
United Way	\$ 53,906	\$ -	\$ -	\$ 53,906
Contributions	6,475	-	-	6,475
Special events	<u>34,617</u>	<u>-</u>	<u>-</u>	<u>34,617</u>
Total Public Support	<u>94,998</u>	<u>-</u>	<u>-</u>	<u>94,998</u>
Revenue:				
Government agencies	1,584,587	127,840	-	1,712,427
Fees – client activity	14,077	-	-	14,077
Fees – transportation	93,217	-	-	93,217
Work crew income	101,014	-	-	101,014
Interest income	554	-	-	554
Membership dues	1,262	-	-	1,262
Miscellaneous	7,896	-	-	7,896
Lease income and management fees	15,225	-	-	15,225
Contract services	39,672	-	-	39,672
Gain on sale of assets	<u>5,550</u>	<u>-</u>	<u>-</u>	<u>5,550</u>
Total Revenue	<u>1,863,054</u>	<u>127,840</u>	<u>-</u>	<u>1,990,894</u>
Net assets released from restrictions	<u>99,534</u>	<u>( 99,534)</u>	<u>-</u>	<u>-</u>
Total Public Support and Revenue	<u>2,057,586</u>	<u>28,306</u>	<u>-</u>	<u>2,085,892</u>
Expenses:				
Program services				
Community based	674,543	-	-	674,543
Facility based	125,077	-	-	125,077
Early intervention	73,744	-	-	73,744
Transportation	1,051,390	-	-	1,051,390
Group home	<u>42,214</u>	<u>-</u>	<u>-</u>	<u>42,214</u>
Total program services	<u>1,966,968</u>	<u>-</u>	<u>-</u>	<u>1,966,968</u>
Supporting services				
General and administrative	307,432	-	-	307,432
Fund raising	<u>14,949</u>	<u>-</u>	<u>-</u>	<u>14,949</u>
Total supporting services	<u>322,381</u>	<u>-</u>	<u>-</u>	<u>322,381</u>
Total Expenses	<u>2,289,349</u>	<u>-</u>	<u>-</u>	<u>2,289,349</u>
Change in Net Assets	<u>( 231,763)</u>	<u>28,306</u>	<u>-</u>	<u>( 203,457)</u>
Net Assets, beginning of year	<u>434,322</u>	<u>39,718</u>	<u>-</u>	<u>474,040</u>
Net Assets, end of year	<u>\$ 202,559</u>	<u>\$ 68,024</u>	<u>\$ -</u>	<u>\$ 270,583</u>

See notes to financial statements.

**JOHNSON COUNTY ASSOCIATION FOR RETARDED CITIZENS, INC.**

Statement of Functional Expenses  
Year Ended December 31, 2007

	<u>Community Based</u>	<u>Facility Based</u>	<u>Early Intervention</u>	<u>Transportation</u>	<u>Group Home</u>	<u>Total Program Expenses</u>	<u>General &amp; Administrative</u>	<u>Fund Raising</u>	<u>Total Supporting Services</u>	<u>Total</u>
Personnel	\$ 605,102	\$ 123,343	\$ 26,483	\$ 617,739	\$ -	\$1,372,667	\$ 160,163	\$ -	\$ 160,163	\$ 1,532,830
Occupancy	2,201	1,691	1,725	3,242	31,917	40,776	38,884	-	38,884	79,660
Office	14,236	1,105	1,439	19,379	1,862	38,021	19,824	-	19,824	57,845
Insurance	-	-	-	-	933	933	5,139	-	5,139	6,072
Travel and staff development	32,957	1,300	5	1,621	-	35,883	342	-	342	36,225
Professional fees and memberships	11,961	-	3,846	10,355	5,840	32,002	10,099	-	10,099	42,101
Client services	52,298	50	41	-	-	52,389	-	-	-	52,389
Transportation	-	-	-	334,802	-	334,802	-	-	-	334,802
Sub-contracting	4,123	323	490	52,319	-	57,255	370	-	370	57,625
Public awareness	253	45	102	2,406	-	2,806	3,275	5,372	8,647	11,453
Interest	2	-	-	2,608	14,090	16,700	18,169	-	18,169	34,869
Other	1,318	-	-	-	-	1,318	-	-	-	1,318
Bad debts	11,290	-	-	4,476	-	15,766	-	-	-	15,766
<b>Total</b>	<b>\$ 735,741</b>	<b>\$ 127,857</b>	<b>\$ 34,131</b>	<b>\$1,048,947</b>	<b>\$ 54,842</b>	<b>\$2,001,318</b>	<b>\$ 256,265</b>	<b>\$ 5,372</b>	<b>\$ 261,637</b>	<b>\$ 2,262,955</b>

See notes to financial statements.

**JOHNSON COUNTY ASSOCIATION FOR RETARDED CITIZENS, INC.**

Statement of Functional Expenses  
Year Ended December 31, 2006

	<u>Community Based</u>	<u>Facility Based</u>	<u>Early Intervention</u>	<u>Transportation</u>	<u>Group Home</u>	<u>Total Program Expenses</u>	<u>General &amp; Administrative</u>	<u>Fund Raising</u>	<u>Total Supporting Services</u>	<u>Total</u>
Personnel	\$ 529,257	\$ 117,799	\$ 62,739	\$ 616,549	\$ -	\$1,326,344	\$ 209,618	\$ -	\$ 209,618	\$ 1,535,962
Occupancy	2,422	1,866	1,944	3,847	19,144	29,223	41,328	-	41,328	70,551
Office	15,535	948	4,121	27,010	836	48,450	24,879	-	24,879	73,329
Insurance	-	-	-	-	1,319	1,319	10,256	-	10,256	11,575
Travel and staff development	29,527	945	776	1,800	-	33,048	167	-	167	33,215
Professional fees and memberships	21,899	3,076	3,403	9,207	4,984	42,569	9,419	-	9,419	51,988
Client services	59,437	-	10	-	-	59,447	-	-	-	59,447
Transportation	-	-	-	327,658	-	327,658	-	-	-	327,658
Sub-contracting	3,006	387	396	47,330	-	51,119	495	-	495	51,614
Public awareness	181	20	27	4,703	-	4,931	3,940	14,949	18,889	23,820
Interest	148	25	41	2,539	15,931	18,684	6,953	-	6,953	25,637
Other	3,058	-	-	-	-	3,058	377	-	377	3,435
Bad debts	10,073	11	287	10,747	-	21,118	-	-	-	21,118
<b>Total</b>	<b>\$ 674,543</b>	<b>\$ 125,077</b>	<b>\$ 73,744</b>	<b>\$1,051,390</b>	<b>\$ 42,214</b>	<b>\$1,966,968</b>	<b>\$ 307,432</b>	<b>\$ 14,949</b>	<b>\$ 322,381</b>	<b>\$2,289,349</b>

See notes to financial statements.

**JOHNSON COUNTY ASSOCIATION FOR RETARDED CITIZENS, INC.**

Statements of Cash Flows  
Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Change in net assets	\$ 248,740	\$( 203,457)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	93,701	143,751
Gain on sale of assets	( 91,939)	( 5,550)
Noncash contribution of transportation vehicles	( 77,934)	( 127,840)
(Increase) decrease in:		
Accounts receivable	( 97,087)	56,031
Prepaid expenses	15	12,873
Increase (decrease) in:		
Accounts payable	41,035	( 29,240)
Accrued wages and payroll taxes	11,588	( 9,658)
Accrued vacation and annual leave	( 184)	3,084
Other accrued expenses	<u>3,574</u>	<u>31,750</u>
Net cash provided by (used in) operating activities	<u>131,509</u>	<u>( 128,256)</u>
Cash flows from investing activities:		
Purchase of equipment	( 16,844)	( 73,199)
Proceeds from sale of equipment	<u>12,494</u>	<u>5,550</u>
Net cash provided by (used in) investing activities	<u>( 4,350)</u>	<u>( 67,649)</u>
Cash flows from financing activities:		
Additional borrowings long-term debt	-	32,437
Principal payments on long-term debt	( 20,263)	( 24,010)
Proceeds from lines of credit	302,172	440,500
Repayment on lines of credit	<u>( 453,400)</u>	<u>( 273,500)</u>
Net cash provided by (used in) financing activities	<u>( 171,491)</u>	<u>175,427</u>
Net increase (decrease) in cash and cash equivalents	( 44,332)	( 20,478)
Cash and cash equivalents, beginning of year	<u>45,746</u>	<u>66,224</u>
Cash and cash equivalents, end of year	<u>\$ 1,414</u>	<u>\$ 45,746</u>
Supplementary disclosures of cash flow information:		
Cash paid for interest	<u>\$ 34,869</u>	<u>\$ 25,229</u>
Schedule of noncash investing and financing activities:		
Acquisition of transportation vehicles through capital grant	<u>\$ 77,934</u>	<u>\$ 127,840</u>
Debt used to purchase equipment	<u>\$ 19,484</u>	<u>\$ -</u>
Proceeds used to pay off debt	<u>\$ 169,409</u>	<u>\$ -</u>
See notes to financial statements.		

**JOHNSON COUNTY ASSOCIATION FOR RETARDED CITIZENS, INC.**

Notes to Financial Statements  
Years Ended December 31, 2007 and 2006

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Nature of the Organization

Johnson County Association for Retarded Citizens, Inc. (the "Organization") was incorporated as an Indiana Not-for-Profit Corporation and was organized exclusively to provide charitable and educational programs to persons living in Johnson County and surrounding counties. The Organization is committed to empowering people with disabilities through meaningful employment, increased independence and increased community integration. In carrying out its mission, the Organization relies on government funding. The Indiana Division of Disability, Aging, and Rehabilitative Services provides a significant amount of the total support and revenue of the Organization.

Basis of Presentation

Financial statement presentation follows the recommendation of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under the SFAS No. 117, 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 accounting principles generally accepted in the United States of America 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Restricted and Unrestricted Revenue and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

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

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Allowance for Uncollectible Accounts**

The Organization uses the allowance method for recognition of bad debt expense. The allowance for doubtful accounts is maintained at a level which, in management's judgment, is adequate to absorb potential losses inherent in the receivable portfolio. The amount of the allowance is based on management's evaluation of the collectibility of various types of receivables including billing and payment timetables and historical loss experience for each funding source. No interest is charged on receivables. Receivables are continually reviewed and are written-off when all reasonable possibility of collection or rebilling (which varies by source) has been exhausted. Management has determined that an allowance of \$20,000 relating to accounts receivable is necessary for the years ended December 31, 2007 and 2006.

**Revenue Recognition and Concentration**

The Organization contracts with various State and Federal agencies to provide a wide variety of rehabilitation services to persons with developmental disabilities. The Organization vouchers the governmental agencies monthly and quarterly, based on current activity and the original amount of the grant. Revenue is recognized as services are performed. However, final determination may vary because of regulations pertaining to disbursements. Differences in estimated amounts and actual settlements are reflected as charges or credits upon settlement or payment.

Non-governmental contract revenue is recorded at established charges when the service is rendered.

**Cash Equivalents**

For purposes of the Statement of Cash Flows, the Organization considers all liquid investments with original maturity dates of three months or less to be cash equivalents. Cash equivalents as of December 31, 2007 and 2006, were as follows:

	<u>2007</u>	<u>2006</u>
Cash and cash equivalents	\$ 1,414	\$ 26,335
Escrowed Cash	<u>-</u>	<u>19,411</u>
Total	<u>\$ 1,414</u>	<u>\$ 45,746</u>

**Functional Allocation of Expenses**

The costs of providing 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 benefiting programs and supporting services. The Statement of Functional Expenses represents direct costs for each activity. Indirect costs are allocated to each program area according to an allocation formula previously approved by the major funding entities (Indiana Family and Social Services Administration and Indiana Department of Transportation) to determine total cost of each service.

## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **Tax Exemption**

Johnson County Association for Retarded Citizens, Inc. has been ruled exempt from Federal income taxes under Internal Revenue Code Section 501(c)(3) and is not considered a private foundation by the Internal Revenue Service.

## **NOTE 2 – PROPERTY AND EQUIPMENT ACCOUNTING METHODS**

Property and equipment are stated at cost, or for donations, at fair market value at the date of donation, and include expenditures for new additions and repairs, which substantially increase the useful lives of existing property and equipment. Governmental units funding property and equipment through grants retain a security interest over various periods.

Depreciation is computed using the straight-line method over estimated useful lives of three to forty years. The Organization's policy dictates that expenditures relating to property, equipment and vehicles exceeding \$500 (not including labor) are depreciated as fixed assets, including repairs which increase the value or extend the useful life of the asset.

Donations of property and equipment are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use, and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time, with the exception of Section 5310 Grant vehicles which are placed into service immediately and reclassified when the useful life criteria are met and INDOT releases the title.

The land at 3500 North Morton, Franklin, IN on which the Organization's current building sits was purchased with grant funds (plus local match). The Organization has in the past been advised by the service division granting those funds (Indiana Vocational Rehabilitation Services) that use of the land is restricted to purposes compatible with the intent of the grant and if sold, a proportionate amount of the proceeds must be given back.

## **NOTE 3 – CONCENTRATIONS OF CREDIT RISKS**

The Organization is located in Franklin, Indiana. The Organization provides services to individuals and companies which are billed in arrears at least monthly. Public transit funding is billed on a quarterly basis. The majority of individual services are provided under grant contracts or provider agreements with state agencies. Companies are provided credit in the normal course of business without collateral.

**NOTE 3 – CONCENTRATIONS OF CREDIT RISKS (Continued)**

The Organization also receives contributions from governmental sources that are not included as service revenue.

The Organization maintains deposits in federally insured financial institutions. At times these deposits exceed federally insured limits; however, management monitors the soundness of these financial institutions and feels the Organization's risk is negligible.

**NOTE 4 – RESTRICTIONS ON NET ASSETS**

Temporarily restricted net assets are available for the following purposes as of December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Transportation Program	\$ 95,694	\$ 63,705
Children Programs	<u>76</u>	<u>4,319</u>
Total	<u>\$ 95,770</u>	<u>\$ 68,024</u>

**NOTE 5 – ESCROWED CASH**

The Department of Housing and Urban Development (in connection with the Group Home) requires the Organization to maintain four separate escrow accounts. See Note 6. The required accounts' balances are as follows:

<u>Account</u>	<u>2007</u>	<u>2006</u>	<u>Purpose</u>
Replacement reserve	\$ -	\$ 16,857	Funds for future capital repairs and replacement
Escrow deposit	-	1,595	An account for the payment of property insurance
Residual receipts	-	578	Excess cash that is determined by a surplus cash computation
Security deposits	<u>-</u>	<u>381</u>	Funds for potential damages
Total	<u>\$ -</u>	<u>\$ 19,411</u>	

## **NOTE 6 – PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Buildings:		
Group home	\$ -	\$ 213,703
Gateway center	777,099	777,099
Equipment:		
Group home	-	18,055
Maintenance	1,868	1,868
Office	110,172	108,029
Conversion grant	10,782	10,782
Transportation	998,411	887,218
Work center	16,392	16,392
Supported employment	8,045	7,120
KYB	7,181	7,181
Toddler	17,061	17,061
Targeted case management	2,390	2,390
Total cost	<u>1,949,401</u>	<u>2,066,898</u>
Less accumulated depreciation	<u>( 1,395,326)</u>	<u>( 1,465,576)</u>
Net book value	<u>\$ 554,075</u>	<u>\$ 601,322</u>

Johnson County Association for Retarded Citizens, Inc. owned a residential group home for the developmentally disabled. The home provided housing for seven qualifying residents. A \$220,700 mortgage was obtained to construct the home, which was insured by the United States Department of Housing and Urban Development (HUD). The group home received a rent subsidy from HUD of \$47,797 and \$54,349 for the years ended December 31, 2007 and 2006, respectively. The Organization also received \$24,000 under a contract with Cardinal Services for the years ended December 31, 2007 and 2006.

### **Group Home Disposition**

The Organization completed the disposition of the Group Home on November 9, 2007. The \$165,416 balance of the mortgage on the Group Home was paid with the proceeds received from the sale. In addition, a cash distribution of \$23,380 was made to the Organization and a \$91,939 gain was reported on the disposition.

## **NOTE 7 – NOTES AND MORTGAGE PAYABLE**

The mortgage note payable in the original amount of \$220,700 was insured by HUD and was payable in 480 monthly installments of \$1,720. The Group Home real property was pledged as collateral for the mortgage debt. The mortgage further required monthly payments of \$592 to a reserve for replacement account, which was to be used only for repairs or replacement of property and equipment as approved by HUD. The mortgage was paid off on November 9, 2007 with the sale of the Group Home. (See Note 6)

**NOTE 7 – NOTES AND MORTGAGE PAYABLE (Continued)**

Notes and mortgage payable consist of the following:

	<u>2007</u>	<u>2006</u>
<u>Mortgage Payable</u>		
Mortgage note payable, insured by HUD, due July 2022, interest rate of 9.25%, monthly payments of \$1,720, including interest secured by the Group Home described in Note 6	\$ -	\$ 170,096
Less current portion	( - )	( 5,125 )
	<u>\$ -</u>	<u>\$ 164,971</u>
<u>Notes Payable</u>		
Term note payable, due December 2007, interest rate 6.25%, monthly payment including interest of \$199, unsecured	\$ -	\$ 2,306
Term note payable, due December 2007, interest rate 6.25%, monthly payment including interest of \$196, unsecured	-	2,266
Term note payable, due December 2009, interest rate 7.25%, monthly payment including interest of \$199, unsecured	2,475	4,599
Term note payable, due December 2009, interest rate 7.25%, monthly payment including interest of \$199, unsecured	2,475	4,599
Term note payable, due December 2009, interest rate 7.25%, monthly payment including interest of \$203, unsecured	2,518	4,680
Term note payable, due December 2009, interest rate 7.25%, monthly payment including interest of \$203, unsecured	2,517	4,678
Term note payable, due December 2009, interest rate 7.25%, monthly payment including interest of \$203, unsecured	2,517	4,678

**NOTE 7 – NOTES AND MORTGAGE PAYABLE (Continued)**

	<u>2007</u>	<u>2006</u>
Term note payable, due March 2010, interest rate 8.25%, monthly payment including interest of \$310, unsecured	\$ 7,606	\$ -
Term note payable, due March 2010, interest rate 8.25%, monthly payment including interest of \$310, unsecured	<u>7,606</u>	<u>-</u>
	27,714	27,806
Less current maturities	<u>( 17,967)</u>	<u>( 15,299)</u>
	<u>\$ 9,747</u>	<u>\$ 12,507</u>

Maturities of the notes payable are as follows:

Year ending December 31, 2008	\$ 7,940
2009	<u>1,807</u>
	<u>\$ 9,747</u>

**NOTE 8 – ADVERTISING & COMMUNITY AWARENESS**

The Organization uses advertising and community awareness activities to promote its programs and mission among the audiences it serves and the community. The production costs of advertising are expensed as incurred. During the years ended December 31, 2007 and 2006, advertising and community awareness costs totaled \$5,967 and \$8,871, respectively.

**NOTE 9 – LINE OF CREDIT**

A bank revolving line of credit arrangement for working capital (negotiated on December 12, 2002 and renewed on March 15, 2007), provides for short-term borrowings of amounts not to exceed \$200,000. Borrowings under the line of credit arrangement are unsecured. The interest rate on this borrowing is the Wall Street Journal prime plus 1.50 percent (8.75% at December 31, 2007). Outstanding borrowings under this line of credit at December 31, 2007 and 2006 were \$-0- and \$142,000, respectively.

A bank line of credit arrangement for working capital (negotiated on March 16, 1999) provides for short-term borrowings of amounts not to exceed \$25,000. Borrowings under the line of credit are unsecured. The interest rate on this borrowing is the Wall Street Journal prime plus 4 percent (11.25% at December 31, 2007). Outstanding borrowings under this line of credit at December 31, 2007 and 2006 were \$15,759 and \$25,000, respectively.

**JOHNSON COUNTY ASSOCIATION FOR RETARDED CITIZENS, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year Ended December 31, 2007

Government Grantor/Pass-Through <u>Grantor/Program Title</u>	<u>CFDA#</u>	<u>Expenditures</u>
<u>U.S. Department of Health and Human Services</u>		
Passed Through Division of Disability, Aging And Rehabilitative Services Vocational Rehabilitation	84.126A	\$ <u>329,696</u>
		<u>329,696</u>
<u>U.S. Department of Housing and Urban Development</u>		
Section 8 Rental Voucher Program	14.855	<u>49,552</u>
<u>U.S. Department of Transportation</u>		
Passed Through Indiana Department of Transportation Formula Grants for other than Urbanized Areas	20.509	383,248
Federal Transit Capital Improvement Grants	20.500	77,934
Highway Planning and Construction	20.509	<u>195,372</u>
Total		<u>656,554</u>
Total Expenditures of Federal Awards		<u>\$ 1,035,802</u>

Basis of Presentation: This schedule of expenditures of federal awards includes the federal grant activity of Johnson County Association for Retarded Citizens, Inc., and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See independent auditors' report.

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# Mid-America Audit & Tax, Inc.

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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  
Johnson County Association for Retarded Citizens, Inc.  
Franklin, Indiana

We have audited the financial statements of Johnson County Association for Retarded Citizens, Inc. (a nonprofit organization) as of and for the year ended December 31, 2007, and have issued our report thereon dated September 29, 2008. 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 Johnson County Association for Retarded Citizens, 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 Johnson County Association for Retarded Citizens, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Johnson County Association for Retarded Citizens, 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*.

This report is intended solely for the information and use of the finance committee, management, board of directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Mid-America Audit & Tax, Inc.*

Indianapolis, Indiana

September 29, 2008

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# Mid-America Audit & Tax, Inc.

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors  
Johnson County Association for Retarded Citizens, Inc.  
Franklin, Indiana

Compliance

We have audited the compliance of Johnson County Association for Retarded Citizens, Inc. with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2007. Johnson County Association for Retarded Citizens, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Johnson County Association for Retarded Citizens, Inc.'s management. Our responsibility is to express an opinion on Johnson County Association for Retarded Citizens, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Johnson County Association for Retarded Citizens, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Johnson County Association for Retarded Citizens, Inc.'s compliance with those requirements.

In our opinion, Johnson County Association for Retarded Citizens, Inc., complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2007.

## Internal Control over Compliance

The management of Johnson County Association for Retarded Citizens, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Johnson County Association for Retarded Citizens, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Johnson County Association for Retarded Citizens, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Johnson County Association for Retarded Citizens, Inc.'s, response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the finance committee, management, board of directors and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Mid-America Audit & Tax, Inc.*

Indianapolis, Indiana

September 29, 2008

**JOHNSON COUNTY ASSOCIATION FOR RETARDED CITIZENS, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
 Year Ended December 31, 2007

**SUMMARY OF AUDIT RESULTS**

Financial Statements

Type of auditors' report issued	Unqualified
Internal control over financial reporting:	
Material weaknesses identified	None reported
Significant deficiencies identified	None reported
Noncompliance material to financial statements noted:	None reported

Federal Awards

Internal control over major programs:	
Material weaknesses identified	None reported
Significant deficiencies identified	None reported
Type of auditors' report issued on compliance for major program:	Unqualified
Programs tested as major programs were:	
Formula Grants for other than Urbanized Areas 20.509	
Dollar threshold used to distinguish between type A and type B programs:	\$ 500,000
Auditee qualified as low-risk auditee	Yes

**FINANCIAL STATEMENTS FINDINGS**

No matters were reported.

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported.

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# Mid-America Audit & Tax, Inc.

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## INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors  
Johnson County Association for Retarded Citizens, Inc.  
Franklin, Indiana

Our report on our audits of the basic financial statements of Johnson County Association for Retarded Citizens, Inc., for the years ended December 31, 2007 and 2006 appears on pages 1-2. We conducted our audits in accordance with U.S. generally accepted auditing standards for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary data on page 23 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Mid-America Audit & Tax, Inc.*

Indianapolis, Indiana

September 29, 2008

**JOHNSON COUNTY ASSOCIATION FOR RETARDED CITIZENS, INC.**  
**SCHEDULE OF GOVERNMENT FINANCIAL ASSISTANCE**  
**Years ended December 31, 2007 and 2006**

<u>Government Grantor/Program Title</u>	December 31, 2007 <u>Grant Period</u>	<u>Expenditures</u>
DDR – Title XX	07/01/05-06/30/07	\$ 193,165
Supported Employment – VR	07/01/05-06/30/08	418,928
HUD Subsidy – Group Home	10/01/05-11/09/07	49,552
DDARS – Medicaid Waiver	01/01/06-12/31/07	297,405
Johnson County Funding	01/01/06-12/31/07	174,729
DOT – Operating Grant	01/01/06-12/31/07	518,825
DOT – Inter City Grant	01/01/06-12/31/07	195,372
DOT – Vehicle Acquisition	01/01/06-12/31/07	97,418
Local Governments	01/01/06-12/31/07	<u>46,328</u>
Total		<u>\$ 1,991,722</u>

<u>Government Grantor/Program Title</u>	December 31, 2006 <u>Grant Period</u>	<u>Expenditures</u>
DDR – Title XX	07/01/05-06/30/07	\$ 93,970
Supported Employment – VR	07/01/05-06/30/08	181,901
DDARS – SILP	07/01/05-06/30/07	98,150
HUD Subsidy – Group Home	10/01/05-09/30/07	54,831
DDARS – Medicaid Waiver	01/01/06-12/31/06	334,289
Johnson County Funding	01/01/06-12/31/06	174,729
Early Intervention Program	01/01/06-12/31/06	11,824
DOT – Operating Grant	01/01/06-12/31/06	431,472
DOT – Inter City Grant	01/01/06-12/31/06	127,850
DOT – Vehicle Acquisition	01/01/06-12/31/06	159,800
Local Governments	01/01/06-12/31/06	<u>49,119</u>
Total		<u>\$ 1,717,935</u>

See independent auditors' report on supplementary information.