

The Arc New London County, Inc.

**Financial Statements
(With Supplementary Information)
and Independent Auditor's Report**

June 30, 2014 and 2013

The Arc New London County, Inc.

Index

	<u>Page</u>
Independent Auditor's Report	2-3
Statements of Financial Position	4
Statements of Activities	5
Statements of Cash Flows	6
Notes to Financial Statements	7-14
Supplementary Schedules:	
Program Expenses	15
Administrative Expenses	16

Independent Auditor's Report

To the Board of Directors
The Arc New London County, Inc.

Report on Financial Statements

We have audited the accompanying financial statements of The Arc New London County, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2014, and the related statement of activities and cash flows for the year 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 New London County, Inc. as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Adjustments to Prior Period Financial Statements

The financial statements of The Arc New London County, Inc. as of June 30, 2013 were audited by other auditors whose report dated November 20, 2013 expressed a qualified opinion because the Organization had excluded the effects of the CIL Reality, Inc. lease obligations from property and debt as described in note 13 to the financial statements. As discussed in note 13, the Organization has restated its 2013 financial statements during the current year to reflect the property and debt, in accordance with accounting principles generally accepted in the United States of America. The other audits reported on the 2013 financials statements before the restatements.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The information included in the accompanying schedules on pages 15 and 16 is presented for purposes of additional analysis of the financial statements and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December xx, 2014 on our consideration of The ARC New London 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 New London County, Inc.'s internal control over financial reporting and compliance.



Hartford, Connecticut
December 30, 2014

The Arc New London County, Inc.

Statements of Financial Position
June 30, 2014 and 2013

<u>Assets</u>	<u>2014</u>	<u>2013</u>
Current assets:		
Cash	\$ 1,402,105	\$ 1,435,274
Grants receivable	379,136	307,801
Accounts receivable, net	170,014	243,748
Prepaid expenses	136,542	123,815
Total current assets	<u>2,087,797</u>	<u>2,110,638</u>
Property, equipment and improvements, net	<u>3,694,580</u>	<u>3,978,320</u>
Other assets:		
Beneficial interest in perpetual trust	11,441	11,441
Inventory	1,177	1,740
Security deposits	8,675	-
Total other assets	<u>21,293</u>	<u>13,181</u>
Total assets	<u>\$ 5,803,670</u>	<u>\$ 6,102,139</u>
 <u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 106,788	\$ 97,296
Accrued expenses	643,014	727,632
Deferred revenue	167,564	138,392
Mortgage notes payable, current portion	103,811	121,656
Deferred capital improvements, current portion	9,217	9,217
Capital lease obligation, current portion	12,089	11,391
Total current liabilities	<u>1,042,483</u>	<u>1,105,584</u>
Long-term liabilities:		
Operational advances	132,057	132,057
Mortgage notes payable, less current portion	1,772,715	2,005,370
Deferred capital improvements, less current portion	29,185	38,402
Capital lease obligation, less current portion	605,263	617,352
Total long-term liabilities	<u>2,539,220</u>	<u>2,793,181</u>
Total liabilities	<u>3,581,703</u>	<u>3,898,765</u>
Net assets:		
Unrestricted net assets	2,199,609	2,185,336
Temporarily restricted	21,358	17,038
Permanently restricted	1,000	1,000
Total net assets	<u>2,221,967</u>	<u>2,203,374</u>
Total liabilities and net assets	<u>\$ 5,803,670</u>	<u>\$ 6,102,139</u>

See Notes to Financial Statements.

The Arc New London County, Inc.
Statements of Activities
Years Ended June 30, 2014 and 2013

	2014	2013
Changes in unrestricted net assets:		
Revenues:		
Residential and day programs	\$ 9,165,585	\$ 8,180,797
Fee for service	1,208,995	1,913,520
Grants and contributions	151,992	151,448
Other	76,740	75,555
Rental and interest income	61,959	63,360
Net assets released from restrictions	40,365	11,821
Total revenues	10,705,636	10,396,501
Expenses:		
Program expenses	9,310,098	8,954,991
Fundraising expenses	36,035	43,228
Administrative expenses	1,345,230	1,259,567
Total expenses	10,691,363	10,257,786
Changes in unrestricted net assets	14,273	138,715
Changes in temporarily restricted net assets:		
Donations	44,685	20,560
Net assets released from restrictions	(40,365)	(11,821)
Changes in temporarily restricted net assets	4,320	8,739
Changes in net assets	18,593	147,454
Net assets, beginning of year, as originally reported	2,203,374	2,083,444
Prior period adjustment	-	(27,524)
Net assets, beginning of year, as restated	2,203,374	2,055,920
Net assets, end of year	\$ 2,221,967	\$ 2,203,374

See Notes to Financial Statements.

The Arc New London County, Inc.

**Statements of Cash Flows
Years Ended June 30, 2014 and 2013**

	2014	2013
Operating activities:		
Changes in net assets	\$ 18,593	\$ 147,454
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Gain on sale of property	39,625	-
Depreciation and amortization	189,139	210,066
Deferred capital improvements revenue	(9,217)	(9,216)
Changes in operating assets and liabilities:		
Grants receivable	(71,335)	(102,227)
Accounts receivable	73,734	88,222
Prepaid expenses	(12,727)	(13,192)
Inventory	563	(216)
Security deposits	(8,675)	-
Accounts payable	9,492	(20,931)
Accrued expenses	(84,618)	300,462
Deferred revenue	29,172	(33,827)
Net cash provided by operating activities	173,746	566,595
Investing activities:		
Net unrealized gain on beneficial trusts	-	(1,269)
Proceeds from sale of property and equipment	137,000	-
Purchase of property, equipment and improvements	(82,024)	(46,254)
Net cash provided by (used in) investing activities	54,976	(47,523)
Financing activities:		
Repayments of long-term debt	(250,500)	(139,092)
Repayments of capital lease obligations	(11,391)	(10,735)
Net cash used in financing activities	(261,891)	(149,827)
Net (decrease) increase in cash	(33,169)	369,245
Cash, beginning of year	1,435,274	1,066,029
Cash, end of year	\$ 1,402,105	\$ 1,435,274
Supplemental disclosures of cash flow data:		
Interest paid	\$ 86,161	\$ 75,200

See Notes to Financial Statements.

The Arc New London County, Inc.

Notes to Financial Statements June 30, 2014 and 2013

Note 1 - Organization and summary of significant accounting policies

Organization

The Arc New London County, Inc. (the "Arc") is a nonprofit organization which provides placement opportunities and services for people in New London County, Connecticut with developmental disabilities.

Basis of presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The financial statements report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. They are described as follows:

Unrestricted - Net assets that are not subject to explicit donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

Temporarily Restricted - Net assets whose use by the Arc is subject to explicit donor-imposed stipulations or by operation of law that can be fulfilled by actions of Arc or that expire by the passage of time.

Permanently Restricted - Net assets subject to explicit donor-imposed stipulations that they be maintained permanently by the Arc and stipulate the use of income and/or appreciation as either unrestricted or temporarily restricted based on donor-imposed stipulations or by operations of law.

Tax exempt status

The Arc is organized as a nonprofit corporation under Section 501(c)(3) of the Internal Revenue Code and, as such, is not subject to Federal or state corporate income taxes.

Arc has no unrecognized tax benefits at June 30, 2014 and 2013. Arc's Federal information returns prior to fiscal year 2011 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

If Arc has unrelated business income taxes, it would recognize interest and penalties associated with any tax matters as part of the income tax provision and include accrued interest and penalties with the related tax liability in the statements of financial position.

Cash and cash equivalents

Cash and cash equivalents include all cash balances and highly liquid short-term investments with an original maturity of three months or less when acquired. There were no cash equivalents as of June 30, 2014 and 2013.

The Arc New London County, Inc.

Notes to Financial Statements
June 30, 2014 and 2013

Accounts receivable

Accounts receivable principally represent monies due from Department of Development Services ("DDS") and Department of Social Services ("DSS"). Accounts receivable arising from regular operations are stated net of an allowance for doubtful accounts when applicable. Allowances for accounts receivable are determined by management based on an assessment of their collectability. Management considers past history, current economic conditions and overall viability of the third party when considering the need for an allowance. Receivables are written off when management determines amounts will not be collected. Receivables are considered past due based on invoice date. There is an allowance for accounts receivable at both June 30, 2014 and 2013 of \$6,200.

Property, equipment and improvements

Arc capitalizes all expenditures for property and equipment exceeding \$2,500, with a useful life greater than three years. Purchased property and equipment is carried at cost less accumulated depreciation. Donated property and equipment is carried at the approximate fair value at the date of donation. Depreciation and amortization is computed using the straight-line method over their estimated useful lives or life of lease where applicable. Estimated lives for financial reporting purposes are as follows:

<u>Asset</u>	<u>Estimated Lives</u>
Buildings and improvements	5 - 39.5 years
Vehicles	3 - 5 years
Furniture and equipment	5 - 10 years

Expenditures for repairs and maintenance are charged to expense as incurred. For assets sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in change in net assets for the period.

Beneficial interest in perpetual trust

Arc's beneficiary interest is a perpetual trust held by the Community Foundation of Southeastern Connecticut. Arc established the fund in 2003. With each \$10,000 contributed, the Foundation matches \$1,000. The \$1,000 match is permanently restricted.

Gifts of long-lived assets

Arc reports gifts of land, buildings and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, Arc reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

The Arc New London County, Inc.

Notes to Financial Statements June 30, 2014 and 2013

Expense allocation

The cost of providing various programs and activities has been summarized on a functional basis in the accompanying statements of activities. Accordingly, certain administrative costs have been allocated among programs.

Revenue recognition

Program and contract revenue

Arc manages residential facilities, in home support and day programs for individuals with special needs. The residential facilities are reimbursed according to regulations governing Community Living Arrangements. Food and lodging costs are reimbursed by DSS and other covered expenses are reimbursed by DDS. Services provided by Arc related to day programs and supported living programs are billed through a fiscal intermediary and/or reimbursed through a direct contract with DDS. Reimbursement of certain expenses is subject to maximum per diem rate limitations and annual cost settlement regulations.

Fundraising and contributions

Arc conducts various fundraising activities during the year including special events and appeals for donations. Revenues generated by these activities were \$87,208 and \$96,521 and the total costs of fundraising activities were \$36,035 and \$43,228 for the years ended June 30, 2014 and 2013, respectively.

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets, if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Deferred revenue

Program and contract revenue received in advance is recorded as deferred revenue and recorded in the period to which it relates.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent events

Arc has evaluated subsequent events through December 30, 2014, which is the date the financial statements were available to be issued.

The Arc New London County, Inc.

Notes to Financial Statements
June 30, 2014 and 2013

Note 2 - Concentrations

Funding source

Arc's program revenue is primarily derived from contracts with DDS. Total revenue received from DDS in 2014 and 2013 was \$8,631,670 and \$7,616,461, respectively. Amounts due from DDS at June 30, 2014 and 2013 were \$379,136 and \$307,801, respectively.

Concentrations of credit risk

Financial instruments which potentially subject Arc to concentrations of credit risks consist primarily of cash and accounts receivable. Arc maintains its cash with high-credit quality financial institutions. At times, such amounts may exceed Federally insured limits. At June 30, 2014, the cash balance exceeded the Federally insured limit by approximately \$746,000.

Note 3 - Property and equipment

Components of property and equipment are as follows:

	2014	2013
Buildings	\$ 3,409,885	\$ 3,535,824
Capital and leasehold improvements	934,604	883,797
Furniture, fixtures and equipment	264,045	243,711
Vehicles	248,261	248,421
	<u>4,856,795</u>	<u>4,911,753</u>
Less accumulated depreciation	(2,333,988)	(2,168,176)
Land	1,171,773	1,234,743
	<u>\$ 3,694,580</u>	<u>\$ 3,978,320</u>

Depreciation expense was \$189,139 and \$210,066 for the years ended June 30, 2014 and 2013, respectively.

Note 4 - Long-term debt

Long-term debt consists of the following at June 30, 2014 and 2013:

	2014	2013
6.00% mortgage loan payables to DDS, collateralized by real estate. Monthly principal and interest payments ranging from \$84 - \$2,153 are payable through September 2030.	\$ 914,842	\$ 960,992
3.40% mortgage loan payables to Connecticut Housing and Financing Authority ("CHFA"), collateralized by real estate. Monthly principal and interest payments ranging from \$1,547 - \$2,353 are payable through December 2041.	687,407	703,138

The Arc New London County, Inc.

**Notes to Financial Statements
June 30, 2014 and 2013**

	2014	2013
4.5% - \$4.88% notes payable to Chelsea Groton Savings Bank, collateralized by real estate. Monthly principal and interest payments of \$22 to \$129 are payable through April 2022.	\$ 274,277	\$ 310,424
6.00% mortgage loan payables to Liberty Bank, collateralized by real estate.	-	134,482
Other vehicle notes	-	17,990
	1,876,526	2,127,026
Less current portion	(103,811)	(121,656)
Totals	\$ 1,772,715	\$ 2,005,370

Future maturities of long-term debt for each of the five years subsequent to 2014 and thereafter are as follows:

Year Ending June 30,	Amount
2015	\$ 103,811
2016	109,239
2017	114,959
2018	119,974
2019	117,268
Thereafter	1,311,275
Total	\$ 1,876,526

Related interest expense for the years ended June 30, 2014 and 2013 was \$99,185 and \$111,103, respectively.

Note 5 - Line of credit

Arc has a \$350,000 line of credit with Chelsea Groton Bank which expires in May 2015. The line of credit bears interest of 5% and is collateralized by the assets of Arc. The line of credit is limited to 75% of eligible accounts receivable balances. There was no outstanding balance as of June 30, 2014 or 2013.

Note 6 - Capital lease obligations

The assets and related liability under the capital leases are recorded at the fair value of the asset. The assets are amortized over the shorter of their related lease terms or their estimated productive lives. Arc leased two properties with CIL Realty, Inc. ("CIL"); the property will transfer ownership at the end of the lease term. Amortization of the assets under the capital leases is included in depreciation and amortization expense.

The Arc New London County, Inc.

**Notes to Financial Statements
June 30, 2014 and 2013**

Accordingly, the assets were capitalized and have the following book values at June 30, 2014 and 2013:

	2014	2013
Building	\$ 532,069	\$ 532,069
Less accumulated amortization	(115,761)	(98,025)
Land	160,174	160,174
Totals	\$ 576,482	\$ 594,218

Related interest expense for the years ended June 30, 2014 and 2013 was \$39,449 and \$40,106, respectively. Amortization expense relating to the capital lease obligations for both the years ended June 30, 2014 and 2013 was \$17,736.

At June 30, 2014, future minimum lease payments due under capital leases are as follows:

Year Ending June 30,	Amount
2015	\$ 50,841
2016	50,841
2017	50,841
2018	50,841
2019	50,841
Thereafter	962,373
Total future minimum lease payments	1,216,578
Less amount representing interest	(599,226)
Present value of net minimum lease payments	617,352
Less current portion	(12,089)
Long-term portion	\$ 605,263

Note 7 - Commitments

Real estate

Arc leases three facilities and is responsible for utilities, maintenance and insurance. Related rent expense for the years ended June 30, 2014 and 2013 was \$86,161 and \$75,200, respectively. Monthly rental payments range between \$1,450 - \$5,000 expiring at various times through May 2018.

Vehicle and equipment

Arc also leases vehicles and copiers for amounts ranging \$207 - \$1,704 per month through June 2019. Related rent expense for the years ended June 30, 2014 and 2013 was \$101,709 and \$95,103, respectively.

The Arc New London County, Inc.

Notes to Financial Statements
June 30, 2014 and 2013

Future minimum lease payments due under all non-cancelable operating leases are as follows:

Year Ending June 30,	Amount
2015	\$ 195,801
2016	161,729
2017	153,286
2018	85,927
2019	17,978
Total	<u>\$ 614,721</u>

Note 8 - Operational advances

When a facility commences operations, Arc may receive an operational advance equal to one month service revenue based on full capacity. These operational advances are applied against the final reimbursement when a facility ceases its agency relationship with DDS. Total operational advances received by Arc amounted to \$132,057 as of both June 30, 2014 and 2013.

Note 9 - Deferred capital improvements

During the fiscal year ended June 30, 2009, Arc received funding from the State of Connecticut Department of Developmental Services for Grant-In-Aid bonding funds of \$92,165, which provided funding for replacement of the roof at Arc's headquarters facility in Norwich, Connecticut. A ten year lien has been filed in favor of the State of Connecticut for the amount of the bond funding, of which a declining percentage of the award will be required to be returned to the State should Arc cease their operations as a DDS funded day program site during this period. Accordingly, the deferred bond revenue is being amortized over the ten year lien period. The balance of the bond funds at June 30, 2014 and 2013 was \$38,402 and \$47,619, respectively and is included under current and long-term liabilities on the statements of financial position.

Note 10 - Pension plan

Arc maintains a 403(b) retirement plan covering all eligible employees. Annually, the Board of Directors determines the matching contribution, if any, to the plan. Arc contributed \$38,926 and \$39,185 to the plan for the years ended June 30, 2014 and 2013, respectively.

The Arc New London County, Inc.

**Notes to Financial Statements
June 30, 2014 and 2013**

Note 11 - Temporarily restricted net assets

Temporarily restricted net assets are available for the following purposes as of June 30, 2014 and 2013:

	2014	2013
Program restrictions	\$ 3,993	\$ 17,038
Capital restrictions	17,365	-
Totals	\$ 21,358	\$ 17,038

Temporarily restricted net assets released from restrictions for the years ended June 30, 2014 and 2013 were as follows:

	2014	2013
Program restrictions	\$ 29,730	\$ 11,821
Capital restrictions	10,635	-
Totals	\$ 40,365	\$ 11,821

Note 12 - National and state affiliations

The Arc New London County, Inc. is affiliated with The Arc Connecticut and The Arc United States. In exchange for dues to these two organizations, the Arc gets the assistance in promoting the joint causes of the organizations with state and Federal governments.

Note 13 - Prior period adjustment

The June 30, 2013 audited financial statements issued by prior auditor on November 20, 2013 had a qualified opinion as a result of not recording the capital leases on the statement of financial position. The 2013 balances have been restated to include the capital lease adjustments. The changes are as follows:

	As Originally Stated	Adjustment	Restatement
Property, equipment and improvements	\$ 3,384,102	\$ 594,218	\$ 3,978,320
Capital lease, current portion	-	11,391	11,391
Capital lease, less current portion	-	617,352	617,352
Unrestricted net assets	2,219,861	(34,525)	2,185,336
Program expense	8,947,990	7,001	8,594,991
Change in net assets	154,455	(7,001)	147,454

The Arc New London County, Inc.

Program Expenses
Years Ended June 30, 2014 and 2013

	2014	2013
Salaries and wages	\$ 5,893,479	\$ 5,604,000
Benefits and payroll tax	1,292,263	1,350,475
Transportation expenses	588,652	513,255
Program supplies	381,152	417,589
Utilities	211,264	187,208
Consulting	209,854	197,104
Depreciation and amortization	178,294	194,613
Repairs and maintenance	173,251	140,256
Interest	132,432	140,193
Rent	86,161	75,200
Professional services	61,160	41,088
Insurance	43,196	43,548
Training	22,488	22,033
Activities	21,078	19,968
Miscellaneous	14,025	8,461
Temporary help	1,349	-
Totals	<u>\$ 9,310,098</u>	<u>\$ 8,954,991</u>

See Independent Auditor's Report.

The Arc New London County, Inc.

Administrative Expenses
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Salaries and wages	\$ 762,512	\$ 730,772
Benefits and payroll tax	146,455	130,023
Program supplies	108,440	103,205
Professional services	93,440	96,418
Training	54,183	35,828
Utilities	46,421	42,255
Miscellaneous	39,625	-
Association membership	27,839	27,304
Recruitment and hiring	17,924	8,852
Insurance	12,403	11,158
Depreciation and amortization	10,845	15,453
Temporary help	8,392	37,937
Interest	6,202	11,016
Consulting	5,982	4,176
Transportation expenses	4,567	5,170
Totals	<u>\$ 1,345,230</u>	<u>\$ 1,259,567</u>

See Independent Auditor's Report.