

THE ARC OF BRISTOL COUNTY, INC. AND AFFILIATES
CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Arc of Bristol County, Inc and Affiliates
Attleboro, Massachusetts

I have audited the accompanying consolidated financial statements of The Arc of Bristol County, Inc and Affiliates (nonprofit organizations) which comprise the consolidated statement of financial position as of June 30, 2016 and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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 financial statements that are free from material misstatement whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 applicable in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I 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 financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Arc of Bristol County, Inc. and Affiliates as of June 30, 2016 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued my report dated December 8, 2016 on my consideration of The Arc of Bristol County, Inc. and Affiliates' internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering The Arc of Bristol County, Inc. and Affiliates' internal control over financial reporting and compliance.

Report on Summarized Comparative Information

I have previously audited The Arc of Bristol County, Inc. and Affiliates' 2015 financial statements, and my report dated November 12, 2015, expressed an unmodified opinion on those financial statements. In my opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Supplementary Information

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The statements of financial position and activities by entity are presented for purposes of additional analysis and are not a required part of the basic 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 audit 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 my opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Kathleen M. Hughes, C.P.A.

THE ARC OF BRISTOL COUNTY, INC. AND AFFILIATES
Consolidated Statement of Financial Position
June 30, 2016 and 2015

| | <u>June 30, 2016</u> | <u>June 30, 2015</u> |
|-----------------------------------------|---------------------------|---------------------------|
| ASSETS | | |
| Cash | \$782,456 | \$653,948 |
| Accounts receivable | 1,753,381 | 1,255,347 |
| Agency Endowment Fund | 228,848 | 243,541 |
| Other investments | 266,182 | 271,302 |
| Replacement reserve | 148,512 | 154,933 |
| Other assets | 164,677 | 188,872 |
| Property and equipment | <u>2,371,125</u> | <u>2,363,791</u> |
| TOTAL ASSETS | <u><u>\$5,715,181</u></u> | <u><u>\$5,131,734</u></u> |
| LIABILITIES | | |
| Accounts payable | \$36,704 | \$60,478 |
| Accrued expenses | 556,583 | 401,957 |
| Deferred grants | 185,000 | 0 |
| Loans payable | 35,732 | 29,896 |
| Mortgages payable | <u>2,289,064</u> | <u>2,380,169</u> |
| TOTAL LIABILITIES | <u><u>3,103,083</u></u> | <u><u>2,872,500</u></u> |
| NET ASSETS | | |
| Unrestricted | | |
| Property and equipment | 194,841 | 108,659 |
| Board Designated | 82,200 | 72,800 |
| Undesignated | 2,092,995 | 1,835,713 |
| Temporarily restricted | 200,000 | 200,000 |
| Permanently restricted | <u>42,062</u> | <u>42,062</u> |
| TOTAL NET ASSETS | <u><u>2,612,098</u></u> | <u><u>2,259,234</u></u> |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$5,715,181</u></u> | <u><u>\$5,131,734</u></u> |

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

THE ARC OF BRISTOL COUNTY, INC. AND AFFILIATES

Consolidated Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2016
With Comparative Totals for June 30, 2015

| | Unrestricted | Temporarily Restricted | Permanently Restricted | June 30, 2016 | June 30, 2015 |
|------------------------------------------------|--------------------|---------------------------|---------------------------|--------------------|--------------------|
| REVENUE, SUPPORT AND OTHER INCOME | | | | | |
| Massachusetts contracts | \$3,679,125 | | | \$3,679,125 | \$2,607,205 |
| Rhode Island contracts | 3,621,221 | | | 3,621,221 | 2,652,167 |
| Medicaid payments for services | 3,953,480 | | | 3,953,480 | 3,784,340 |
| Other program income | 381,447 | | | 381,447 | 530,145 |
| Grants, donations and fundraising | 159,111 | | | 159,111 | 122,575 |
| Rental income | 234,306 | | | 234,306 | 207,677 |
| Gain on asset disposal | 17,335 | | | 17,335 | 0 |
| Investment income | 10,494 | | | 10,494 | 9,583 |
| Realized gains (losses) on investments | (722) | | | (722) | 0 |
| Unrealized gains (losses) on investments | (19,717) | | | (19,717) | 1,202 |
| Donated rent | 8,000 | | | 8,000 | 8,000 |
| Total revenue, support and other income | 12,044,080 | 0 | 0 | 12,044,080 | 9,922,894 |
| EXPENSES | | | | | |
| Program services | 10,685,585 | | | 10,685,585 | 8,735,503 |
| Management and general | 976,273 | | | 976,273 | 959,021 |
| Fundraising | 77,980 | | | 77,980 | 77,609 |
| Total expenses | 11,739,838 | 0 | 0 | 11,739,838 | 9,772,133 |
| INCREASE IN NET ASSETS | 304,242 | 0 | 0 | 304,242 | 150,761 |
| Net Assets, Beginning of Period | 2,017,172 | 200,000 | 42,062 | 2,259,234 | 2,108,473 |
| Prior Years' corrections | 48,622 | | | 48,622 | |
| NET ASSETS, END OF PERIOD | \$2,370,036 | \$200,000 | \$42,062 | \$2,612,098 | \$2,259,234 |

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

THE ARC OF BRISTOL COUNTY, INC. AND AFFILIATES

Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2016
With Comparative Totals for June 30, 2015

| | Program Services | Management and General | Fund Raising | Total June 30, 2016 | Total June 30, 2015 |
|------------------------------------|---------------------|------------------------------|-----------------|------------------------|------------------------|
| Salaries and related expenses | \$4,685,762 | \$475,741 | \$71,772 | 5,233,275 | \$4,731,266 |
| Program expenses | 5,240,129 | | | 5,240,129 | 3,907,107 |
| Occupancy expenses | 629,983 | 140,981 | | 770,964 | 695,822 |
| General operating expenses | | 340,199 | 6,208 | 346,407 | 297,897 |
| Total expenses before depreciation | 10,555,874 | 956,921 | 77,980 | 11,590,775 | 9,632,092 |
| Depreciation | 120,557 | 26,748 | | 147,305 | 138,283 |
| Amortization | 1,758 | | | 1,758 | 1,758 |
| Total expenses | <u>\$10,678,189</u> | <u>\$983,669</u> | <u>\$77,980</u> | <u>\$11,739,838</u> | <u>\$9,772,133</u> |

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

THE ARC OF BRISTOL COUNTY, INC. AND AFFILIATES

Consolidated Statement of Cash Flows
For the Years Ended June 30, 2016 and 2015

| | June 30, 2016 | June 30, 2015 |
|----------------------------------------------------------------------------------|------------------|------------------|
| Cash Flows from Operating Activities | | |
| Increase (decrease) in net assets | \$304,242 | \$150,761 |
| Adjustments to reconcile net assets to net cash provided by operating activities | | |
| Depreciation and amortization | 149,072 | 138,283 |
| Unrealized (gains) losses on investments | 19,717 | (1,202) |
| Realized losses on investments | 722 | 0 |
| (Increase) decrease in operating assets | | |
| Accounts receivable | (498,034) | (296,002) |
| Replacement reserve | 6,421 | (1,831) |
| Other assets | 24,195 | (39,017) |
| Increase (decrease) in operating liabilities | | |
| Accounts payable and accrued expenses | 130,854 | 41,342 |
| Deferred revenue | 185,000 | |
| Leases payable | 0 | (957) |
| Net Cash Provided (Used) by Operating Activities | 322,189 | (8,623) |
| Cash Flows from Investing Activities | | |
| Increase in investments | 0 | (260,000) |
| Purchase of property and equipment | (139,334) | (10,150) |
| Net Cash Provided (Used) by Investing Activities | (139,334) | (270,150) |
| Cash Flows from Financing Activities | | |
| Increase in long term debt | 30,922 | 0 |
| Payments on long-term debt | (85,269) | (104,180) |
| Net Cash Provided (Used) by Financing Activities | (54,347) | (104,180) |
| Increase (decrease) in cash and cash equivalents | 128,508 | (382,953) |
| Cash and cash equivalents, beginning of period | 653,948 | 1,036,901 |
| Cash and cash equivalents, end of period | \$782,456 | \$653,948 |
| Supplemental cash flow information: | | |
| Cash paid during the year for interest | \$80,066 | \$81,988 |

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

THE ARC OF BRISTOL COUNTY, INC. AND AFFILIATES

Notes to Consolidated Financial Statements June 30, 2016 and 2015

Note 1. Summary of Significant Accounting Policies:

Nature of Activities:

The Arc of Bristol County, Inc. and its Affiliates all provide services to individuals with developmental disabilities and also to their families. Currently they provide services in Southeastern Massachusetts and Rhode Island. The major sources of revenue are contracts and leases with Massachusetts and contracts with Rhode Island.

Financial Statement Presentation:

The Organizations report information regarding their financial position and activities according to three classes of net assets (unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets) based upon the existence or absence of donor-imposed restrictions.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Net assets are released from donor restrictions when expenses are incurred or some event occurs that satisfies the restriction. Donor restricted contributions that are received and expended in the same year are reported as unrestricted revenues.

Comparative Information:

The consolidated financial statements include certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organizations' consolidated financial statements for the year ended June 30, 2015 from which the summarized information was derived.

Basis of Accounting:

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.

Income Taxes - Uncertain Positions:

The Organizations are exempt from federal income taxes under section 501(c)(3) or 501(c)(2) of the Internal Revenue Code and therefore have made no provision for federal income taxes in the accompanying financial statements. The Organizations believe that they do not have any uncertain tax positions that are material to the financial statements. The Organizations' Federal Exempt Organization tax returns (Form 990) are subject to examination by the IRS, generally for three years after they are filed.

THE ARC OF BRISTOL COUNTY, INC. AND AFFILIATES

Notes to Consolidated Financial Statements June 30, 2016 and 2015

Estimates:

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

Functional Allocation of Expenses:

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

Donated Facilities:

During the years ended June 30, 2016 and 2015, donated facilities for one of the Fall River programs were valued at their fair market value of \$8,000 for each year.

Donated Services:

During the course of each year, the Organization receives a substantial amount of donated time from volunteers. The value of the contributed time is not reflected in these financial statements since the services do not meet the criteria for financial statement recognition. Donated services are recognized in financial statements when the services create or enhance a nonfinancial asset or require specialized skills which would be purchased if not donated.

Principles of Consolidation:

The consolidated financial statements include the accounts of The Arc of Bristol County Inc; The Arc of Greater Fall River, Inc; The Arc of Greater Fall River Realty, Inc and Advocacy Resource Center of Greater New Bedford, Inc. which are all under common control. All significant intercompany balances and transactions were eliminated in consolidation.

Note 2. Accounts Receivable:

Accounts receivable consist of amounts due from various agencies, principally the Commonwealth of Massachusetts and the State of Rhode Island for services performed pertaining to the Organizations' various contracts.

Note 3. Agency Endowment Fund:

The Community Foundation of Southeastern Massachusetts (the Foundation) manages in an agency capacity an endowment fund in the original principal amount of \$250,000 commencing May 14, 1997. The purpose is to provide current income and long-term protection for the operations of the Organization. The assets of this fund would revert back to the Organization should the Foundation dissolve or cease to be a charitable organization. During the year ended June 30, 2016, the Organization received \$ 6,426 of income from the fund as well as receiving a distribution of \$ 9,571 . For the year ended June 30, 2015, the Organization received \$7,740 of income and a distribution of \$8,768.

THE ARC OF BRISTOL COUNTY, INC. AND AFFILIATES

Notes to Consolidated Financial Statements June 30, 2016 and 2015

Note 4. Other Investments:

At June 30, 2016, other investments consist of mutual funds with a value of \$256,432 and a \$9,750 endowment fund. At June 30, 2015, the value of the mutual funds was \$261,302 and the endowment was \$10,000.

Note 5. Property and Equipment:

Fixed assets are carried at cost with depreciation being computed on a straight-line basis over the estimated useful lives of the assets. The Organizations capitalize all purchases of property and equipment in excess of \$5,000. Property and equipment consist of the following:

| | <u>June 30, 2016</u> | <u>June 30, 2015</u> |
|--------------------------|----------------------|----------------------|
| Land and buildings | \$ 3,898,859 | \$ 3,862,455 |
| Furnishings and fixtures | 177,647 | 177,647 |
| Vehicles | 273,204 | 259,465 |
| Office equipment | <u>217,880</u> | <u>217,880</u> |
| | 4,567,590 | 4,517,447 |
| Accumulated depreciation | <u>2,196,465</u> | <u>2,153,656</u> |
| | <u>\$ 2,371,125</u> | <u>\$ 2,363,791</u> |

Note 6. Donated Property:

On September 22, 1993, the Patricia Howard Irrevocable Trust donated a condominium to the Arc. The condominium, located in Attleboro, MA, was transferred pursuant to powers set forth in said Trust and must be maintained, in perpetuity, as a residence for developmentally disabled individuals. The market value of the property on the date of transfer was estimated at \$57,000.

On July 1, 1997, the above donated condominium was exchanged for a building on Brown Street, Attleboro, MA. All stipulations and restrictions set forth in the original Patricia Howard Irrevocable Trust still apply. The Brown Street property is still to be maintained, in perpetuity, as a residence for developmentally disabled individuals. The asset value of the Brown Street property on July 1, 1997 was \$128,784 (building \$113,784 and land \$15,000).

Note 7. Replacement Reserve:

In accordance with the provisions of the mortgage note between the Organization (Borrower) and the Massachusetts Housing Finance Agency (Agency), the Borrower shall establish and maintain a reserve fund for replacements (the Replacement Reserve) in an escrow account controlled by the Agency by depositing with the Agency the existing balance of the replacement reserve, and such monthly amounts thereafter, as set forth in the "Replacement Reserve - Payment Schedule" annexed in the mortgage agreement as Exhibit A. It is agreed by the Borrower that the replacement reserve shall be adjusted each year as set forth in the schedule. In addition, pursuant to Section 5.8 of the lease, as modified by the Rider to the Lease, the replacement reserve amount shall be subject to review by the Borrower and DCAM every five years for the term of the lease. The interest earned on the account shall remain in the replacement reserve for the benefit of the project.

THE ARC OF BRISTOL COUNTY, INC. AND AFFILIATES

Notes to Consolidated Financial Statements June 30, 2016 and 2015

Note 7. (continued)

Disbursements from such fund, whether for the purpose of effecting replacement of structural elements or mechanical equipment, may be made only after receiving prior consent in writing from the Agency, which consent will not be withheld unreasonably, and upon written approval by the DCAM in accordance with Section 5.8 of the Community Residence Lease Purchase Agreement. In an event of default under the mortgage whereby repayment of the loan is accelerated, the Agency may apply or authorize the application of the balance in such fund to the amount due on the mortgage debt as accelerated. In the event of prepayment of the loan pursuant to the provision of the mortgage, the balance in such fund shall belong to the Borrower. (Also see notes 7 and 8)

Note 8. Mortgages Payable:

Mortgages payable consist of the following at June 30, 2016:

Facilities Consolidation Fund Mortgages assigned to CEDAC FCF Program represent five separate 30 year loans. Interest on the loans accrues at 0% per year simple interest and is assessed on a pro rata basis at the end of each month during the first 20 years unless the project's debt coverage ratio exceeds 1.05. Such excess cash flow is due and payable to CEDAC within 45 days of the end of each calendar year and shall be applied first to the interest due and thereafter to reduce the principal balance of the Facilities Consolidation Fund loans. The mortgages are secured by five related land and buildings. Additionally, these mortgages are subordinated to debt with Massachusetts Housing Finance Agency. The balance due on these mortgages at June 30, 2016 was \$874,227.

In addition, the following mortgages are with Massachusetts Housing Finance Agency:

1. Mortgage note payable in monthly installments of \$959. including interest at 5.35%, maturing in August, 2026, secured by land and building. The balance due at June 30, 2016 was \$89,856.
2. Mortgage note payable in monthly installments of \$962. including interest at 5.35%, maturing in July, 2026, secured by land and building. The balance due at June 30, 2016 was \$92,523.
3. Mortgage note payable in monthly installments of \$1,007. including interest at 5.55%, maturing in December, 2026, secured by land and building. The balance due at June 30, 2016 was \$96,037.
4. Mortgage note payable in monthly installments of \$985. including interest at 5.35%, maturing in August, 2026, secured by land and building. The balance due at June 30, 2016 was \$90,054.

THE ARC OF BRISTOL COUNTY, INC. AND AFFILIATES

Notes to Consolidated Financial Statements June 30, 2016 and 2015

Note 8. (continued):

5. Mortgage note payable in monthly installments of \$1,024, including interest at 5.55%, maturing in January, 2029, secured by land and building. The balance due at June 30, 2016 was \$111,139.

The schedule of the next five year maturities on the above are as follows:

| | |
|------------|---------------------|
| 2017 | \$ 33,926 |
| 2018 | 35,814 |
| 2019 | 37,924 |
| 2020 | 40,424 |
| 2021 | 43,374 |
| Thereafter | <u>1,162,374</u> |
| | <u>\$ 1,353,836</u> |

In August, 2006, the Organization purchased a building in Taunton at which time the existing mortgages were refinanced through the Bank of America. The Organization's obligations due to the refinancing are as follows:

A 25 year mortgage in the amount of \$850,000 with a 20 year fixed rate. The interest rate is a one month LIBOR hedged with a 20 year fixed rate swap at closing. At closing, the rate was 6.16%. The outstanding balance at June 30, 2016 was \$704,738.

A 20 year mortgage in the amount of \$500,000 with a 5 year fixed rate. The interest rate is based on a tax-exempt adjusted rate over 20 years. After refinancing in August, 2011, the current rate is 4.05%. The outstanding balance at June 30, 2016 was \$4,696.

The schedule of the next five year maturities on the above are as follows:

| | |
|------------|-------------------|
| 2017 | \$ 19,396 |
| 2018 | 15,600 |
| 2019 | 17,100 |
| 2020 | 18,600 |
| 2021 | 20,700 |
| Thereafter | <u>618,038</u> |
| | <u>\$ 709,434</u> |

THE ARC OF BRISTOL COUNTY, INC. AND AFFILIATES

Notes to Consolidated Financial Statements June 30, 2016 and 2015

Note 8. (continued):

In August, 2007, the Organization purchased property on Dunham Street, Attleboro which was financed by a mortgage with Bristol County Savings Bank in the amount of \$234,000 over 20 years with a fixed rate of 8% for the first five years followed by annual adjustments up to 1% above the Bank's base rate. Monthly payments are currently \$1,594.88 at a rate of 5%. The outstanding balance at June 30, 2016 was \$163,511.

In November, 2010, the Organization purchased property on Carver Street, Pawtucket which was financed by a mortgage with Bristol County Savings Bank in the amount of \$75,000 over 20 years with a fixed rate of 6.5% for the first five years followed by annual adjustments up to 2% above the bank's base rate. Monthly payments are currently \$559.18 at a rate of 5%. The outstanding balance at June 30, 2016 was \$62,282.

All real estate is pledged as collateral on all the mortgages listed above.

In December, 2013, the Organization received a 48 month loan in the amount of \$25,385 to purchase a vehicle. Monthly payments are \$569.99 principal plus interest at 3.72%. The outstanding balance at June 30, 2016 was \$ 9,964. The vehicle is pledged as collateral.

In August, 2015, the Organization received a 60 month loan in the amount of \$30,922 to purchase a vehicle. Monthly payments for principal and interest are \$527.40. The outstanding balance at June 30, 2016 was \$25,768.

The Organization has also established a line of credit with the Bristol County Savings Bank in the amount \$750,000. The line of credit has an interest rate of the current bank rate plus 1% with a floor of 5%. All business assets of the Corporation are pledged as collateral. There was no outstanding balance at either June 30, 2016 or June 30, 2015.

Note 9. Rental Income:

The Organization leases to the Commonwealth of Massachusetts five residences, which were constructed in 1997, 1998 and 1999 under separate 30 year leases. Each of these leases requires that the property be maintained for residential use by the Department of Developmental Services. The leases contain purchase options by the Lessee, which can be exercised anytime during the lease term and would result in a transfer of the property to the Lessee at the end of the lease term. The purchase options in these leases provide that the Commonwealth of Massachusetts would assume the balance of the then outstanding mortgage obligations relating to the property as a condition of exercising the purchase option. (see note 7). These leases are being accounted for as operating leases. These leases require that the Organization establish a "replacement reserve fund" for the purpose of financing the repairs and maintenance of the leased properties. The balance of the replacement reserve as of June 30, 2016 is \$148,512. At June 30, 2015, the balance was \$154,933 (Also see note 6).

THE ARC OF BRISTOL COUNTY, INC. AND AFFILIATES

**Notes to Consolidated Financial Statements
June 30, 2016 and 2015**

Note 9. (continued):

The amounts due to fund the replacement reserve during the next five years are as follows:

| | |
|------|-------------------|
| 2017 | \$ 30,240 |
| 2018 | 31,906 |
| 2019 | 33,834 |
| 2020 | 34,830 |
| 2021 | <u>36,570</u> |
| | <u>\$ 167,380</u> |

The following is a schedule of the future rents to be received over the next 5 years:

| | |
|------|-------------------|
| 2017 | \$ 149,372 |
| 2018 | 151,762 |
| 2019 | 154,190 |
| 2020 | 156,657 |
| 2021 | <u>159,007</u> |
| | <u>\$ 770,988</u> |

Rental income for the year ended June 30, 2016 was \$146,674 and for year ended June 30, 2015 it was \$144,705

Note 10. Lease Commitments:

Operating Leases:

The Organization leases space at various locations, some under a lease agreement and some as tenant at will. The current leases have expiration dates ranging from 2017 through 2019. Rent expense under these leases was \$335,354 for the year ended June 30, 2016.

Minimum future lease payments under the various leases in effect at June 30, 2016 are as follows:

| | |
|---------------------------|-------------------|
| Year Ending June 30, 2017 | \$ 284,509 |
| June 30, 2018 | 143,881 |
| June 30, 2019 | 71,384 |
| June 30, 2020 | <u>4,720</u> |
| | <u>\$ 504,494</u> |

THE ARC OF BRISTOL COUNTY, INC. AND AFFILIATES

Notes to Consolidated Financial Statements June 30, 2016 and 2015

Note 10. (continued)

The Organization also leases three vehicles under operating leases expiring in 2020 at a monthly expense of \$1,669.

Minimum future lease payments under these leases are as follows:

| | |
|------|------------------|
| 2017 | \$ 20,028 |
| 2018 | 20,028 |
| 2019 | 20,028 |
| 2020 | <u>6,265</u> |
| | <u>\$ 66,349</u> |

Note 11. Deferred Charges:

Deferred charges consist of the unamortized balance of mortgage acquisition costs incurred with refinancing arrangements. These costs are being amortized over the life of the related debt. Amortization expense for each of the past two years amounted to \$1,758

Note 12. Pension:

The Organization maintains a 403B tax sheltered annuity as well as a Section 125 cafeteria plan and a Section 457B deferred annuity contract for its employees.

Note 13. Related Party Transactions:

Two members of the Board of Directors are employees of one of the banks for the Organizations' cash accounts. The Organization incurred interest on the mortgages held by this bank in the amount of \$9,761 for the year ended June 30, 2016 and \$12,318 for the year ended June 30, 2015.

During fiscal year ended June 30, 2016 one employee was related to key management or Board members. Total salaries paid to the this employee was \$ 13,842. During fiscal year ended June 30, 2015, three employees were related to key management and salaries paid to them totalled \$13,994.

Also, during fiscal year 2016, a board member was paid \$11,796 for services rendered. During fiscal year 2015, the same Board member was paid \$2,400 for services rendered.

Note 14. Subsequent Event:

The Organization evaluated subsequent events through December 8, 2016, the date of financial statement issuance.

THE ARC OF BRISTOL COUNTY, INC. AND AFFILIATES

Notes to Consolidated Financial Statements June 30, 2016 and 2015

Note 15. Surplus Revenue Retention:

Beginning with fiscal year ended June 30, 1993, Massachusetts allowed a nonprofit provider to retain an annual net surplus of up to 5% of gross revenue derived from delivering services. The cumulative amount retained since that time may not exceed 20% of the prior year's gross revenues from Commonwealth of Massachusetts purchasing agencies and must be segregated as surplus revenue retention fund balance. A current year surplus which exceeds the 5% level or a cumulative surplus exceeding the 20% level may be: 1) reinvested in program services as stipulated by the purchasing agency; 2) recouped or, 3) used by the Commonwealth to reduce future contracts to the Organization.

In August 2016, the Operational Services Division proposed an amendment to the surplus revenue retention policy. Such amendment will eliminate the current 20% cumulative limit and will increase the annual allowed surplus from the current 5% to 20%. The amendment will be effective upon final publication for fiscal year 2016.

| | |
|---------------------------------------|---------------------|
| Cumulative (deficit) at June 30, 2010 | \$ (847,771) |
| Revenue retention for June 30, 2011 | <u>91,269</u> |
| Cumulative (deficit) at June 30, 2011 | (756,502) |
| Revenue retention for June 30, 2012 | <u>135,423</u> |
| Cumulative (deficit) at June 30, 2012 | (621,079) |
| Revenue retention for June 30, 2013 | <u>128,517</u> |
| Cumulative (deficit) at June 30, 2013 | (492,562) |
| Revenue retention for June 30, 2014 | <u>112,504</u> |
| Cumulative (deficit) at June 30, 2014 | (380,058) |
| Revenue retention for June 30, 2015 | <u>130,200</u> |
| Cumulative (deficit) at June 30, 2015 | (249,858) |
| Revenue retention for June 30, 2016 | <u>148,183</u> |
| Cumulative (deficit) at June 30, 2016 | <u>\$ (101,675)</u> |