HERBEIN
CPAS + CONSULTANTS

THE ARC ALLIANCE

FINANCIAL STATEMENTS

Years Ended June 30, 2016 and 2015

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Arc Alliance
Eagleville, Pennsylvania

We have audited the accompanying financial statements of The Arc Alliance (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities 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 the auditing standards generally accepted in the United States of America. 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 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.

Herbein + Company, Inc.

Reading, Pennsylvania
February 13, 2017

THE ARC ALLIANCE

STATEMENTS OF FINANCIAL POSITION

	June 30	
	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 194,853	$ 133,376
Prepaid expenses	21,703	22,054
TOTAL CURRENT ASSETS	216,556	155,430
INVESTMENTS	12,229	12,124
PROPERTY AND EQUIPMENT, NET	3,324,502	3,453,509
TOTAL ASSETS	$ 3,553,287	$ 3,621,063
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Line of credit	$ -	$ 400,000
Accounts payable and accrued expenses	90,362	96,253
Accrued payroll and payroll taxes	42,713	30,951
Accrued vacation	22,901	20,056
Current portion of obligation under capital lease	24,040	22,913
Current portion of long-term debt	214,995	109,479
Due to related parties	386,627	213,348
TOTAL CURRENT LIABILITIES	781,638	893,000
LONG-TERM LIABILITIES		
Capital lease obligation, less current portion	25,222	49,262
Long-term debt, less current portion	2,479,207	2,411,581
TOTAL LIABILITIES	3,286,067	3,353,843
NET ASSETS		
Unrestricted	254,991	255,096
Permanently restricted	12,229	12,124
TOTAL NET ASSETS	267,220	267,220
TOTAL LIABILITIES AND NET ASSETS	$ 3,553,287	$ 3,621,063

See accompanying notes.

THE ARC ALLIANCE

STATEMENTS OF ACTIVITIES

	Year Ended June 30, 2016				Year Ended June 30, 2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND SUPPORT								
Management fees	$ 1,318,204	$ -	$ -	$ 1,318,204	$ 1,123,964	$ -	$ -	$ 1,123,964
Rental income	289,562	-	-	289,562	334,939	-	-	334,939
Donations	5,739	-	-	5,739	-	-	-	-
Interest income	35	-	105	140	-	-	-	-
Miscellaneous income	3,500	-	-	3,500	3,240	-	-	3,240
Net assets released from restriction	-	-	-	-	4,895	(4,895)	-	-
TOTAL REVENUES AND SUPPORT	1,617,040	-	105	1,617,145	1,467,038	(4,895)	-	1,462,143
EXPENSES								
Staff - salaries and related taxes and benefits	1,046,934	-	-	1,046,934	884,326	-	-	884,326
Contract services	-	-	-	-	-	-	-	-
Occupancy	315,413	-	-	315,413	307,163	-	-	307,163
Operations:								
Communication and technology	90,422	-	-	90,422	74,035	-	-	74,035
Equipment leasing	25,503	-	-	25,503	29,318	-	-	29,318
Insurance	43,192	-	-	43,192	55,306	-	-	55,306
Membership dues	8,475	-	-	8,475	7,045	-	-	7,045
Miscellaneous	4,059	-	-	4,059	9,478	-	-	9,478
Office expenses	42,416	-	-	42,416	49,775	-	-	49,775
Printing	10,493	-	-	10,493	12,751	-	-	12,751
Professional fees	9,794	-	-	9,794	8,467	-	-	8,467
Repairs and maintenance	8,936	-	-	8,936	7,005	-	-	7,005
Supplies	9,719	-	-	9,719	15,330	-	-	15,330
Total expenses before dues to national affiliate	1,615,356	-	-	1,615,356	1,459,999	-	-	1,459,999
Affiliations - dues to National Affiliate	1,789	-	-	1,789	2,144	-	-	2,144
TOTAL EXPENSES	1,617,145	-	-	1,617,145	1,462,143	-	-	1,462,143
CHANGE IN NET ASSETS	(105)	-	105	-	4,895	(4,895)	-	-
NET ASSETS, BEGINNING OF YEAR	255,096	-	12,124	267,220	250,201	4,895	12,124	267,220
NET ASSETS, END OF YEAR	$ 254,991	$ -	$ 12,229	$ 267,220	$ 255,096	$ -	$ 12,124	$ 267,220

See accompanying notes.

THE ARC ALLIANCE

STATEMENTS OF CASH FLOWS

	Year Ended June 30	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ -	$ -
Adjustments to reconcile changes in net assets to net cash flows from operating activities		
Depreciation	130,966	130,966
Changes in:		
Prepaid expenses	351	(2,223)
Due from related parties	-	19,095
Accounts payable and accrued expenses	(5,891)	(64,963)
Accrued payroll and payroll taxes	11,762	(1,177)
Accrued vacation	2,845	4,551
Due to related parties	173,279	213,348
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	313,312	299,597
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of equipment	(1,959)	-
Purchase of investments	(105)	-
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(2,064)	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on line of credit	(120,001)	(30,000)
Repayments of long-term debt	(106,857)	(103,223)
Repayment of capital lease obligation	(22,913)	(27,137)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(249,771)	(160,360)
NET INCREASE IN CASH	61,477	139,237
CASH AND CASH EQUIVALENTS (OVERDRAFT) AT BEGINNING OF YEAR	133,376	(5,861)
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 194,853	$ 133,376
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	$ 118,639	$ 113,430
Conversion of line of credit to term note	$ 279,999	-

The Arc Alliance ("Arc") is a parent organization created to handle administration functions of affiliated entities: The Arc Alliance Children's Services, which handles early intervention and provides therapeutic and social services for children with disabilities; The Arc Alliance Advocacy Services, which provides advocacy services for individuals with disabilities; and The Arc Alliance Foundation, which solicits contributions from the public including individuals and corporations.

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

Arc 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

Arc 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. Arc has no outstanding accounts receivable as of June 30, 2016 and 2015.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

Buildings and improvements	10 - 40 years
Furniture and equipment	3 - 10 years

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.

Tax-Exempt Status
Arc 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.

Deferred financing costs
Deferred financing costs represent fees and expenses related to the bank’s refinancing of the mortgage in March 2011. The financing costs are amortized on a straight-line basis over the 20-year term of the related loans. The amortization expense for both the years ended June 30, 2016 and 2015 was $813 and is included in interest expense. The unamortized balance of deferred financing costs of $11,982 and $12,795 at June 30, 2016 and 2015, respectively, are netted against the related long-term debt in the accompanying balance sheets.

Reclassification
Certain items in the prior year financial statements have been reclassified to conform to the current presentation. These changes had no impact on net income.

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

NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30:

	2016	2015
Building	$ 4,057,888	$ 4,057,888
Furniture and office equipment	387,051	385,092
	4,444,939	4,442,980
Accumulated depreciation	(1,120,437)	(989,471)
	$ 3,324,502	$ 3,453,509

Funds for the acquisition of certain property and equipment have been provided by sponsoring governmental agencies. Upon termination of a contract service, the sponsoring agency may require the return of the property or equipment acquired under the terms of the applicable contract.

Depreciation expense for both the years ended June 30, 2016 and 2015 was $130,966.

NOTE 3 - LINE OF CREDIT

Arc had available a $410,000 temporary loan with TD Bank, N.A. with interest at LIBOR and a floor of 5.0 percent (5.0% as of June 30, 2015), expiring on December 31, 2015. In September 2015, the line of credit availability was reduced to $380,000. A temporary line of credit of $200,000 was received in December 2015 to cover expenses due to a state budget impasse. Outstanding borrowings were $175,000, which were paid back in January 2016, and the outstanding line was subsequently closed.

On June 27, 2016, an agreement was signed converting the balance of $279,999 on the revolving loan to a term note as described in Note 5.

NOTE 4 - CAPITAL LEASE OBLIGATION

Arc leases equipment under an agreement that is classified as a capital lease. Equipment under capital lease that is being depreciated is $114,830 for the years ended June 30, 2016 and 2015. Accumulated depreciation on this equipment for the year ended June 30, 2016 was $68,898.

The present value of the net minimum lease payments are as follows at June 30, 2016:

Future minimum lease payments	$ 51,768
Less amount representing interest	(2,506)
Present value of future minimum lease payments	49,262
Less current portion	(24,040)
Long-term portion	$ 25,222

Future minimum annual lease payments are as follows for the year ending June 30:

2017	$ 24,040
2018	25,222
	$ 49,262

NOTE 5 - LONG-TERM DEBT

Long-term debt is summarized as follows:

	June 30	
	2016	2015
Mortgage note payable to bank with monthly payments of $16,552, including interest at 3.60% per annum, with final payment due August 1, 2032. The note is secured by the related building purchased. Subsequent to year end, in July 2016 the mortgage was modified changing the interest rate to 3.04% per annum and monthly payments to $15,912 beginning in September 2016. The bank has a call option to declare the outstanding principal and interest due in full on each 5th anniversary of the loan modification commencing March 31, 2021.	$ 2,426,185	$ 2,533,855
In an agreement dated June 27, 2016, the line of credit was converted to a term note payable with monthly payments of $9,963, including interest at 5.0% per annum, with payments commencing in August 2016 and final payment due in January 2019.	279,999	-
	2,706,184	2,533,855
Unamortized deferred financing costs	(11,982)	(12,795)
Portion payable within one year and classified as current	(214,995)	(109,479)
	$ 2,479,207	$ 2,411,581

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

2017	$ 214,995
2018	235,487
2019	194,492
2020	130,090
2021	134,100
2022 - 2026	735,118
2027 - 2031	855,631
2032 - 2033	206,271
	$ 2,706,184

NOTE 6 - RETIREMENT PLAN

Arc has a defined contribution annuity plan covering all eligible employees. A discretionary matching contribution of up to four percent of compensation is determined by Arc each year. Employees eligible for contributions from Arc must have attained age twenty and completed one half year of service. Plan contributions for the years ended June 30, 2016 and 2015 were $3,566 and $15,622, respectively.

NOTE 7 - NET ASSETS

Net assets released from restrictions were $0 and $4,895 for Advocacy for the years ended June 30, 2016 and 2015.

Permanently restricted net assets are held in an endowment fund. Balances for the years ended June 30, 2016 and 2015 was $12,229 and $12,124, respectively.

NOTE 8 - RELATED PARTY TRANSACTIONS

Arc receives administration fees from affiliated organizations for payroll and other services performed. Administration fee income for the years ended June 30, 2016 and 2015 was $1,318,204 and 1,123,963, respectively.

In February 2009, Arc purchased a building from which it conducts its operations. Arc leases office space to affiliated organizations. Rental income is calculated at a market rate and is renewable on an annual basis. The total net rental income for the years ended June 30, 2016 and 2015 was $280,350 and $332,536, respectively.

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

	2016	2015
The Arc Alliance Foundation	$ 386,627	$ 213,348

NOTE 9 - ENDOWMENT OF NET ASSETS

The Arc Alliance's endowment consists of one endowment fund with the income restricted for use in accordance with Arc's policy.

Endowment Net Asset Composition by Type of Funds as of June 30:

	Permanently Restricted	
	2016	2015
Endowment funds	$ 12,229	$ 12,124
Changes in Endowment Net Assets for the Fiscal Year Ended June 30:		
Endowment net assets, beginning of year	$ 12,124	$ 12,124
Investment return:		
Investment income	105	-
Endowment net assets, end of year	$ 12,229	$ 12,124

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 organizations 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's share of these fees for the years ended June 30, 2016 and 2015 were $1,789 and $2,144, 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's share of these fees for the years ended June 30, 2016 and 2015 were $8,307 and $6,731, respectively.

NOTE 11 - ACCOUNTING PRONOUNCEMENTS IMPLEMENTED

In April 2015, the FASB issued Accounting Standards Update ("ASU") No. 2015-03, which updates Subtopic 835-30, Interest - Imputation of Interest, in the FASB Accounting Standards Codification. This update, Simplifying the Presentation of Debt Issuance Costs, requires that debt issuance costs related to a note be reported in the balance sheet as a direct deduction from the face amount of the note. Also, amortization of debt issuance costs shall be reported as interest expense.

The Arc Alliance has implemented this standard for the year ended June 30, 2016, with changes being applied retrospectively to the 2015 financial statements. The adoption of this standard had no impact to net income (loss) for the years ended June 30, 2016 and 2015. For the June 30, 2015 balance sheet, deferred financing costs of $12,795 were reclassified as a reduction to the related long-term debt, reducing total assets at June 30, 2015 from $3,633,858 to $3,621,063.