

THE ARC OF PALM BEACH COUNTY, INC.
REPORT ON AUDITS OF FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

THE ARC OF PALM BEACH COUNTY, INC.

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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, 2019 and 2018, 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 of Palm Beach County, Inc. as of September 30, 2019 and 2018, 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 6, 2019, 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 6, 2019

THE ARC OF PALM BEACH COUNTY, INC.

STATEMENTS OF FINANCIAL POSITION

September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,550,335	\$ 1,102,611
Accounts receivable, net of allowance for doubtful accounts	514,594	516,928
Current portion of unconditional promises to give, net (Note 4)	462,783	304,450
Prepaid expenses and other receivables	<u>70,778</u>	<u>80,318</u>
Total current assets	2,598,490	2,004,307
Property and equipment, net (Note 5)	1,843,370	1,938,533
Unconditional promises to give, net of current portion (Note 4)	323,938	328,517
Other assets	<u>33,653</u>	<u>32,366</u>
Total assets	<u>\$ 4,799,451</u>	<u>\$ 4,303,723</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Line of credit (Note 7)	\$ 211,359	\$ -
Current portion of long-term debt (Note 6)	33,856	32,536
Accounts payable	99,466	126,039
Accrued expenses	217,924	207,411
Deferred revenue	8,071	5,050
Current portion of settlement - Pension Benefit Guaranty Corporation (Note 13)	<u>44,631</u>	<u>44,631</u>
Total current liabilities	615,307	415,667
Settlement - Pension Benefit Guaranty Corporation, net of current portion (Note 13)	698,903	695,430
Long-term debt, net of current portion (Note 6)	<u>191,586</u>	<u>225,442</u>
Total liabilities	<u>1,505,796</u>	<u>1,336,539</u>
Commitments and contingencies (Notes 9 and 14)		
Net assets:		
Without donor restrictions	1,456,811	1,698,820
With donor restrictions	<u>1,836,844</u>	<u>1,268,364</u>
Total net assets	<u>3,293,655</u>	<u>2,967,184</u>
Total liabilities and net assets	<u>\$ 4,799,451</u>	<u>\$ 4,303,723</u>

See accompanying notes to financial statements.

THE ARC OF PALM BEACH COUNTY, INC.

STATEMENTS OF ACTIVITIES

September 30, 2019 and 2018

	For the Year Ended September 30, 2019			For the Year Ended September 30, 2018		
	Without	With	Total	Without	With	Total
	Donor Restrictions	Donor Restrictions		Donor Restrictions	Donor Restrictions	
Operating:						
Support:						
Contributions	\$ 268,435	\$ -	\$ 268,435	\$ 369,423	\$ -	\$ 369,423
Capital campaign contributions	-	659,661	659,661	-	681,339	681,339
Endowment contributions	-	-	-	-	25,000	25,000
Town of Palm Beach United Way	-	192,600	192,600	-	192,600	192,600
Special events, net	134,853	2,704	137,557	102,912	7,546	110,458
Fees and grants	6,242,583	26,848	6,269,431	6,334,010	79,003	6,413,013
Revenue:						
Program service fees	480,084	-	480,084	691,669	-	691,669
Interest and other income, net	9,595	1,287	10,882	7,491	145	7,636
Net assets released from restrictions (Note 8)	314,620	(314,620)	-	482,889	(482,889)	-
	<u>7,450,170</u>	<u>568,480</u>	<u>8,018,650</u>	<u>7,988,394</u>	<u>502,744</u>	<u>8,491,138</u>
Expenses:						
Program services:						
Career transition/employment services	542,941	-	542,941	682,973	-	682,973
Recreation	432,159	-	432,159	399,519	-	399,519
Respite services	530,698	-	530,698	515,751	-	515,751
Potentials School	951,680	-	951,680	919,401	-	919,401
Community inclusion	76,709	-	76,709	73,713	-	73,713
Family support services	5,271	-	5,271	27,465	-	27,465
Early intervention programs	2,707,614	-	2,707,614	2,541,894	-	2,541,894
Residential services	1,313,463	-	1,313,463	1,522,308	-	1,522,308
Volunteer services	187,029	-	187,029	38,233	-	38,233
Supporting services:						
Fundraising, management and general	896,511	-	896,511	802,949	-	802,949
	<u>7,644,075</u>	<u>-</u>	<u>7,644,075</u>	<u>7,524,206</u>	<u>-</u>	<u>7,524,206</u>
Increase (decrease) in net assets - operating	(193,905)	568,480	374,575	464,188	502,744	966,932
Non operating:						
Loss on disposal of property and equipment	-	-	-	(2,147)	-	(2,147)
Adjustment to discount on settlement with PBGC	(48,104)	-	(48,104)	(46,266)	-	(46,266)
Increase (decrease) in net assets	(242,009)	568,480	326,471	415,775	502,744	918,519
Net assets, beginning of year	<u>1,698,820</u>	<u>1,268,364</u>	<u>2,967,184</u>	<u>1,283,045</u>	<u>765,620</u>	<u>2,048,665</u>
Net assets, end of year	<u>\$ 1,456,811</u>	<u>\$ 1,836,844</u>	<u>\$ 3,293,655</u>	<u>\$ 1,698,820</u>	<u>\$ 1,268,364</u>	<u>\$ 2,967,184</u>

See accompanying notes to financial statements.

THE ARC OF PALM BEACH COUNTY, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended September 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Increase in net assets	\$ 326,471	\$ 918,519
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	208,315	205,054
Amortization of discount on settlement	48,104	46,266
Loss on disposal of property and equipment	-	2,147
Contributions received for long-term investment	(373,333)	(462,777)
(Increase) decrease in operating assets:		
Accounts receivable	2,334	(33,242)
Unconditional promises to give, net	(153,754)	(25,041)
Prepaid expenses	9,540	(10,234)
Increase (decrease) in operating liabilities:		
Accounts payable	(26,573)	81,603
Accrued expenses	10,513	25,363
Deferred revenue	3,021	(9,485)
Net cash provided by operating activities	54,638	738,173
Cash flows from investing activities:		
Purchases of property and equipment	(113,152)	(239,502)
Increase in other assets	(1,287)	(25,145)
Net cash used in investing activities	(114,439)	(264,647)
Cash flows from financing activities:		
Contributions received for long-term investment	373,333	462,777
Proceeds from (repayments of) line of credit, net	211,359	(241,850)
Repayment of settlement - Pension Benefit Guaranty Corporation	(44,631)	(18,000)
Principal repayments of long-term debt	(32,536)	(31,243)
Net cash provided by financing activities	507,525	171,684
Net increase in cash and cash equivalents	447,724	645,210
Cash and cash equivalents, beginning of year	1,102,611	457,401
Cash and cash equivalents, end of year	\$ 1,550,335	\$ 1,102,611
Supplemental cash flow disclosure:		
Interest paid	\$ 17,019	\$ 14,402

See accompanying notes to financial statements.

THE ARC OF PALM BEACH COUNTY, INC.
STATEMENT OF FUNCTIONAL EXPENSES - SUMMARY
For the Year Ended September 30, 2019

	Total Program Services (Page 7)	Total Supporting Services (Page 8)	Total Expenses
Salaries	\$ 3,923,808	\$ 938,984	\$ 4,862,792
Employee benefits	576,096	100,377	676,473
Payroll taxes	<u>293,474</u>	<u>68,196</u>	<u>361,670</u>
Total salaries and related expenses	4,793,378	\$ 1,107,557	\$ 5,900,935
Professional fees	68,772	137,649	206,421
Supplies	198,478	52,547	251,025
Telephone	53,912	40,681	94,593
Postage	2,501	1,999	4,500
Occupancy	159,296	11,221	170,517
Utilities	36,692	49,077	85,769
Repairs and maintenance	47,564	30,029	77,593
Printing and promotion	2,395	6,104	8,499
Transportation	132,718	8,529	141,247
Training and meetings	45,960	47,586	93,546
Insurance	98,259	85,106	183,365
Miscellaneous	53,184	131,593	184,777
Interest expense	-	17,019	17,019
Bad debt expense	15,954	-	15,954
Administrative overhead	<u>966,954</u>	<u>(966,954)</u>	<u>-</u>
Total expenses before depreciation	6,676,017	759,743	7,435,760
Depreciation	<u>71,547</u>	<u>136,768</u>	<u>208,315</u>
Total expenses	<u>\$ 6,747,564</u>	<u>\$ 896,511</u>	<u>\$ 7,644,075</u>

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, 2019

	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	\$ 317,248	\$ 246,731	\$ 346,207	\$ 509,095	\$ 49,910	\$ 1,769	\$ 1,635,779	\$ 699,440	\$ 117,629	\$ 3,923,808
Employee benefits	38,098	25,175	42,446	78,356	7,805	54	219,619	154,068	10,475	576,096
Payroll taxes	24,024	19,156	26,569	37,766	3,753	156	121,562	52,324	8,164	293,474
Total salaries and related expenses	379,370	291,062	415,222	625,217	61,468	1,979	1,976,960	905,832	136,268	4,793,378
Professional fees	7,263	-	2,435	46,873	-	120	7,293	2,158	2,630	68,772
Supplies	7,945	24,911	3,032	13,155	1,622	1,364	71,484	69,044	5,921	198,478
Telephone	3,156	942	2,264	4,715	723	39	28,976	12,320	777	53,912
Postage	565	428	213	76	-	-	1,046	141	32	2,501
Occupancy	9,105	25,615	2,922	-	-	-	119,337	1,743	574	159,296
Utilities	-	-	-	-	-	-	-	36,692	-	36,692
Repairs and maintenance	552	18,625	-	2,342	-	-	-	26,045	-	47,564
Printing and promotion	219	-	1,205	-	223	-	421	55	272	2,395
Transportation	4,610	5,112	28,346	14,720	2,416	92	66,198	9,252	1,972	132,718
Training and meetings	4,367	520	3,300	2,118	120	1,610	26,863	2,218	4,844	45,960
Insurance	13,882	20,680	566	32,834	88	-	1,325	28,884	-	98,259
Miscellaneous	1,710	9,306	1,798	15,417	3	67	13,860	7,327	3,696	53,184
Interest expense	-	-	-	-	-	-	-	-	-	-
Bad debt expense	-	-	722	15,232	-	-	-	-	-	15,954
Administrative overhead	95,184	34,293	68,135	161,149	10,046	-	393,851	174,253	30,043	966,954
Total expenses before depreciation	527,928	431,494	530,160	933,848	76,709	5,271	2,707,614	1,275,964	187,029	6,676,017
Depreciation	15,013	665	538	17,832	-	-	-	37,499	-	71,547
Total expenses	\$ 542,941	\$ 432,159	\$ 530,698	\$ 951,680	\$ 76,709	\$ 5,271	\$ 2,707,614	\$ 1,313,463	\$ 187,029	\$ 6,747,564

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, 2019

	Management & General	Fund Raising	Total Supporting Services
Salaries	\$ 688,699	\$ 250,285	\$ 938,984
Employee benefits	71,761	28,616	100,377
Payroll taxes	<u>49,885</u>	<u>18,311</u>	<u>68,196</u>
Total salaries and related expenses	810,345	297,212	1,107,557
Professional fees	60,775	76,874	137,649
Supplies	32,761	19,786	52,547
Telephone	21,016	19,665	40,681
Postage	1,747	252	1,999
Occupancy	9,570	1,651	11,221
Utilities	49,077	-	49,077
Repairs and maintenance	30,029	-	30,029
Printing and promotion	-	6,104	6,104
Transportation	6,935	1,594	8,529
Training and meetings	19,477	28,109	47,586
Insurance	83,333	1,773	85,106
Miscellaneous	113,494	18,099	131,593
Interest expense	17,019	-	17,019
Administrative overhead	<u>(979,960)</u>	<u>13,006</u>	<u>(966,954)</u>
Total expenses before depreciation	275,618	484,125	759,743
Depreciation	<u>134,778</u>	<u>1,990</u>	<u>136,768</u>
Total expenses	<u>\$ 410,396</u>	<u>\$ 486,115</u>	<u>\$ 896,511</u>

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	<u>290,722</u>	<u>63,268</u>	<u>353,990</u>
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	<u>877,005</u>	<u>(877,005)</u>	<u>-</u>
Total expenses before depreciation	6,650,874	668,278	7,319,152
Depreciation	<u>70,383</u>	<u>134,671</u>	<u>205,054</u>
Total expenses	<u>\$ 6,721,257</u>	<u>\$ 802,949</u>	<u>\$ 7,524,206</u>

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
	<u> </u>	<u> </u>	<u> </u>
Salaries	\$ 605,627	\$ 235,425	\$ 841,052
Employee benefits	81,844	23,358	105,202
Payroll taxes	<u>45,596</u>	<u>17,672</u>	<u>63,268</u>
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
Grants to families	-	-	-
Administrative overhead	<u>(888,335)</u>	<u>11,330</u>	<u>(877,005)</u>
Total expenses before depreciation	270,878	397,400	668,278
Depreciation	<u>133,493</u>	<u>1,178</u>	<u>134,671</u>
Total expenses	<u>\$ 404,371</u>	<u>\$ 398,578</u>	<u>\$ 802,949</u>

See accompanying notes to financial statements.

THE ARC OF PALM BEACH COUNTY, INC.

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 envisions a community where every person feels welcome, connected and well cared for. The Arc 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 disabled 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 – Provides adult day training which 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 activities for children, teens and adults with special needs.
- d. Respite services – Provides short-term care which helps a family of a disabled child or adult to take a break from the stress of their daily routine.
- e. Potentials School – Potentials 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.
 - 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.

THE ARC OF PALM BEACH COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED

Note 1 – Nature of Activities, Continued

Description of program services, continued

- 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 accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Net assets

The financial statements report net assets and changes in net assets in two classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

Net assets without donor restrictions

Net assets without donor restrictions are resources available to support operations. The only limits on the use of these net assets are the broad limits resulting from the nature of The Arc, the environment in which it operates, the purpose specified in the corporate documents and its application for tax-exempt status, and any limits resulting from contractual arrangements with creditors or others that are entered into in the course of operations.

THE ARC OF PALM BEACH COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED

Note 2 – Summary of Significant Accounting Policies, Continued

Net assets, continued

Net assets with donor restrictions

Net assets with donor restrictions are resources which are restricted by a donor for use for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature; The Arc must continue to use the resources in accordance with the donor's instructions.

The Arc's unspent contributions are included in this class if the donor limited their use, as are its donor-imposed endowment funds.

When a donor's restriction is satisfied either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions.

Net assets restricted for acquisition of building or equipment (or less commonly the contribution of those assets directly) are reported as net assets with donor restrictions until the specified assets are placed in service by The Arc, unless the donor provided more specific directions about the period of its use.

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 which are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

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 to give 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 net assets with or without donor restrictions, 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 OF PALM BEACH COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED

Note 2 – Summary of Significant Accounting Policies, Continued

Contributed services and facilities, continued

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 9).

The Arc leases certain facilities, without charge, on land owned by the City of West Palm Beach, the City of Palm Beach Gardens, the City of Greenacres and the Town of Jupiter. The estimated fair rental value of these premises is reported as support and expense in the period the premises are used (see Note 9).

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.

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, 2019 and 2018, the allowance for doubtful accounts was \$18,575 and \$6,000, 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 2019 and 2018. The Arc is no longer subject to income tax examinations for fiscal years prior to September 30, 2016.

THE ARC OF PALM BEACH COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED

Note 2 – Summary of Significant Accounting Policies, Continued

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, The Arc's management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. The Arc's management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

Reclassifications

Certain financial statement items have been reclassified from their 2018 presentation to conform with the 2019 presentation of the financial statements.

Functional allocation of expenses

The cost of providing The Arc's programs and other related activities is summarized on a functional basis in the accompanying statements of activities. The statements of functional expenses present the natural classification detail for expenses by function. Expenses that can be identified with a specific program or support service are charged directly to that program or support service.

Costs common to multiple functions have been allocated among the various functions benefited using a reasonable allocation method that is consistently applied, as follows:

- Salaries and wages, benefits, and payroll taxes are allocated based on activity reports prepared by key personnel.
- Occupancy, depreciation and amortization, and insurance are allocated on a square foot basis dependent on the programs and supporting activities occupying the space.

Every year when new space or programs are added, the bases on which costs are allocated are evaluated.

General and administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of The Arc.

Fundraising costs are expensed as incurred, even though they may result in contributions received in future years. Additionally, advertising costs are expensed as incurred.

Change in accounting principles

The Arc implemented FASB Accounting Standard Update (ASU) No. 2016-14 in the current year, applying the changes retrospectively. The new standards change the following aspects of the financial statements:

- The temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.
- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The financial statements include a disclosure about liquidity and availability of resources (Note 3).

THE ARC OF PALM BEACH COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED

Note 2 – Summary of Significant Accounting Policies, Continued

Change in accounting principles, continued

The changes have the following effect on net assets at October 1, 2018.

Net Asset Class	As Originally Presented	After Adoption of ASU 2016-14
Unrestricted net assets	\$ 1,698,820	\$ -
Temporarily restricted net assets	1,243,364	-
Permanently restricted net assets	25,000	-
Net assets without donor restrictions	-	1,698,820
Net assets with donor restrictions	-	1,268,364
Total	<u>\$ 2,967,184</u>	<u>\$ 2,967,184</u>

New accounting pronouncements

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 May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, (ASU 2014-19), which amends the FASB Accounting Standards Codification by superseding the revenue recognition requirements in FASB ACS 605, *Revenue Recognition*, and in most industry-specific topics. The ASU is effective for The Arc's 2020 financial statements. Management is currently evaluating the impact of ASU 2014-09 on its 2020 financial statements.

Note 3 – Liquidity and Availability of Resources

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of September 30, 2019 are:

Financial assets:	
Cash and cash equivalents	\$ 1,550,335
Accounts receivable, net	514,594
Beneficial interest in trust	26,432
Other receivables	44,963
Unconditional promises to give, net	<u>786,721</u>
Total financial assets	2,923,045
Less financial assets held to meet donor-imposed restrictions:	
Purpose and time restricted net assets	(642,271)
Subject to appropriation and satisfaction of donor-restrictions	(1,037,213)
Less financial assets not available within one year:	
Investment in trust	<u>(26,432)</u>
Amount available for general expenditures within one year	<u>\$ 1,217,129</u>

THE ARC OF PALM BEACH COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED

Note 3 – Liquidity and Availability of Resources, Continued

The above table reflects donor-restricted and any board-designated reserve funds as unavailable because it is The Arc's intention to invest those resources for the long-term support of The Arc's programs. However, in the case of need, the Board of Trustees could appropriate resources from the board-designated reserve for general use.

The Arc maintains a working capital line of credit of \$350,000 to cover short-term cash needs (Note 7).

Note 4 – Unconditional Promises to Give

Unconditional promises to give consist of the following at September 30, 2019 and 2018:

	2019	2018
Capital campaign pledges	\$ 603,612	\$ 405,000
Program services	<u>244,450</u>	<u>269,450</u>
Subtotal	848,062	674,450
Less: unamortized discount	<u>(61,341)</u>	<u>(41,483)</u>
Net unconditional promises to give	<u>\$ 786,721</u>	<u>\$ 632,967</u>
Amounts due in:		
Less than one year	\$ 462,783	\$ 304,450
One to three years	<u>385,279</u>	<u>370,000</u>
Total	<u>\$ 848,062</u>	<u>\$ 674,450</u>

The Arc applied discount rates ranging from 5.25 to 6.25% to its pledges with terms in excess of one year received during the years ended September 30, 2019 and 2018, respectively.

Note 5 – Property and Equipment

Property and equipment at September 30, 2019 and 2018 consists of the following:

	2019	2018
Land and landscaping	\$ 315,086	\$ 315,086
Buildings and improvements	4,321,441	4,275,211
Furniture, fixtures and equipment	673,831	659,552
Vehicles	<u>654,896</u>	<u>654,896</u>
	5,965,254	5,904,745
Less: accumulated depreciation	<u>(4,239,908)</u>	<u>(4,034,039)</u>
Subtotal	1,725,346	1,870,706
Construction in progress	<u>118,024</u>	<u>67,827</u>
Total property and equipment, net	<u>\$ 1,843,370</u>	<u>\$ 1,938,533</u>

Depreciation expense totaled \$208,315 and \$205,054, respectively, for the years ended September 30, 2019 and 2018. Construction in progress consists of upgrades and modifications made to The Arc's Courim Center, Boca Raton location, Poney Martin Residence and Sippotta Residence not yet in service as of September 30, 2019.

THE ARC OF PALM BEACH COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED

Note 6 – Long-Term Debt

Long-term debt includes the following at September 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Note payable – bank, collateralized by certain real property; interest at 4% and principal payable through September 2025.	\$ 225,442	\$ 257,978
Less: current portion of long-term debt	<u>(33,856)</u>	<u>(32,536)</u>
Long-term debt, net	<u>\$ 191,586</u>	<u>\$ 225,442</u>

Principal payments due in each of the five years subsequent to September 30, 2019, and thereafter, are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2020	\$ 33,856
2021	35,279
2022	36,737
2023	38,255
2024	39,828
Thereafter	<u>41,487</u>
Total	<u>\$ 225,442</u>

Note 7 – 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 1.25% (6.25% as of September 30, 2019). At September 30, 2019 and 2018, the line of credit had \$211,359 and \$0 in outstanding borrowings, respectively. The line of credit renews automatically each year until it is cancelled.

Note 8 – Net Assets with Donor Restrictions

Net assets were released from donor restrictions by time restrictions specified by donors and payments received during the years ended September 30, 2019 and 2018, as follows:

	<u>2019</u>	<u>2018</u>
Time restrictions expired on Town of Palm Beach United Way allocations	\$ 192,600	\$ 184,575
Other releases of restrictions	<u>122,020</u>	<u>298,314</u>
	<u>\$ 314,620</u>	<u>\$ 482,889</u>

THE ARC OF PALM BEACH COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED

Note 8 – Net Assets with Donor Restrictions, Continued

Net assets with donor restrictions as of September 30, 2019 and 2018 are restricted by donors for the following purposes:

	2019	2018
Time and purpose restrictions:		
Capital campaign	\$ 1,402,158	\$ 906,509
Charter school	100,750	89,537
Community living	60,000	59,276
Technology and security	99,186	14,836
Family support services	42,750	44,992
Transportation	-	-
Early intervention programs	11,742	11,946
Endowment	1,432	145
Special events, sponsorship	93,826	116,123
	\$ 1,811,844	\$ 1,243,364

At September 30, 2019 and 2018, The Arc has \$25,000 of net assets with donor restrictions of a perpetual nature.

Note 9 – 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, 2019 and 2018 amounted to \$110,453 and \$100,100, respectively, plus \$26,847 and \$35,537 for donated facilities for the years 2019 and 2018, respectively.

Note 10 – 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 The Arc discretionary or matching contributions to the 401(k) plan. For the years ended September 30, 2019 and 2018, no discretionary or matching contributions to the Plan were made or approved.

Note 11 – Concentrations of Credit Risk

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 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 30, 2019 and 2018, there were no management fees received from Housing by The Arc.

THE ARC OF PALM BEACH COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED

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.

The table below represents the schedule of payments to PBGC required under the settlement in each of the five years subsequent to September 30, 2019, and thereafter:

Year Ending September 30,	Amount
2020	\$ 44,631
2021	44,631
2022	44,631
2023	44,631
2024	94,600
Thereafter	<u>982,900</u>
Total scheduled payments	1,256,024
Less: amount representing interest	<u>(512,490)</u>
Net present value at September 30, 2019	<u>\$ 743,534</u>

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

Subsequent to September 30, 2019, The Arc entered into a financing arrangement for a construction line of credit with available borrowings of \$500,000 for the construction and renovation of its Poney Martin Residence. The construction line of credit will bear interest at the Wall Street prime rate, renews annually, and is secured by an interest in one of The Arc's money market accounts.

Management evaluated activity of The Arc subsequent to September 30, 2019 through December 6, 2019, 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.

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, 2019, 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 6, 2019.

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*.



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 of Palm Beach County, Inc.'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 Arc of Palm Beach County, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Templeton & Company, LLP

West Palm Beach, Florida
December 6, 2019