THE ARC OF PALM BEACH COUNTY, INC.

REPORT ON AUDITS OF FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

THE ARC OF PALM BEACH COUNTY, INC.

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templeton
& COMPANY
Certified Public Accountants and Consultants

Independent Auditors' Report

To the Board of Trustees
The Arc of Palm Beach County, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of The Arc of Palm Beach County, Inc. (a nonprofit organization), which comprise the statements of financial position as of September 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 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Arc of Palm Beach County, Inc. as of September 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 Matter

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2018, on our consideration of The Arc of Palm Beach County, Inc.'s 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 The Arc of Palm Beach County, Inc.'s internal control over financial reporting and compliance.

Templeton & Company, LLP

West Palm Beach, Florida
December 18, 2018

THE ARC OF PALM BEACH COUNTY, INC.

STATEMENTS OF FINANCIAL POSITION
September 30, 2018 and 2017

	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,102,611	$ 457,401
Accounts receivable, net of allowance for doubtful accounts	516,928	483,686
Current portion of unconditional promises to give, net (Note 3)	304,450	276,615
Prepaid expenses and other	80,318	70,084
Total current assets	2,004,307	1,287,786
Property and equipment, net (Note 4)	1,938,533	1,906,232
Unconditional promises to give, net of current portion (Note 3)	328,517	331,311
Other assets	32,366	7,221
Total assets	$ 4,303,723	$ 3,532,550
LIABILITIES AND NET ASSETS		
Current liabilities:		
Line of credit (Note 6)	$ -	$ 241,850
Current portion of long-term debt	32,536	31,245
Accounts payable	126,039	44,436
Accrued expenses	207,411	182,048
Deferred revenue	5,050	14,535
Current portion of settlement - Pension Benefit Guaranty Corporation	44,631	18,000
Total current liabilities	415,667	532,114
Settlement - Pension Benefit Guaranty Corporation, net of current portion (Note 13)	695,430	693,795
Long-term debt, net of current portion (Note 5)	225,442	257,976
Total liabilities	1,336,539	1,483,885
Commitments and contingencies (Notes 8 and 14)		
Net assets:		
Unrestricted	1,698,820	1,283,045
Temporarily restricted (Note 7)	1,243,364	765,620
Permanently restricted (Note 7)	25,000	-
Total net assets	2,967,184	2,048,665
Total liabilities and net assets	$ 4,303,723	$ 3,532,550

See accompanying notes to financial statements.

THE ARC OF PALM BEACH COUNTY, INC.

STATEMENTS OF ACTIVITIES
September 30, 2018 and 2017

	For the Year Ended September 30, 2018				For the Year Ended September 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating:								
Support:								
Contributions	$ 369,423	$ -	$ -	$ 369,423	$ 335,524	$ -	$ -	$ 335,524
Capital campaign contributions	-	681,339	-	681,339	-	248,832	-	248,832
Endowment contributions	-	-	25,000	25,000	-	-	-	
United Ways	-	192,600	-	192,600	-	181,900	-	181,900
Special events, net (Note 11)	102,912	7,546	-	110,458	162,212	183,577	-	345,789
Fees and grants	6,334,010	79,003	-	6,413,013	5,671,722	159,121	-	5,830,843
Revenue:								
Program service fees	691,669	-	-	691,669	596,053	-	-	596,053
Interest and other income, net	7,491	145	-	7,636	33,154	-	-	33,154
Net assets released from restrictions (Note 7)	482,889	(482,889)	-	-	251,693	(251,693)	-	-
	7,988,394	477,744	25,000	8,491,138	7,050,358	521,737	-	7,572,095
Expenses:								
Program services:								
Career transition/employment services	682,973	-	-	682,973	459,261	-	-	459,261
Recreation	399,519	-	-	399,519	342,366	-	-	342,366
Respite services	515,751	-	-	515,751	510,953	-	-	510,953
Potentials Charter School	919,401	-	-	919,401	898,426	-	-	898,426
Community inclusion	73,713	-	-	73,713	71,343	-	-	71,343
Family support services	27,465	-	-	27,465	25,883	-	-	25,883
Early intervention programs	2,541,894	-	-	2,541,894	2,497,794	-	-	2,497,794
Residential services	1,522,308	-	-	1,522,308	1,486,198	-	-	1,486,198
Volunteer services	38,233	-	-	38,233	-	-	-	-
Supporting services:								
Fundraising, management and general	802,949	-	-	802,949	797,787	-	-	797,787
	7,524,206	-	-	7,524,206	7,090,011	-	-	7,090,011
Increase (decrease) in net assets - operating	464,188	477,744	25,000	966,932	(39,653)	521,737	-	482,084
Non operating:								
Loss on disposal of property and equipment	(2,147)	-	-	(2,147)	(46,539)	-	-	(46,539)
Adjustment to discount on settlement with PBGC	(46,266)	-	-	(46,266)	(44,542)	-	-	(44,542)
Increase (decrease) in net assets	415,775	477,744	25,000	918,519	(130,734)	521,737	-	391,003
Net assets, beginning of year	1,283,045	765,620	-	2,048,665	1,413,779	243,883	-	1,657,662
Net assets, end of year	$ 1,698,820	$ 1,243,364	$ 25,000	$ 2,967,184	$ 1,283,045	$ 765,620	$ -	$ 2,048,665

See accompanying notes to financial statements.

THE ARC OF PALM BEACH COUNTY, INC.

STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Increase in net assets	$ 918,519	$ 391,003
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	205,054	194,175
Amortization of discount on settlement	46,266	44,542
Loss on disposal of property and equipment	2,147	46,539
(Increase) decrease in operating assets:		
Accounts receivable	(33,242)	(8,607)
Unconditional promises to give, net	(25,041)	(307,470)
Prepaid expenses	(10,234)	(20,231)
Increase (decrease) in operating liabilities:		
Accounts payable	81,603	(48,650)
Accrued expenses	25,363	22,303
Deferred revenue	(9,485)	(18,417)
Net cash provided by operating activities	1,200,950	295,187
Cash flows from investing activities:		
Purchases of property and equipment	(239,502)	(80,483)
Increase in other assets	(25,145)	-
Net cash used in investing activities	(264,647)	(80,483)
Cash flows from financing activities:		
Proceeds from (repayments of) line of credit, net	(241,850)	82,850
Repayment of settlement - Pension Benefit Guaranty Corporation	(18,000)	(18,000)
Principal repayments of long-term debt	(31,243)	(30,003)
Net cash provided by (used in) financing activities	(291,093)	34,847
Net increase in cash and cash equivalents	645,210	249,551
Cash and cash equivalents, beginning of year	457,401	207,850
Cash and cash equivalents, end of year	$ 1,102,611	$ 457,401
Supplemental cash flow disclosure:		
Interest paid	$ 14,402	$ 14,618

See accompanying notes to financial statements.

THE ARC OF PALM BEACH COUNTY, INC.

STATEMENT OF FUNCTIONAL EXPENSES - SUMMARY
For the Year Ended September 30, 2018

	Total Program Services (Page 7)	Total Supporting Services (Page 8)	Total Expenses
Salaries	$ 3,839,148	$ 841,052	$ 4,680,200
Employee benefits	552,499	105,202	657,701
Payroll taxes	290,722	63,268	353,990
Total salaries and related expenses	4,682,369	1,009,522	5,691,891
Professional fees	114,213	139,972	254,185
Supplies	282,996	32,461	315,457
Telephone	52,304	25,279	77,583
Postage	2,986	3,380	6,366
Occupancy	158,716	9,050	167,766
Utilities	39,910	43,838	83,748
Repairs and maintenance	73,785	28,416	102,201
Printing and promotion	9,822	5,615	15,437
Transportation	141,578	6,139	147,717
Training and meetings	54,485	24,665	79,150
Insurance	91,350	78,995	170,345
Miscellaneous	64,317	118,049	182,366
Interest expense	-	14,402	14,402
Bad debt expense	5,038	5,500	10,538
Administrative overhead	877,005	(877,005)	-
Total expenses before depreciation	6,650,874	668,278	7,319,152
Depreciation	70,383	134,671	205,054
Total expenses	$ 6,721,257	$ 802,949	$ 7,524,206

See accompanying notes to financial statements.

THE ARC OF PALM BEACH COUNTY, INC.

STATEMENT OF FUNCTIONAL EXPENSES - PROGRAM SERVICES
For the Year Ended September 30, 2018

	Career Transition/ Employment Services	Recreation	Respite Services	Potentials Charter School	Community Inclusion	Family Support Services	Early Intervention Programs	Residential Services	Volunteer Services	Total Program
Salaries	$ 309,499	$ 208,998	$ 340,500	$ 493,957	$ 47,589	$ 16,622	$ 1,549,635	$ 854,318	$ 18,030	$ 3,839,148
Employee benefits	35,805	19,598	30,970	79,378	7,914	1,660	199,866	175,341	1,967	552,499
Payroll taxes	23,299	16,552	27,202	36,994	3,616	1,266	115,307	65,107	1,379	290,722
Total salaries and related expenses	368,603	245,148	398,672	610,329	59,119	19,548	1,864,808	1,094,766	21,376	4,682,369
Professional fees	34,656	1,477	1,668	62,693	-	1,350	7,104	3,965	1,300	114,213
Supplies	87,053	28,997	2,738	10,527	1,902	3,175	63,488	80,705	4,411	282,996
Telephone	3,048	712	2,214	4,224	694	482	28,073	12,741	116	52,304
Postage	513	224	554	78	-	2	1,274	341	-	2,986
Occupancy	7,787	34,614	3,270	-	-	-	110,990	1,935	120	158,716
Utilities	-	-	-	-	-	-	-	39,910	-	39,910
Repairs and maintenance	2,876	24,582	117	2,771	-	-	222	43,217	-	73,785
Printing and promotion	4,345	64	1,904	-	371	46	2,592	-	500	9,822
Transportation	5,087	6,316	33,396	28,065	2,398	249	55,468	10,575	24	141,578
Training and meetings	2,726	309	4,370	6,255	25	2,313	29,116	269	9,102	54,485
Insurance	13,209	16,570	602	29,577	125	-	1,275	29,992	-	91,350
Miscellaneous	10,810	11,955	2,358	16,079	14	300	9,245	12,272	1,284	64,317
Bad debt expense	2,838	-	2,200	-	-	-	-	-	-	5,038
Administrative overhead	128,605	27,886	61,169	131,341	9,065	-	368,239	150,700	-	877,005
Total expenses before depreciation	672,156	398,854	515,232	901,939	73,713	27,465	2,541,894	1,481,388	38,233	6,650,874
Depreciation	10,817	665	519	17,462	-	-	-	40,920	-	70,383
Total expenses	$ 682,973	$ 399,519	$ 515,751	$ 919,401	$ 73,713	$ 27,465	$ 2,541,894	$ 1,522,308	$ 38,233	$ 6,721,257

See accompanying notes to financial statements.

THE ARC OF PALM BEACH COUNTY, INC.

STATEMENT OF FUNCTIONAL EXPENSES - SUPPORTING SERVICES
For the Year Ended September 30, 2018

	Management & General	Fund Raising	Total Supporting Services
Salaries	$ 605,627	$ 235,425	$ 841,052
Employee benefits	81,844	23,358	105,202
Payroll taxes	45,596	17,672	63,268
Total salaries and related expenses	733,067	276,455	1,009,522
Professional fees	82,243	57,729	139,972
Supplies	25,016	7,445	32,461
Telephone	19,787	5,492	25,279
Postage	2,612	768	3,380
Occupancy	7,803	1,247	9,050
Utilities	43,838	-	43,838
Repairs and maintenance	28,416	-	28,416
Printing and promotion	1,045	4,570	5,615
Transportation	4,466	1,673	6,139
Training and meetings	20,865	3,800	24,665
Insurance	77,454	1,541	78,995
Miscellaneous	98,199	19,850	118,049
Interest expense	14,402	-	14,402
Bad debt expense	-	5,500	5,500
Administrative overhead	(888,335)	11,330	(877,005)
Total expenses before depreciation	270,878	397,400	668,278
Depreciation	133,493	1,178	134,671
Total expenses	$ 404,371	$ 398,578	$ 802,949

See accompanying notes to financial statements.

THE ARC OF PALM BEACH COUNTY, INC.

STATEMENT OF FUNCTIONAL EXPENSES - SUMMARY
For the Year Ended September 30, 2017

	Total Program Services (Page 7)	Total Supporting Services (Page 8)	Total Expenses
Salaries	$ 3,735,154	$ 811,413	$ 4,546,567
Employee benefits	491,052	102,278	593,330
Payroll taxes	284,537	60,661	345,198
Total salaries and related expenses	4,510,743	974,352	5,485,095
Professional fees	74,903	78,322	153,225
Supplies	220,567	23,716	244,283
Telephone	49,192	21,179	70,371
Postage	3,327	3,861	7,188
Occupancy	152,070	9,910	161,980
Utilities	41,526	40,999	82,525
Repairs and maintenance	57,449	34,262	91,711
Printing and promotion	3,882	9,270	13,152
Transportation	131,316	5,763	137,079
Training and meetings	27,256	7,857	35,113
Insurance	79,253	81,653	160,906
Miscellaneous	73,950	123,484	197,434
Interest expense	-	14,618	14,618
Bad debt expense	(844)	-	(844)
Grants to families	-	42,000	42,000
Administrative overhead	807,716	(807,716)	-
Total expenses before depreciation	6,232,306	663,530	6,895,836
Depreciation	59,918	134,257	194,175
Total expenses	$ 6,292,224	$ 797,787	$ 7,090,011

See accompanying notes to financial statements.

THE ARC OF PALM BEACH COUNTY, INC.

STATEMENT OF FUNCTIONAL EXPENSES - PROGRAM SERVICES
For the Year Ended September 30, 2017

	Career Transition/ Employment Services	Recreation	Respite Services	Potentials Charter School	Community Inclusion	Family Support Services	Early Intervention Services	Residential Services	Total Program
Salaries	$ 282,555	$ 178,161	$ 336,708	$ 503,359	$ 46,697	$ 15,746	$ 1,527,995	$ 843,933	$ 3,735,154
Employee benefits	29,655	10,595	27,086	79,069	7,340	1,510	182,002	153,795	491,052
Payroll taxes	22,085	14,405	27,062	37,719	3,564	1,202	113,787	64,713	284,537
Total salaries and related expenses	334,295	203,161	390,856	620,147	57,601	18,458	1,823,784	1,062,441	4,510,743
Professional fees	6,343	-	733	43,306	-	1,210	13,343	9,968	74,903
Supplies	18,561	25,578	2,768	6,915	1,311	4,704	61,479	99,251	220,567
Telephone	2,741	510	1,606	4,255	624	341	26,907	12,208	49,192
Postage	520	246	534	119	-	-	1,336	572	3,327
Occupancy	5,189	34,401	2,393	-	247	-	106,894	2,946	152,070
Utilities	-	-	-	-	-	-	-	41,526	41,526
Repairs and maintenance	2,652	19,010	-	1,378	-	-	342	34,067	57,449
Printing and promotion	216	99	1,276	-	-	23	2,169	99	3,882
Transportation	4,194	5,370	35,886	19,363	2,085	-	54,235	10,183	131,316
Training and meetings	1,272	280	3,255	4,145	53	891	16,899	461	27,256
Insurances	3,924	15,452	399	30,830	118	11	1,319	27,200	79,253
Miscellaneous	4,971	7,215	2,612	11,013	14	245	40,624	7,256	73,950
Bad debt expense (recoveries)	(113)	-	(731)	-	-	-	-	-	(844)
Administrative overhead	74,046	30,693	69,051	138,339	9,290	-	347,794	138,503	807,716
Total expenses before depreciation	458,811	342,015	510,638	879,810	71,343	25,883	2,497,125	1,446,681	6,232,306
Depreciation	450	351	315	18,616	-	-	669	39,517	59,918
Total expenses	$ 459,261	$ 342,366	$ 510,953	$ 898,426	$ 71,343	$ 25,883	$ 2,497,794	$ 1,486,198	$ 6,292,224

See accompanying notes to financial statements.

THE ARC OF PALM BEACH COUNTY, INC.

STATEMENT OF FUNCTIONAL EXPENSES - SUPPORTING SERVICES
For the Year Ended September 30, 2017

	Management & General	Fund Raising	Total Supporting Services
Salaries	$ 572,445	$ 238,968	$ 811,413
Employee benefits	76,624	25,654	102,278
Payroll taxes	42,796	17,865	60,661
Total salaries and related expenses	691,865	282,487	974,352
Professional fees	42,759	35,563	78,322
Supplies	20,085	3,631	23,716
Telephone	17,657	3,522	21,179
Postage	2,247	1,614	3,861
Occupancy	8,101	1,809	9,910
Utilities	40,999	-	40,999
Repairs and maintenance	34,262	-	34,262
Printing and promotion	670	8,600	9,270
Transportation	3,522	2,241	5,763
Training and meetings	6,943	914	7,857
Insurance	80,130	1,523	81,653
Miscellaneous	109,811	13,673	123,484
Interest expense	14,618	-	14,618
Grants to families	-	42,000	42,000
Administrative overhead	(822,726)	15,010	(807,716)
Total expenses before depreciation	250,943	412,587	663,530
Depreciation	133,081	1,176	134,257
Total expenses	$ 384,024	$ 413,763	$ 797,787

See accompanying notes to financial statements.

Note 1 – Nature of Activities

Since February 7, 1958, The Arc of Palm Beach County, Inc. (The Arc) has been providing quality services, education and advocacy for children and adults with developmental disabilities and their families. The Arc's programs offer a continuum of care which spans the entire life cycle. Services can begin as early as during pregnancy, in order to minimize or prevent developmental delays, and options are available to address a variety of needs for infants, children, teens, adults and families.

The Arc of Palm Beach County is changing the conversation around disabilities by defying definitions, inspiring possibilities and improving the lives of the people we serve, their families, and our community. In order to accomplish this mission, The Arc operates programs throughout Palm Beach County which deliver services directly to developmentally challenged individuals from infancy through adulthood, as well as to families in need of support.

The Arc is supported primarily through donor contributions, fees and grants from government agencies, and program services fees.

Description of program services

The significant program services provided by The Arc are briefly described as follows:

a. Employment services – Provides supported employment services for developmentally disabled individuals who are seeking employment as well as ongoing support once they are hired.

b. Career transition program – Helps participants develop a wide variety of life skills that are necessary in the workplace and in the greater community.

c. Recreation – Offers a wide variety of leisure activities for children, teens and adults with special needs.

d. Respite services – Provides short-term care that helps a family of a disabled child or adult to take a break from the stress of their daily routine.

e. Potentials Charter School – Potentials Charter School provides intensive classroom learning experiences, as well as speech, occupational and physical therapy, for children from preschool through the eighth grade who have severe disabilities in the areas of communication and ambulation.

f. Community inclusion – Promotes the appropriate involvement of elementary school children with disabilities in after school, summer camp and other out-of-school time programs across Palm Beach County.

g. Family support services – Serves as the gateway to the agency, helping acquaint new families with all that The Arc has to offer. Provides advocacy, referral services and direct support for families who have children of any age with developmental disabilities.

h. Early intervention programs:

   i. First step to success – Provides in-home services to families of children from birth to five years of age who demonstrate a mild delay in child development.

   ii. Healthy steps – Provides developmental services in local pediatricians' offices bringing families and health care providers together to improve health, development and emotional wellness of children from six months to age three.

Note 1 – Nature of Activities, Continued

Description of program services, continued

h. Early intervention programs, continued

iii. Forward leaps – Provides short-term in-home developmental services to children, birth to age 5, with minor developmental delays and provides parents with guidance to support developmental skills.

i. Residential services – Provides housing for adults who are developmentally disabled. These homes are designed to help adults over the age of 18 acquire the skills necessary to achieve their highest level of independence. The Arc currently operates the following residences:

- Eleanor Trachtenberg Residence (including Tenzer apartments)
- Poney Martin Residence
- Sipporta Residence
- Bickel Residence

j. Volunteer services:

i. Stand Up – Provides leadership training, social-emotional wellness supports and volunteer opportunities for community-minded teens who are paired with children and near age teens with disabilities to provide mentoring during community-based activities which promote an inclusive and accepting community.

ii. AmeriCorps – AmeriCorps is part of the National & Community Service model. Service members help individuals with developmental disabilities learn and perfect much needed skills, provide community inclusion opportunities and promote self-advocacy while building their career and leadership skills.

Note 2 – Summary of Significant Accounting Policies

A summary of significant accounting policies used in the preparation of the accompanying financial statements follows:

Basis of presentation

The financial statements are prepared on the accrual basis of accounting in accordance with the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities.*

Net assets and revenue, expenses, gains and losses are classified as temporarily restricted, permanently restricted, or unrestricted based on the existence or absence, respectively, of donor-imposed restrictions. Accordingly, net assets of The Arc and changes therein are classified as follows:

Unrestricted net assets – Net assets available for the support of The Arc's operations. The unrestricted net assets may be used at the discretion of The Arc's management and the Board of Trustees.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of The Arc or the passage of time.

Note 2 – Summary of Significant Accounting Policies, Continued

Basis of presentation, continued

Permanently restricted net assets – Net assets subject to donor-imposed stipulations to be maintained permanently by The Arc. Generally, the donors of these assets permit The Arc to use all or part of the earnings on related investments for general or specific purposes.

Promises to give

Unconditional promises to give (pledges) are recorded as contributions at fair value at the date the promises are received. Contributions are recognized when the donor makes a promise to give to The Arc that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Arc uses the allowance method to account for possible uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. No allowance for uncollectible promises receivable is reflected in the accompanying financial statements.

Special events

Special events represent various activities undertaken to raise funds for The Arc for both restricted and unrestricted purposes. Support from special events is reported net of the related expenses in the statements of activities as temporarily restricted or unrestricted net assets, as appropriate. Support is recognized in accordance with The Arc's contributions policy and related expenses are recorded when incurred.

Program service fees

Program service fees are recognized as revenue in the period in which the related program services are provided.

Contributed services and facilities

The Arc does not recognize any support, revenue or expense from services contributed by individual volunteers since no objective basis is available to measure the value of such services. However, a substantial number of volunteers have donated significant amounts of time in The Arc's program services and fund raising campaigns.

The Arc's primary facility is located, without charge, on land owned by the Palm Beach County School Board. The estimated fair rental value of these premises is reported as support and expense in the period the premises are used (see Note 8).

The Arc leases certain facilities, without charge, on land owned by the City of West Palm Beach and the City of Palm Beach Gardens. The estimated fair rental value of these premises is reported as support and expense in the period the premises are used (see Note 8).

Note 2 – Summary of Significant Accounting Policies, Continued

Concentration of credit risk

The Arc, at times, has cash in banks in excess of federally insured insurance limits and places its temporary cash investments with high credit quality financial institutions.

Reclassifications

Certain financial statement items have been reclassified from their 2017 presentation to conform with the 2018 presentation of the financial statements.

Cash and cash equivalents

The Arc considers all highly liquid investments with an original or remaining maturity of three months or less when purchased to be cash equivalents.

Accounts receivable

Accounts receivable is stated at the amount of the uncollected balances less an allowance for doubtful accounts. Management's periodic evaluation of the adequacy of the allowance is based on past experience and adverse situations that may affect the collectability. As of September 30, 2018 and 2017, the allowance for doubtful accounts was $6,000 and $5,500, respectively.

Property and equipment and depreciation

Purchases of property and equipment are recorded at cost. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Absent donor stipulations regarding how long donated assets must be maintained, The Arc reports expirations of donor restrictions when the donated or acquired assets are placed in service. Depreciation of property and equipment is calculated on the straight-line method over the following estimated useful lives:

Buildings and improvements	25-30 years
Landscaping	15-20 years
Furniture, fixtures and equipment	3-10 years
Vehicles	5 years

Income taxes

The Arc is a not-for-profit organization that is exempt from income taxes under Internal Revenue Code Section 501(c)(3). Accordingly, no provision for income taxes is recorded in the accompanying financial statements.

Management analyzes tax positions in jurisdictions where it is required to file income tax returns. Based on its evaluation, management did not identify any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease. Interest and penalties attributable to income taxes, if any, are included in operating expenses. No such interest or penalties were recorded for the years 2018 and 2017. The Arc is no longer subject to income tax examinations for fiscal years prior to September 30, 2015.

Note 2 – Summary of Significant Accounting Policies, Continued

Functional expenses

The Arc allocates its expenses on a functional basis among its various programs and supporting services. Expenses that can be identified with a specific program and supporting service are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated by various statistical bases.

Management and general expenses

The Arc allocates 80% of its management and general expenses among the benefited program services.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Management does not expect estimates to materially change the reported amounts and disclosures.

New accounting pronouncements

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities* (Topic 958), *Presentation of Financial Statements for Not-for-Profit Entities*. ASU 2016-14 makes certain revisions that address many, but not all, of the identified issues about the current financial reporting for Not-for-Profit Entities. The amendments in ASU 2016-14 are effective for financial statements issued for fiscal years beginning after December 15, 2017. Early application of the amendments in this update are permitted. The amendments are applied on a retrospective basis in the year the update is first applied. In the period the update is first applied, the entity must disclose the nature of any reclassifications or restatements and their effects, if any, on changes in net assets for each period presented.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made, Not-for-Profit Entities* (Topic 958), which is intended to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be evaluated as contributions (non-reciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance, and (2) determining whether a contribution is conditional. ASU 2018-18 is effective for years beginning after December 15, 2018 and the amendments are to be applied on a modified prospective basis with a full retrospective application permitted. The Arc is currently evaluating the effects ASU 2018-18 will have on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842), which is intended to increase transparency and comparability of accounting for lease transactions. The ASU will require all leases to be recognized on the statement of financial position as lease assets and lease liabilities and will require both quantitative and qualitative disclosures regarding key information about leasing arrangements. Lessor accounting is largely unchanged. The new pronouncement is effective for years beginning after December 15, 2018, including interim periods within those years. The Arc is currently evaluating the effects the update will have on its financial statements.

Note 3 – Unconditional Promises to Give

Unconditional promises to give as of September 30, 2018 and 2017 are from the Town of Palm Beach United Way, The Geo Group, and various other capital campaign donors.

Unconditional promises to give consist of the following at September 30, 2018 and 2017:

	2018	2017
Capital campaign pledges	$ 405,000	$ 200,000
Program services	269,450	336,425
Vehicles	-	68,902
Other	-	40,190
	674,450	645,517
Less: unamortized discount	(41,483)	(37,591)
Net unconditional promises to give	$ 632,967	$ 607,926
Amounts due in:		
Less than one year	$ 304,450	$ 276,615
One to three years	370,000	368,902
Total	$ 674,450	$ 645,517

The Arc applied discount rates of 6.25% and 5.25% to its pledges with terms in excess of one year received during the years ended September 30, 2018 and 2017, respectively.

Note 4 – Property and Equipment

Property and equipment at September 30, 2018 and 2017 consists of the following:

	2018	2017
Land and landscaping	$ 315,086	$ 315,086
Buildings and improvements	4,275,211	4,214,090
Furniture, fixtures and equipment	659,552	650,205
Vehicles	654,896	585,651
	5,904,745	5,765,032
Less: accumulated depreciation	(4,034,039)	(3,858,800)
Subtotal	1,870,706	1,906,232
Construction in progress	67,827	-
Total property and equipment, net	$ 1,938,533	$ 1,906,232

Depreciation expense totaled $205,054 and $194,175, respectively, for the years ended September 30, 2018 and 2017. Construction in progress consists of upgrades and modifications made to The Arc's Courim Center, Boca Raton location, Poney Martin Residence and Sipporta Residence not yet in service as of September 30, 2018.

Note 5 – Long-Term Debt

Long-term debt includes the following at September 30, 2018 and 2017:

	2018	2017
Note payable – bank, collateralized by certain real property; interest at 4% and principal payable through September 2025.	$ 257,978	$ 289,221
Less: current portion of long-term debt	(32,536)	(31,245)
Long-term debt, net	$ 225,442	$ 257,976

Principal payments due in each of the five years subsequent to September 30, 2018, and thereafter, are as follows:

Year Ending September 30,	Amount
2019	$ 32,536
2020	33,856
2021	35,279
2022	36,737
2023	38,255
Thereafter	81,315
Total	$ 257,978

Note 6 – Line of Credit

The Arc has a working capital line of credit with available borrowings of $350,000 with a financial institution that is collateralized by certain real property of The Arc, and bears interest at the prime rate plus 1% (6.25% as of September 30, 2018). At September 30, 2018, the line of credit had no outstanding borrowings. The line of credit renews automatically each year until it is cancelled.

Note 7 – Restrictions on Assets

Temporary restrictions on assets as of September 30, 2018 and 2017 relate to unconditional promises to give by the Town of Palm Beach United Way, The Geo Group, and other restricted donations for various programs, as well as restricted cash and cash equivalents for The Arc's capital campaign. The restrictions are considered to expire when payments for the intended purpose are made or when the funds received are spent for the restricted purpose.

Net assets were released from donor restrictions by time restrictions specified by donors and payments received during the years ended September 30, 2018 and 2017, as follows:

	2018	2017
Time restrictions expired on Town of Palm Beach United Way allocations	$ 184,575	$ 173,050
Other releases of restrictions	298,314	78,643
	$ 482,889	$ 251,693

Note 7 – Restrictions on Assets, Continued

Temporarily restricted net assets as of September 30, 2018 and 2017 are restricted by donors for the following purposes:

	2018	2017
Capital campaign	$ 906,509	$ 248,832
Charter school	89,537	86,620
Community living	59,276	60,635
Technology and security	14,836	56,377
Family support services	44,992	44,318
Transportation	-	68,902
Early intervention programs	11,946	16,359
Endowment	145	-
Special events, sponsorship	116,123	183,577
	$ 1,243,364	$ 765,620

The Arc had $25,000 and $0, respectively of permanently restricted net assets as of September 30, 2018 and 2017.

Note 8 – Description of Leasing Arrangements

The Arc leases certain facilities in connection with its program services which are accounted for as operating leases. Total rent expense for the years ended September 30, 2018 and 2017 amounted to $100,100 and $95,095, respectively, plus $32,738 and $34,140 for donated facilities for the years 2018 and 2017, respectively.

Note 9 – Defined Contribution Plan

The Arc maintains a 401(k) profit sharing plan (the Plan) for the benefit of qualified employees. Those employees who have completed 90-days of service and have attained the age of 21 are eligible to participate and may contribute a portion of their compensation to the Plan. The Arc may make discretionary contributions that are allocated based upon the participant's share of total compensation paid during the plan year to all participants in the Plan. The Arc may also make a matching contribution. Only employees who have completed one year of service are eligible for Arc discretionary or matching contributions to the 401(k) plan. For the years ended September 30, 2018 and 2017, no discretionary or matching contributions to the Plan were made or approved.

Note 10 – Concentrations

The Arc receives a substantial amount of its revenue and support from state program funding which is passed through various state and local governmental entities. A significant reduction in the level of this support, if this were to occur, would have a significant effect on The Arc's services and activities. Other grants represent amounts received from the local grant funding agencies.

Note 11 – Special Events

The Arc reports support from certain special events net of directly related expenses. The net support reflected in the accompanying statements of activities is comprised as follows for the years ended September 30, 2018 and 2017:

	2018	2017
Support and revenue:		
Golf tournament	$ 42,797	$ 192,212
Cowboy ball/Jewels and jeans	157,539	97,975
Wild pants	79,679	47,235
Other events	2,034	89,791
Total support and revenue	282,049	427,213
Expenses:		
Supplies and costs	171,591	81,424
Net special events	$ 110,458	$ 345,789

Note 12 – Related Party Transactions

The Arc provides management services to the Housing Corporation of the Palm Beach County Arc, Inc. (Housing). Housing is a non-profit organization with certain directors that also serve as directors for The Arc. Housing's primary function is to operate the Eleanor Trachtenberg Residence pursuant to a Department of Housing and Urban Development program. For the years ended September 31, 2018 and 2017, there were no management fees received from Housing by The Arc.

Note 13 – Defined Benefit Pension Plan

Previously, The Arc maintained a defined benefit pension plan (the defined benefit plan) that covered substantially all of its employees. Effective October 1, 2002, The Arc discontinued the benefit plan whereby existing participants became fully vested and no new participants were allowed.

In 2010, The Arc filed a distressed termination application with the Pension Benefit Guaranty Corporation (PBGC) which was subsequently approved. Under a settlement, The Arc and the PBGC entered into an agreement whereby PBGC assumed responsibility for payments to beneficiaries and The Arc agreed to contribute a fixed amount, aggregating $1,390,655, to PBGC, payable over twenty years.

As part of the settlement with the PBGC, lien rights were granted to the PBGC on all assets of The Arc.

Note 13 – Defined Benefit Pension Plan, Continued

The table below represents the schedule of payments to PBGC required under the settlement in each of the five years subsequent to September 30, 2018, and thereafter:

Year Ending September 30,	Amount
2019	$ 44,631
2020	44,631
2021	44,631
2022	44,631
2023	44,631
Thereafter	1,077,500
Total scheduled payments	1,300,655
Less: amount representing interest	(560,594)
Net present value at September 30, 2018	$ 740,061

The Arc discounted the payment stream to its present value using a discount rate of 6.5%.

Note 14 – Legal Proceedings

From time to time, The Arc is subject to legal proceedings which arise in the ordinary course of its operations. Management believes that the final resolution of these matters will not have a material adverse effect on The Arc's financial position, cash flows, or results of operations.

Note 15 – Subsequent Events

Management evaluated activity of The Arc subsequent to September 30, 2018 through December 18, 2018, the date on which the financial statements were available to be issued, for events that require recognition in the financial statements or disclosure in the notes thereto.

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Independent Auditors' 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 Trustees of
The Arc of Palm Beach County, Inc.

We have audited, 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, the financial statements of The Arc of Palm Beach County, Inc. (a nonprofit organization), which comprise the statement of financial position as of September 30, 2018, 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 December 18, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Arc of Palm Beach County, Inc.'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 Palm Beach County, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 Palm Beach County, Inc.'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.*

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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 Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Templeton & Company, LLP

West Palm Beach, Florida
December 18, 2018

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Certified Public Accountants and Consultants

Independent Auditors' Report on Compliance with Requirements Applicable to State Grants and Aid Appropriations

To the Board of Trustees
The Arc of Palm Beach County, Inc.

We have audited the financial statements of The Arc of Palm Beach County, Inc. (a non-profit organization) as of and for the year ended September 30, 2018, and have issued our report thereon dated December 18, 2018.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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.

Compliance with laws, regulations, contracts, and grants applicable to The Arc of Palm Beach County, Inc. is the responsibility of The Arc of Palm Beach County, Inc.'s management. As part of obtaining reasonable assurance about whether the financial statements are free from material misstatement, we performed tests of The Arc of Palm Beach County, Inc.'s compliance with certain provisions of laws, regulations, contracts, and grants applicable to state grants and aid appropriations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that, with respect to the items tested, The Arc of Palm Beach County, Inc. complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that The Arc of Palm Beach County, Inc. had not complied, in all material respects, with those provisions.

This report is intended for the information of the Board of Trustees, management, and applicable state and federal agencies, and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Templeton & Company, LLP

West Palm Beach, Florida
December 18, 2018

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