The Arc of Quinebaug Valley, Inc.

Financial Statements

June 30, 2017

APICELLA, TESTA & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
& BUSINESS ADVISORS

The Arc of Quinebaug Valley, Inc.
June 30, 2017

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APICELLA, TESTA & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
& BUSINESS ADVISORS

Achille A. Apicella, CPA ▪ John J. Zaprzalka, CPA ▪ James E. Traester, CPA

Independent Auditor's Report

To the Board of Directors
The Arc of Quinebaug Valley, Inc.

We have audited the accompanying financial statements of The Arc of Quinebaug Valley, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Arc of Quinebaug Valley, Inc. as of June 30, 2017 and 2016, 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.

Apicella, Testa + Company, P.C.

APICELLA, TESTA & COMPANY, P.C.
Certified Public Accountants

Shelton, Connecticut
November 7, 2017

The Arc of Quinebaug Valley, Inc.
Statements of Financial Position
As of June 30, 2017 and 2016

	2017	2016
Assets		
Current Assets:		
Cash and Cash Equivalents	$ 536,180	$ 660,895
Accounts Receivable - Net	378,609	360,734
Pledges Receivable - Net of Allowance in 2016	1,950	27,553
Inventory	13,758	20,627
Prepaid Expenses and Other Assets	81,326	89,807
Total Current Assets	1,011,823	1,159,616
Property and Equipment - Net	2,576,935	1,192,026
Other Assets:		
Client Custodial Funds	21,965	5,574
Funds Held for Others	4,409	1,739
Total Other Assets	26,374	7,313
Endowment Funds	4,908	5,806
Total Assets	$ 3,620,040	$ 2,364,761
Liabilities and Net Assets		
Current Liabilities		
Accounts Payable and Accrued Expenses	$ 39,380	$ 37,000
Payroll and Related Liabilities	164,422	147,306
Due to Clients	24,761	8,375
Line of Credit	42,935	42,935
Notes Payable - Current Portion	72,300	63,921
Total Current Liabilities	343,798	299,537
Long-Term Liabilities:		
Notes Payable - Net of Current Portion	1,636,854	691,222
Other Liabilities:		
Funds Held for Others	4,409	1,739
Refundable Advances	82,086	82,086
Total Other Liabilities	86,495	83,825
Total Liabilities	2,067,147	1,074,584
Net Assets:		
Unrestricted Net Assets	914,495	961,286
Temporarily Restricted Net Assets	633,498	323,091
Permanently Restricted Net Assets	4,900	5,800
Total Net Assets	1,552,893	1,290,177
Total Liabilities and Net Assets	$ 3,620,040	$ 2,364,761

The accompanying notes are an integral part of this financial statement.

The Arc of Quinebaug Valley, Inc.
Statements of Activities
For the Years Ended June 30, 2017 and 2016

	2017	2016
Changes in Unrestricted Net Assets		
Revenues:		
Program Service Revenue	$ 4,856,381	$ 4,690,104
Subcontract Revenue	225,981	213,263
Fundraising and Donations (Net)	105,490	113,726
Other Income	5,722	4,524
Net Assets Released from Restrictions	62,541	31,942
Total Revenues	5,256,115	5,053,559
Expenses:		
Program Services:		
Day Programs	2,016,548	1,886,258
Fee for Service & Other Programs	498,409	549,940
Supported Living Programs	1,098,950	1,044,085
Community Living Arrangements	1,087,313	906,007
Supporting Services:		
Fundraising and Development	54,494	60,879
Management and General	547,192	574,601
Total Expenses	5,302,906	5,021,770
Changes in Unrestricted Net Assets	(46,791)	31,789
Unrestricted Net Assets - Beginning of Year	961,286	929,497
Unrestricted Net Assets - End of Year	$ 914,495	$ 961,286
Changes in Temporarily Restricted Net Assets		
Contributions and Grants	$ 373,523	$ 63,615
Loss on Uncollectible Pledges	(577)	-
Earnings on Permanently Restricted Endowment Funds	2	2
Net Assets Released from Restrictions	(62,541)	(31,942)
Changes in Temporarily Restricted Net Assets	310,407	31,675
Temporarily Restricted Net Assets - Beginning of Year	323,091	291,416
Temporarily Restricted Net Assets - End of Year	$ 633,498	$ 323,091
Changes in Permanently Restricted Net Assets		
Contributions	$ 100	$ -
Loss on Uncollectible Pledge	(1,000)	-
Changes in Permanently Restricted Net Assets	(900)	-
Permanently Restricted Net Assets - Beginning of Year	5,800	5,800
Permanently Restricted Net Assets - End of Year	$ 4,900	$ 5,800
Changes in Total Net Assets		
Change in Total Net Assets	$ 262,716	$ 63,464
Total Net Assets - Beginning of Year	1,290,177	1,226,713
Total Net Assets - End of Year	$ 1,552,893	$ 1,290,177

The accompanying notes are an integral part of this financial statement.

The Arc of Quinebaug Valley, Inc.
Statement of Functional Expenses
For the Year Ended June 30, 2017

	Program Services				Supporting Services		
	Day Programs	Fee for Service & Other Programs	Supported Living Programs	Community Living Arrangements	Fundraising and Development	Management and General	Total
Salaries and Wages	$ 1,110,535	$ 336,819	$ 810,134	$ 719,895	$ 20,520	$ 350,496	$ 3,348,399
Payroll Taxes	124,553	34,563	75,562	66,781	1,807	29,325	332,591
Employee Benefits	144,908	20,331	115,487	88,037	597	22,834	392,194
Client Remunerations	160,334	6,473	-	-	-	-	166,807
Training and Education	5,702	3,354	1,399	1,263	235	2,075	14,028
Consultants	27,874	3,638	23,158	14,811	-	50,367	119,848
Supplies and Expense	52,950	12,170	17,017	56,930	30,462	62,425	231,954
Cost of Goods Sold	52,655	-	-	-	-	-	52,655
Rent	32,763	-	-	10,688	-	-	43,451
Utilities	27,961	6,314	1,641	14,263	151	2,508	52,838
Repairs and Maintenance	23,676	8,997	1,946	23,362	207	7,693	65,881
Depreciation	80,769	37,599	13,171	41,289	141	10,466	183,435
Vehicle and Travel Expense	133,813	18,572	29,744	15,413	-	4,910	202,452
Interest	16,009	4,156	1,392	26,670	93	1,540	49,860
Insurance	22,046	5,423	8,299	7,911	281	2,553	46,513
Total Expenses	$ 2,016,548	$ 498,409	$ 1,098,950	$ 1,087,313	$ 54,494	$ 547,192	$ 5,302,906

The accompanying notes are an integral part of this financial statement.

The Arc of Quinebaug Valley, Inc.
Statement of Functional Expenses
For the Year Ended June 30, 2016

	Program Services				Supporting Services		
	Day Programs	Fee for Service & Other Programs	Supported Living Programs	Community Living Arrangements	Fundraising and Development	Management and General	Total
Salaries and Wages	$ 1,055,024	$ 354,900	$ 791,501	$ 612,267	$ 28,857	$ 353,890	$ 3,196,439
Payroll Taxes	123,439	37,005	75,832	60,544	2,660	29,686	329,166
Employee Benefits	123,842	45,387	96,995	57,094	309	41,955	365,582
Client Remunerations	189,643	6,437	470	-	-	-	196,550
Training and Education	2,928	5,950	1,356	1,996	56	1,429	13,715
Consultants	5,548	2,700	18,570	16,534	-	44,049	87,401
Supplies and Expense	44,454	11,088	7,835	60,040	27,612	59,433	210,462
Cost of Goods Sold	31,317	-	-	-	-	-	31,317
Rent	35,815	-	-	22,089	-	-	57,904
Utilities	21,089	8,641	1,930	9,704	295	2,831	44,490
Repairs and Maintenance	17,369	12,293	3,152	9,441	361	8,612	51,228
Depreciation	50,963	38,091	10,002	21,671	282	10,538	131,547
Vehicle and Travel Expense	152,548	16,865	26,897	12,932	3	4,268	213,513
Interest	11,522	5,784	1,885	15,196	193	3,828	38,408
Insurance	20,757	4,799	7,660	6,499	251	2,582	42,548
Bad Debt Expense	-	-	-	-	-	11,500	11,500
Total Expenses	$ 1,886,258	$ 549,940	$ 1,044,085	$ 906,007	$ 60,879	$ 574,601	$ 5,021,770

The Arc of Quinebaug Valley, Inc.
Statements of Cash Flows
For the Years Ended June 30, 2017 and 2016

	2017	2016
Cash Flows From (Used In) Operating Activities		
Change in Net Assets	$ 262,716	$ 63,464
Adjustments to Reconcile Change in Net Assets to Net Cash From (Used in) Operating Activities:		
Depreciation	183,435	131,547
Bad Debt Expense	-	11,500
Donated Goods	(5,720)	(9,948)
Contributions Restricted for Long-Term Purposes	(371,423)	(63,615)
(Increase) Decrease in Assets:		
Accounts Receivable - Net	(17,875)	(112,881)
Pledges Receivable - Net of Allowance in 2016	25,603	35,034
Inventory	12,589	10,345
Prepaid Expenses and Other Assets	8,481	(20,191)
Client Custodial Funds	(16,391)	(4,599)
Endowment Funds	898	(2)
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Expenses	2,380	(10,558)
Payroll and Related Liabilities	17,116	(99,595)
Due to Clients	16,386	7,543
Refundable Advances	-	55,497
Total Adjustments	(144,521)	(69,923)
Net Cash From (Used In) Operating Activities	118,195	(6,459)
Cash Flows From (Used In) Investing Activities		
Purchase of Property and Equipment	(1,568,344)	(199,770)
Net Cash From (Used In) Investing Activities	(1,568,344)	(199,770)
Cash Flows From (Used In) Financing Activities		
Contributions Restricted for Long-Term Purposes	371,423	63,615
Proceeds From Line of Credit	-	2,144
Proceeds From Notes Payable	1,034,520	74,794
Payments on Notes Payable	(80,509)	(72,244)
Net Cash From (Used In) Financing Activities	1,325,434	68,309
Net Increase (Decrease) in Cash and Cash Equivalents	(124,715)	(137,920)
Cash and Cash Equivalents - Beginning of Year	660,895	798,815
Cash and Cash Equivalents - End of Year	$ 536,180	$ 660,895
Supplemental Disclosure of Cash Flow Information		
Cash Paid During the Year for Interest	$ 49,860	$ 38,408
Supplemental Disclosure of Non-Cash Activities		
Donated Goods	$ 5,720	$ 9,948
Disposal of Fully Depreciated Property and Equipment	$ 79,779	$ 38,487

The accompanying notes are an integral part of this financial statement.

Note 1 – General

The Arc of Quinebaug Valley, Inc. (the Agency) is a not-for-profit human services agency founded in 1952 that serves the needs of individuals with intellectual, developmental, and other life-affecting disabilities and their families in Northeastern Connecticut. The Arc of Quinebaug Valley is committed to providing supports that reflect dignity, respect, and choice.

The Agency offers a variety of programs and services including retirement day services, group and individualized supported employment, individualized day programs, education services, and residential supports. The Agency's day programs also include a thrift shop (The Arc Emporium) and a bottle and can redemption program (Project Redemption), both of which employ individuals with disabilities.

The Agency's programs are funded primarily by contracts with the State of Connecticut, local public school systems, as well as support from the general public through contributions and fundraising.

Note 2 – Summary of Significant Accounting Policies

Basis of Accounting – The financial statements of The Arc of Quinebaug Valley, Inc. have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation – The Agency reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. They are described as follows:

> Unrestricted – Net assets that are not subject to explicit donor-imposed stipulations. Unrestricted net assets may be set aside by the organization's Board of Directors for specific purposes (board designated net assets).
>
> Temporarily Restricted – Net assets subject to explicit donor-imposed stipulations or by operation of law that can be fulfilled by actions of the organization or that expire by the passage of time. See Note 11 for additional details.
>
> Permanently Restricted – Net assets subject to explicit donor-imposed stipulations that they be maintained permanently by the organization and stipulate the use of income

and/or appreciation (depreciation) as either unrestricted or temporarily restricted based on donor imposed stipulations or by operation of law. See Note 7 for additional details.

Cash and Cash Equivalents – For purposes of the statements of cash flows, The Arc of Quinebaug Valley, Inc. considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents, with the exception of cash included in endowment funds.

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. Based on management's review of all remaining accounts receivable, this allowance was $15,000 and $15,000 for the years ending June 30, 2017 and 2016, respectively.

Pledges Receivable – Unconditional pledges that are expected to be collected within one year are recorded at net realizable value. Unconditional pledges that are expected to be collected in more than one year are recorded at fair value, which is measured as the present value of their future cash flows. Amortization of the discounts is included in contribution revenue. Conditional pledges are recognized in the financial statements only when the conditions on which they depend are substantially met and the promises become unconditional. See Note 5 for additional details.

Inventory – Inventory is stated at the lower of cost or fair market value at the date of donation. The Agency's inventory consists of goods held for sale at the thrift shop and donated prizes for future fundraising events.

Property and Equipment – The Agency capitalizes all expenditures for property and equipment in excess of $5,000 (or $2,500 for property and equipment associated with the Agency's community living arrangements as per State guidelines). Property and equipment is stated at cost at the date of purchase or fair value at the date of donation. Depreciation expense is recorded using the straight-line method over the estimated useful lives of the assets, which range from three to 30 years.

The Agency reviews long-lived assets for impairment using an undiscounted cash flow method whenever events or circumstances indicate the carrying value of an asset may not be recoverable. There were no impairment losses related to long-lived assets as of June 30, 2017 and 2016.

Estimates – Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Contributions – Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. It is the Agency's policy to report contributions that are specifically restricted by the donor as unrestricted support if the restriction is fulfilled in the same time period in which the contribution is received. 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.

Donated Property and Equipment – Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are also reported as increases in restricted net assets. It is the Agency's policy to imply a time restriction, based on the assets' estimated useful lives, on donations of property and equipment that are not restricted as to their use by the donor. Accordingly, those donations are recorded as increases in temporarily restricted net assets. The Agency reclassifies temporarily restricted net assets to unrestricted net assets each year for the amount of depreciation expense relating to the donated property and equipment.

Donated Services and Materials – The Agency records donated materials (goods) at their estimated fair-market value at the date of donation. Donated services are required to be recognized if they create or enhance non-financial assets or require specialized skills and would typically be purchased if not provided by donation. General volunteer services do not meet the criteria for recognition and accordingly, no amounts have been reflected for these services. However, volunteers have contributed significant amounts of their time to the Agency's activities.

Income Taxes – The Agency is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state law. Accordingly, no provision for income taxes has been made in the accompanying financial statements. The Agency recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management believes that the Agency has no tax positions that would require financial statement recognition or disclosure. The Agency's informational returns for fiscal years ending June 30, 2014 and after are subject to examination by the Internal Revenue Service and the State of Connecticut, generally for three years from the date they were filed.

Government Grants and Contracts – Governmental grants and contracts are generally considered to be exchange transactions rather than contributions. Revenue from cost-reimbursements grants and contracts is recognized to the extent of costs incurred. Revenue from performance-based grants and contracts is recognized to the extent of performance achieved. Grant and contract receipts in excess of revenue recognized are presented as deferred revenue if the grant extends beyond the Agency's fiscal year and is due to the grantor if the grant was completed within the fiscal year.

Fundraising and Donations – This line item is shown net of the costs of direct benefits to donors in the amounts of $22,500 for 2017 and $10,755 for 2016.

Advertising – The Agency expenses advertising costs as incurred. For the years ended June 30, 2017 and 2016, advertising expenses totaled $1,041 and $224, respectively.

Expense Allocations – The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Reclassifications – Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

Subsequent Events – Subsequent events were evaluated through November 7, 2017, which is the date the financial statements were available to be issued.

Note 3 – Concentrations

Credit Risk – The Agency maintains its cash deposits with the local financial institutions, which may at times exceed the limits insured by the Federal Deposit Insurance Corporation.

Funding Sources – The Agency receives funding from several state agencies, including the Department of Developmental Services (DDS). Revenue earned from DDS amounted to \$3,958,765 and \$3,739,560 for the years ending June 30, 2017 and 2016, respectively. This represents approximately 75% and 73% of total revenue for 2017 and 2016, respectively. As with all government funding, these grants and contracts are subject to reduction or termination in future years. Any significant reduction in these grants and contracts could have an adverse effect on the Agency's program services. In addition, a significant portion of accounts receivable as of June 30, 2017 and 2016 is also due from the State of Connecticut.

Note 4 – Funds Held for Others

The Agency entered into an agreement with an unrelated third-party to act as a fiscal sponsor. The funds are being raised for the construction of a playground that includes equipment allowing the inclusion of children with significant disabilities. The funds will ultimately be turned over to the Town of Plainfield for the construction of the playground. The amount is recorded as both and asset and a liability.

Note 5 – Pledges Receivable

During the year ended June 30, 2012, the Agency conducted a capital campaign for renovations at Cook Hill Road. The following is a summary of pledges receivable as of June 30:

	2017	2016
Receivable in Less than One Year	$ 1,950	$ 33,737
Less Provision for Doubtful Accounts	-	(6,184)
Net Pledges Receivable	$ 1,950	$ 27,553

Note 6 – Property and Equipment

Property and equipment is comprised of the following at June 30:

	2017	2016
Land and Land Improvements	$ 364,232	$ 247,806
Buildings and Building Improvements	2,160,880	1,131,345
Leasehold Improvements	-	14,250
Furniture, Fixtures and Equipment	118,469	118,469
Vehicles	1,045,965	689,111
Total At Cost	3,689,546	2,200,981
Less: Accumulated Depreciation	(1,112,611)	(1,008,955)
Total Property and Equipment - Net	$ 2,576,935	$ 1,192,026

The Agency has received several grants from the State of Connecticut Department of Transportation toward the purchase of vehicles. The State holds the title to these vehicles until the earlier of the end of the useful life or a certain mileage is reached; however, the Agency has capitalized the vehicles since it is probable that title will pass to them at the end of the specified time period.

Note 7 – Endowment Funds

This endowment fund is comprised of donor-restricted funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law – The Board of Directors of the Agency has interpreted the Connecticut Uniform Prudent Management of Institutional Funds Act (CTUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds. As a result of this interpretation, the Agency classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by that standard.

Investment Return Objectives, Risk Parameters and Strategies – The Agency currently maintains its endowment funds in an interest-bearing savings account at a bank.

Spending Policy – Currently, earnings are being left to accumulate.

Funds with Deficiencies – There is the potential that the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or CTUPMIFA requires the organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature would be reported as reductions in unrestricted net assets. There were no deficiencies of this nature as of June 30, 2017 and 2016.

Endowment net asset composition by type of fund is as follows:

	Temporarily Restricted	Permanently Restricted	Total
June 30, 2017			
Board-Designated	$ 8	$ -	$ 8
Donor-Restricted	-	4,900	4,900
Total	$ 8	$ 4,900	$ 4,908
June 30, 2016			
Board-Designated	$ 6	$ -	$ 6
Donor-Restricted	-	5,800	5,800
Total	$ 6	$ 5,800	$ 5,806

Endowment funds are comprised of the following amounts as of June 30:

	2017	2016
Cash	$ 4,008	$ 4,006
Pledges Receivable	600	1,800
Due from Operations	300	-
Total Endowment Funds	$ 4,908	$ 5,806

The following is a summary of pledges receivable to the endowment as of June 30:

	2017	2016
Receivable in Less than One Year	$ 600	$ 1,800
Total Pledges Receivable	$ 600	$ 1,800

Changes in endowment net assets as of June 30, 2017 are as follows:

	Temporarily Restricted	Permanently Restricted	Total
Balance, Beginning of Year	$ 6	$ 5,800	$ 5,806
Contributions	-	100	100
Loss on Uncollectible Pledge	-	(1,000)	(1,000)
Interest Income	2	-	2
Balance, End of Year	$ 8	$ 4,900	$ 4,908

Changes in endowment net assets as of June 30, 2016 are as follows:

	Temporarily Restricted	Permanently Restricted	Total
Balance, Beginning of Year	$ 4	$ 5,800	$ 5,804
Interest Income	2	-	2
Balance, End of Year	$ 6	$ 5,800	$ 5,806

Note 8 – Line of Credit

As of June 30, 2017, The Arc of Quinebaug Valley, Inc. had available to it a $125,000 line of credit from a bank at an interest rate of prime (per Wall Street Journal) plus 1%. At June 30, 2017, the interest rate effective on the line of credit was 5.25%. The line of credit is secured by a second mortgage on the property located on 687 Cook Hill Road, Danielson, CT. As of both June 30, 2017 and 2016, the balance outstanding on this note was $42,935.

Note 9 – Notes Payable

The Agency is obligated for the following notes:

	2017	2016
Notes payable in total monthly installments of $4,584 including interest ranging from 0% to 4.99% per annum due at various dates through August 2021 and secured by motor vehicles.	$ 93,475	$ 96,999
Mortgage note payable to Jewett City Savings Bank, in monthly installments of $1,315 including interest at 4.50% per annum through 2033 and collateralized by all property and equipment at Cook Hill Road, Danielson, CT.	182,545	190,073
Mortgage note payable to Putnam Bank, in monthly installments of $1,412 including interest at 4.90% per annum (was 4.75% through November 2015) through 2035 and collateralized by the real property located at 193 Mechanic Street, Killingly, CT.	204,227	210,836
Mortgage note payable to Putnam Bank, in monthly installments of $1,717 including interest at 3.875% per annum (through May 2022) through 2037 and collateralized by the real property located at 22 Route 171, Woodstock, CT.	283,435	-
Mortgage note payable to Jewett City Savings Bank, in monthly installments of $866 including interest at 4.50% per annum through 2038 and collateralized by the real property located at Tamarack Circle, Dayville, CT.	140,855	144,960
Mortgage note payable to the State of Connecticut in monthly installments of $752 including interest at 6% through 2039 collateralized by all property and equipment located at Tamarack Circle, Dayville, CT.	109,921	112,275
Mortgage note payable to CHFA in monthly installments of $3,538 bearing interest at 3.00% per annum through January 2047. The monthly payment also includes a required contribution of $584 to a repair and replacement reserve account. The mortgage is secured by the group home located in Danielson, CT.	694,696	-
Total	1,709,154	755,143
Less: Current Portion	(72,300)	(63,921)
Notes Payable - Net of Current Portion	$ 1,636,854	$ 691,222

The following is a schedule of maturing principal payments payable over the next five years and thereafter at June 30:

2018	$ 72,300
2019	72,195
2020	74,682
2021	68,778
2022	55,677
Thereafter	1,365,522
Total	$ 1,709,154

Note 10 – Refundable Advances

The Agency has received a refundable advance from the Connecticut Department of Developmental Services (DDS) related to the opening of its community living arrangements (CLA). These funds were used to fund the first month of operations of the home. Should the Agency stop providing CLA services in this home, the amount advanced for the home would be applied to the final month's reimbursement for the home. As of both June 30, 2017 and 2016, the value of these advances was $82,086.

Note 11 – Temporarily Restricted Net Assets

Temporarily restricted net assets consist of funds restricted for the following purposes as of June 30:

	2017	2016
Cook Hill Road Renovations (Unamortized Balance)	$ 30,096	$ 26,501
Vehicle Grants (Unamortized Balance)	361,068	38,331
Day Program Improvements (Unamortized Balance)	3,458	3,958
CLA Equipment (Unamortized Balance)	15,091	16,932
Capital Campaign (Unamortized Balance)	216,677	237,363
Accumulated Earnings on Permanently Restricted Endowment	8	6
Grant for Sensory Garden	5,000	-
Other Grants	2,100	-
Total Temporarily Restricted Net Assets	$ 633,498	$ 323,091

Note 12 – Operating Leases

The Agency leases various equipment and real estate sites for use in its operations and programs under both monthly leases and non-cancelable operating leases expiring in various years through 2021. These leases are treated as operating leases for financial reporting purposes. Rental expense under these lease agreements was $60,907 and $73,186 for the years ended June 30, 2017 and 2016, respectively.

The Agency also leased vans on a month-to-month basis. The total cost for the fiscal years ending June 30, 2017 and 2016 was $54,628 and $68,940, respectively.

Future minimum lease payments under non-cancelable operating leases that have remaining terms in excess of one year as of June 30, 2017 are as follows:

2018	$ 10,207
2019	8,700
2020	8,000
2021	300
Total	$ 27,207

Note 13 – Retirement Plan and Other Benefits

The Agency has established a 401(k) retirement plan for the benefit of its employees. The plan is a voluntary salary reduction agreement that allows employees to set aside a portion of their salaries for retirement savings. Under terms of the plan, the Agency matches employee contributions up to two percent of the participant's wages after one year of employment. The total pension expense incurred by the Agency's for the years ending June 30, 2017 and 2016 was $18,676 and $15,578, respectively.

The Agency has also established a Section 125 Cafeteria Plan which allows employees to pay for a portion of their medical insurance premiums on a pre-tax basis by way of voluntary salary reductions.

Note 14 – Contingencies

The Agency has received government grants for specific purposes that are subject to review, audit and adjustment by grantor agencies. Such audits could lead to requests for reimbursement to such agencies for any expenditures or claims disallowed under the terms of the agreements. Management believes such disallowances, if any, will not be material to the financial statements.

In November 2015, the Department of Social Services (DSS) began an audit of The Arc of Quinebaug Valley, Inc.'s Medicaid assistance claims for the period October 2012 through October 2015. In October 2017, a preliminary report was issued resulting in an overpayment due to DSS of $6,193. The Agency has the chance to appeal this amount at an exit conference. The Department postpones recouping any overpayment until an appeal is completed. The Company has not recorded any liability since an ultimate outcome is unknown at this time.

The Arc New London County, Inc.

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

June 30, 2018 and 2017

The Arc New London County, Inc.

Index

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, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with 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, 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.

CohnReznick

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 18 and 19 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 7, 2018 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 solely 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 the effectiveness of The Arc New London County, Inc.'s 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.

CohnReznick LLP

Hartford, Connecticut
December 7, 2018

The Arc New London County, Inc.

Statements of Financial Position
June 30, 2018 and 2017

Assets

	2018	2017
Current assets		
Cash	$ 1,646,884	$ 1,191,093
Grants receivable	378,111	534,454
Accounts receivable, net	145,444	146,425
Prepaid expenses	185,122	146,166
Investments	30,176	29,382
Total current assets	2,385,737	2,047,520
Property, equipment and improvements, net	3,698,594	3,760,216
Other assets		
Restricted cash	66,343	66,305
Investment held by third party	15,226	14,130
Other assets	9,447	9,447
Total other assets	91,016	89,882
Total assets	$ 6,175,347	$ 5,897,618

The Arc New London County, Inc.

Statements of Financial Position
June 30, 2018 and 2017

Liabilities and Net Assets

	2018	2017
Current liabilities		
Accounts payable	$ 120,086	$ 124,187
Accrued expenses	700,460	629,641
Deferred revenue	247,235	123,055
Mortgage notes payable, current portion	125,197	123,558
Deferred capital improvements, current portion	26,337	34,017
Capital lease obligations, current portion	15,789	13,616
Total current liabilities	1,235,104	1,048,074
Long-term liabilities		
DDS cash advances	132,057	132,057
Mortgage notes payable, less current portion	1,356,692	1,486,877
Deferred capital improvements, less current portion	170,644	196,981
Capital lease obligations, less current portion	547,730	564,822
Total long-term liabilities	2,207,123	2,380,737
Total liabilities	3,442,227	3,428,811
Commitment and contingencies		
Net assets		
Unrestricted net assets	2,625,437	2,425,316
Temporarily restricted	106,683	42,491
Permanently restricted	1,000	1,000
Total net assets	2,733,120	2,468,807
Total liabilities and net assets	$ 6,175,347	$ 5,897,618

See Notes to Financial Statements.

The Arc New London County, Inc.

Statements of Activities
Years Ended June 30, 2018 and 2017

	2018	2017
Changes in unrestricted net assets		
Revenues		
Residential and day programs	$ 10,405,086	$ 10,327,071
Fee for service	865,286	1,023,944
Grants and contributions	271,081	236,812
Other	161,923	151,433
Rental and interest income	83,065	73,434
Net assets released from restrictions	10,944	5,606
Total revenues	11,797,385	11,818,300
Expenses		
Program expenses	10,045,713	10,302,085
Fundraising expenses	22,727	40,654
Administrative expenses	1,528,824	1,497,528
Total expenses	11,597,264	11,840,267
Change in unrestricted net assets	200,121	(21,967)
Changes in temporarily restricted net assets		
Grants and contributions	75,136	24,820
Net assets released from restrictions	(10,944)	(5,606)
Change in temporarily restricted net assets	64,192	19,214
Change in net assets	264,313	(2,753)
Net assets, beginning	2,468,807	2,471,560
Net assets, end	$ 2,733,120	$ 2,468,807

See Notes to Financial Statements.

The Arc New London County, Inc.

Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Change in net assets	$ 264,313	$ (2,753)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Net unrealized loss (gain) on investments	436	(1,814)
Net unrealized gain on investment held by third party	(1,096)	(1,404)
Depreciation and amortization	224,024	230,845
Deferred capital improvements amortization	(34,017)	(34,018)
Changes in operating assets and liabilities		
Grants receivable	156,343	124,041
Accounts receivable	981	61,767
Prepaid expenses	(38,956)	(32,490)
Other assets	-	(305)
Accounts payable	(4,101)	(21,711)
Accrued expenses	70,819	(164,918)
Deferred revenue	124,180	(26,457)
Net cash provided by operating activities	762,926	130,783
Cash flows from investing activities		
Restricted cash	(38)	(66,305)
Purchases of investments	(1,230)	-
Purchase of property, equipment and improvements	(162,402)	(66,067)
Net cash used in investing activities	(163,670)	(132,372)
Cash flows from financing activities		
Proceeds from long-term debt	-	26,098
Repayments of long-term debt	(128,546)	(118,393)
Repayments of capital lease obligations	(14,919)	(13,617)
Net cash used in financing activities	(143,465)	(105,912)
Net increase (decrease) in cash	455,791	(107,501)
Cash, beginning	1,191,093	1,298,594
Cash, end	$ 1,646,884	$ 1,191,093
Supplemental disclosures of cash flow data		
Interest paid	$ 109,408	$ 115,454
Supplemental disclosures of noncash investing and financing activities		
Purchase of property, equipment and improvements	$ 162,402	$ 90,603
Assets acquired through long-term debt	-	(24,536)
Purchases with cash	$ 162,402	$ 66,067

See Notes to Financial Statements.

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, 2018 and 2017. Arc's federal information returns prior to fiscal year 2015 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

Cash includes 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, 2018 and 2017.

Restricted cash

Restricted cash is held as collateral for debt with Saving Institute Bank and Trust (see Note 6).

Grants and accounts receivable

Accounts receivable principally represent monies due from Department of Developmental 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, 2018 and 2017 of $6,200.

Investments
Arc reports investments at their current fair value and reflects any gain or loss in the statements of activities. Gains and losses are considered unrestricted unless restricted by donor stipulation or law. Nonmonetary investments received as gifts are immediately sold and recorded at the realized value.

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 are carried at cost less accumulated depreciation. Donated property and equipment are carried at the approximate fair value at the date of donation. Depreciation and amortization are 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:

Asset	Estimated lives
Buildings and improvements	5 - 39.5 years
Vehicles	3 - 5 years
Furniture and equipment	5 - 10 years
Leasehold improvements	Shorter of lease life or useful life

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.

Investment held by third party
Arc has investment held by the Community Foundation of Southeastern Connecticut (the "Foundation"). 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.

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. Revenue is recognized when the services are performed. 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 in home and community residential programs are reimbursed through a direct contract with DDS and/or billed through a fiscal intermediary. 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 $106,350 and $107,789 and the total costs of fundraising activities were $22,727 and $40,654 for the years ended June 30, 2018 and 2017, respectively.

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. 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 7, 2018, which is the date the financial statements were available to be issued.

Note 2 - Concentrations

Funding source

Arc's program revenue is primarily derived from contracts with DDS. Total revenue received from DDS in 2018 and 2017 was $9,927,719 and $9,931,140, respectively. Amounts due from DDS at June 30, 2018 and 2017 were $378,111 and $534,454, respectively.

Concentrations of credit risk

Financial instruments which potentially subject Arc to concentrations of credit risk 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, 2018, the cash balance exceeded the federally insured limit by approximately $1,195,000.

Note 3 - Accounts receivable/ DDS bridge funding advances

The Arc retains bridge funding advances from DDS to fund the cash flow requirements of the Arc associated with certain DDS programs. DDS provided the Arc a cash advance equal to one month of claims associated with Day and In Home Supports programs, which is $848,632.

As shown below, these advances are offset against DDS accounts receivable on the accompanying statements of financial position.

	2018	2017
DDS accounts receivable	$ 1,226,743	$ 534,454
Less DDS bridge funding advance	(848,632)	-
Grants receivable, net	$ 378,111	$ 534,454

Note 4 - Investments

The following summarizes Arc's investments at June 30, 2018 and 2017:

	2018	2017
Money funds	$ 2,112	$ 10,269
Common stock	28,064	19,113
Community Foundation of Southeastern Connecticut	15,226	14,130
Total	$ 45,402	$ 43,512

All investments are financial instruments whose fair value can be readily determined. Investments are reported at fair value, which includes adjustments for unrealized gains and losses. Unrealized gains and losses arise from changes in the fair value of investments exclusive of dividend and interest income recognized but not yet received and exclusive of any write-down of the carrying amount of investments because of impairment. Unrealized gains and losses are reported as increases or decreases in unrestricted net assets. Arc's investments are not encumbered by any restrictions from donors or creditors. The fair value is subject to the risks of market and economic conditions.

Arc values its financial assets and liabilities based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to level 1 inputs.

Level 2: Observable inputs other than level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to level 3 inputs.

In determining fair value, Arc utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value.

Money funds and common stock are valued at level 1. Common stocks that are listed on a national securities exchange or reported on the NASDAQ national market are valued at their last sales price or valuation date.

Investments held by the Foundation are classified as level 3 using allocations provided by the third party. Details regarding investments held for long-term purposes measured at fair value on a recurring basis using significant unobservable inputs (level 3) are as follows:

June 30, 2016	$ 12,726
Change in value	1,404
June 30, 2017	14,130
Change in value	1,096
June 30, 2018	$ 15,226

There have been no changes in valuation techniques and related inputs used at June 30, 2018 and 2017. Arc's policy is to recognize transfers in and out of various levels as of the actual date of the event. There were no transfers during the years ended June 30, 2018 and 2017.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although Arc believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Note 5 - Property and equipment

Components of property and equipment are as follows:

	2018	2017
Buildings	$ 3,409,885	$ 3,409,885
Capital and leasehold improvements	1,559,140	1,485,107
Furniture, fixtures and equipment	310,069	279,621
Vehicles	215,008	157,087
	5,494,102	5,331,700
Less accumulated depreciation	(2,967,281)	(2,743,257)
Land	1,171,773	1,171,773
	$ 3,698,594	$ 3,760,216

Depreciation expense, including capital leased assets was $224,024 and $230,845 for the years ended June 30, 2018 and 2017, respectively.

Note 6 - Long-term debt

Long-term debt consists of the following at June 30, 2018 and 2017:

	2018	2017
6.00% seven mortgage loan payables to DDS, collateralized by real estate. Monthly principal and interest payments ranging from $84 - $2,153 are payable through September 2030.	$ 699,957	$ 758,593
3.40% two 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.	618,872	636,887
4.5% - $4.88% two notes payable to Chelsea Groton Bank, collateralized by real estate. Monthly principal and interest payments of $2,003 - $2,224 are payable through April 2022.	108,815	153,118
2.55% note payable to Saving Institute Bank and Trust, collateralized by cash which is restricted on the statement of financial position. Monthly principal and interest payments of $479 are payable through May 2027.	45,743	50,266
2.7% notes payable to Saving Institute Bank and Trust, collateralized by equipment. Monthly principal and interest payments of $288 are payable through December 2020.	8,502	11,571
	1,481,889	1,610,435
Less current portion	(125,197)	(123,558)
Total	$ 1,356,692	$ 1,486,877

Future maturities of long-term debt for each of the five years subsequent to 2018 and thereafter are as follows:

2019	$	125,197
2020		117,186
2021		119,108
2022		94,651
2023		71,610
Thereafter		954,137
Total	$	1,481,889

Related interest expense for the years ended June 30, 2018 and 2017 was $73,444 and $78,229, respectively.

Note 7 - Line of credit

Arc has a $350,000 line of credit with Chelsea Groton Bank which expires on April 2019. The line of credit has a stated interest rate of 6% 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, 2018 or 2017.

Note 8 - Capital lease obligations

Arc leased two properties with CIL Realty, Inc. ("CIL") through November 2039. The property will transfer ownership at the end of the lease term. 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. Amortization of the assets under the capital leases is included in depreciation and amortization expense.

Accordingly, the assets were capitalized and have the following book values at June 30, 2018 and 2017:

	2018	2017
Building	$ 532,069	$ 532,069
Less accumulated amortization	(186,705)	(168,969)
Land	160,174	160,174
Total	$ 505,538	$ 523,274

Related interest expense for the years ended June 30, 2018 and 2017 was $35,964 and $37,225, respectively. Amortization expense relating to the capital lease obligations for both years ended June 30, 2018 and 2017 was $17,736.

At June 30, 2018, future minimum lease payments due under capital leases are as follows:

2019	$	50,841
2020		50,841
2021		50,841
2022		50,841
2023		50,841
Thereafter		735,138
Total future minimum lease payments		989,343
Less amount representing interest		(425,824)
Present value of net minimum lease payments		563,519
Less current portion		(15,789)
Long-term portion	$	547,730

Note 9 - Commitments

Real estate

Arc leases three facilities and is responsible for utilities, maintenance and insurance. Related rent expense for the years ended June 30, 2018 and 2017 was $101,151 and $99,965, respectively. Monthly rental payments range between $1,450 - $5,000 expiring at various times through March 2019.

Vehicle and equipment

Arc also leases vehicles and copiers for amounts ranging from $182 - $1,865 per month through March 2023. Related rent expense for the years ended June 30, 2018 and 2017 was $197,313 and $192,720, respectively.

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

2019	$	173,025
2020		127,871
2021		85,839
2022		42,947
2023		4,306
Total	$	433,988

Note 10 - DDS cash advances

When a facility commences operations, Arc may receive an operational advance from DDS 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, 2018 and 2017.

Note 11 - Deferred capital improvements

During the fiscal year ended June 30, 2009, Arc received funding from DDS 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, 2018 and 2017 was $1,536 and $10,753, respectively, and is included under current and long-term liabilities on the statements of financial position.

During the fiscal year ended June 30, 2016, Arc received bond funds of $248,008 from Office of Policy Management for building improvements. The improvements were placed in service during this fiscal year, the grants are being amortized and recognized over the life of the improvements. The deferred balance for these grants for the fiscal years ended June 30, 2018 and 2017 were $195,445 and $220,245, respectively.

Note 12 - Retirement plan

Arc maintains a 403(b) retirement plan covering all eligible employees. The matching percentage is governed by the plan document. Arc contributed $40,727 and $40,570 to the plan for the years ended June 30, 2018 and 2017, respectively.

Note 13 - Temporarily restricted net assets

Temporarily restricted net assets are available for the following purposes as of June 30, 2018 and 2017:

	2018	2017
Program restrictions	$ 21,948	$ 20,064
Capital restrictions	84,735	22,427
Total	$ 106,683	$ 42,491

Temporarily restricted net assets released from restrictions for the years ended June 30, 2018 and 2016 were as follows:

	2018	2017
Program restrictions	$ 4,473	$ 2,108
Capital restrictions	6,471	3,498
Total	$ 10,944	$ 5,606

Note 14 - 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 assistance in promoting the joint causes of the organizations with state and federal governments.

Supplementary Information

The Arc New London County, Inc.

Program Expenses
Years Ended June 30, 2018 and 2017

	2018	2017
Salaries and wages	$ 6,418,056	6,567,333
Benefits and payroll tax	1,435,064	1,447,409
Transportation expenses	641,940	671,932
Program supplies	352,269	389,011
Utilities	245,839	240,593
Consulting	208,111	227,494
Depreciation and amortization	206,485	218,618
Repairs and maintenance	178,436	151,419
Interest	107,746	113,510
Rent	101,151	99,965
Professional services	66,012	79,088
Insurance	44,776	39,959
Activities	25,614	26,218
Training	16,744	24,298
Miscellaneous	(4,976)	3,427
Recruitment and hiring	1,289	1,671
Association membership	1,157	140
Total	$ 10,045,713	$ 10,302,085

See Independent Auditor's Report.

The Arc New London County, Inc.

Administrative Expenses
Years Ended June 30, 2018 and 2017

	2018	2017
Salaries and wages	$ 904,505	$ 899,222
Benefits and payroll tax	150,607	137,668
Professional services	116,980	132,360
Program supplies	116,604	129,927
Utilities	35,675	37,234
Training	29,420	36,449
Association membership	30,652	31,090
Temporary help	36,037	26,368
Recruitment and hiring	27,450	19,768
Insurance	13,788	14,104
Consulting	31,254	12,916
Depreciation and amortization	17,539	12,227
Transportation expenses	16,651	6,251
Interest	1,662	1,944
Total	$ 1,528,824	$ 1,497,528

See Independent Auditor's Report.