

THE ARC GATEWAY, INC.
PENSACOLA, FLORIDA
CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

THE ARC GATEWAY, INC.
PENSACOLA, FLORIDA
CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

CONTENTS

| | PAGE |
|---|------|
| Audited Financial Statements: | |
| Independent Auditor's Report | 1 |
| Consolidated Statements of Financial Position | 3 |
| Consolidated Statements of Activities | 4 |
| Consolidated Statements of Cash Flows | 6 |
| Notes to Consolidated Financial Statements | 7 |
| Supplementary Information: | |
| Consolidating Financial Statements | 21 |
| Consolidating Schedule of Functional Expenses | 24 |
| Schedule of Expenditures of State Financial Assistance | 28 |
| Other Reports and Schedule: | |
| Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 29 |
| Independent Auditor's Report on Compliance for Each Major State Project and on Internal Control Over Compliance Required by Chapter 10.650, Rules of the Auditor General | 31 |
| Schedule of Findings and Questioned Costs | 33 |

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Arc Gateway, Inc.
Pensacola, Florida

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of The Arc Gateway, Inc. (a nonprofit organization), which comprise the consolidated statements of financial position as of September 30, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the consolidated 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 consolidated 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 principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

Board of Directors
The Arc Gateway, Inc.

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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Arc Gateway, 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 Matters

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating financial statements are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies, and are not a required part of the consolidated financial statements. The schedule of expenditures of state financial assistance, as required by Chapter 10.650, Rules of the Auditor General, and the consolidating schedule of functional expenses are presented for purposes of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated 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 June 24, 2019, on our consideration of The Arc Gateway, 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 Gateway, Inc.'s internal control over financial reporting and compliance.



Pensacola, Florida
June 24, 2019

THE ARC GATEWAY, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2018 AND 2017

ASSETS

| | 2018 | 2017 |
|-----------------------------------|---------------------|---------------------|
| Cash and cash equivalents | \$ 1,458,962 | \$ 1,250,261 |
| Investments | 716,069 | 724,878 |
| Accounts receivable, net | 584,976 | 1,044,978 |
| Inventories | 107,233 | 114,180 |
| Prepaid expenses and other assets | 125,855 | 117,533 |
| Property and equipment, net | 3,676,835 | 3,623,355 |
| Total Assets | \$ 6,669,930 | \$ 6,875,185 |

LIABILITIES AND NET ASSETS

Liabilities:

| | | |
|--------------------------|-----------|------------|
| Accounts payable | \$ 81,112 | \$ 136,694 |
| Accrued expenses | 421,125 | 319,113 |
| Refundable advances | 200,548 | 172,577 |
| Capital lease obligation | 21,888 | 30,201 |
| Long-term debt | - | 56,304 |
| Total liabilities | 724,673 | 714,889 |

Commitments and Contingencies

--

Net Assets:

| | | |
|------------------------|-----------|-----------|
| Unrestricted | 5,530,367 | 5,750,350 |
| Temporarily restricted | 123,721 | 121,991 |
| Permanently restricted | 291,169 | 287,955 |
| Total net assets | 5,945,257 | 6,160,296 |

Total Liabilities and Net Assets

\$ 6,669,930 **\$ 6,875,185**

The accompanying notes are an integral
part of these consolidated financial statements.

THE ARC GATEWAY, INC.
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

| | 2018 | 2017 |
|---|--------------|--------------|
| Changes in Unrestricted Net Assets: | | |
| Revenue, Support and Reclassifications: | | |
| Medicaid - | | |
| Developmental Disabilities Individual Budgeting waivers | \$ 2,982,036 | \$ 3,008,533 |
| Omnibus Budget Reconciliation Act (OBRA) | 269,724 | 282,418 |
| Federal and state grants | 2,302,947 | 3,403,035 |
| Department of Transportation contracts | 717,289 | 698,458 |
| Noncontract funding | 234,271 | 238,694 |
| Other contracts and financial assistance | 195,526 | 683,666 |
| Private insurance | 344,607 | 466,313 |
| Program income | 27,937 | 93,023 |
| Sales to public (net of direct costs of \$262,292 in 2018 and \$254,329 in 2017) | 614,797 | 595,634 |
| United Way | 91,350 | 99,139 |
| Public support contributions | 229,733 | 284,191 |
| Special events | 460,031 | 436,647 |
| Membership revenue | 18,570 | 28,384 |
| Investment income, including unrealized gains and losses | 26,107 | 41,871 |
| Miscellaneous | 103,519 | 9,431 |
| Net assets released from restrictions | 9,537 | 26,279 |
| Total revenue, support and reclassifications | 8,627,981 | 10,395,716 |
| Expenses: | | |
| Program Services - | | |
| Pollak Training Center | 903,399 | 1,030,111 |
| Pollak Industries | 669,073 | 686,896 |
| Community Based Employment | 958,629 | 939,946 |
| Employment Services | 196,067 | 171,553 |
| Pearl Nelson Child Development Center | 1,084,996 | 1,407,828 |
| Group Homes | 1,652,179 | 1,587,246 |
| Supported Living | 123,865 | 128,736 |
| Senior Adult Program | 186,439 | 207,953 |
| Transportation | 509,004 | 510,150 |
| Program for Adult Learning and Support | 1,806,606 | 1,760,305 |
| Jeff's Corner Garden | 49,511 | 88,556 |
| Hightower | 15,040 | - |
| South Santa Rosa | 118,595 | - |
| Total program services | 8,273,403 | 8,519,280 |

The accompanying notes are an integral
part of these consolidated financial statements.

THE ARC GATEWAY, INC.
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED SEPTEMBER 30, 2018 AND 2017
(Continued)

| | 2018 | 2017 |
|--|--------------|--------------|
| Changes in Unrestricted Net Assets (Continued): | | |
| Expenses (Continued): | | |
| Supporting Services - | | |
| Fund raising | \$ 85,848 | \$ 99,125 |
| General and administrative - | | |
| General | 377,372 | 348,625 |
| Maintenance | 111,341 | 56,351 |
| Total supporting services | 574,561 | 504,101 |
| Total expenses | 8,847,964 | 9,023,381 |
| Change in unrestricted net assets | (219,983) | 1,372,335 |
| Changes in Temporarily Restricted Net Assets: | | |
| Public support contributions | 11,267 | 29,399 |
| Net assets released from restriction | (9,537) | (26,279) |
| Change in temporarily restricted net assets | 1,730 | 3,120 |
| Change in Permanently Restricted Net Assets: | | |
| Public support contributions | 3,214 | 200 |
| Change in Net Assets | (215,039) | 1,375,655 |
| Net Assets, Beginning of Year | 6,160,296 | 4,784,641 |
| Net Assets, End of Year | \$ 5,945,257 | \$ 6,160,296 |

The accompanying notes are an integral
part of these consolidated financial statements.

THE ARC GATEWAY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

| | 2018 | 2017 |
|--|--------------|--------------|
| Cash Flows From Operating Activities: | | |
| Change in net assets | \$ (215,039) | \$ 1,375,655 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities - | | |
| Depreciation | 416,066 | 427,879 |
| Loss on disposal of property | - | 89,247 |
| Unrealized gain on investments | (30,767) | (20,710) |
| Contributions restricted for long-term purposes | (3,214) | (200) |
| Changes in operating assets and liabilities - | | |
| Accounts receivable | 460,002 | (360,227) |
| Inventories | 6,947 | 5,583 |
| Prepaid expenses and other assets | (8,322) | (54,622) |
| Accounts payable | (55,582) | 16,582 |
| Accrued expenses | 102,012 | 12,815 |
| Refundable advances | 27,971 | (309,329) |
| Net cash provided by operating activities | 700,074 | 1,182,673 |
| Cash Flows From Investing Activities: | | |
| Purchase of property and equipment | (469,546) | (614,144) |
| Purchase of investments, including reinvested earnings | (97,911) | (177,904) |
| Proceeds from sale and maturities of investments | 137,487 | 159,077 |
| Net cash used in investing activities | (429,970) | (632,971) |
| Cash Flows From Financing Activities: | | |
| Principal payments of long-term debt | (56,304) | (58,946) |
| Principal payments on capital lease obligation | (8,313) | (17,549) |
| Contributions to permanent endowments | 3,214 | 200 |
| Net cash used in financing activities | (61,403) | (76,295) |
| Net Increase in Cash and Cash Equivalents | 208,701 | 473,407 |
| Cash and Cash Equivalents, Beginning of Year | 1,250,261 | 776,854 |
| Cash and Cash Equivalents, End of Year | \$ 1,458,962 | \$ 1,250,261 |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash paid during the year for interest | \$ 2,139 | \$ 3,981 |

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THE ARC GATEWAY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization:

The Arc Gateway, Inc. (The Arc) was formed for the purpose of providing assistance to and enhancing the social welfare of people with developmental disabilities in the community. The accompanying consolidated financial statements include the assets, liabilities, net assets, and financial activities of three related entities: the Escambia County Association for Retarded Citizens Trust (the Trust), Pollak Rehabilitation Center, Inc. (PRC, Inc.), and the Arc Gateway Foundation, Inc. (the Foundation).

The Trust is a perpetual, public charitable trust, which distributes its investment income annually to The Arc. Contributions received by the Trust are permanently restricted and become part of the Trust corpus.

PRC, Inc. is a title holding company whose function is to own and lease-back real property to The Arc.

The Foundation is a support organization whose sole purpose is to raise, invest, and manage funds specifically to support programs and services of The Arc. Unrestricted contributions received by the Foundation may be disbursed to The Arc with approval of the Foundation's Board of Directors. Temporarily restricted contributions received by the Foundation are held until the time restrictions have ended.

Principles of Consolidated Financial Statements:

The accompanying consolidated financial statements include the accounts of The Arc and its related entities, the Trust, PRC, Inc., and the Foundation as those entities are controlled by the same management and share economic interests. All inter-entity transactions have been eliminated in consolidation.

Basis of Accounting:

The consolidated financial statements of The Arc have been prepared using the accrual basis of accounting, which recognizes revenue when earned and expenses as incurred, and may involve the use of management estimates. Federal, state and local government and public grants are recorded as support when performance occurs under the terms of the grant agreement. Grant monies received for which performance has not yet occurred and contributions received for special events that have not yet taken place are recorded as refundable advances.

Use of Estimates:

The preparation of consolidated 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 may differ from those estimates.

THE ARC GATEWAY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation:

The Arc reports information regarding financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Net assets are classified based on externally imposed restrictions, if any, that may or may not be met by actions of management or by the passage of time.

Medicaid:

The Arc receives a substantial amount of its support from the Agency for Persons with Disabilities (APD) under the Developmental Disabilities Individual Budgeting waivers (DDIB). The DDIB waivers provide services to individuals with developmental disabilities to assist them to live in their home or the community. Medicaid reimbursement for DDIB waiver services is based on rates incorporated into rule. Services included under the DDIB waivers include adult day training, respite, supported living coaching, supported employment, and transportation. The DDIB waivers also provide residential habilitation and companion services.

Contributions:

The Arc records contributions received 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, temporarily restricted net assets are reclassified to unrestricted net assets.

Unconditional promises to give are recorded as received. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. An allowance for uncollectible pledges is provided based on management's evaluation of potential uncollectible pledges receivable at year end. Conditional promises to give are not included as support until the conditions are substantially met. Pledges receivable were insignificant to financial position at September 30, 2018 and 2017.

THE ARC GATEWAY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In-Kind Donations:

Significant services, materials, vehicles and facilities are donated to The Arc by various individuals and organizations. Donated services, materials, vehicles and occupancy of \$81,698 and \$139,997 for the years ended September 30, 2018 and 2017, respectively, were recorded at fair value at the date of donation, and have been included in revenue and expenses, or capitalized where applicable, in the period received.

Cash Equivalents:

The Arc considers all highly liquid investment instruments with original maturities of three months or less as cash equivalents, excluding amounts whose use is temporarily or permanently restricted.

Investments:

Investments consist of certificates of deposit that mature within one to three years of purchase and exchange traded funds. Donated stock is valued at the estimated fair value on the date of the donation. Certificates of deposit are stated at cost plus earnings. Exchange traded funds are stated at fair value. Interest income, dividends, and realized and unrealized gains and losses are reflected in the consolidated statements of activities.

Inventories:

Inventories are stated at the lower of cost or market. Cost is determined on the first-in, first-out (FIFO) method.

Accounts Receivable:

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

The Arc has established an allowance for contractual adjustments that result from differences between the amounts billed and the expected realizable amounts. Actual adjustments between the amounts billed and the amounts received are charged against the allowance. Revenues are reported net of estimated contractual adjustments in the period services are rendered.

THE ARC GATEWAY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment:

Property and equipment are carried at cost. Donated property is valued at the estimated fair value on the date of the donation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period. The cost of maintenance and repairs is charged to expense as incurred; renewals and betterments exceeding \$1,000 are capitalized. Estimated useful lives of property and equipment range as follows:

| | |
|-----------------------------------|--------------|
| Buildings | 3 - 45 years |
| Equipment, furniture and fixtures | 3 - 20 years |
| Vehicles | 3 - 10 years |

General and Administrative Expenses:

General and administrative expenses, net of general and administrative revenue, are allocated to the various programs based on each program's percentage of direct expenses to total direct expenses.

Income Taxes:

The Arc, the Trust, and the Foundation are not-for-profit organizations exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). PRC, Inc. is a not-for-profit organization exempt from federal income taxes under Internal Revenue Code Section 501(c)(2). Income from certain activities not directly related to The Arc's tax-exempt purpose is subject to taxation as unrelated business income.

Subsequent Events:

Management has evaluated subsequent events through June 24, 2019, which is the date the consolidated financial statements were available to be issued.

THE ARC GATEWAY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE 2 - INVESTMENTS

Investments are summarized as follows:

| | Cost | Carrying Amount |
|-----------------------------|------------|--------------------|
| September 30, 2018 - | | |
| Unrestricted: | | |
| Certificates of deposit | \$ 15,881 | \$ 15,881 |
| Exchange traded funds | 353,081 | 383,848 |
| | 368,962 | 399,729 |
| Temporarily restricted: | | |
| Certificate of deposit | 28,639 | 28,639 |
| Permanently restricted: | | |
| Certificates of deposit | 287,701 | 287,701 |
| Total investments | \$ 685,302 | \$ 716,069 |
| | | |
| | Cost | Carrying Amount |
| September 30, 2017 - | | |
| Unrestricted: | | |
| Certificates of deposit | \$ 15,086 | \$ 15,086 |
| Exchange traded funds | 374,856 | 395,566 |
| | 389,942 | 410,652 |
| Temporarily restricted: | | |
| Certificate of deposit | 28,639 | 28,639 |
| Permanently restricted: | | |
| Certificates of deposit | 285,587 | 285,587 |
| Total investments | \$ 704,168 | \$ 724,878 |

THE ARC GATEWAY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE 2 - INVESTMENTS (Continued)

The following schedule summarizes the investment return and its classification in the consolidated statements of activities:

| | 2018 | 2017 |
|-------------------------|-----------|-----------|
| Unrestricted: | | |
| Interest and dividends | \$ 8,756 | \$ 8,731 |
| Realized gain (loss) | (13,416) | 12,430 |
| Unrealized gain | 30,767 | 20,710 |
| Total investment return | \$ 26,107 | \$ 41,871 |

NOTE 3 - FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board Accounting Standards Codification (ASC) 820, *Fair Value Measurements*, defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The guidance establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset.

ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Three levels of inputs may be used to measure fair value:

Level 1: Observable inputs such as quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Exchange traded funds are classified as Level 1 as they are traded in an active market for which closing prices are readily available.

THE ARC GATEWAY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE 3 - FAIR VALUE MEASUREMENTS (Continued)

The following table presents the financial instruments carried at fair value:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|-------------------------------|-------------------|----------------|----------------|-------------------|
| Exchange traded funds: | | | | |
| U.S. Large Cap | \$ 105,431 | \$ - | \$ - | \$ 105,431 |
| U.S. Mid Cap | 17,512 | - | - | 17,512 |
| U.S. Small Cap | 14,133 | - | - | 14,133 |
| Non-U.S. Developing | | | | |
| Market Equity | 53,891 | - | - | 53,891 |
| Investment Grade Intermediate | | | | |
| Maturity Fixed Income | 154,367 | - | - | 154,367 |
| Investment Grade Short | | | | |
| Maturity Fixed Income | 28,348 | - | - | 28,348 |
| Non-Investment Grade | | | | |
| Fixed Income | <u>10,166</u> | <u>-</u> | <u>-</u> | <u>10,166</u> |
| Total, September 30, 2018 | <u>\$ 383,848</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 383,848</u> |
| Exchange traded funds: | | | | |
| U.S. Large Cap | \$ 128,555 | \$ - | \$ - | \$ 128,555 |
| U.S. Mid Cap | 34,939 | - | - | 34,939 |
| U.S. Small Cap | 16,032 | - | - | 16,032 |
| Non-U.S. Developing | | | | |
| Market Equity | 43,507 | - | - | 43,507 |
| Investment Grade Intermediate | | | | |
| Maturity Fixed Income | 120,111 | - | - | 120,111 |
| Investment Grade Short | | | | |
| Maturity Fixed Income | 18,659 | - | - | 18,659 |
| Non-Investment Grade | | | | |
| Fixed Income | <u>33,763</u> | <u>-</u> | <u>-</u> | <u>33,763</u> |
| Total, September 30, 2017 | <u>\$ 395,566</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 395,566</u> |

THE ARC GATEWAY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable are summarized as follows:

| | <u>2018</u> | <u>2017</u> |
|--|-------------------|---------------------|
| Funding agencies | \$ 376,300 | \$ 733,283 |
| Private insurance, net of allowance for contractual adjustments of \$137,841 in 2018 and \$744,292 in 2017 | 138,499 | 211,993 |
| Trade, net of allowance for uncollectible accounts of \$17,668 in 2018 and \$17,086 in 2017 | 62,627 | 63,406 |
| Other | <u>7,550</u> | <u>36,296</u> |
| | <u>\$ 584,976</u> | <u>\$ 1,044,978</u> |

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows:

| | <u>2018</u> | <u>2017</u> |
|-----------------------------------|---------------------|---------------------|
| Land | \$ 674,589 | \$ 674,589 |
| Buildings | 4,906,495 | 4,574,437 |
| Equipment, furniture and fixtures | 1,126,929 | 1,011,323 |
| Vehicles | <u>1,396,585</u> | <u>1,374,702</u> |
| | 8,104,598 | 7,635,051 |
| Less accumulated depreciation | <u>4,427,763</u> | <u>4,011,696</u> |
| | <u>\$ 3,676,835</u> | <u>\$ 3,623,355</u> |

Depreciation expense was \$416,066 and \$427,879 for the years ended September 30, 2018 and 2017, respectively.

THE ARC GATEWAY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE 6 - BORROWINGS UNDER LINE OF CREDIT

The Arc has a line of credit with a financial institution for \$250,000. The line of credit is secured by accounts maintained at the financial institution and accrues interest at prime, which is a variable rate of interest (5.25% at September 30, 2018). The line has no stated maturity date and any amounts outstanding are due on demand. As of September 30, 2018 and 2017, there were no outstanding borrowings under the line of credit.

NOTE 7 - CAPITAL LEASE OBLIGATION

The Arc leases certain office equipment under an agreement that is classified as a capital lease. The cost of equipment under the capital lease was \$24,736 and is included in the consolidated statements of financial position as property and equipment at September 30, 2018 and 2017. Accumulated amortization of the leased equipment at September 30, 2018 and 2017 was \$18,682 and \$10,778, respectively. Amortization of assets under capital lease is included in depreciation expense.

The future minimum lease payments required under the capital lease and the present value of the net minimum lease payments as of September 30, 2018, are as follows:

| Year Ending <u>September 30,</u> | |
|---|-------------------------|
| 2019 | \$ 8,550 |
| 2020 | 8,550 |
| 2021 | <u>5,700</u> |
| Total minimum lease payments | 22,800 |
| Less amount representing interest | <u>912</u> |
| Present value of minimum lease payments | <u><u>\$ 21,888</u></u> |

THE ARC GATEWAY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE 8 - LONG-TERM DEBT

Long-term debt is summarized as follows:

| | 2018 | 2017 |
|--|------|-----------|
| Notes payable to banks, aggregate monthly payments of \$5,243 including interest ranging from 1.79% to 3.85%, original maturities through July 2020, secured by vehicles, repaid in 2018 | \$ - | \$ 56,304 |
| | - | 56,304 |

NOTE 9 - REFUNDABLE ADVANCES

Refundable advances represent grant monies received for which performance has not yet occurred and contributions received for special events that have not yet taken place. These amounts are potential refunds should The Arc default on the contractual arrangements. Refundable advances are summarized as follows:

| | 2018 | 2017 |
|---------------------------------------|------------|------------|
| Florida Blue | \$ 100,000 | \$ - |
| Wreaths of Joy | 45,000 | 121,350 |
| State Housing Initiatives Partnership | 48,634 | 48,634 |
| Other | 6,914 | 2,593 |
| | \$ 200,548 | \$ 172,577 |

THE ARC GATEWAY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE 10 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets at September 30, 2018 and 2017 include contributions that are restricted by a trust agreement for the relief of human suffering, but cannot be used for certain administrative expenses, and various other contributions restricted for specific program uses. Temporarily restricted net assets also include contributions that are restricted by the donor for dental and medical needs of clients of The Arc, but can be used for general operations of The Arc if deemed necessary. Annual distributions of these funds for dental and medical needs of clients of The Arc are limited to 6% of the account's value. These restrictions may be met by the passage of time and actions of The Arc. Temporarily restricted net assets are available for the following purposes:

| | <u>2018</u> | <u>2017</u> |
|--|-------------------|-------------------|
| The Arc mission - relief of human suffering - restricted to non-administrative expenses | \$ 28,639 | \$ 28,639 |
| The Arc mission - client dental and medical needs - restricted to 6% annual distributions | 32,671 | 30,941 |
| Physical security of facilities | 12,308 | 12,308 |
| Other | 50,103 | 50,103 |
| | <u>\$ 123,721</u> | <u>\$ 121,991</u> |

Permanently restricted net assets at September 30, 2018 and 2017 consist of endowment funds with donor imposed restrictions and contributions restricted within the Trust. These restrictions require the principal donation be kept intact permanently and maintained in separate deposit accounts. Income generated from The Arc's endowment funds is restricted by the donor for specific purposes. Income generated from the Trust's assets is transferred to The Arc each year and is unrestricted.

The following is a summary of permanently restricted net assets, categorized by the purpose for which earnings are expendable:

| | <u>2018</u> | <u>2017</u> |
|--|-------------------|-------------------|
| Repair, maintenance, furnishing and operation of Pollak Training Center | \$ 18,500 | \$ 18,500 |
| Scholarships | 20,000 | 20,000 |
| Escambia County Association for Retarded Citizens Trust - The Arc mission | 252,669 | 249,455 |
| | <u>\$ 291,169</u> | <u>\$ 287,955</u> |

THE ARC GATEWAY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE 10 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS (Continued)

Changes in endowment net assets for the year ended September 30, 2018 were as follows:

| | <u>ARC</u> | <u>Trust</u> | <u>Total</u> |
|---|------------------|-------------------|-------------------|
| Endowment net assets, beginning of year | \$ 38,500 | \$ 249,455 | \$ 287,955 |
| Contributions | - | 3,214 | 3,214 |
| Investment income | 500 | 2,114 | 2,614 |
| Amounts appropriated for expenditure | <u>(500)</u> | <u>(2,114)</u> | <u>(2,614)</u> |
| Endowment net assets, end of year | <u>\$ 38,500</u> | <u>\$ 252,669</u> | <u>\$ 291,169</u> |

Changes in endowment net assets for the year ended September 30, 2017 were as follows:

| | <u>ARC</u> | <u>Trust</u> | <u>Total</u> |
|---|------------------|-------------------|-------------------|
| Endowment net assets, beginning of year | \$ 38,500 | \$ 249,255 | \$ 287,755 |
| Contributions | - | 200 | 200 |
| Investment income | 1,138 | 1,291 | 2,429 |
| Amounts appropriated for expenditure | <u>(1,138)</u> | <u>(1,291)</u> | <u>(2,429)</u> |
| Endowment net assets, end of year | <u>\$ 38,500</u> | <u>\$ 249,455</u> | <u>\$ 287,955</u> |

All restricted monies received by The Arc shall be deposited only in federally insured financial institutions or in United States government obligations guaranteed by the full faith and credit of the United States government. The Arc invests the endowments in certificates of deposit. The Trust shall invest assets solely in interest-bearing savings accounts or interest-bearing bonds, either and all of which shall be insured investments secured by the full faith and credit of the United States government or an agency thereof. The Trust invests its funds in certificates of deposit. The Foundation has no endowments or similar restrictions on investments.

THE ARC GATEWAY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Medicaid Funding:

The Arc receives Medicaid funding which is subject to review by various regulatory agencies to determine program compliance. Subsequent to such review, The Arc is potentially liable for repayment of claims and reimbursements made pursuant to the program which are found to be in violation of policy. Management has not been notified of any significant pending claims.

Contingencies:

The Arc receives a substantial amount of its support from the Agency for Persons with Disabilities. A significant reduction in the level of this support, if this were to occur, may have an adverse effect on The Arc's programs.

Grants require the fulfillment of certain conditions as set forth in the grant agreements. Failure to fulfill the conditions could result in the return of funds to grantors. Although that is a possibility, The Arc's Board of Directors deems the contingency remote, since by acceptance of the grants and their terms, it has structured the objectives of The Arc to meet the provisions of the grants.

In October 1994, The Arc received a Community Development Block Grant (CDBG) for \$300,000 which funded a new building for The Arc's Infant-Toddler Program. The grant indefinitely restricts the use of the building to educational training and therapy of infants and toddlers, unless an alternate purpose is approved by CDBG administrators. During 2003, approval was received to utilize the building for alternative needs. Certain vehicles and other buildings acquired or renovated with grantor funds have limitations imposed on their use for specified periods of time. Should the vehicles and buildings be used for an unapproved purpose, grant funds must be returned to the grantor. To date, The Arc has used the vehicles and buildings for approved purposes.

Litigation:

The Arc is a defendant in various legal actions in connection with its normal activities. The aggregate effect of any losses in excess of insurance coverage maintained by the organization, in management's and outside counsel's opinion, would not be significant to The Arc's financial condition.

THE ARC GATEWAY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE 11 - COMMITMENTS AND CONTINGENCIES (Continued)

Concentration of Credit Risk - Revenue Sources:

The Arc receives revenue from various sources. Primary revenue providers and their approximate percentage of funding are as follows:

| | <u>2018</u> | <u>2017</u> |
|----------------------------|-------------|-------------|
| Medicaid | 37% | 31% |
| Federal and State agencies | 26% | 33% |
| Other contracts and grants | 13% | 16% |

Amounts due from Medicaid and federal and state agencies comprised 43% and 59% of total accounts receivable as of September 30, 2018 and 2017, respectively.

Uninsured Cash Balances:

The Arc's cash balances held at financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to certain limits. At September 30, 2018, The Arc's uninsured cash balance at financial institutions totaled approximately \$974,000.

NOTE 12 - RELATED PARTY TRANSACTIONS

Various members of The Arc's Board of Directors hold key positions with vendors used by The Arc. Total expenditures to these vendors were \$322,460 and \$374,682 for the years ended September 30, 2018 and 2017, respectively.

NOTE 13 - ALLOCATION OF FUNCTIONAL EXPENSES

Direct costs associated with the various The Arc programs have been summarized on a functional basis in the consolidated statements of activities. The Arc general and administrative expenses have been allocated among the programs benefited based on a proportionate share of direct expenses.

Unallocated general and administrative expenses for the years ended September 30, 2018 and 2017 amounted to \$488,713 and \$404,976, respectively, and were offset by support and revenue included in contributions, special events, membership dues, and interest income.

SUPPLEMENTARY INFORMATION

THE ARC GATEWAY, INC.
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2018
(With Comparative Totals for 2017)

ASSETS

| | ARC | PRC, Inc. | Trust | Foundation | Intercompany Transactions Eliminations | 2018 Consolidated Total | 2017 Consolidated Total |
|-----------------------------------|---------------------|---------------------|-------------------|-------------------|--|-------------------------------|-------------------------------|
| Cash and cash equivalents | \$ 1,096,831 | \$ 5,793 | \$ 10,558 | \$ 345,780 | \$ - | \$ 1,458,962 | \$ 1,250,261 |
| Investments | 83,020 | - | 249,201 | 383,848 | - | 716,069 | 724,878 |
| Accounts receivable, net | 575,486 | - | - | 9,490 | - | 584,976 | 1,044,978 |
| Accounts receivable-intercompany | 698,917 | 1,194,769 | - | 6,828 | (1,900,514) | - | - |
| Inventories | 107,233 | - | - | - | - | 107,233 | 114,180 |
| Prepaid expenses and other assets | 121,225 | 30 | - | 4,600 | - | 125,855 | 117,533 |
| Property and equipment, net | 2,236,878 | 1,439,957 | - | - | - | 3,676,835 | 3,623,355 |
| Total Assets | \$ 4,919,590 | \$ 2,640,549 | \$ 259,759 | \$ 750,546 | \$ (1,900,514) | \$ 6,669,930 | \$ 6,875,185 |

LIABILITIES AND NET ASSETS

| | | | | | | | |
|---|---------------------|---------------------|-------------------|-------------------|-----------------------|---------------------|---------------------|
| Liabilities: | | | | | | | |
| Accounts payable | \$ 81,112 | \$ - | \$ - | \$ - | \$ - | \$ 81,112 | \$ 136,694 |
| Accounts payable-intercompany | 1,201,597 | 674,545 | 7,090 | 17,282 | (1,900,514) | - | - |
| Accrued expenses | 421,125 | - | - | - | - | 421,125 | 319,113 |
| Refundable advances | 155,548 | - | - | 45,000 | - | 200,548 | 172,577 |
| Capital lease obligation | 21,888 | - | - | - | - | 21,888 | 30,201 |
| Long-term debt | - | - | - | - | - | - | 56,304 |
| Total liabilities | 1,881,270 | 674,545 | 7,090 | 62,282 | (1,900,514) | 724,673 | 714,889 |
| Commitments and Contingencies | -- | -- | -- | -- | -- | -- | -- |
| Net Assets: | | | | | | | |
| Unrestricted | 2,908,770 | 1,966,004 | - | 655,593 | - | 5,530,367 | 5,750,350 |
| Temporarily restricted | 91,050 | - | - | 32,671 | - | 123,721 | 121,991 |
| Permanently restricted | 38,500 | - | 252,669 | - | - | 291,169 | 287,955 |
| Total net assets | 3,038,320 | 1,966,004 | 252,669 | 688,264 | - | 5,945,257 | 6,160,296 |
| Total Liabilities and Net Assets | \$ 4,919,590 | \$ 2,640,549 | \$ 259,759 | \$ 750,546 | \$ (1,900,514) | \$ 6,669,930 | \$ 6,875,185 |

THE ARC GATEWAY, INC.
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2018
(With Comparative Totals for 2017)

| | ARC | PRC, Inc. | Trust | Foundation | Intercompany Transactions Eliminations | 2018 Consolidated Total | 2017 Consolidated Total |
|--|------------------|-----------|--------------|----------------|--|-------------------------------|-------------------------------|
| Revenue and Support: | | | | | | | |
| Medicaid - | | | | | | | |
| Developmental Disabilities Individual | | | | | | | |
| Budgeting waivers | \$ 2,982,036 | \$ - | \$ - | \$ - | \$ - | \$ 2,982,036 | \$ 3,008,533 |
| Omnibus Budget Reconciliation Act (OBRA) | 269,724 | - | - | - | - | 269,724 | 282,418 |
| Federal and state grants | 2,302,947 | - | - | - | - | 2,302,947 | 3,403,035 |
| Department of Transportation contracts | 717,289 | - | - | - | - | 717,289 | 698,458 |
| Noncontract funding | 234,271 | - | - | - | - | 234,271 | 238,694 |
| Other contracts and financial assistance | 195,526 | - | - | - | - | 195,526 | 683,666 |
| Private insurance | 344,607 | - | - | - | - | 344,607 | 466,313 |
| Program income | 27,937 | - | - | - | - | 27,937 | 93,023 |
| Sales to public | 614,797 | - | - | - | - | 614,797 | 595,634 |
| United Way | 91,350 | - | - | - | - | 91,350 | 99,139 |
| Public support contributions | 294,180 | - | 3,214 | 50,220 | (103,400) | 244,214 | 313,790 |
| Special events | 5,659 | - | - | 454,372 | - | 460,031 | 436,647 |
| Membership revenue | 18,570 | - | - | - | - | 18,570 | 28,384 |
| Investment income, including unrealized | | | | | | | |
| gains and losses | 2,365 | - | 2,113 | 21,629 | - | 26,107 | 41,871 |
| Interest-intercompany | 2,113 | - | - | - | (2,113) | - | - |
| Miscellaneous | 101,294 | - | - | 2,225 | - | 103,519 | 9,431 |
| Contributions-intercompany | 125,000 | - | - | - | (125,000) | - | - |
| Staff reimbursement-intercompany | 62,984 | - | - | - | (62,984) | - | - |
| Total Revenue and Support | 8,392,649 | - | 5,327 | 528,446 | (293,497) | 8,632,925 | 10,399,036 |
| Expenses: | | | | | | | |
| Salaries | 4,961,595 | - | - | - | - | 4,961,595 | 4,967,508 |
| Employee benefits | 606,257 | - | - | - | - | 606,257 | 650,953 |
| Payroll taxes and workers compensation | 471,948 | - | - | - | - | 471,948 | 452,755 |
| Staff reimbursement-intercompany | - | - | - | 62,738 | (62,738) | - | - |
| Professional fees | 964,951 | - | - | 4,800 | - | 969,751 | 618,745 |
| Supplies and small equipment | 252,052 | - | - | 6,939 | - | 258,991 | 536,766 |
| Postage and freight | 10,782 | - | - | 255 | - | 11,037 | 18,070 |
| Interest | 2,139 | - | - | - | - | 2,139 | 3,981 |
| Interest distribution-intercompany | - | - | 2,113 | - | (2,113) | - | - |

THE ARC GATEWAY, INC.
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2018
(With Comparative Totals for 2017)
(Continued)

| | ARC | PRC, Inc. | Trust | Foundation | Intercompany Transactions Eliminations | 2018 Consolidated Total | 2017 Consolidated Total |
|--------------------------------------|---------------------|---------------------|-------------------|-------------------|--|-------------------------------|-------------------------------|
| Expenses (Continued): | | | | | | | |
| Occupancy | \$ 334,824 | \$ - | \$ - | \$ - | \$ - | \$ 334,824 | \$ 390,101 |
| Telephone | 99,140 | - | - | 780 | - | 99,920 | 91,048 |
| Equipment maintenance and rental | 123,282 | - | - | 553 | - | 123,835 | 105,500 |
| Printing and publication | 10,010 | - | - | 487 | - | 10,497 | 76,677 |
| Travel | 55,477 | - | - | 377 | (246) | 55,608 | 51,031 |
| Vehicle expense | 314,144 | - | - | - | - | 314,144 | 328,821 |
| Special events | 11,586 | - | - | 141,665 | (63,150) | 90,101 | 120,205 |
| Costs of direct benefits to donors | - | - | - | 51,147 | - | 51,147 | 58,485 |
| Client assistance | 11,459 | - | - | - | - | 11,459 | 1,798 |
| Dues and memberships | 26,560 | - | - | 928 | - | 27,488 | 8,656 |
| Assessments | - | - | - | - | - | - | 66,207 |
| Miscellaneous | 19,488 | 50 | - | 11,619 | - | 31,157 | 48,195 |
| Contributions-intercompany | - | - | - | 165,250 | (165,250) | - | - |
| Depreciation | 323,105 | 92,961 | - | - | - | 416,066 | 427,879 |
| Total Expenses | 8,598,799 | 93,011 | 2,113 | 447,538 | (293,497) | 8,847,964 | 9,023,381 |
| Change in Net Assets | (206,150) | (93,011) | 3,214 | 80,908 | - | (215,039) | 1,375,655 |
| Net Assets, Beginning of Year | 3,244,470 | 2,059,015 | 249,455 | 607,356 | - | 6,160,296 | 4,784,641 |
| Net Assets, End of Year | \$ 3,038,320 | \$ 1,966,004 | \$ 252,669 | \$ 688,264 | \$ - | \$ 5,945,257 | \$ 6,160,296 |

THE ARC GATEWAY, INC.
CONSOLIDATING SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2018
(With Comparative Totals for 2017)

| | PROGRAM SERVICES | | | | | |
|---|------------------------------|----------------------|----------------------------------|------------------------|--|---------------------|
| | Pollak Training Center | Pollak Industries | Community Based Employment | Employment Services | Pearl Nelson Child Development Center | Group Homes |
| Salaries | \$ 521,320 | \$ 422,827 | \$ 616,142 | \$ 121,679 | \$ 519,509 | \$ 964,197 |
| Employee benefits | 103,602 | 44,893 | 45,396 | 21,368 | 64,895 | 147,700 |
| Payroll taxes and workers compensation | 46,955 | 33,014 | 53,516 | 11,286 | 47,412 | 83,901 |
| Staff reimbursement - intercompany | - | - | - | - | - | - |
| Professional fees | 14,725 | 5,707 | 52,009 | 3,905 | 273,938 | 17,067 |
| Supplies and small equipment | 18,830 | 6,649 | 32,310 | 914 | 7,591 | 113,542 |
| Postage and freight | 1,816 | 1,978 | 65 | 138 | 795 | 155 |
| Interest | 113 | 113 | 141 | 52 | 113 | 611 |
| Interest distribution - intercompany | - | - | - | - | - | - |
| Occupancy | 64,449 | 43,220 | 20,919 | 2,175 | 21,611 | 48,257 |
| Telephone | 6,916 | 7,875 | 4,638 | 4,998 | 11,811 | 28,646 |
| Equipment maintenance and rental | 11,159 | 9,687 | 4,804 | 666 | 8,909 | 7,848 |
| Printing and publication | 71 | 15 | - | 73 | 2,329 | 105 |
| Travel | - | - | 3,466 | 10,353 | 22,720 | 12 |
| Vehicle expense | 10,727 | 9,645 | 28,450 | 544 | - | 32,406 |
| Special events | 642 | 146 | 385 | - | 428 | 1,263 |
| Costs of direct benefits to donors | - | - | - | - | - | - |
| Client assistance | - | 45 | - | 12 | - | 10,204 |
| Dues and memberships | 1,655 | - | - | - | 650 | 315 |
| Assessments | - | - | - | - | - | - |
| Miscellaneous | 4,602 | 2,962 | 141 | 112 | 2,642 | 1,392 |
| Contributions - intercompany | - | - | - | - | - | - |
| Depreciation | 16,497 | 7,236 | 21,654 | 45 | 3,976 | 69,006 |
| Total Direct Expenses | <u>824,079</u> | <u>596,012</u> | <u>884,036</u> | <u>178,320</u> | <u>989,329</u> | <u>1,526,627</u> |
| Allocation of intercompany expenses from consolidation | 22,430 | 20,665 | 21,087 | 5,024 | 27,055 | 35,512 |
| Total Direct Expenses, net | <u>846,509</u> | <u>616,677</u> | <u>905,123</u> | <u>183,344</u> | <u>1,016,384</u> | <u>1,562,139</u> |
| Allocation of general and administration expenses | 56,890 | 52,396 | 53,506 | 12,723 | 68,612 | 90,040 |
| Total Expenses | <u>\$ 903,399</u> | <u>\$ 669,073</u> | <u>\$ 958,629</u> | <u>\$ 196,067</u> | <u>\$ 1,084,996</u> | <u>\$ 1,652,179</u> |

THE ARC GATEWAY, INC.
CONSOLIDATING SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2018
(With Comparative Totals for 2017)
(Continued)

PROGRAM SERVICES

| | Supported Living | Senior Adult Program | Transportation | Program for Adult Learning and Support | Jeff's Corner Garden | Hightower | South Santa Rosa | Program Services Total |
|---|---------------------|----------------------------|-------------------|--|----------------------------|------------------|------------------------|------------------------------|
| Salaries | \$ 76,893 | \$ 124,889 | \$ 217,682 | \$ 671,237 | \$ 10,034 | \$ - | \$ 46,052 | \$ 4,312,461 |
| Employee benefits | 15,206 | 7,353 | 16,762 | 64,527 | 673 | - | 5,941 | 538,316 |
| Payroll taxes and workers compensation | 5,893 | 10,794 | 18,281 | 65,390 | 1,350 | - | 1,226 | 379,018 |
| Staff reimbursement - intercompany | - | - | - | - | - | - | - | - |
| Professional fees | 1,434 | 2,591 | 7,350 | 495,652 | 810 | 200 | 712 | 876,100 |
| Supplies and small equipment | 310 | 6,104 | 1,847 | 13,108 | 955 | - | 18,463 | 220,623 |
| Postage and freight | 53 | 2 | - | 194 | - | - | 388 | 5,584 |
| Interest | 56 | - | 525 | - | - | - | - | 1,724 |
| Interest distribution - intercompany | - | - | - | - | - | - | - | - |
| Occupancy | 2,174 | 17,039 | 3,876 | 13,842 | 16,429 | 8,993 | 26,173 | 289,157 |
| Telephone | 4,787 | 753 | 3,680 | 5,558 | 1,051 | 3,332 | 3,103 | 87,148 |
| Equipment maintenance and rental | 326 | 1,229 | 326 | 1,073 | 815 | 880 | 3,527 | 51,249 |
| Printing and publication | 18 | 55 | - | 1,831 | 968 | - | 213 | 5,678 |
| Travel | 5,587 | 145 | - | 2,822 | 11 | - | 1,178 | 46,294 |
| Vehicle expense | - | - | 151,100 | 75,535 | 2,641 | - | 1,156 | 312,204 |
| Special events | - | 624 | 267 | 3,472 | - | - | - | 7,227 |
| Costs of direct benefits to donors | - | - | - | - | - | - | - | - |
| Client assistance | 1,198 | - | - | - | - | - | - | 11,459 |
| Dues and memberships | - | - | - | 45 | - | - | - | 2,665 |
| Assessments | - | - | - | - | - | - | - | - |
| Miscellaneous | 56 | - | 544 | 155 | - | - | - | 12,606 |
| Contributions - intercompany | - | - | - | - | - | - | - | - |
| Depreciation | 45 | 293 | 48,606 | 76,339 | 7,270 | 1,450 | 202 | 252,619 |
| Total Direct Expenses | <u>114,036</u> | <u>171,871</u> | <u>470,846</u> | <u>1,490,780</u> | <u>43,007</u> | <u>14,855</u> | <u>108,334</u> | <u>7,412,132</u> |
| Allocation of intercompany expenses from consolidation | <u>2,785</u> | <u>4,128</u> | <u>10,794</u> | <u>89,326</u> | <u>1,840</u> | <u>50</u> | <u>2,911</u> | <u>243,607</u> |
| Total Direct Expenses, net | <u>116,821</u> | <u>175,999</u> | <u>481,640</u> | <u>1,580,106</u> | <u>44,847</u> | <u>14,905</u> | <u>111,245</u> | <u>7,655,739</u> |
| Allocation of general and administration expenses | <u>7,044</u> | <u>10,440</u> | <u>27,364</u> | <u>226,500</u> | <u>4,664</u> | <u>135</u> | <u>7,350</u> | <u>617,664</u> |
| Total Expenses | <u>\$ 123,865</u> | <u>\$ 186,439</u> | <u>\$ 509,004</u> | <u>\$ 1,806,606</u> | <u>\$ 49,511</u> | <u>\$ 15,040</u> | <u>\$ 118,595</u> | <u>\$ 8,273,403</u> |

THE ARC GATEWAY, INC.
CONSOLIDATING SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2018
(With Comparative Totals for 2017)
(Continued)

SUPPORTING SERVICES

| | Fund Raising | General & Administrative | | | Total Supporting Services | ARC Subtotal |
|---|--------------------|--------------------------|-------------------|--------------------------------------|---------------------------------|---------------------|
| | Dove Shop/Beads | General | Maintenance | General & Administrative Total | | |
| Salaries | \$ 52,996 | \$ 568,681 | \$ 27,457 | \$ 596,138 | \$ 649,134 | \$ 4,961,595 |
| Employee benefits | 116 | 60,796 | 7,029 | 67,825 | 67,941 | 606,257 |
| Payroll taxes and workers compensation | 4,866 | 85,813 | 2,251 | 88,064 | 92,930 | 471,948 |
| Staff reimbursement - intercompany | - | - | - | - | - | - |
| Professional fees | 1,067 | 43,595 | 44,189 | 87,784 | 88,851 | 964,951 |
| Supplies and small equipment | 689 | 26,883 | 3,857 | 30,740 | 31,429 | 252,052 |
| Postage and freight | 3,691 | 1,507 | - | 1,507 | 5,198 | 10,782 |
| Interest | - | 358 | 57 | 415 | 415 | 2,139 |
| Interest distribution - intercompany | - | - | - | - | - | - |
| Occupancy | - | 27,494 | 18,173 | 45,667 | 45,667 | 334,824 |
| Telephone | - | 10,771 | 1,221 | 11,992 | 11,992 | 99,140 |
| Equipment maintenance and rental | 196 | 70,366 | 1,471 | 71,837 | 72,033 | 123,282 |
| Printing and publication | 43 | 4,289 | - | 4,289 | 4,332 | 10,010 |
| Travel | 1,676 | 7,507 | - | 7,507 | 9,183 | 55,477 |
| Vehicle expense | - | 15 | 1,925 | 1,940 | 1,940 | 314,144 |
| Special events | - | 4,359 | - | 4,359 | 4,359 | 11,586 |
| Costs of direct benefits to donors | - | - | - | - | - | - |
| Client assistance | - | - | - | - | - | 11,459 |
| Dues and memberships | 43 | 23,852 | - | 23,852 | 23,895 | 26,560 |
| Assessments | - | - | - | - | - | - |
| Miscellaneous | 4,910 | 1,915 | 57 | 1,972 | 6,882 | 19,488 |
| Contributions - intercompany | - | - | - | - | - | - |
| Depreciation | - | 69,826 | 660 | 70,486 | 70,486 | 323,105 |
| Total Direct Expenses | <u>70,293</u> | <u>1,008,027</u> | <u>108,347</u> | <u>1,116,374</u> | <u>1,186,667</u> | <u>8,598,799</u> |
| Allocation of intercompany expenses from consolidation | 4,399 | - | 1,159 | 1,159 | 5,558 | 249,165 |
| Total Direct Expenses, net | <u>74,692</u> | <u>1,008,027</u> | <u>109,506</u> | <u>1,117,533</u> | <u>1,192,225</u> | <u>8,847,964</u> |
| Allocation of general and administration expenses | 11,156 | (630,655) | 1,835 | (628,820) | (617,664) | - |
| Total Expenses | <u>\$ 85,848</u> | <u>\$ 377,372</u> | <u>\$ 111,341</u> | <u>\$ 488,713</u> | <u>\$ 574,561</u> | <u>\$ 8,847,964</u> |

THE ARC GATEWAY, INC.
CONSOLIDATING SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2018
(With Comparative Totals for 2017)
(Continued)

| | ARC | PRC, Inc. | Trust | Foundation | Eliminations | 2018 Consolidated Total | 2017 Consolidated Total |
|---|---------------------|-----------------|----------------|------------------|------------------|-------------------------------|-------------------------------|
| Salaries | \$ 4,961,595 | \$ - | \$ - | \$ - | \$ - | \$ 4,961,595 | \$ 4,967,508 |
| Employee benefits | 606,257 | - | - | - | - | 606,257 | 650,953 |
| Payroll taxes and workers compensation | 471,948 | - | - | - | - | 471,948 | 452,755 |
| Staff reimbursement - intercompany | - | - | - | 62,738 | (62,738) | - | - |
| Professional fees | 964,951 | - | - | 4,800 | - | 969,751 | 618,745 |
| Supplies and small equipment | 252,052 | - | - | 6,939 | - | 258,991 | 536,766 |
| Postage and freight | 10,782 | - | - | 255 | - | 11,037 | 18,070 |
| Interest | 2,139 | - | - | - | - | 2,139 | 3,981 |
| Interest distribution - intercompany | - | - | 2,113 | - | (2,113) | - | - |
| Occupancy | 334,824 | - | - | - | - | 334,824 | 390,101 |
| Telephone | 99,140 | - | - | 780 | - | 99,920 | 91,048 |
| Equipment maintenance and rental | 123,282 | - | - | 553 | - | 123,835 | 105,500 |
| Printing and publication | 10,010 | - | - | 487 | - | 10,497 | 76,677 |
| Travel | 55,477 | - | - | 377 | (246) | 55,608 | 51,031 |
| Vehicle expense | 314,144 | - | - | - | - | 314,144 | 328,821 |
| Special events | 11,586 | - | - | 141,665 | (63,150) | 90,101 | 120,205 |
| Costs of direct benefits to donors | - | - | - | 51,147 | - | 51,147 | 58,485 |
| Client assistance | 11,459 | - | - | - | - | 11,459 | 1,798 |
| Dues and memberships | 26,560 | - | - | 928 | - | 27,488 | 8,656 |
| Assessments | - | - | - | - | - | - | 66,207 |
| Miscellaneous | 19,488 | 50 | - | 11,619 | - | 31,157 | 48,195 |
| Contributions - intercompany | - | - | - | 165,250 | (165,250) | - | - |
| Depreciation | 323,105 | 92,961 | - | - | - | 416,066 | 427,879 |
| Total Direct Expenses | <u>8,598,799</u> | <u>93,011</u> | <u>2,113</u> | <u>447,538</u> | <u>(293,497)</u> | <u>8,847,964</u> | <u>9,023,381</u> |
| Allocation of intercompany expenses from consolidation | <u>249,165</u> | <u>(93,011)</u> | <u>(2,113)</u> | <u>(447,538)</u> | <u>293,497</u> | <u>-</u> | <u>-</u> |
| Total Direct Expenses, net | <u>8,847,964</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>8,847,964</u> | <u>9,023,381</u> |
| Allocation of general and administration expenses | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Expenses | <u>\$ 8,847,964</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 8,847,964</u> | <u>\$ 9,023,381</u> |

THE ARC GATEWAY, INC
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
YEAR ENDED SEPTEMBER 30, 2018

| <u>State Grantor/Pass-through Grantor, Project Title</u> | <u>CSFA Number</u> | <u>Contract / Grant Number</u> | <u>Expenditures</u> |
|--|------------------------|------------------------------------|---------------------|
| <u>State of Florida,</u> | | | |
| <u>Agency for Persons with Disabilities</u> | | | |
| Program for Adult Learning and Support | 67.036 | WCX21/ ACX29 | \$ 1,459,999 |
| Total Expenditures of State Financial Assistance | | | <u>\$ 1,459,999</u> |

Note: This schedule is presented on the accrual basis of accounting in accordance with generally accepted accounting principles.

OTHER REPORTS AND SCHEDULE

**INDEPENDENT AUDITOR’S 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 Directors
The Arc Gateway, Inc.
Pensacola, Florida

We have audited, in accordance with the 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 consolidated financial statements of The Arc Gateway, Inc. (a nonprofit organization) (the “Organization”), which comprise the consolidated statement of financial position as of September 30, 2018, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated June 24, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization’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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization’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 consolidated 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.

Board of Directors
The Arc Gateway, Inc.

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 Organization's consolidated 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 consolidated 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 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.



Pensacola, Florida
June 24, 2019

**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR
EACH MAJOR STATE PROJECT AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY CHAPTER 10.650,
RULES OF THE AUDITOR GENERAL**

To the Board of Directors
The Arc Gateway, Inc.
Pensacola, Florida

Report on Compliance for Each Major State Project

We have audited The Arc Gateway, Inc.’s (the “Organization’s”) compliance with the types of compliance requirements described in the *Executive Office of the Governor’s State Project Compliance Supplement* that could have a direct and material effect on the Organization’s major state project for the year ended September 30, 2018. The Organization’s major state project is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state project.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for the Organization’s major state project based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.650, Rules of the Auditor General. Those standards and Chapter 10.650, Rules of the Auditor General, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state project occurred. An audit includes examining, on a test basis, evidence about the Organization’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major state project. However, our audit does not provide a legal determination of the Organization’s compliance.

Opinion on Each Major State Project

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major state project for the year ended September 30, 2018.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on the major state project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major state project and to test and report on internal control over compliance in accordance with Chapter 10.650, Rules of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state project on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state project will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state project that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Chapter 10.650, Rules of the Auditor General. Accordingly, this report is not suitable for any other purpose.



Pensacola, Florida
June 24, 2019

THE ARC GATEWAY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2018

A. SUMMARY OF AUDIT RESULTS

1. The independent auditor's report expresses an unmodified opinion on the consolidated financial statements of The Arc Gateway, Inc.
2. No significant deficiencies in internal control relating to the audit of the consolidated financial statements are reported in the Independent Auditor's 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*.
3. No instances of noncompliance material to the consolidated financial statements of The Arc Gateway, Inc., which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major state project are reported in the Independent Auditor's Report on Compliance for Each Major State Project and on Internal Control Over Compliance Required by Chapter 10.650, Rules of the Auditor General.
5. The auditor's report on compliance for the major state project for The Arc Gateway, Inc. expresses an unmodified opinion.
6. There are no audit findings relative to the major state project for The Arc Gateway, Inc. which are required to be reported in accordance with Chapter 10.656, Rules of the Auditor General.
7. The project tested as major was:

Program for Adult Learning and Support (CSFA No. 67.036).
8. The threshold for distinguishing Type A and B programs was \$300,000 for the major state project.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

There were no findings related to the consolidated financial statements which are required to be reported in accordance with *Government Auditing Standards*.

C. FINDINGS AND QUESTIONED COSTS - MAJOR STATE PROJECT

In accordance with Rules of the Auditor General, Section 10.656(3)(e), no management letter is required because there were not findings required to be reported in the management letter.

THE ARC GATEWAY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2018
(Continued)

D. OTHER ISSUES

No management letter is required because there were no findings required to be reported in the management letter.

No Summary Schedule of Prior Audit Findings is required because there were no prior audit findings related to state projects.

No Corrective Action Plan is required because there were no findings required to be reported under the Florida Single Audit Act.