



***THE ARC ALLIANCE FOUNDATION***

**FINANCIAL STATEMENTS**

**Years Ended June 30, 2016 and 2015**



## TABLE OF CONTENTS

	Pages
<b>INDEPENDENT AUDITOR'S REPORT</b> .....	1
<b>FINANCIAL STATEMENTS</b>	
Statements of Financial Position .....	2
Statements of Activities .....	3
Statements of Cash Flows .....	4
Notes to Financial Statements .....	5 - 10



**Herbein + Company, Inc.**  
2763 Century Boulevard  
Reading, PA 19610  
P: 610.378.1175  
F: 610.378.0999  
[www.herbein.com](http://www.herbein.com)

## INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors  
The Arc Alliance Foundation  
Eagleville, Pennsylvania**

We have audited the accompanying financial statements of The Arc Alliance Foundation (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 Foundation 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 FOUNDATION**  
**STATEMENTS OF FINANCIAL POSITION**

	June 30	
	2016	2015
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Pledges receivable, net of discount	\$ 59,043	\$ 80,596
<b>NONCURRENT ASSETS</b>		
Due from related parties	321,301	463,536
<b>TOTAL ASSETS</b>	\$ 380,344	\$ 544,132
 <b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 40	\$ 3,164
<b>NET ASSETS</b>		
Unrestricted	321,261	455,372
Temporarily restricted	59,043	85,596
<b>TOTAL NET ASSETS</b>	380,304	540,968
<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$ 380,344	\$ 544,132

*See accompanying notes.*

**THE ARC ALLIANCE FOUNDATION**

**STATEMENTS OF ACTIVITIES**

	Year Ended June 30, 2016			Year Ended June 30, 2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>SUPPORT AND REVENUE</b>						
Donations	\$ 71,328	\$ -	\$ 71,328	\$ 225,929	\$ 85,596	\$ 311,525
Special events, net of expenses 2016 - \$1,000 and 2015 - \$5,915	1,332	-	1,332	5,144	-	5,144
Net assets released from restrictions	26,553	(26,553)	-	8,500	(8,500)	-
<b>TOTAL SUPPORT AND REVENUE</b>	<b>99,213</b>	<b>(26,553)</b>	<b>72,660</b>	<b>239,573</b>	<b>77,096</b>	<b>316,669</b>
<b>EXPENSES</b>						
Grant expenses	200,000	-	200,000	200,000	-	200,000
Occupancy	12,264	-	12,264	5,280	-	5,280
Operations:						
Communication and technology	4,996	-	4,996	8,209	-	8,209
Membership dues	148	-	148	247	-	247
Miscellaneous	2,065	-	2,065	2,983	-	2,983
Office expenses	4,845	-	4,845	6,255	-	6,255
Printing	3,492	-	3,492	415	-	415
Professional fees	4,150	-	4,150	4,481	-	4,481
Program expenses	1,110	-	1,110	-	-	-
Supplies, capital purchases	222	-	222	366	-	366
Total expenses before dues to national affiliate	233,292	-	233,292	228,236	-	228,236
Affiliations - dues to national affiliate	32	-	32	78	-	78
<b>TOTAL EXPENSES</b>	<b>233,324</b>	<b>-</b>	<b>233,324</b>	<b>228,314</b>	<b>-</b>	<b>228,314</b>
<b>CHANGE IN NET ASSETS</b>	<b>(134,111)</b>	<b>(26,553)</b>	<b>(160,664)</b>	<b>11,259</b>	<b>77,096</b>	<b>88,355</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>455,372</b>	<b>85,596</b>	<b>540,968</b>	<b>444,113</b>	<b>8,500</b>	<b>452,613</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 321,261</b>	<b>\$ 59,043</b>	<b>\$ 380,304</b>	<b>\$ 455,372</b>	<b>\$ 85,596</b>	<b>\$ 540,968</b>

See accompanying notes.

THE ARC ALLIANCE FOUNDATION

STATEMENTS OF CASH FLOWS

	Year Ended June 30	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ (160,664)	\$ 88,355
Adjustments to reconcile changes in net assets to net cash flows from operating activities:		
Changes in:		
Pledges receivable	21,553	(80,596)
Due from related parties	142,235	(1,757)
Accounts payable and accrued expenses	(3,124)	2,822
Accrued payroll and payroll taxes	-	(5,550)
Accrued vacation	-	(3,274)
	<hr/>	<hr/>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	-	-
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<hr/> -	<hr/> -
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<hr/> <u>\$ -</u>	<hr/> <u>\$ -</u>

See accompanying notes.

## THE ARC ALLIANCE FOUNDATION

### NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

The Arc Alliance Foundation is a nonprofit agency formed in Montgomery County, Pennsylvania to generate private and public funding to help its affiliated organizations improve and expand their services, as well as provide individual support to families in need. The Arc Alliance Foundation 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 Arc Alliance Foundation 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 Arc Alliance Foundation considers all short-term investments with an original maturity date of three months or less to be cash equivalents.

**THE ARC ALLIANCE FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2016 and 2015**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

---

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

**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**

The Arc Alliance Foundation 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 Arc Alliance Foundation has evaluated events and transactions for potential recognition through February 13, 2017, the date the financial statements were available to be issued.

**NOTE 2 - PLEDGES RECEIVABLE**

---

Pledges receivable are recognized when a donor makes a promise to give that is, in substance, unconditional. All pledges are recorded as temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

**THE ARC ALLIANCE FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016 and 2015**

**NOTE 2 - PLEDGES RECEIVABLE - CONTINUED**

---

The Arc Alliance Foundation uses the allowance method to determine uncollectible monies receivable. No allowance has been recorded as of June 30, 2016, as management deems the entire amount as collectable through its analysis of the pledges made. Pledges receivable are for operating purposes for future operations and are summarized as follows as of June 30:

Receivable in less than one year	\$ 20,000
Receivable in one to five years	<u>40,000</u>
Total unconditional promises to give	60,000
Less discounts to net present value (1.5%)	<u>(957)</u>
Net unconditional pledges receivable	<u><u>\$ 59,043</u></u>

One contributor accounts for all of the outstanding promises to give as of June 30, 2016.

**NOTE 3 - RETIREMENT PLAN**

---

The Arc Alliance Foundation 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 Arc Alliance Foundation each year. Employees eligible for contributions from The Arc Alliance Foundation must have attained age twenty and completed one half year of service. There were no plan contributions for both of the years ended June 30, 2016 and 2015.

**NOTE 4 - DEBT SECURITY**

---

The Arc Alliance Foundation 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.

**THE ARC ALLIANCE FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016 and 2015**

**NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS**

---

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

	2016	2015
Dolfinger supporting families	\$ -	\$ 2,500
Music program - 2015-2016	-	5,000
General operating pledge receivable	59,043	78,096
	\$ 59,043	\$ 85,596

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by the donor as follows during the years ended June 30:

	2016	2015
Dolfinger educate and unite families: 2014 - 2015	\$ -	\$ 3,500
Dolfinger update billing software: 2014 - 2015	-	5,000
Dolfinger supporting families	2,500	-
Music program - 2015-2016	5,000	-
General operating pledge receivable	19,053	-
	\$ 26,553	\$ 8,500

**NOTE 6 - RELATED PARTY TRANSACTIONS**

---

For the years ended June 30, 2016 and 2015, The Arc Alliance Foundation provided an operating grant of \$100,000 and \$200,000, respectively, to The Arc Alliance Children's Services.

For the years ended June 30, 2016 and 2015, The Arc Alliance Foundation provided an operating grant of \$100,000 and \$0, respectively, to The Arc Alliance Advocacy Services.

Beginning February 2007, The Arc Alliance Foundation conducted its operations from office space leased from an affiliated company. 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 \$12,264 and \$5,280, respectively.

**THE ARC ALLIANCE FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2016 and 2015**

**NOTE 6 - RELATED PARTY TRANSACTIONS - CONTINUED**

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

	<u>2016</u>	<u>2015</u>
Arc Alliance Children's Services	\$ (355,305)	\$ (177,015)
Arc Alliance	425,392	213,348
Arc Alliance Advocacy Services	<u>251,214</u>	<u>427,203</u>
	<u>\$ 321,301</u>	<u>\$ 463,536</u>

The combined summary of financial position for The Arc Alliance and Affiliates at June 30 is as follows:

	<u>2016</u>	<u>2015</u>
Total Assets	<u>\$ 4,892,485</u>	<u>\$ 4,774,723</u>
Total Liabilities	\$ 3,672,042	\$ 3,863,826
Total Net Assets	<u>1,220,443</u>	<u>910,897</u>
Total Liabilities and Net Assets	<u>\$ 4,892,485</u>	<u>\$ 4,774,723</u>
Total Support and Revenue	\$ 7,511,658	\$ 7,112,336
Total Expenses	<u>7,202,112</u>	<u>6,932,692</u>
Increase in Net Assets	<u>\$ 309,546</u>	<u>\$ 179,644</u>

**NOTE 7 - 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 Foundation's share of these fees for the years ended June 30, 2016 and 2015 were \$32 and \$78, 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 Foundation's share of these fees for the years ended June 30, 2016 and 2015 were \$148 and \$247, respectively.

**THE ARC ALLIANCE FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2016 and 2015**

**NOTE 8 - EDUCATIONAL IMPROVEMENT ORGANIZATION**

---

The Arc Alliance Foundation was approved as an Educational Improvement Organization under the Pennsylvania Educational Improvement Tax Credit program for the fiscal years ended June 30, 2016 and 2015. No contributions were received for the fiscal years ended June 30, 2016 and 2015. Eligible programs include The Steps to Successful Living Program. The Arc Alliance Foundation was approved as a qualifying Educational Improvement Organization for the 2016/2017 fiscal year.