

**THE ARC OF
NORTHEASTERN PENNSYLVANIA**

**FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2019 AND 2018
AND
INDEPENDENT AUDITORS' REPORT
AND
SUPPLEMENTAL INFORMATION**

THE ARC OF NORTHEASTERN PENNSYLVANIA

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The Arc of Northeastern Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of The Arc of Northeastern Pennsylvania (a nonprofit organization), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Effect of Adopting New Accounting Standard

As discussed in Note 10, the Organization adopted the Financial Accounting Standards Board's Accounting Standard's update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended June 30, 2019. The requirements of the ASU have been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Arc of Northeastern Pennsylvania as of June 30, 2019 and 2018 and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated June 17, 2020 on our consideration of The Arc of Northeastern Pennsylvania's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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* in considering The Arc of Northeastern Pennsylvania's internal control over financial reporting and compliance.

Michael A. Bault, LLC

Dunmore, Pennsylvania
June 17, 2020

THE ARC OF NORTHEASTERN PENNSYLVANIA

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash	\$ 176,551	\$ 175,785
Accounts receivable	1,632,898	1,427,041
Prepaid expenses	48,205	36,297
Total current assets	<u>1,857,654</u>	<u>1,639,123</u>
PROPERTY AND EQUIPMENT, NET	<u>1,701,850</u>	<u>1,761,976</u>
TOTAL ASSETS	<u>\$ 3,559,504</u>	<u>\$ 3,401,099</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Line of credit	\$ 278,609	\$ 332,814
Current portion of long-term debt	95,761	122,606
Accounts payable	332,404	261,751
Accrued salaries and wages	197,139	165,655
Payroll taxes and withholdings	6,019	9,949
Accrued compensated absences	162,705	173,778
Total current liabilities	<u>1,072,637</u>	<u>1,066,553</u>
LONG-TERM DEBT	<u>528,948</u>	<u>591,228</u>
Total liabilities	1,601,585	1,657,781
NET ASSETS:		
Unrestricted	<u>1,957,919</u>	<u>1,743,318</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,559,504</u>	<u>\$ 3,401,099</u>

See accompanying notes to financial statements.

THE ARC OF NORTHEASTERN PENNSYLVANIA

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
SUPPORT AND REVENUE:		
Public support	\$ 146,932	\$ 168,818
Indirect support	89,839	95,987
Contract revenue	8,153,366	7,574,250
Revenue-other	493,807	494,633
Rental income	10,822	43,648
Total Support and Revenue	<u>8,894,766</u>	<u>8,377,336</u>
EXPENSES		
Program services:		
Recreation	430,451	359,940
Residential	4,484,098	3,989,932
Adult day care	1,894,343	1,806,490
Supported employment	108,375	70,717
Advocacy	147,452	70,413
Transportation	150,321	168,900
Parents of Down Syndrome	18,396	16,175
Management and general	1,162,925	1,174,803
Land, building and equipment	283,804	275,623
Total Expenses	<u>8,680,165</u>	<u>7,932,993</u>
CHANGE IN NET ASSETS	214,601	444,343
NET ASSETS, BEGINNING	<u>1,743,318</u>	<u>1,298,975</u>
NET ASSETS, ENDING	<u>\$ 1,957,919</u>	<u>\$ 1,743,318</u>

See accompanying notes to financial statements.

THE ARC OF NORTHEASTERN PENNSYLVANIA

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2019

	Recreational Program				Community Options	Residential Program				Sub-total
	Lackawanna/Susquehanna		Carbon/Monroe/Pike			Winfield	Seymour	Theodore	Sanders	
	Year Around	Summer	Year Around	Summer		Avenue	Avenue	Street	Street	
Salaries and wages	\$ 96,196	\$ 55,833	\$ 17,515	\$ -	\$ 39,595	\$ 209,372	\$ 228,587	\$ 214,787	\$ 287,260	\$ 1,149,145
Payroll taxes and benefits	31,079	9,422	1,769	-	13,162	64,879	41,347	52,799	108,992	323,449
Professional fees	1,350	642	-	-	-	1,257	1,218	1,218	1,218	6,903
Family living fees	-	-	-	-	-	-	-	-	-	-
Occupancy costs	2,539	1,929	2,201	812	374	10,305	13,066	17,199	20,927	69,352
Communications	3,659	612	1,105	-	1,292	5,011	6,030	5,207	5,303	28,219
Supplies	15,250	8,100	178	103	377	16,714	17,108	17,661	21,354	96,845
Equipment expense	13,450	10	-	-	-	4,567	1,117	662	3,619	23,425
Transportation	6,054	15,547	9,573	879	13,150	9,709	7,183	7,827	7,015	76,937
Conferences	395	-	-	-	-	-	-	118	-	513
Dues and subscriptions	880	594	129	-	342	1,407	1,338	986	2,452	8,128
Miscellaneous	546	400	-	-	-	2,448	1,626	2,134	2,990	10,144
Program activities	55,279	1,029	764	-	3,586	1,972	150	499	70	63,349
Special assistance	-	-	-	-	-	150	500	400	200	1,250
Employee physicals	78	2,408	264	-	-	1,482	1,722	868	1,213	8,035
Contributions	-	-	-	-	-	-	-	-	-	-
National dues affiliates	-	-	-	-	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-	-	-	-	-
Total Expenses	\$ 226,755	\$ 96,526	\$ 33,498	\$ 1,794	\$ 71,878	\$ 329,273	\$ 320,992	\$ 322,365	\$ 462,613	\$ 1,865,694

(continued)

See accompanying notes to financial statements.

THE ARC OF NORTHEASTERN PENNSYLVANIA

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2019

	Residential Program									Sub-Total
	Court Street	Newton	Chesterfield Lane	Rebecca Avenue	Scott	Farr Street	Summit Pointe	Supported Living	Family Living	
Salaries and wages	\$ 237,169	\$ 279,389	\$ 220,576	\$ 240,053	\$ 293,184	\$ 236,678	\$ 249,551	\$ 103,565	\$ 27,800	\$ 1,887,965
Payroll taxes and benefits	133,599	105,716	77,456	48,563	78,049	87,447	70,874	36,029	8,849	646,582
Professional fees	1,257	1,318	631	1,218	1,218	1,218	576	1,090	1,090	9,616
Family living fees	-	-	-	-	-	-	-	-	113,615	113,615
Occupancy costs	14,107	12,195	14,436	9,107	11,915	18,795	18,478	1,042	2,564	102,639
Communications	5,750	5,351	4,978	4,826	5,574	5,155	5,562	1,292	1,292	39,780
Supplies	16,909	17,901	18,118	17,221	16,476	13,943	5,210	-	140	105,918
Equipment expense	3,523	1,878	4,243	2,495	2,517	3,950	550	-	-	19,156
Transportation	7,759	9,381	6,445	8,206	8,628	9,301	6,922	5,486	19,957	82,085
Conferences	-	-	-	-	-	-	-	-	353	353
Dues and subscriptions	1,371	1,764	1,538	1,946	1,668	1,072	1,326	167	14	10,866
Miscellaneous	1,870	1,739	1,827	1,746	1,947	2,186	958	546	1,946	14,765
Program activities	(92)	77	175	40	630	(235)	195	131	-	921
Special assistance	400	500	800	1,000	1,300	325	-	75	-	4,400
Employee physicals	841	1,829	1,209	2,950	875	1,099	1,100	161	130	10,194
Contributions	-	-	-	-	-	-	-	-	-	-
National dues affiliates	-	-	-	-	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-	-	-	-	-
Total Expenses	\$ 424,463	\$ 439,038	\$ 352,432	\$ 339,371	\$ 423,981	\$ 380,934	\$ 361,302	\$ 149,584	\$ 177,750	\$ 3,048,855

(continued)

See accompanying notes to financial statements.

THE ARC OF NORTHEASTERN PENNSYLVANIA

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2019

	Adult Day Care	Supported Employment	Lackawanna / Susquehanna Advocacy	Pike County Advocacy	White Haven Advocacy	Transportation	Parents of Down Syndrome	Management and General	Land, Building and Equipment	Total
Salaries and wages	\$ 1,052,881	\$ 73,559	\$ 34,539	\$ 14,297	\$ 38,642	\$ 20,025	\$ -	\$ 650,098	\$ -	\$ 4,921,151
Payroll taxes and benefits	528,231	19,453	8,944	1,504	10,815	11,606	-	289,168	-	1,839,752
Professional fees	3,585	1,218	583	-	-	-	-	52,752	3,500	78,157
Family living fees	-	-	-	-	-	-	-	-	-	113,615
Occupancy costs	122,954	1,043	4,546	-	-	-	-	18,438	28,130	347,102
Communications	11,157	1,672	380	144	-	-	754	37,958	-	120,064
Supplies	38,412	120	264	17	-	-	1,686	45,633	17	288,912
Equipment expense	24,800	-	-	-	-	-	-	-	36,128	103,509
Transportation	65,770	8,912	1,616	460	2,553	118,690	-	7,596	-	364,619
Conferences	1,464	1,635	350	-	-	-	-	22,965	-	27,280
Dues and subscriptions	3,860	12	5	85	-	-	150	23,312	-	46,418
Miscellaneous	25,549	546	-	-	-	-	353	-	-	51,357
Program activities	9,633	-	-	-	-	-	14,003	13,725	-	101,631
Special assistance	3,305	-	-	-	-	-	500	930	-	10,385
Employee physicals	2,742	205	-	-	-	-	-	150	-	21,326
Contributions	-	-	-	-	-	-	950	200	-	1,150
National dues affiliates	-	-	27,708	-	-	-	-	-	-	27,708
Depreciation	-	-	-	-	-	-	-	-	216,029	216,029
Total Expenses	\$ 1,894,343	\$ 108,375	\$ 78,935	\$ 16,507	\$ 52,010	\$ 150,321	\$ 18,396	\$ 1,162,925	\$ 283,804	\$ 8,680,165

(concluded)

See accompanying notes to financial statements.

THE ARC OF NORTHEASTERN PENNSYLVANIA

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2018

	Recreational Program				Community Options	Residential Program				Sub-total
	Lackawanna/Susquehanna		Carbon/Monroe/Pike			Winfield	Seymour	Theodore	Sanders	
	Year Around	Summer	Year Around	Summer		Avenue	Avenue	Street	Street	
Salaries and wages	\$ 80,115	\$ 45,469	\$ 17,750	\$ -	\$ 41,000	\$ 170,917	\$ 179,683	\$ 190,554	\$ 218,693	\$ 944,181
Payroll taxes and benefits	30,460	6,016	1,984	-	5,862	91,644	46,164	50,510	86,951	319,591
Professional fees	674	306	-	-	-	674	674	674	734	3,736
Family living fees	-	-	-	-	-	-	-	-	-	-
Occupancy costs	1,972	2,774	2,301	1,159	-	9,774	10,287	17,869	19,509	65,645
Communications	6,114	437	881	-	1,002	4,589	5,103	4,799	6,097	29,022
Supplies	16,057	12,080	933	-	-	16,958	13,179	16,184	20,621	96,012
Equipment expense	-	619	-	-	-	3,605	2,896	4,862	2,680	14,662
Transportation	5,013	19,510	3,944	822	11,276	7,600	6,304	7,065	5,418	66,952
Conferences	80	-	-	-	-	-	-	-	-	80
Dues and subscriptions	447	2,191	327	133	-	2,295	640	1,702	1,061	8,796
Miscellaneous	655	-	-	-	-	1,419	1,594	1,685	3,187	8,540
Program activities	34,395	340	(115)	-	3,501	652	150	39	229	39,191
Special assistance	-	-	-	-	-	250	36	36	36	358
Employee physicals	72	1,004	380	-	-	502	499	355	393	3,205
Contributions	-	-	-	-	-	-	-	-	-	-
National dues affiliates	-	-	-	-	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-	-	-	-	-
Total Expenses	\$ 176,054	\$ 90,746	\$ 28,385	\$ 2,114	\$ 62,641	\$ 310,879	\$ 267,209	\$ 296,334	\$ 365,609	\$ 1,599,971

(continued)

See accompanying notes to financial statements.

THE ARC OF NORTHEASTERN PENNSYLVANIA

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2018

	Residential Program									Sub-Total
	Court Street	Newton	Chesterfield Lane	Rebecca Avenue	Scott	Farr Street	Summit Pointe	Supported Living	Family Living	
Salaries and wages	\$ 216,504	\$ 196,648	\$ 195,716	\$ 190,669	\$ 254,311	\$ 261,249	\$ 221,211	\$ 76,105	\$ 33,119	\$ 1,645,532
Payroll taxes and benefits	124,516	76,720	78,170	60,777	78,237	94,359	68,303	23,473	8,919	613,474
Professional fees	674	674	368	674	689	674	458	674	674	5,559
Family living fees	-	-	-	-	-	-	-	-	122,200	122,200
Occupancy costs	13,788	10,829	13,621	8,795	12,981	14,761	16,161	1,027	2,319	94,282
Communications	5,000	5,005	4,551	4,823	5,078	4,476	4,368	1,285	1,285	35,871
Supplies	17,521	14,458	15,243	13,602	19,842	12,977	6,351	-	-	99,994
Equipment expense	2,304	3,344	1,608	7,844	13,680	5,238	1,250	-	-	35,268
Transportation	5,935	7,264	6,842	7,519	5,819	9,666	5,858	2,282	18,178	69,363
Conferences	(486)	-	-	-	460	-	-	-	1,254	1,228
Dues and subscriptions	1,793	1,834	561	1,826	1,247	1,207	546	111	8	9,133
Miscellaneous	1,374	1,522	-	1,174	1,179	1,334	934	654	1,374	9,545
Program activities	87	59	794	50	554	120	50	95	69	1,878
Special assistance	-	-	235	150	154	586	-	150	-	1,275
Employee physicals	513	59	501	1,439	705	989	953	103	37	5,299
Contributions	-	-	-	-	-	-	-	-	-	-
National dues affiliates	-	-	-	-	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-	-	-	-	-
Total Expenses	\$ 389,523	\$ 318,416	\$ 318,210	\$ 299,342	\$ 394,936	\$ 407,636	\$ 326,443	\$ 105,959	\$ 189,436	\$ 2,749,901

See accompanying notes to financial statements.

(continued)

THE ARC OF NORTHEASTERN PENNSYLVANIA

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2018

	Adult Day Care	Supported Employment	Lackawanna / Susquehanna Advocacy	Pike County Advocacy	White Haven Advocacy	Transportation	Parents of Down Syndrome	Management and General	Land, Building and Equipment	Total
Salaries and wages	\$ 1,011,564	\$ 49,757	\$ 20,766	\$ 5,416	\$ -	\$ 22,500	\$ -	\$ 668,612	\$ -	\$ 4,368,328
Payroll taxes and benefits	516,487	7,910	2,684	414	1,889	13,041	-	223,957	-	1,699,447
Professional fees	1,042	674	306	-	-	-	-	55,444	-	66,761
Family living fees	-	-	-	-	-	-	-	-	-	122,200
Occupancy costs	132,687	1,512	2,809	-	-	-	-	17,895	29,444	344,274
Communications	15,212	1,913	714	-	-	-	-	35,788	-	118,520
Supplies	37,465	1,070	994	871	483	-	-	35,794	35	272,718
Equipment expense	11,500	-	-	-	-	-	-	-	27,890	89,320
Transportation	40,770	6,904	1,324	82	2,238	133,359	-	7,810	-	328,802
Conferences	280	-	711	-	-	-	-	33,925	-	36,224
Dues and subscriptions	10,854	-	123	32	121	-	-	53,045	-	82,104
Miscellaneous	21,735	977	-	-	-	-	843	42,456	-	84,096
Program activities	2,727	-	-	-	-	-	15,012	-	-	58,808
Special assistance	1,200	-	400	-	-	-	-	-	-	3,233
Employee physicals	2,967	-	228	-	100	-	-	77	-	11,876
Contributions	-	-	-	-	-	-	320	-	-	320
National dues affiliates	-	-	27,708	-	-	-	-	-	-	27,708
Depreciation	-	-	-	-	-	-	-	-	218,254	218,254
Total Expenses	\$ 1,806,490	\$ 70,717	\$ 58,767	\$ 6,815	\$ 4,831	\$ 168,900	\$ 16,175	\$ 1,174,803	\$ 275,623	\$ 7,932,993

(concluded)

See accompanying notes to financial statements.

THE ARC OF NORTHEASTERN PENNSYLVANIA

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 214,601	\$ 444,343
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	216,029	218,254
Change in assets and liabilities:		
Increase in accounts receivable	(205,857)	(457,133)
(Increase) decrease in prepaid expenses	(11,908)	13,753
Increase in accounts payable	70,653	39,762
Increase in accrued salaries and wages	31,484	34,248
(Decrease) increase in payroll taxes and withholding	(3,930)	1,412
(Decrease) increase in accrued compensated absences	(11,073)	38,423
Decrease in due to The Arc Foundation	-	(50,000)
Net cash provided by operating activities	<u>299,999</u>	<u>283,062</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	<u>(155,903)</u>	<u>(163,058)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on line of credit and other debt	29,332	54,753
Principal payments on line of credit and other debt	<u>(172,662)</u>	<u>(161,340)</u>
Net cash used by financing activities	<u>(143,330)</u>	<u>(106,587)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	766	13,417
CASH AND CASH EQUIVALENTS - BEGINNING	<u>175,785</u>	<u>162,368</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 176,551</u>	<u>\$ 175,785</u>
SUPPLEMENTAL INFORMATION:		
Interest paid	<u>\$ 32,630</u>	<u>\$ 35,590</u>

See accompanying notes to financial statements.

THE ARC OF NORTHEASTERN PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Operations and Reporting Entity:

The Arc of Northeastern Pennsylvania is a non-profit agency (“Organization”) dedicated to the promotion of the general welfare of all persons in Northeastern Pennsylvania who have intellectual and developmental disabilities.

The Arc of Northeastern Pennsylvania provides developmental, residential, and recreational programming to children and adults with intellectual and developmental disabilities. They also provide services to parents, other individuals, organizations, and communities for jointly meeting the needs of persons with intellectual and developmental disabilities.

The Arc of Northeastern Pennsylvania Board of Directors has oversight responsibilities and control over all activities related to the Organization. The Organization receives the majority of its funding from state and federal government sources and must comply with the requirements of these funding source entities.

On April 14, 1997, the Organization established The Arc of Northeastern Pennsylvania Foundation (“Foundation”). The purpose of the Foundation is to provide financial support to The Arc of Northeastern Pennsylvania, the sole member of the Foundation. The accompanying financial statements exclude the net assets and activities of the Foundation.

Basis of Accounting:

The Arc of Northeastern Pennsylvania accounts for all transactions on the accrual basis of accounting for year-end reporting purposes under which:

- Revenues and gains are recognized in the accounting period in which they are earned and become measurable.
- Expenses and losses are recognized in the accounting period in which the liability is both incurred and measurable.

(continued)

THE ARC OF NORTHEASTERN PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Basis of Presentation

Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. The Organization uses the following classification to distinguish among restrictions:

Net Assets without Donor Restrictions:

Net assets without donor restrictions include all contributions received without donor restrictions, and all revenue and expenses. Net asset without donor restrictions include both undesignated and board designated funds.

Undesignated net assets without donor restrictions may be used at the discretion of management to support the mission of the Organization and consist of net assets accumulated from the results of operations.

Board designated net assets without donor restrictions are subject to self-imposed limits by action of the governing board. Board designated net assets may be earmarked for future programs, investments, contingencies, purchase or construction of fixed assets, or other uses.

Net Assets with Donor Restrictions:

Net assets with donor restrictions include contributions that have donor-imposed restrictions that limit the use of the donated assets. When a donor's restriction is met, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Use of Estimates:

Management uses estimates and assumptions in preparing the financial statements of The Arc of Northeastern Pennsylvania in accordance with generally accepted accounting principles. Those estimates and assumptions may affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used by management of The Arc of Northeastern Pennsylvania.

Accounts Receivable:

Funding source providers' payments to the Organization is the factor in determining if a receivable is uncollectible.

Accounts receivable relate to contracted amounts with the Pennsylvania Department of Human Services and, on the local level, through county mental health agencies including the Lackawanna, Susquehanna Counties Program, the Wayne County Program, the Carbon, Monroe, Pike Counties Program, and other funding source providers. These amounts are generally considered to be fully collectible; and accordingly, no allowance for doubtful accounts is considered necessary in the current year.

(continued)

THE ARC OF NORTHEASTERN PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Allocated Expenses:

The Organization, where applicable, directly identifies and charges expenses to the proper programs. Other expenses that are common to several functions are allocated among programs and supporting services classifications based on estimates made by the Organization's management.

Inventory of Supplies:

Inventory of supplies has not been reflected in the accompanying financial statements because all purchases of supplies are budgeted expenses for the project period in which they are purchased and, accordingly, have been treated as project costs of that period.

Cash and Cash Equivalents:

The Organization considers all highly liquid investments with an initial maturity of three months or less to be cash and cash equivalents.

Property and Equipment/Depreciation:

Property and equipment items are stated at cost. Expenses for maintenance and repair items are charged against income in the year incurred. Replacements, renewals and betterments are capitalized as incurred. Depreciation is provided on the straight-line basis utilizing the following estimated useful lives:

Real Property	-	Ranging from 19 to 39 Years
Transportation Equipment	-	Various
Office Equipment	-	Various

Income Tax Status:

The Organization has received a letter of determination from the Internal Revenue Service advising it that it qualifies as a non-profit corporation under Section 501(c)(3) of the Internal Revenue Code, and therefore, is not subject to income tax. However, the Organization also files a Form 990T, which is utilized to report the unrelated business income of the Organization, specifically, rental income.

The Organization adopted previously deferred guidance related to uncertain tax positions. FASB ASC 740-10 and related subsections prescribes rules for recognition, measurement, classification, and disclosure in the financial statements of uncertain tax positions taken or expected to be taken in the Organization's tax returns. As a result of implementing this guidance, management has determined that the Organization does not have any uncertain tax positions and associated unrecognized benefits that materially impact the financial statements and related disclosures.

Since tax matters are subject to some degree of uncertainty, there can be no assurance that the Organization's tax returns will not be challenged by the taxing authorities and that the Organization will not be subject to additional tax, penalties, and interest as a result of such challenge. Generally, the Organization's tax returns remain open for federal income tax examination for three years from the date of filing.

Management Evaluation / Subsequent Events:

Management has evaluated subsequent events through June 17, 2020, the date on which the financial statements are available to be issued.

(continued)

THE ARC OF NORTHEASTERN PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 2 – PROPERTY AND EQUIPMENT:

Property and equipment are summarized by major classification as follows:

<u>Description</u>	<u>2019</u>	<u>2018</u>
Land	\$ 203,171	\$ 203,171
Buildings and Improvements	2,714,858	2,575,852
Transportation Equipment	1,218,712	1,186,339
Equipment	242,220	236,420
Leasehold Improvements	78,974	78,974
Construction in Progress	-	46,611
Total	<u>4,457,935</u>	<u>4,327,367</u>
Less: accumulated depreciation	<u>2,756,085</u>	<u>2,565,391</u>
Net	<u>\$ 1,701,850</u>	<u>\$ 1,761,976</u>

Depreciation expense for the years ended June 30, 2019 and 2018 is \$216,029 and \$218,254, respectively.

NOTE 3 – LINE OF CREDIT:

The Arc of Northeastern Pennsylvania maintains a secured line of credit from a bank in the amount of \$850,000. The line is designed to be utilized for working capital requirements of the Organization. Borrowing under this commitment bears interest at a variable rate of the New York Prime Rate. The rate was 5.25% on June 30, 2019. The line of credit matures on an annual basis, at which time it is renewable at the option of the bank.

Security for the line of credit:

The line of credit is secured by the following:

1. A first lien perfected security interest in all business assets, including, but not limited to, borrower's accounts receivable, inventory, furniture, fixtures, machinery and equipment and any and all general intangibles.
2. Assignment of leases and rentals for any tenants now in existence or existing in the future.

On June 30, 2019 and 2018, the balance of the line of credit was \$278,609 and \$332,814, respectively.

(continued)

THE ARC OF NORTHEASTERN PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 4 – LONG-TERM DEBT:

The following is a summary of the long-term debt of The Arc of Northeastern Pennsylvania as of June 30, 2019 and 2018:

- a. Note payable to a bank, payable in monthly installments of \$1,054 including interest at 7.5% for the first 10 years, adjusted to NY prime rate less ½ % thereafter, secured by building. Maturity date of the loan is October 27, 2020. The terms of the note were amended in March 2013 with interest fixed at 3.50% and a monthly payment of \$969. The balance of the note on June 30, 2019 and 2018 is \$6,672 and \$17,586.
- b. Note payable to a bank, payable in monthly installments of \$1,154 including interest at 5.990%, secured by a lien on the premises located at 1500 Court Street, Scranton, Pennsylvania. Maturity date of the loan is June 4, 2030. The balance of the note on June 30, 2019 and 2018 is \$59,815 and \$64,037.
- c. Note payable to a bank, payable in monthly installments of \$754 including interest at 5.875%, secured by a lien on the premises located at 2000 Farr Street, Scranton, Pennsylvania. Maturity date of the loan is June 23, 2035. The balance of the note on June 30, 2019 and 2018 is \$92,469 and \$96,493.
- d. Note payable to a bank, payable in monthly installments of \$1,442 including interest at 6.25%, secured by real estate. Maturity date of the loan is June 26, 2038. The balance of the note on June 30, 2019 and 2018 is \$108,565 and \$112,311.
- e. Note payable to a bank, payable in monthly installments of \$759 including interest at 6.25%, secured by real estate. Maturity date of the loan is September 15, 2028. The balance of the note on June 30, 2019 and 2018 is \$61,447 and \$66,799.
- f. Note payable to a bank, payable in monthly installments of \$429 including interest at 4.49%, secured by a vehicle. Maturity date of the loan is July 31, 2019. The balance of the note on June 30, 2019 and 2018 is \$-0- and \$4,619.
- g. Note payable to an automobile manufacturer finance company, payable in monthly installments of \$329 including interest at 0.90%, secured by a vehicle. Maturity date of the loan is September 30, 2019. The balance of the note on June 30, 2019 and 2018 is \$985 and \$4,903.

(continued)

THE ARC OF NORTHEASTERN PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 4 – LONG-TERM DEBT (continued):

- h. Note payable to an automobile manufacturer finance company, payable in monthly installments of \$354 including interest at 0.90%, secured by a vehicle. Maturity date of the loan is October 28, 2019. The balance of the note on June 30, 2019 and 2018 is \$1,062 and \$5,284.
- i. Note payable to an automobile manufacturer finance company, payable in monthly installments of \$475 including interest at 0.00%, secured by a vehicle. Maturity date of the loan is October 25, 2019. The balance of the note on June 30, 2019 and 2018 is \$1,474 and \$8,072.
- j. Note payable to an automobile manufacturer finance company, payable in monthly installments of \$475 including interest at 0.00%, secured by a vehicle. Maturity date of the loan is October 25, 2019. The balance of the note on June 30, 2019 and 2018 is \$1,665 and \$7,233.
- k. Note payable to a bank, payable in monthly installments of \$1,442 including interest at 5.99%, secured by real estate. Maturity date of the loan is December 31, 2030. The balance of the note on June 30, 2019 and 2018 is \$141,410 and \$150,717.
- l. Note payable to an automobile manufacturer finance company, payable in monthly installments of \$581 including interest at 6.99%, secured by a vehicle. Maturity date of the loan is June 30, 2024. The balance of the note on June 30, 2019 and 2018 is \$29,332 and \$-0-.
- m. Note payable to an automobile manufacturer finance company, payable in monthly installments of \$393 including interest at 4.90%, secured by a vehicle. Maturity date of the loan is October 28, 2019. The balance of the note on June 30, 2019 and 2018 is \$390 and \$1,568.
- n. Note payable to an automobile manufacturer finance company, payable in monthly installments of \$477 including interest at 1.90%, secured by a vehicle. Maturity date of the loan is July 13, 2019. The balance of the note on June 30, 2019 and 2018 is \$472 and \$6,134.

(continued)

THE ARC OF NORTHEASTERN PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 4 – LONG-TERM DEBT (continued):

- o. Note payable to an automobile manufacturer finance company, payable in monthly installments of \$462 including interest at 0.00%, secured by a vehicle. Maturity date of the loan is July 3, 2019. The balance of the note on June 30, 2019 and 2018 is \$462 and \$5,084.
- p. Note payable to an automobile manufacturer finance company, payable in monthly installments of \$517 including interest at 0.00%, secured by a vehicle. Maturity date of the loan is July 5, 2022. The balance of the note on June 30, 2019 and 2018 is \$19,138 and \$24,827.
- q. Note payable to an automobile manufacturer finance company, payable in monthly installments of \$517 including interest at 0.00%, secured by a vehicle. Maturity date of the loan is July 5, 2022. The balance of the note on June 30, 2019 and 2018 is \$18,103 and \$24,827.
- r. Note payable to a bank, payable in monthly installments of \$407 including interest at 2.39%, secured by a vehicle. Maturity date of the loan is September 27, 2021. The balance of the note on June 30, 2019 and 2018 is \$9,152 and \$15,260.
- s. Note payable to a bank, payable in monthly installments of \$408 including interest at 2.39%, secured by a vehicle. Maturity date of the loan is September 27, 2021. The balance of the note on June 30, 2019 and 2018 is \$12,230 and \$15,284.
- t. Note payable to an automobile manufacturer finance company, payable in monthly installments of \$437 including interest at 0.00%, secured by a vehicle. Maturity date of the loan is September 10, 2021. The balance of the note on June 30, 2019 and 2018 is \$11,798 and \$17,042.
- u. Note payable to an automobile manufacturer finance company, payable in monthly installments of \$482 including interest at 0.90%, secured by a vehicle. Maturity date of the loan is April 5, 2022. The balance of the note on June 30, 2019 and 2018 is \$15,656 and \$21,732.
- v. Note payable to an automobile manufacturer finance company, payable in monthly installments of \$482 including interest at 0.90%, secured by a vehicle. Maturity date of the loan is April 5, 2022. The balance of the note on June 30, 2019 and 2018 is \$15,661 and \$21,271.

(continued)

THE ARC OF NORTHEASTERN PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 4 – LONG-TERM DEBT (continued):

w. Note payable to an automobile manufacturer finance company, payable in monthly installments of \$515 including interest at 0.90%, secured by a vehicle. Maturity date of the loan is April 5, 2022. The balance of the note on June 30, 2019 and 2018 is \$16,751 and \$22,751.

The following is a summary of debt maturities as of June 30, 2019:

Year Ending	
<u>June 30,</u>	<u>Amount</u>
2020	\$ 95,761
2021	85,088
2022	72,823
2023	46,695
2024	49,136
Thereafter	<u>275,206</u>
Total	<u>\$ 624,709</u>

Interest expense for the year ended June 30, 2019 and 2018 was \$32,630 and \$35,590.

NOTE 5 – RETIREMENT PLAN:

The Organization maintains a defined contribution noncontributory retirement plan, which provides retirement benefits for plan participants. The total contribution required is currently made on an annual basis for each eligible active participant on June 30th and equals five percent (5%) of the participant’s compensation for the fiscal year then ended. The plan is available to all employees who have completed one year of eligibility service and have attained the age of twenty-one. The vesting computation period is a one-year period beginning on the first day of each plan year, including corresponding periods before the effective date. Additionally, for the year ended June 30, 2018, as a result of an Internal Revenue Service audit of the Organization’s pension plan, a corrective contribution was required in the amount of \$70,549. The Organization contributed \$111,311 and \$238,134 for the years ended June 30, 2019 and 2018.

(continued)

THE ARC OF NORTHEASTERN PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 6 – COMPENSATED ABSENCES:

The personnel policies of The Arc of Northeastern Pennsylvania provide that compensation for vacations and certain sick leave for employees will accrue in accord with such agreements. The amount of such liability as of June 30, 2019 and 2018 is \$162,705 and \$173,778, respectively.

NOTE 7 – RENTAL INCOME:

The Arc of Northeastern Pennsylvania purchased a commercial building on August 4, 1987, located at 115 Meadow Avenue, Scranton, Pennsylvania. During the current year, the Organization’s tenant terminated its lease and the Organization took over the available space, occupying the entire building. The outside rental income and associated expenses are reflected on the Statement of Activities.

NOTE 8 – CONCENTRATIONS OF CREDIT RISK:

The Arc of Northeastern Pennsylvania is funded primarily through the U.S. Department of Health and Human Services and the Pennsylvania Department of Human Services.

Under the funding provisions, the Organization is required to expend funds in accordance with instructions noted in the financial assistance award. Funds received from the U.S. Department of Health and Human Services and the Pennsylvania Department of Human Services accounted for approximately 90% of the Organization’s support and revenue for both years ended June 30, 2019 and 2018.

The Arc of Northeastern Pennsylvania maintains its deposit balances with various financial institutions in Northeastern Pennsylvania. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000.

The insured and uninsured cash balances on June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Total Bank Balances	\$ 156,182	\$ 155,883
Insured Portion	<u>156,182</u>	<u>155,883</u>
Uninsured Cash Balances	<u>\$ -</u>	<u>\$ -</u>

(continued)

THE ARC OF NORTHEASTERN PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 9 – THE ARC OF NORTHEASTERN PENNSYLVANIA FOUNDATION
Summarized financial information concerning the Foundation follows:

Condensed Statement of Financial Position
June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>ASSETS</u>		
Cash	\$ 558,920	\$ 550,350
Account receivable	1,408	-
Investments	1,342,316	1,289,280
Endowment fund	63,487	30,854
Total	<u>\$ 1,966,131</u>	<u>\$ 1,870,484</u>
<u>LIABILITIES AND NET ASSETS</u>		
Accounts Payable	\$ 33,976	\$ 68,942
Net Assets	1,932,155	1,801,542
Total	<u>\$ 1,966,131</u>	<u>\$ 1,870,484</u>

Condensed Statement of Activities
for the Years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Bequests	\$ 3,698	\$ 6,105
Grants	94,600	135,000
Contributions	31,501	53,696
Investment return	59,887	126,643
Miscellaneous income	1,906	1,913
Special events, net	109,449	108,489
Program services	(154,618)	(187,186)
Management and general expenses	(38)	(887)
Fundraising expenses	<u>(15,772)</u>	<u>(27,744)</u>
Net increase	130,613	216,029
Net assets - beginning	<u>1,801,542</u>	<u>1,585,513</u>
Net assets - ending	<u>\$ 1,932,155</u>	<u>\$ 1,801,542</u>

(continued)

THE ARC OF NORTHEASTERN PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 10- TRANSITION RELATED DISCLOSURES:

For the year ended June 30, 2019, the Organization adopted the Financial Accounting Standards Board's Accounting Standard's Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. The changes required by the update have been applied retrospectively to all periods presented. A key change required by ASU 2016-14 are the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets, if applicable, are now reported as net assets with donor restrictions.

A summary of the net asset reclassifications driven by the adoption of ASU 2016-14 as of June 30, 2018 is presented below:

	<u>ASU 2016-14 Classification</u>		
	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Total</u> <u>Net Assets</u>
Net Asset Classifications			
As previously presented:			
Unrestricted	\$ 1,743,318	\$ -	\$ 1,743,318
Temporarily restricted	-	-	-
Permanently restricted	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Net Assets,			
As Reclassified, at June 30, 2018	<u>\$ 1,743,318</u>	<u>\$ -</u>	<u>\$ 1,743,318</u>

NOTE 11- LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS:

The Organization has \$2,896,449 of financial assets available within 1 year of the balance sheet date to meet cash needs for general expenditures. These assets consist of cash of \$176,551, accounts receivable of \$1,632,898, \$850,000 line of credit availability, anticipated public support of \$147,000 and anticipated indirect support of \$90,000. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. The Organization has a goal to maintain financial assets, which consist of cash on hand and accounts receivable, to meet 75 days of normal operating expenses, which are, on average, approximately \$23,000 per day. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

(continued)

THE ARC OF NORTHEASTERN PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 11- LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS (Continued):

The Organization's financial assets available within one year of the balance sheet date for general expenditure are as follows:

Cash	\$ 176,551
Accounts Receivable	<u>1,632,898</u>
Assets on hand at year end available for liquidity purposes	1,809,449
Line of credit availability	850,000
Anticipated public support	147,000
Anticipated indirect support	<u>90,000</u>
Financial assets available within one year of June 30, 2019	<u>\$ 2,896,449</u>

(concluded)

**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 Northeastern Pennsylvania

We have audited, in accordance with the 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, the financial statements of The Arc of Northeastern Pennsylvania, which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated June 17, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Arc of Northeastern Pennsylvania's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Northeastern Pennsylvania's internal control. Accordingly, we do not express an opinion on the effectiveness of The Arc of Northeastern Pennsylvania's internal control.

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 a 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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Arc of Northeastern Pennsylvania's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Michael A. Burtch, LLC

Dunmore, Pennsylvania
June 17, 2020