

**THE ARC OF
NORTHEASTERN PENNSYLVANIA**

**FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2018 AND 2017
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, 2018 and 2017, 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.

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, 2018 and 2017 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 April 19, 2019 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. Banteth, LLC

Dunmore, Pennsylvania

April 19, 2019

THE ARC OF NORTHEASTERN PENNSYLVANIA

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash	\$ 175,785	\$ 162,368
Accounts receivable	1,427,041	969,908
Prepaid expenses	36,297	50,050
Total current assets	<u>1,639,123</u>	<u>1,182,326</u>
PROPERTY AND EQUIPMENT, NET	<u>1,761,976</u>	<u>1,817,172</u>
TOTAL ASSETS	<u>\$ 3,401,099</u>	<u>\$ 2,999,498</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Line of credit	\$ 332,814	\$ 278,061
Current portion of long-term debt	122,606	143,047
Accounts payable	261,751	221,989
Accrued salaries and wages	165,655	131,407
Payroll taxes and withholdings	9,949	8,537
Accrued compensated absences	173,778	135,355
Due to The Arc Foundation	-	50,000
Total current liabilities	<u>1,066,553</u>	<u>968,396</u>
LONG-TERM DEBT	<u>591,228</u>	<u>732,127</u>
Total liabilities	1,657,781	1,700,523
NET ASSETS:		
Unrestricted	<u>1,743,318</u>	<u>1,298,975</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,401,099</u>	<u>\$ 2,999,498</u>

See accompanying notes to financial statements.

THE ARC OF NORTHEASTERN PENNSYLVANIA

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
SUPPORT AND REVENUE:		
Public support	\$ 168,818	\$ 173,257
Indirect support	95,987	94,923
Contract revenue	7,574,250	6,609,477
Revenue-other	494,633	459,417
Rental income	43,648	43,288
Total Support and Revenue	<u>8,377,336</u>	<u>7,380,362</u>
EXPENSES		
Program services:		
Recreation	359,940	313,983
Residential	3,989,932	3,702,404
Adult day care	1,806,490	1,667,967
Supported employment	70,717	75,406
Advocacy	70,413	38,555
Transportation	168,900	95,382
Parents of Down Syndrome	16,175	20,822
Management and general	1,174,803	909,429
Land, building and equipment	275,623	236,907
Total Expenses	<u>7,932,993</u>	<u>7,060,855</u>
CHANGE IN NET ASSETS	444,343	319,507
NET ASSETS, BEGINNING	<u>1,298,975</u>	<u>979,468</u>
NET ASSETS, ENDING	<u>\$ 1,743,318</u>	<u>\$ 1,298,975</u>

See accompanying notes to financial statements.

THE ARC OF NORTHEASTERN PENNSYLVANIA

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2018

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

See accompanying notes to financial statements.

(continued)

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

See accompanying notes to financial statements.

(concluded)

THE ARC OF NORTHEASTERN PENNSYLVANIA

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2017

	Recreational Program										Residential Program				Sub-total
	Lackawanna/Susquehanna		Carbon/Monroe/Pike		Winfield		Seymour		Theodore		Sanders				
	Year Around	Summer	Year Around	Summer	Community Options	Winfield Avenue	Seymour Avenue	Theodore Street	Sanders Street	Year Around	Summer	Year Around	Summer		
Salaries and wages	\$ 68,494	\$ 39,308	\$ 11,530	\$ 7,699	\$ 32,619	\$ 146,408	\$ 144,980	\$ 159,230	\$ 192,672	\$ -	\$ -	\$ -	\$ -	\$ 802,940	
Payroll taxes and benefits	24,373	3,114	1,300	907	4,432	70,905	43,820	41,009	107,054	-	-	-	-	296,914	
Professional fees	1,083	667	-	-	-	1,516	1,422	1,516	1,480	-	-	-	-	7,684	
Family living fees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Occupancy costs	2,383	2,259	1,836	1,349	-	9,811	10,791	20,913	22,377	-	-	-	-	71,719	
Communications	4,479	919	1,105	705	1,021	3,551	3,730	3,575	5,173	-	-	-	-	24,258	
Supplies	15,152	7,436	1,757	334	109	19,711	16,249	17,037	21,442	-	-	-	-	99,227	
Equipment expense	-	834	-	-	-	8,198	7,357	5,093	3,028	-	-	-	-	24,510	
Transportation	5,173	21,732	4,684	1,573	10,252	6,179	5,236	5,901	4,937	-	-	-	-	65,667	
Conferences	-	7	-	-	-	27	27	27	402	-	-	-	-	490	
Dues and subscriptions	242	363	275	-	-	901	833	619	634	-	-	-	-	3,867	
Miscellaneous	870	-	-	-	-	873	870	870	3,698	-	-	-	-	7,181	
Program activities	27,182	-	(65)	(148)	3,020	(325)	50	146	10	-	-	-	-	29,870	
Special assistance	-	-	400	-	-	150	400	-	400	-	-	-	-	1,350	
Employee physicals	144	326	541	208	-	629	475	216	499	-	-	-	-	3,038	
Contributions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
National dues affiliates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Depreciation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total Expenses	\$ 149,575	\$ 76,965	\$ 23,363	\$ 12,627	\$ 51,453	\$ 268,534	\$ 236,240	\$ 256,152	\$ 363,806	\$ -	\$ -	\$ -	\$ -	\$ 1,438,715	

See accompanying notes to financial statements.

(continued)

THE ARC OF NORTHEASTERN PENNSYLVANIA

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2017

	Residential Program										Sub-Total
	Court Street	Newton	Chesterfield Lane	Rebecca Avenue	Scott	Farr Street	Summit Pointe	Family Living	Supported Living		
Salaries and wages	\$ 233,759	\$ 202,930	\$ 170,211	\$ 189,596	\$ 204,378	\$ 270,033	\$ 181,762	\$ 35,789	\$ 34,665	\$ 1,523,123	
Payroll taxes and benefits	126,705	83,921	68,511	47,525	78,039	104,436	51,758	8,698	13,347	582,940	
Professional fees	1,494	1,506	756	1,506	1,421	1,592	417	875	875	10,442	
Family living fees	-	-	-	-	-	-	-	102,949	-	102,949	
Occupancy costs	15,350	10,549	16,821	8,275	11,818	19,392	13,146	1,082	857	97,290	
Communications	4,024	3,820	3,391	3,599	3,893	3,326	2,687	1,021	1,015	26,776	
Supplies	20,060	16,305	17,302	15,806	19,575	16,442	7,868	-	-	113,358	
Equipment expense	3,823	6,220	7,785	5,008	5,962	2,363	1,847	-	78	33,086	
Transportation	7,113	6,537	7,342	6,747	8,612	7,513	3,952	16,412	1,181	65,409	
Conferences	27	27	27	47	27	27	-	-	20	202	
Dues and subscriptions	624	558	580	940	731	650	543	8	189	4,823	
Miscellaneous	841	881	870	870	870	870	697	870	869	7,638	
Program activities	10	167	57	-	10	-	43	-	162	449	
Special assistance	-	400	400	950	950	550	400	-	150	3,800	
Employee physicals	672	877	585	821	763	1,004	551	-	144	5,417	
Contributions	-	-	-	-	-	-	-	-	-	-	
National dues affiliates	-	-	-	-	-	-	-	-	-	-	
Depreciation	-	-	-	-	-	-	-	-	-	-	
Total Expenses	\$ 414,502	\$ 334,698	\$ 294,638	\$ 281,690	\$ 337,049	\$ 428,198	\$ 265,671	\$ 167,704	\$ 53,552	\$ 2,577,702	

See accompanying notes to financial statements.

(continued)

THE ARC OF NORTHEASTERN PENNSYLVANIA

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2017

	Adult Day Care	Supported Employment	Lackawanna / Susquehanna Advocacy	Transportation	Parents of Down Syndrome	Management and General	Land, Building and Equipment	Total
Salaries and wages	\$ 873,396	\$ 38,752	\$ 4,199	\$ 6,700	\$ -	\$ 539,878	\$ -	\$ 3,788,988
Payroll taxes and benefits	501,202	26,585	2,097	2,742	-	172,320	-	1,584,800
Professional fees	2,500	1,083	666	-	-	52,569	-	74,944
Family living fees	-	-	-	-	-	-	-	102,949
Occupancy costs	114,168	857	1,309	-	-	19,984	41,051	346,378
Communications	13,022	1,706	867	-	688	30,640	-	97,957
Supplies	41,126	149	88	-	-	34,359	1,204	289,511
Equipment expense	15,284	-	883	-	-	4,532	15,453	93,748
Transportation	60,466	5,315	1,049	85,940	-	4,410	-	288,256
Conferences	1,124	-	185	-	-	28,442	-	30,443
Dues and subscriptions	6,674	-	-	-	-	19,683	-	35,047
Miscellaneous	15,892	887	-	-	537	5,273	-	37,408
Program activities	16,541	-	-	-	17,622	(2,733)	-	61,749
Special assistance	2,959	-	-	-	-	-	-	8,109
Employee physicals	3,613	72	-	-	-	72	-	12,212
Contributions	-	-	-	-	1,975	-	-	1,975
National dues affiliates	-	-	27,212	-	-	-	-	27,212
Depreciation	-	-	-	-	-	-	179,199	179,199
Total Expenses	\$ 1,667,967	\$ 75,406	\$ 38,555	\$ 95,382	\$ 20,822	\$ 909,429	\$ 236,907	\$ 7,060,885

See accompanying notes to financial statements.

(concluded)

THE ARC OF NORTHEASTERN PENNSYLVANIA

STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 444,343	\$ 319,507
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	218,254	179,199
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	(457,133)	34,731
Decrease in prepaid expenses	13,753	14,869
Increase in accounts payable	39,762	116,397
Increase in accrued salaries and wages	34,248	33,625
Increase in payroll taxes and withholding	1,412	5,710
Increase (decrease) in accrued compensated absences	38,423	(36,849)
Decrease in due to The Arc Foundation	(50,000)	(70,000)
Net cash provided by operating activities	<u>283,062</u>	<u>597,189</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	<u>(163,058)</u>	<u>(336,590)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on line of credit and other debt	54,753	247,937
Principal payments on line of credit and other debt	<u>(161,340)</u>	<u>(518,132)</u>
Net cash used by financing activities	<u>(106,587)</u>	<u>(270,195)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	13,417	(9,596)
CASH AND CASH EQUIVALENTS - BEGINNING	<u>162,368</u>	<u>171,964</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 175,785</u>	<u>\$ 162,368</u>
SUPPLEMENTAL INFORMATION:		
Interest paid	<u>\$ 35,590</u>	<u>\$ 47,080</u>

See accompanying notes to financial statements.

THE ARC OF NORTHEASTERN PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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.

THE ARC OF NORTHEASTERN PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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

Financial Statement Presentation:

The Organization records transactions based on Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958-605-05-3, *Accounting for Contributions Received and Contribution Made*. The Organization presents financial statements in accordance with FASB ASC 958-205-05-5, *Financial Statement of Not-for-Profit Organizations*.

FASB ASC 958-205-05-5 established standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into three net asset categories according to externally (donor) imposed restrictions. FASB ASC 958-605-05-3 requires that unconditional promises to give (pledges) be recorded as receivables and revenues and requires the Organization to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. A description of the net asset category applicable to the Organization is as follows:

Unrestricted Net Assets:

This category includes the revenue and expenses associated with the principal mission of the Organization.

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.

THE ARC OF NORTHEASTERN PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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 April 19, 2019, the date on which the financial statements are available to be issued.

(continued)

THE ARC OF NORTHEASTERN PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 2 – PROPERTY AND EQUIPMENT:

Property and equipment are summarized by major classification as follows:

<u>Description</u>	<u>2018</u>	<u>2017</u>
Land	\$ 203,171	\$ 203,171
Buildings and Improvements	2,575,852	2,561,678
Transportation Equipment	1,186,339	1,124,217
Equipment	236,420	201,617
Leasehold Improvements	78,974	78,974
Construction in Progress	46,611	-
Total	<u>4,327,367</u>	<u>4,169,657</u>
Less: accumulated depreciation	<u>2,565,391</u>	<u>2,352,485</u>
Net	<u>\$ 1,761,976</u>	<u>\$ 1,817,172</u>

Depreciation expense for the years ended June 30, 2018 and 2017 is \$218,254 and \$179,199, 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% at June 30, 2018. 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.

At June 30, 2018 and 2017, the balance of the line of credit was \$332,814 and \$278,061, respectively.

THE ARC OF NORTHEASTERN PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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, 2018 and 2017:

- 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 at June 30, 2018 and 2017 is \$17,586 and \$28,115.
- 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 at June 30, 2018 and 2017 is \$64,037 and \$67,435.
- 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 at June 30, 2018 and 2017 is \$96,493 and \$100,349.
- 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 at June 30, 2018 and 2017 is \$112,311 and \$116,186.
- 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 at June 30, 2018 and 2017 is \$66,799 and \$72,311.
- 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 at June 30, 2018 and 2017 is \$4,619 and \$9,837.
- 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 at June 30, 2018 and 2017 is \$4,903 and \$8,785.

(continued)

THE ARC OF NORTHEASTERN PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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, 2018. The balance of the note at June 30, 2018 and 2017 is \$5,284 and \$9,469.
- 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 at June 30, 2018 and 2017 is \$8,072 and \$13,771.
- 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 at June 30, 2018 and 2017 is \$7,233 and \$12,339.
- 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 at June 30, 2018 and 2017 is \$150,717 and \$159,708.
- l. Note payable to an automobile manufacturer finance company, payable in monthly installments of \$647 including interest at 3.50%, secured by a vehicle. Maturity date of the loan is August 19, 2018. The balance of the note at June 30, 2018 and 2017 is \$-0- and \$8,243.
- m. Note payable to an automobile manufacturer finance company, payable in monthly installments of \$647 including interest at 3.50%, secured by a vehicle. Maturity date of the loan is August 19, 2018. The balance of the note at June 30, 2018 and 2017 is \$-0- and \$8,243.
- n. 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, 2018. The balance of the note at June 30, 2018 and 2017 is \$1,568 and \$6,244.
- o. 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 June 13, 2019. The balance of the note at June 30, 2018 and 2017 is \$6,134 and \$11,656.

(continued)

THE ARC OF NORTHEASTERN PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 4 – LONG-TERM DEBT (continued):

- p. 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 June 3, 2019. The balance of the note at June 30, 2018 and 2017 is \$5,084 and \$10,631.
- 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 at June 30, 2018 and 2017 is \$24,827 and \$31,034.
- r. 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 at June 30, 2018 and 2017 is \$24,827 and \$31,034.
- s. 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 at June 30, 2018 and 2017 is \$15,260 and \$19,710.
- t. 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 at June 30, 2018 and 2017 is \$15,284 and \$19,741.
- u. 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 at June 30, 2018 and 2017 is \$17,042 and \$22,286.
- 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 at June 30, 2018 and 2017 is \$21,732 and \$26,846.
- w. 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 at June 30, 2018 and 2017 is \$21,271 and \$26,830.

(continued)

THE ARC OF NORTHEASTERN PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 4 – LONG-TERM DEBT (continued):

x. 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 at June 30, 2018 and 2017 is \$22,751 and \$28,697.

y. Note payable to an automobile manufacturer finance company, payable in monthly installments of \$484 including interest at 2.90%, secured by a vehicle. Maturity date of the loan is April 5, 2022. The vehicle securing this loan was sold during the year ended June 30, 2018 and the loan was repaid. The balance of the note at June 30, 2018 and 2017 is \$-0- and \$25,674.

The following is a summary of debt maturities as of June 30, 2018:

Year Ending	<u>Amount</u>
<u>June 30,</u>	
2019	\$ 122,606
2020	89,943
2021	79,657
2022	66,846
2023	39,392
Thereafter	<u>315,390</u>
Total	<u>\$ 713,834</u>

Interest expense for the year ended June 30, 2018 and 2017 was \$35,590 and \$47,080.

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. In prior years, the contribution was made on a quarterly basis and equaled three percent (3%) of the participant's compensation. 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 \$238,134 and \$78,547 for the years ended June 30, 2018 and 2017.

(continued)

THE ARC OF NORTHEASTERN PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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, 2018 and 2017 is \$173,778 and \$135,355, 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. The Organization occupies approximately ninety percent (90%) of available space with the remaining space available for outside rentals. 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 Public Welfare.

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, 2018 and 2017.

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 at June 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Total Bank Balances	\$ 155,883	\$ 143,502
Insured Portion	<u>155,883</u>	<u>143,502</u>
Uninsured Cash Balances	<u>\$ -</u>	<u>\$ -</u>

THE ARC OF NORTHEASTERN PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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

Condensed Statement of Financial Position
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
Cash	\$ 550,350	\$ 563,531
Account receivable	-	50,000
Investments	1,289,280	988,810
Endowment fund	30,854	30,065
Total	<u>\$ 1,870,484</u>	<u>\$ 1,632,406</u>
<u>LIABILITIES AND NET ASSETS</u>		
Accounts Payable	\$ 68,942	\$ 46,893
Net Assets	1,801,542	1,585,513
Total	<u>\$ 1,870,484</u>	<u>\$ 1,632,406</u>

Condensed Statement of Activities
for the Years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Bequests	\$ 6,105	\$ 3,115
Grants	135,000	237,751
Contributions	53,696	27,594
Investment return	126,643	138,645
Miscellaneous income	1,913	3,835
Special events, net	108,489	109,887
Program services	(187,186)	(220,562)
Management and general expenses	(887)	(711)
Fundraising expenses	(27,744)	(17,192)
Net increase	216,029	282,362
Net assets - beginning	1,585,513	1,303,151
Net assets - ending	<u>\$ 1,801,542</u>	<u>\$ 1,585,513</u>

**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, 2018 and 2017, 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 April 19, 2019.

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. Baugh, CPA

Dunmore, Pennsylvania
April 19, 2019