



THE ARC ALLIANCE CHILDREN'S SERVICES

FINANCIAL AND COMPLIANCE REPORT

Years Ended June 30, 2016 and 2015

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INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors
The Arc Alliance Children's Services
Eagleville, Pennsylvania**

Report on the Financial Statements

We have audited the accompanying financial statements of The Arc Alliance Children's Services (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, 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 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the 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 Alliance Children's Services as of June 30, 2016 and 2015, 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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements. The accompanying Schedule of Revenues and Expenses - Berks County, the Schedule of Revenues and Expenses - Montgomery County, and the Schedule of Revenues and Expenses - Chester County are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis, as required by Title 2 U.S. *Code of Federal Regulations (CFR)* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2017, on our consideration of The Arc Alliance Children's Services' 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 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 of Arc Alliance Children's Services' internal control over financial reporting and compliance.

Herbein + Company, Inc.

Reading, Pennsylvania
February 13, 2017

THE ARC ALLIANCE CHILDREN'S SERVICES

STATEMENTS OF FINANCIAL POSITION

June 30

ASSETS	2016	2015
CURRENT ASSETS		
Cash	\$ 1,071	\$ 1,067
Accounts receivable	464,597	401,138
Due from related parties	346,484	177,015
TOTAL CURRENT ASSETS	812,152	579,220
FURNITURE AND EQUIPMENT, net of accumulated depreciation	9,534	14,734
TOTAL ASSETS	\$ 821,686	\$ 593,954
LIABILITIES AND NET ASSETS (DEFICIENCY)		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 2,834	\$ 13,266
Accrued payroll and purchased services	324,630	278,966
Accrued vacation	53,720	51,075
Advances	75,600	75,600
Current portion of long-term debt	21,563	20,552
TOTAL CURRENT LIABILITIES	478,347	439,459
LONG-TERM DEBT	155,530	176,873
TOTAL LIABILITIES	633,877	616,332
NET ASSETS (DEFICIENCY)		
Unrestricted	182,809	(22,378)
Temporarily Restricted	5,000	-
TOTAL NET ASSETS (DEFICIENCY)	187,809	(22,378)
TOTAL LIABILITIES AND NET ASSETS (DEFICIENCY)	\$ 821,686	\$ 593,954

See accompanying notes

THE ARC ALLIANCE CHILDREN'S SERVICES

STATEMENTS OF ACTIVITIES

	Year Ended June 30	
	2016	2015
CHANGE IN UNRESTRICTED NET ASSETS		
Revenues and support:		
Montgomery County EI	\$ 2,241,558	\$ 2,257,597
Berks County EI	131,426	74,702
Chester County EI	143,154	174,624
Philadelphia EI	-	15,933
Medical assistance - waiver	484,421	346,257
Medical assistance - nonwaiver	1,420,621	1,396,910
Interest income	3	-
Miscellaneous	400	-
Grants - Arc Alliance Foundation	100,000	200,000
Total revenue, gains, and other support	4,521,583	4,466,023
Expenses:		
Program Services:		
Early intervention	3,528,602	3,743,349
Supporting Services:		
Management and general	783,024	719,145
Total expenses before dues to national affiliate	4,311,626	4,462,494
Affiliations - dues to national affiliate	4,770	6,501
Total expenses	4,316,396	4,468,995
CHANGE IN UNRESTRICTED NET ASSETS	205,187	(2,972)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS		
Grants	5,000	-
CHANGE IN NET ASSETS	210,187	(2,972)
NET ASSETS (DEFICIENCY), BEGINNING OF YEAR	(22,378)	(19,406)
NET ASSETS (DEFICIENCY), END OF YEAR	\$ 187,809	\$ (22,378)

See accompanying notes.

THE ARC ALLIANCE CHILDREN'S SERVICES

STATEMENTS OF FUNCTIONAL EXPENSES

	Year Ended June 30, 2016			Year Ended June 30, 2015		
	PROGRAM SERVICES	SUPPORTING SERVICES	Total	PROGRAM SERVICES	SUPPORTING SERVICES	Total
	Early Intervention	Management and General		Early Intervention	Management and General	
Staff - salaries and related taxes and benefits	\$ 2,129,668	\$ 617,494	\$ 2,747,162	\$ 2,284,946	\$ 565,819	\$ 2,850,765
Contract services	1,163,805	-	1,163,805	1,127,163	-	1,127,163
Occupancy	130,913	15,248	146,161	225,566	(15,361)	210,205
Operations:						
Communication	16,978	53,332	70,310	21,238	20,282	41,520
Equipment leasing	-	15,042	15,042	-	18,758	18,758
Insurance	-	25,475	25,475	-	35,386	35,386
Membership dues	22,833	6,054	28,887	21,025	5,879	26,904
Miscellaneous	5,380	2,394	7,774	4,807	9,666	14,473
Office expenses	1,953	31,206	33,159	-	36,404	36,404
Professional fees	22,300	5,777	28,077	23,337	5,417	28,754
Repairs and maintenance	-	5,270	5,270	-	-	-
Supplies	2,417	5,732	8,149	6,855	9,808	16,663
Technology	32,355	-	32,355	28,412	27,087	55,499
TOTAL EXPENSES	\$ 3,528,602	\$ 783,024	\$ 4,311,626	\$ 3,743,349	\$ 719,145	\$ 4,462,494

See accompanying notes.

THE ARC ALLIANCE CHILDREN'S SERVICES

STATEMENTS OF CASH FLOWS

	Year Ended June 30	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 210,187	\$ (2,972)
Adjustments to reconcile changes in net assets to net cash flows from operating activities:		
Depreciation expense	5,200	5,199
Changes in:		
Accounts receivable	(63,459)	201,831
Due from related parties	(169,469)	(177,015)
Accounts payable and accrued expenses	(10,432)	(7,052)
Accrued payroll and payroll taxes	45,664	18,368
Accrued vacation	2,645	(15,088)
Due to related parties	-	(3,705)
	20,336	19,566
NET CASH PROVIDED BY OPERATING ACTIVITIES	20,336	19,566
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of term loan	(20,332)	(19,566)
NET INCREASE IN CASH	4	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,067	1,067
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 1,071	\$ 1,067
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 10,261	\$ 10,261

See accompanying notes.

THE ARC ALLIANCE CHILDREN'S SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

The Arc Alliance Children's Services (the "Organization") is a nonprofit agency formed in Montgomery County, Pennsylvania to offer early intervention, therapeutic, and social services for children with disabilities. The Organization is a member of a group of affiliated organizations.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation

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:

Unrestricted net assets are those assets that are available for the support of operations and whose use is not externally restricted, although their use may be limited by other factors such as by contract or board designation.

Temporarily restricted net assets include gifts for which donor imposed restrictions have not been met and for which the ultimate purpose of the proceeds is not permanently restricted.

Permanently restricted net assets include gifts, trusts, and pledges which require by donor restriction that the corpus be invested in perpetuity and only the income be made available for operations in accordance with donor restrictions.

Cash Equivalents

The Organization considers all short-term investments with an original maturity date of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable are carried at cost, less allowance for losses. The allowance for losses is determined using experience and an overall current evaluation of collectible accounts by management. An account is written off when it is determined that all collection efforts have been exhausted. The Organization considers all accounts receivable as of June 30, 2016 and 2015 to be collectible. Accordingly, there was no allowance for losses as of June 30, 2016 and 2015.

THE ARC ALLIANCE CHILDREN'S SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Furniture and Equipment

Furniture and equipment are stated at cost, if purchased, and at estimated fair market value at date of donation, if donated. The Organization's policy is to capitalize all asset acquisitions over \$500.

Furniture and equipment are being depreciated over their estimated useful lives by the straight-line method as follows:

Furniture and equipment	3 - 10 years
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Contributions

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

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Concentrations and Credit Risk

During the years ended June 30, 2016 and 2015, the Organization received approximately 92 percent and 90 percent, respectively, of its support and revenue from two funding agencies (Department of Human Services and Montgomery County). As of June 30, 2016 and 2015, accounts receivable from these funding sources totaled approximately \$385,768 and \$352,453, respectively.

Program and Supporting Services

The costs of providing various program and supporting services have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited, based on the methodology that is most appropriate.

Tax-Exempt Status

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. In accordance with generally accepted accounting principles, the Organization accounts for uncertain tax positions, if any, as required.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition through February 13, 2017, the date the financial statements were available to be issued.

THE ARC ALLIANCE CHILDREN'S SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE 2 - PROGRAM SERVICES

Early Intervention Programs

The Organization has early intervention programs that include a combination of the homebound and infant programs.

Natural Environment

For children eligible for early intervention, therapists and teachers go to homes and other community places where children and families normally go.

Center Programs

Children's services provide innovative intervention programs designed for infants through age three with all types of learning and growth problems.

The infant programs provide individualized programs and therapies so each child may develop skills at his or her own pace and level. The programs serve children with developmental disabilities, which include developmental delays, cerebral palsy, spina bifida, Down syndrome, seizure disorders, visual and hearing impaired, and neurological disorders.

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Medical Assistance	\$ 144,748	\$ 170,792
Montgomery County EI	241,020	181,661
Chester County EI	13,721	17,584
Berks County EI	57,982	21,869
Philadelphia EI	8,393	8,393
Other	<u>(1,267)</u>	<u>839</u>
	<u>\$ 464,597</u>	<u>\$ 401,138</u>

THE ARC ALLIANCE CHILDREN'S SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE 4 - FURNITURE AND EQUIPMENT

Furniture and equipment consists of the following at June 30:

	<u>2016</u>	<u>2015</u>
Furniture and equipment	\$ 232,092	\$ 232,092
Accumulated depreciation	<u>(222,558)</u>	<u>(217,358)</u>
	<u>\$ 9,534</u>	<u>\$ 14,734</u>

NOTE 5 - LONG-TERM DEBT

Long-term debt is summarized as follows:

	<u>June 30</u>	
	2016	2015
Note payable to bank with monthly payments of \$2,680, including interest at 6.75% per annum, with final payment due in July 2013. The loan was refinanced in May 2014 with monthly payments of \$2,461, including interest at 4.81% per annum. The final payment is due in July 2023. The note is secured by property and equipment and is cross-guaranteed by all Arc Alliance affiliates.	\$ 177,093	\$ 197,425
Portion payable within one year and classified as current	<u>(21,563)</u>	<u>(20,552)</u>
	<u>\$ 155,530</u>	<u>\$ 176,873</u>

Current maturities of long-term debt are as follows for the years ending June 30:

2017	\$ 21,563
2018	22,623
2019	23,736
2020	24,903
2021	26,127
2022 - 2023	<u>58,141</u>
	<u>\$ 177,093</u>

THE ARC ALLIANCE CHILDREN'S SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE 5 - LONG-TERM DEBT - CONTINUED

The Arc Alliance Children's Services serves as a guarantor for the line of credit held by an affiliated organization. The balance on the line of credit is \$0 and \$400,000 at June 30, 2016 and 2015, respectively.

On June 27, 2016, an agreement was signed converting the line of credit to a term note in the amount of \$279,999 with the Foundation still serving as a guarantor.

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30:

	<u>2016</u>	<u>2015</u>
Music program FY 2016/2017	<u>\$ 5,000</u>	<u>\$ -</u>

Net assets released from restrictions was \$0 for both of the years ended June 30, 2016 and 2015.

NOTE 7 - CONTINGENCIES

Support and revenue received from various public and private sources by the Organization are subject to audit and adjustment by the funding sources or their representatives. If support and revenue are received for expenditures, which are subsequently disallowed, the Organization may be required to repay the revenues to the funding sources. In the opinion of management, liabilities resulting from such disallowed expenditures, if any, will not be material to the accompanying financial statements as of June 30, 2016 and 2015.

NOTE 8 - RETIREMENT PLAN

The Organization has a defined contribution annuity plan covering all eligible employees. A discretionary matching contribution of up to four percent of compensation is determined by the Organization each year. Employees eligible for contributions from the Organization must have attained age twenty and completed one half year of service. Plan contributions for the years ended June 30, 2016 and 2015 were \$4,969 and \$19,788, respectively.

THE ARC ALLIANCE CHILDREN'S SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE 9 - RELATED PARTY TRANSACTIONS

The Organization pays administration fees to an affiliated organization for payroll and other services performed. Administration fees for the years ended June 30, 2016 and 2015 were \$783,024 and \$719,145, respectively.

The Organization conducts its operations from office space leased from an affiliated organization. The lease is calculated at a market rate and is renewable on an annual basis. The total net rental expense for the years ended June 30, 2016 and 2015 was \$116,508 and \$212,856, respectively.

During the years ended June 30, 2016 and 2015, the Organization received grants of \$100,000 and \$200,000, respectively, from the Arc Alliance Foundation to help supplement the difference between operating costs and fees for service revenue received to operate its programs.

Amounts due from (to) affiliated organizations at June 30 were as follows:

	<u>2016</u>	<u>2015</u>
The Arc Alliance Foundation	<u>\$ 346,484</u>	<u>\$ 177,015</u>

NOTE 10 - NATIONAL AND STATE AFFILIATION

The Arc Alliance is an autonomous, community-based nonprofit organization, which is an intermediary affiliate of Arc (national and state headquarters). Membership fees paid to the national and state organization are calculated in accordance with a fee formula established by the national and state board of directors. Arc National provides maintenance of a nationwide recognition of Arc, consultation services for programs and facilities, training, and various other services for affiliated organizations. Dues incurred and paid to Arc National during the years ended June 30, 2016 and 2015 were \$6,800 and \$9,021, respectively. The Arc Alliance Children's Services' share of these fees for the years ended June 30, 2016 and 2015 were \$4,770 and \$6,501, respectively. Dues incurred and paid to Arc of PA during the years ended June 30, 2016 and 2015 were \$31,570 and \$28,325, respectively. The Arc Alliance Children's Services' share of these fees for the years ended June 30, 2016 and 2015 was \$22,144 and \$20,413, respectively.

SUPPLEMENTARY INFORMATION

THE ARC ALLIANCE CHILDREN'S SERVICES

SCHEDULE OF REVENUE AND EXPENSES
BERKS COUNTY

For the Year Ended June 30, 2016

	Education	Speech Therapy	Occupational Therapy	Physical Therapy	Behavioral Health	Other	Total
REVENUES							
Base	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Waiver	15,071	81,855	9,489	17,869	2,377	4,765	131,426
Medical Assistance	12,975	70,466	8,169	15,383	2,046	4,101	113,140
TOTAL REVENUES	28,046	152,321	17,658	33,252	4,423	8,866	244,566
EXPENSES							
SALARIES AND RELATED EXPENSES:							
Salaries and compensation	1,462	6,998	811	1,528	231	467	11,497
Benefits	117	560	65	122	18	37	919
Payroll taxes	146	700	81	153	23	47	1,150
Total Salaries and Related Expenses	1,725	8,258	957	1,803	272	551	13,566
CONTRACT SERVICES:							
Purchase treatment	9,419	45,083	5,226	9,842	1,485	3,009	74,064
Total Contract Services	9,419	45,083	5,226	9,842	1,485	3,009	74,064
OCCUPANCY:							
Rent	2,227	10,657	1,235	2,327	351	710	17,507
Depreciation	37	175	20	38	6	11	287
Interest expense	65	310	36	68	10	21	510
Total Occupancy	2,329	11,142	1,291	2,433	367	742	18,304
OPERATING EXPENSES:							
Technology	228	1,090	126	238	36	71	1,789
Legal and accounting	157	751	87	164	25	49	1,233
Membership dues	194	929	108	203	31	62	1,527
Office supplies	31	147	17	32	5	10	242
Telephone	119	572	66	125	19	38	939
Miscellaneous	34	162	19	35	5	12	267
Total Operating Expenses	763	3,651	423	797	121	242	5,997
DIRECT PROGRAM EXPENSES	14,236	68,134	7,897	14,875	2,245	4,544	111,931
ALLOCATED MANAGEMENT AND GENERAL							
	4,765	22,806	2,644	4,979	751	1,522	37,467
TOTAL EXPENSES	19,001	90,940	10,541	19,854	2,996	6,066	149,398
EXCESS OF REVENUES OVER EXPENSES	\$ 9,045	\$ 61,381	\$ 7,117	\$ 13,398	\$ 1,427	\$ 2,800	\$ 95,168
UNITS OF SERVICE							
Base	-	-	-	-	-	-	-
Waiver	538	2,577	299	563	85	172	
Medical Assistance	464	2,219	257	484	73	148	
Total Units of Service	1,002	4,796	556	1,047	158	320	
UNIT COST	\$ 18.96	\$ 18.96	\$ 18.96	\$ 18.96	\$ 18.96	\$ 18.96	

THE ARC ALLIANCE CHILDREN'S SERVICES

SCHEDULE OF REVENUE AND EXPENSES
MONTGOMERY COUNTY

For the Year Ended June 30, 2016

	Education	Speech Therapy	Occupational Therapy	Physical Therapy	Behavioral Health	Other	Total
REVENUES							
Base	\$ 555,849	\$ 553,112	\$ 426,481	\$ 317,428	\$ 88,532	\$ 76,000	\$ 2,017,402
Waiver	61,761	61,457	47,387	35,270	9,837	8,444	224,156
Medical Assistance	439,965	437,799	337,568	251,250	70,075	60,155	1,596,812
TOTAL REVENUES	1,057,575	1,052,368	811,436	603,948	168,444	144,599	3,838,370
EXPENSES							
SALARIES AND RELATED EXPENSES:							
Salaries and compensation	470,365	412,478	318,029	236,726	74,904	77,817	1,590,319
Benefits	42,754	37,492	28,907	21,517	6,808	7,074	144,552
Payroll taxes	42,418	37,198	28,680	21,348	6,755	7,018	143,417
Other employment expenses	18,678	16,379	12,629	9,400	2,976	3,090	63,152
Total Salaries and Related Expenses	574,215	503,547	388,245	288,991	91,443	94,999	1,941,440
CONTRACT SERVICES:							
Purchase treatment	292,487	256,491	197,760	147,203	46,578	48,388	988,907
Consulting	1,985	1,741	1,342	1,000	316	330	6,714
Total Contract Services	294,472	258,232	199,102	148,203	46,894	48,718	995,621
OCCUPANCY:							
Rent	24,106	21,140	16,299	12,132	3,839	3,988	81,504
Depreciation	1,335	1,171	903	672	213	221	4,515
Interest expense	2,362	2,073	1,598	1,190	376	391	7,990
Total Occupancy	27,803	24,384	18,800	13,994	4,428	4,600	94,009
OPERATING EXPENSES:							
Technology	8,308	7,286	5,615	4,181	1,323	1,375	28,088
Legal and accounting	5,726	5,022	3,871	2,882	912	947	19,360
Membership dues	7,088	5,023	2,799	2,374	737	1,173	19,194
Office supplies	1,122	984	759	565	179	185	3,794
Special events	168	147	114	85	27	27	568
Telephone	4,360	3,823	2,948	2,194	694	721	14,740
Miscellaneous	1,236	1,085	836	623	201	201	4,182
Total Operating Expenses	28,008	23,370	16,942	12,904	4,073	4,629	89,926
DIRECT PROGRAM EXPENSES	924,498	809,533	623,089	464,092	146,838	152,946	3,120,996
ALLOCATED MANAGEMENT AND GENERAL	202,576	179,410	138,732	103,717	34,024	35,280	693,739
TOTAL EXPENSES	1,127,074	988,943	761,821	567,809	180,862	188,226	3,814,735
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	\$ (69,499)	\$ 63,425	\$ 49,615	\$ 36,139	\$ (12,418)	\$ (43,627)	\$ 23,635
UNITS OF SERVICE							
Base	19,860	17,416	13,428	9,995	3,163	4,427	
Waiver	2,207	1,935	1,492	1,111	351	224	
Medical Assistance	15,717	13,783	10,627	7,910	2,503	1,600	
Total Units of Service	37,784	33,134	25,547	19,016	6,017	6,251	
UNIT COST	\$ 29.83	\$ 29.85	\$ 29.82	\$ 29.86	\$ 30.06	\$ 30.11	

THE ARC ALLIANCE CHILDREN'S SERVICES

SCHEDULE OF REVENUE AND EXPENSES
CHESTER COUNTY

For the Year Ended June 30, 2016

	Education	Speech Therapy	Occupational Therapy	Physical Therapy	Other	Total
REVENUES						
Base	\$ 2,791	\$ 6,830	\$ 2,905	\$ 1,022	\$ 767	\$ 14,315
Waiver	25,119	61,468	26,143	9,194	6,915	128,839
Medical Assistance	38,035	93,075	39,586	13,922	10,472	195,090
TOTAL REVENUES	65,945	161,373	68,634	24,138	18,154	338,244
EXPENSES						
SALARIES AND RELATED EXPENSES:						
Salaries and compensation	32,500	70,091	29,810	10,484	9,587	152,472
Benefits	292	630	268	94	86	1,370
Payroll taxes	3,250	7,009	2,981	1,048	959	15,247
Other employment expenses	1,188	2,562	1,090	383	350	5,573
Total Salaries and Related Expenses	37,230	80,292	34,149	12,009	10,982	174,662
CONTRACT SERVICES:						
Purchase treatment	20,062	43,267	18,402	6,472	5,918	94,121
Total Contract Services	20,062	43,267	18,402	6,472	5,918	94,121
OCCUPANCY:						
Rent	3,729	8,043	3,421	1,203	1,100	17,496
Depreciation	85	183	78	27	25	398
Interest expense	150	324	138	48	44	704
Total Occupancy	3,964	8,550	3,637	1,278	1,169	18,598
OPERATING EXPENSES:						
Technology	528	1,138	484	170	156	2,476
Legal and accounting	364	784	334	117	107	1,706
Membership dues	450	971	413	145	133	2,112
Office supplies	71	154	65	23	21	334
Telephone	277	597	254	89	82	1,299
Miscellaneous	78	169	72	25	23	367
Total Operating Expenses	1,768	3,813	1,622	569	522	8,294
DIRECT PROGRAM EXPENSES	63,024	135,922	57,810	20,328	18,591	295,675
ALLOCATED MANAGEMENT AND GENERAL	11,045	23,821	10,131	3,563	3,258	51,818
TOTAL EXPENSES	74,069	159,743	67,941	23,891	21,849	347,493
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	\$ (8,124)	\$ 1,630	\$ 693	\$ 247	\$ (3,695)	\$ (9,249)
UNITS OF SERVICE						
Base	100	215	91	32	121	
Waiver	897	1,935	823	289	229	
Medical Assistance	1,359	2,931	1,247	439	345	
Total Units of Service	2,356	5,081	2,161	760	695	
UNIT COST	\$ 31.44	\$ 31.44	\$ 31.44	\$ 31.44	\$ 31.44	

THE ARC ALLIANCE CHILDREN'S SERVICES

EVALUATION OF ACCOUNTING AND ADMINISTRATIVE CONTROLS

For the Year Ended June 30, 2016

We have reviewed the accounting and administrative controls of the Organization to determine if controls are in place and operating effectively as required by DHS 51.46 (4300.161b) regulations. We have disclosed no conditions that we believe to be noncompliant by The Arc Alliance Children's Services with regards to the DHS 51.46 (4300.161b) regulations other than items disclosed in the schedule of findings and questioned costs.

THE ARC ALLIANCE CHILDREN'S SERVICES

INDIRECT COST ALLOCATION PLAN

For the Year Ended June 30, 2016

Indirect administrative costs of the Organization are allocated according to program and supporting services based on employee time estimates, square footage, or other appropriate usage factors.

In our opinion, based on the audit procedures performed, the methodology for allocation of indirect administrative costs used by the Organization resulted in a fair and equitable distribution of costs, meeting the requirements of DHS 51.99 (4300.94) regulations for the fiscal year ended June 30, 2016.

THE ARC ALLIANCE CHILDREN'S SERVICES

CONTRACT CONDITIONS AND COMPLIANCE

For the Year Ended June 30, 2016

1. Revenue and expenditures under a contract consist both of direct costs and allocation of administrative costs. We examined revenues and expenditures under both program funded and fee-for-service contracts to render our opinion on invoicing based upon terms and conditions of the contract.

In our opinion, based on audit procedures performed, invoicing done by The Arc Alliance Children's Services is based upon terms and conditions negotiated in developing the contract budget or unit costs as required by Title 5S PA Code 4300.26 regulations.

2. As part of our engagement, we have been requested to review compliance with provisions of the contracts, including compliance with allowable cost standards in sections DHS 51.81 through 51.103 (4300.82 through 4300.108) of the Mental Health/Early Intervention/Developmental Disabilities Fiscal Regulations.

Our review of the Organization's compliance with contractual regulations, policies, and procedures, which was made for the purpose set forth above, disclosed no matters that we believe to be noncompliant.

3. Fee-for-Service Contracts - We have reviewed the Organization's billing of units of service. We have determined that units of service billed were actually provided and were billed at the proper rates.
4. We have reviewed the Organization's collection of third-party revenues for medical assistance and other reimbursements to determine if the Organization is collecting such third party revenues in compliance with the terms of their contracts.

The Arc Alliance Children's Services bills medical assistance and other reimbursement providers, where applicable, on a monthly basis in conjunction with the invoices prepared for each county.

By performing the above audit procedures, we have determined that third-party revenues are being properly billed and collected by The Arc Alliance Children's Services.

THE ARC ALLIANCE CHILDREN'S SERVICES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2016

Federal Grantor/Pass-Through Grantor/Program Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
<u>U.S Department of Education</u>				
Passed through Montgomery County Behavioral Health/ Developmental Disabilities: Special Education - Grants for Infants and Families - Early Intervention	I	84.181	*	\$ 1,103,581
Passed through County of Chester Department of Mental Health/Intellectual and Developmental Disabilities Special Education - Grants for Infants and Families - Early Intervention	I	84.181	*	54,609
Passed through County of Berks Department of Mental Health/Intellectual and Developmental Disabilities Special Education - Grants for Infants and Families - Early Intervention	I	84.181	*	<u>131,426</u> **
TOTAL U.S. DEPARTMENT OF EDUCATION				1,289,616
<u>U.S. Department of Health and Human Services (HHS):</u>				
Medical Assistance Programs				
Passed through PA Department of Health and Human Services: Medical Assistance Program	I	93.778	*	<u>1,007,478</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				<u>1,007,478</u>
TOTAL FEDERAL AWARDS				<u><u>\$ 2,297,094</u></u>

I - Indirect Source of Funding

* Pass-Through Grantor Number not provided by pass-through agency.

** Note: Certain counties did not provide federal dollars with confirmations, due to the Pennsylvania state budget impasse. The Arc Alliance Children's Services included 100% of funds received as federal where confirmations did not identify federal dollars.

Note: No funds were passed through to subrecipients in the year ended June 30, 2016.

THE ARC ALLIANCE CHILDREN'S SERVICES

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2016

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of The Arc Alliance Children's Services under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations*, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of The Arc Alliance Children's Services, it is not intended to and does not present the financial position, changes in net position, or cash flows of The Arc Alliance Children's Services.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to the reimbursement. Negative amounts shown on the Schedule represent adjustment or credits made in the normal course of business for amounts reported as expenditures in prior years.

NOTE 3 - DE MINIMIS RATE FOR INDIRECT COSTS

The Organization did not elect to use the de minimis rate for indirect costs.

**INDEPENDENT AUDITOR'S 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 Alliance Children's Services
Eagleville, 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 Alliance Children's Services (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 13, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Arc Alliance Children's Services' 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 Alliance Children's Services' internal control. Accordingly, we do not express an opinion on the effectiveness of The Arc Alliance Children's Services' 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 Alliance Children's Services' 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 Arc Alliance Children's Services' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the The Arc Alliance Children's Services' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Herbein + Company, Inc.

Reading, Pennsylvania
February 13, 2017



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

**To the Board of Directors
The Arc Alliance Children's Services
Eagleville, Pennsylvania**

Report on Compliance for Each Major Federal Program

We have audited The Arc Alliance Children's Services' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of The Arc Alliance Children's Services' major federal programs for the year ended June 30, 2016. The Arc Alliance Children's Services' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of The Arc Alliance Children's Services' major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 The Arc Alliance Children's Services' 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 on compliance for each major federal program. However, our audit does not provide a legal determination of The Arc Alliance Children's Services' compliance.

Opinion on Each Major Program

In our opinion, The Arc Alliance Children's Services complied, in all material respects, with the type of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of The Arc Alliance Children's Services is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered The Arc Alliance Children's Services' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 Arc Alliance Children's Services' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Herbein + Company, Inc.

Reading, Pennsylvania
February 13, 2017

THE ARC ALLIANCE CHILDREN'S SERVICES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of Auditor's Report Issued: Unmodified

Internal Control Over Financial Reporting:

Material weakness(es) identified? yes X no

Significant Deficiency(ies) identified not considered to be material weaknesses? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control Over Major Programs:

Material weakness(es) identified? yes X no

Significant Deficiency(ies) identified not considered to be material weaknesses? yes X none reported

Type of Auditor's Report Issued On Compliance For Major Programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)? yes X no

Identification of Major Program:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>Special Education Cluster</u>	
84.181	Special Education - Grants for Infants and Families
93.778	Medical Assistance Program

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? X yes no

THE ARC ALLIANCE CHILDREN'S SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2016

Section II - Financial Statement Findings

There were no financial statement findings reported.

Section III - Federal Award Findings and Questioned Costs

There were no federal award findings or questioned costs reported.

THE ARC ALLIANCE CHILDREN'S SERVICES

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2015

Section II - Financial Statement Findings

There were no financial statement findings reported.

Section III - Federal Award Findings and Questioned Costs

There were no federal award findings or questioned costs reported.



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**INDEPENDENT ACCOUNTANT’S REPORT ON APPLYING
 AGREED-UPON PROCEDURES**

**To the Board of Directors
 The Arc Alliance Children’s Services
 Eagleville, Pennsylvania**

We have performed the procedures enumerated below, which were agreed to by the Commonwealth of Pennsylvania, Department of Human Services and The Arc Alliance Children’s Services solely to assist you with respect to the financial schedules and exhibits required by the Office of Developmental Programs Audit Requirements for Fiscal Year 2015/2016. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Human Services. Consequently, we made no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings are as follows:

- a. We have verified by comparison that the amounts and classifications that the supplemental financial schedule listed below, which summarize amounts reported to the Department of Human Services for fiscal year ended June 30, 2016, have been accurately compiled and reflect the audited books and records of The Arc Alliance Children’s Services. We have also verified by comparison to the example schedules that these schedules are presented, at a minimum, at the level of detail and in the format required by the Department of Human Services Office of Developmental Programs Audit Requirements pertaining to this period.

Program Name	Referenced Schedule/Exhibit
Medical Assistance	Reconciliation of Federal Awards Passed Through the Pennsylvania Department of Human Services Per the Schedule of Expenditures of Federal Awards and Revenue Received Per the Pennsylvania Audit Confirmation.

- b. We have agreed the expenditure amounts listed on the reconciliation schedule under the “Federal Expenditures per the SEFA” column to the audited Schedule of Expenditures of Federal Awards (SEFA).
- c. We have agreed the receipt amounts listed on the reconciliation schedule under the “Federal Awards Received per the audit confirmation reply from Pennsylvania” column to the subrecipient Federal amounts that were reflected in the audit confirmation reply from the Office of Budget, Comptroller Operations.

- d. We have recalculated the amount listed under the “Difference” column and agreed them to the audited books and records of The Arc Alliance Children’s Services.
- e. The processes detailed in paragraphs (a) and (b) above disclosed no adjustments and/or findings.

We were not engaged to, and did not perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the Department of Human Services and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

Herbein + Company, Inc.

Reading, Pennsylvania
February 13, 2017

THE ARC ALLIANCE CHILDREN'S SERVICES

**RECONCILIATION OF FEDERAL AWARDS PASSED THROUGH THE PENNSYLVANIA DEPARTMENT OF
HUMAN SERVICES PER THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND
REVENUE RECEIVED PER THE PENNSYLVANIA AUDIT CONFIRMATION**

Year Ended June 30, 2016

<u>CFDA Name</u>	<u>CFDA Number</u>	<u>Federal Expenditures per the SEFA</u>	<u>Federal Awards Received per the Audit Confirmation Reply from Pennsylvania</u>	<u>Difference</u>	<u>Detailed Explanation of the Differences</u>
Medical Assistance Program	93.778	\$1,007,478	\$1,007,478	\$ -	N/A