

**THE ARC GATEWAY, INC.**  
**PENSACOLA, FLORIDA**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017 AND 2016**

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## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Consolidated Financial Statements

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

### Management's Responsibility for the Consolidated Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

Board of Directors  
The Arc Gateway, Inc.

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

### **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Arc Gateway, Inc. as of September 30, 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.

### **Other Matters**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating financial statements are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies, and are not a required part of the consolidated financial statements. The schedule of expenditures of state financial assistance, as required by Chapter 10.650, Rules of the Auditor General, and the consolidating schedule of functional expenses are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2018, on our consideration of The Arc Gateway, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Arc Gateway, Inc.'s internal control over financial reporting and compliance.



Pensacola, Florida  
January 26, 2018

**THE ARC GATEWAY, INC.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**SEPTEMBER 30, 2017 AND 2016**

**ASSETS**

	2017	2016
Cash and cash equivalents	\$ 1,250,261	\$ 776,854
Investments	724,878	685,341
Accounts receivable, net	1,044,978	684,751
Inventories	114,180	119,763
Prepaid expenses and other assets	117,533	62,911
Property and equipment, net	3,623,355	3,526,337
<b>Total Assets</b>	<b>\$ 6,875,185</b>	<b>\$ 5,855,957</b>

**LIABILITIES AND NET ASSETS**

**Liabilities:**

Accounts payable	\$ 136,694	\$ 120,112
Accrued expenses	319,113	306,298
Refundable advances	172,577	481,906
Capital lease obligation	30,201	47,750
Long-term debt	56,304	115,250
Total liabilities	714,889	1,071,316

**Commitments and Contingencies**

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**Net Assets:**

Unrestricted	5,750,350	4,378,015
Temporarily restricted	121,991	118,871
Permanently restricted	287,955	287,755
Total net assets	6,160,296	4,784,641

**Total Liabilities and Net Assets**

**\$ 6,875,185**      **\$ 5,855,957**

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

**THE ARC GATEWAY, INC.**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**  
**YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

	2017	2016
<b>Changes in Unrestricted Net Assets:</b>		
Revenue, Support and Reclassifications:		
Medicaid -		
Developmental Disabilities Individual Budgeting waivers	\$ 3,008,533	\$ 3,020,880
Omnibus Budget Reconciliation Act (OBRA)	282,418	190,394
Federal and state grants	3,403,035	2,141,519
Department of Transportation contracts	698,458	678,115
Noncontract funding	238,694	241,179
Other contracts and financial assistance	683,666	220,710
Private insurance	466,313	483,490
Program income	93,023	93,498
Sales to public (net of direct costs of \$254,329 in 2017 and \$276,138 in 2016)	595,634	627,588
United Way	99,139	97,491
Public support contributions	284,191	288,067
Special events	436,647	420,608
Membership revenue	28,384	19,469
Investment income, including unrealized gains and losses	41,871	35,119
Miscellaneous	9,431	38,074
Net assets released from restrictions	26,279	23,401
Total revenue, support and reclassifications	10,395,716	8,619,602
Expenses:		
Program Services -		
Pollak Training Center	1,030,111	969,585
Pollak Industries	686,896	665,386
Community Based Employment	939,946	914,652
Employment Services	171,553	115,163
Pearl Nelson Child Development Center	1,407,828	1,081,425
Group Homes	1,587,246	1,517,049
Supported Living	128,736	123,763
Senior Adult Program	207,953	189,865
Transportation	510,150	517,804
Program for Adult Learning and Support	1,760,305	1,447,674
Jeff's Corner Garden	88,556	-
Total program services	8,519,280	7,542,366

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

**THE ARC GATEWAY, INC.**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**  
**YEARS ENDED SEPTEMBER 30, 2017 AND 2016**  
**(Continued)**

	2017	2016
<b>Changes in Unrestricted Net Assets (Continued):</b>		
Expenses (Continued):		
Supporting Services -		
Fund raising	\$ 99,125	\$ 99,140
General and administrative -		
General	348,625	269,613
Maintenance	56,351	45,661
Total supporting services	504,101	414,414
 Total expenses	 9,023,381	 7,956,780
 Change in unrestricted net assets	 1,372,335	 662,822
 <b>Changes in Temporarily Restricted Net Assets:</b>		
Public support contributions	29,399	24,969
Net assets released from restriction	(26,279)	(23,401)
 Change in temporarily restricted net assets	 3,120	 1,568
 <b>Change in Permanently Restricted Net Assets:</b>		
Public support contributions	200	1,100
 <b>Change in Net Assets</b>	 1,375,655	 665,490
 <b>Net Assets, Beginning of Year</b>	 4,784,641	 4,119,151
 <b>Net Assets, End of Year</b>	 \$ 6,160,296	 \$ 4,784,641

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

**THE ARC GATEWAY, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

	2017	2016
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ 1,375,655	\$ 665,490
Adjustments to reconcile change in net assets to net cash provided by operating activities -		
Depreciation	427,879	412,596
Loss on disposal of property	89,247	-
Donation of property and equipment	-	(7,000)
Unrealized gain on investments	(20,710)	(8,286)
Loss on termination of capital lease	-	15,693
Contributions restricted for long-term purposes	(200)	(1,100)
Changes in operating assets and liabilities -		
Accounts receivable	(360,227)	(17,109)
Inventories	5,583	(10,329)
Prepaid expenses and other assets	(54,622)	(1,609)
Accounts payable	16,582	(125,629)
Accrued expenses	12,815	59,639
Refundable advances	(309,329)	284,996
Net cash provided by operating activities	1,182,673	1,267,352
<b>Cash Flows From Investing Activities:</b>		
Purchase of property and equipment	(614,144)	(768,778)
Purchase of investments, including reinvested earnings	(177,904)	(139,429)
Proceeds from sale and maturities of investments	159,077	106,238
Net cash used in investing activities	(632,971)	(801,969)
<b>Cash Flows From Financing Activities:</b>		
Net change in line of credit	-	(100,000)
Principal payments of long-term debt	(58,946)	(99,845)
Proceeds from capital lease incentive	-	16,758
Principal payments on capital lease obligation	(17,549)	(12,066)
Contributions to permanent endowments	200	1,100
Net cash used in financing activities	(76,295)	(194,053)
<b>Net Increase in Cash and Cash Equivalents</b>	473,407	271,330
<b>Cash and Cash Equivalents, Beginning of Year</b>	776,854	505,524
<b>Cash and Cash Equivalents, End of Year</b>	\$ 1,250,261	\$ 776,854
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash paid during the year for interest	\$ 3,981	\$ 8,291
<b>Supplemental Disclosure of Noncash Investing and Financing Activities:</b>		
Assumption of debt for the purchase of vehicles	\$ -	\$ 43,283
Capital lease obligation incurred for office equipment	\$ -	\$ 41,494

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



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**THE ARC GATEWAY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017 AND 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Organization:*

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

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

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

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

*Principles of Consolidated Financial Statements:*

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

*Basis of Accounting:*

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

*Use of Estimates:*

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

**THE ARC GATEWAY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017 AND 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Financial Statement Presentation:*

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

*Medicaid:*

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

*Contributions:*

ARC records contributions received as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Unconditional promises to give are recorded as received. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. An allowance for uncollectible pledges is provided based on management's evaluation of potential uncollectible pledges receivable at year end. Conditional promises to give are not included as support until the conditions are substantially met. Pledges receivable were insignificant at September 30, 2017 and 2016.

**THE ARC GATEWAY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017 AND 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*In-Kind Donations:*

Significant services, materials, vehicles and facilities are donated to ARC by various individuals and organizations. Donated services, materials, vehicles and occupancy of \$139,997 and \$124,767 for the years ended September 30, 2017 and 2016, respectively, were recorded at fair value at the date of donation, and have been included in revenue and expenses, or capitalized where applicable, in the period received.

*Cash Equivalents:*

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

*Investments:*

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

*Inventories:*

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

*Accounts Receivable:*

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

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

**THE ARC GATEWAY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017 AND 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Property and Equipment:*

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

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

*General and Administrative Expenses:*

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

*Income Taxes:*

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

*Subsequent Events:*

Management has evaluated subsequent events through January 26, 2018, which is the date the consolidated financial statements were available to be issued.

**THE ARC GATEWAY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017 AND 2016**

**NOTE 2 - INVESTMENTS**

Investments are summarized as follows:

	Cost	Carrying Amount
<b>September 30, 2017 -</b>		
Unrestricted:		
Certificates of deposit	\$ 15,086	\$ 15,086
Exchange traded funds	374,856	395,566
	389,942	410,652
Temporarily restricted:		
Certificate of deposit	28,639	28,639
Permanently restricted:		
Certificates of deposit	285,587	285,587
Total investments	\$ 704,168	\$ 724,878
	Cost	Carrying Amount
<b>September 30, 2016 -</b>		
Unrestricted:		
Certificates of deposit	\$ 13,498	\$ 13,498
Exchange traded funds	351,563	359,850
	365,061	373,348
Temporarily restricted:		
Certificate of deposit	28,639	28,639
Permanently restricted:		
Certificates of deposit	283,354	283,354
Total investments	\$ 677,054	\$ 685,341

**THE ARC GATEWAY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017 AND 2016**

**NOTE 2 - INVESTMENTS (Continued)**

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

	2017	2016
Unrestricted:		
Interest and dividends	\$ 8,731	\$ 24,463
Realized gain	12,430	2,370
Unrealized gain	20,710	8,286
Total investment return	\$ 41,871	\$ 35,119

**NOTE 3 - FAIR VALUE MEASUREMENTS**

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

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

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

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

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

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

**THE ARC GATEWAY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017 AND 2016**

**NOTE 3 - FAIR VALUE MEASUREMENTS (Continued)**

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Exchange traded funds:				
U.S. Large Cap	\$ 128,555	\$ -	\$ -	\$ 128,555
U.S. Mid Cap	34,939	-	-	34,939
U.S. Small Cap	16,032	-	-	16,032
Non-U.S. Developing				
Market Equity	43,507	-	-	43,507
Investment Grade Intermediate				
Maturity Fixed Income	120,111	-	-	120,111
Investment Grade Short				
Maturity Fixed Income	18,659	-	-	18,659
Non-Investment Grade				
Fixed Income	33,763	-	-	33,763
	<u>395,566</u>	<u>-</u>	<u>-</u>	<u>395,566</u>
Total, September 30, 2017	<u>\$ 395,566</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 395,566</u>
Exchange traded funds:				
U.S. Large Cap	\$ 121,115	\$ -	\$ -	\$ 121,115
U.S. Mid Cap	18,629	-	-	18,629
U.S. Small Cap	14,781	-	-	14,781
Non-U.S. Developing				
Market Equity	30,570	-	-	30,570
Investment Grade Intermediate				
Maturity Fixed Income	125,904	-	-	125,904
Investment Grade Short				
Maturity Fixed Income	17,599	-	-	17,599
Non-Investment Grade				
Fixed Income	31,252	-	-	31,252
	<u>359,850</u>	<u>-</u>	<u>-</u>	<u>359,850</u>
Total, September 30, 2016	<u>\$ 359,850</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 359,850</u>



**THE ARC GATEWAY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017 AND 2016**

**NOTE 4 - ACCOUNTS RECEIVABLE**

Accounts receivable are summarized as follows:

	<u>2017</u>	<u>2016</u>
Funding agencies	\$ 733,283	\$ 459,781
Private insurance, net of allowance for contractual adjustments of \$744,292 in 2017 and \$262,885 in 2016	211,993	121,257
Trade, net of allowance for uncollectible accounts of \$17,086 in 2017 and 2016	63,406	90,255
Other	<u>36,296</u>	<u>13,458</u>
	<u>\$ 1,044,978</u>	<u>\$ 684,751</u>

**NOTE 5 - PROPERTY AND EQUIPMENT**

Property and equipment are summarized as follows:

	<u>2017</u>	<u>2016</u>
Land	\$ 674,589	\$ 674,589
Buildings	4,574,437	4,579,703
Equipment, furniture and fixtures	1,011,323	929,541
Vehicles	<u>1,374,702</u>	<u>1,213,860</u>
	7,635,051	7,397,693
Less accumulated depreciation	<u>4,011,696</u>	<u>3,871,356</u>
	<u>\$ 3,623,355</u>	<u>\$ 3,526,337</u>

Depreciation expense was \$427,879 and \$412,596 for the years ended September 30, 2017 and 2016, respectively.

**THE ARC GATEWAY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017 AND 2016**

**NOTE 6 - BORROWINGS UNDER LINE OF CREDIT**

ARC has a line of credit with a financial institution for \$250,000. The line of credit is secured by accounts maintained at the financial institution and accrues interest at prime, which is a variable rate of interest (4.25% at September 30, 2017). The line has no stated maturity date and any amounts outstanding are due on demand. As of September 30, 2017 and 2016, there were no outstanding borrowings under the line of credit.

**NOTE 7 - REFUNDABLE ADVANCES**

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

	<u>2017</u>	<u>2016</u>
Program for Adult Learning and Support	\$ -	\$ 392,039
Wreaths of Joy	121,350	39,000
State Housing Initiatives Partnership	48,634	48,634
Other	2,593	2,233
	<u>\$ 172,577</u>	<u>\$ 481,906</u>

**NOTE 8 - CAPITAL LEASE OBLIGATION**

ARC leases certain office equipment under an agreement that is classified as a capital lease. The cost of equipment under the capital lease was \$24,736 and is included in the consolidated statements of financial position as property and equipment at September 30, 2017 and 2016. Accumulated amortization of the leased equipment at September 30, 2017 and 2016 was \$10,778 and \$3,141, respectively. Amortization of assets under capital lease is included in depreciation expense.

**THE ARC GATEWAY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017 AND 2016**

**NOTE 8 - CAPITAL LEASE OBLIGATION (Continued)**

The future minimum lease payments required under the capital lease and the present value of the net minimum lease payments as of September 30, 2017, are as follows:

Year Ending <u>September 30,</u>	
2018	\$ 9,104
2019	8,550
2020	8,550
2021	<u>5,700</u>
Total minimum lease payments	31,904
Less amount representing interest	<u>1,703</u>
 Present value of minimum lease payments	 <u><u>\$ 30,201</u></u>

**NOTE 9 - LONG-TERM DEBT**

Long-term debt is summarized as follows:

	<u>2017</u>	<u>2016</u>
Notes payable to banks, aggregate monthly payments of \$5,243 including interest ranging from 1.79% to 3.85%, maturities through July 2020, secured by vehicles	<u>\$ 56,304</u>	<u>\$ 115,250</u>

**THE ARC GATEWAY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017 AND 2016**

**NOTE 9 - LONG-TERM DEBT (Continued)**

Maturities of long-term debt are as follows:

2018	\$	39,461
2019		10,584
2020		<u>6,259</u>
Total	\$	<u><u>56,304</u></u>

**NOTE 10 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS**

Temporarily restricted net assets at September 30, 2017 and 2016 include contributions that are restricted by a trust agreement for the relief of human suffering, but cannot be used for certain administrative expenses, and various other contributions restricted for specific program uses. Temporarily restricted net assets also include contributions that are restricted by the donor for dental and medical needs of clients of ARC, but can be used for general operations of ARC if deemed necessary. Annual distributions of these funds for dental and medical needs of clients of ARC are limited to 6% of the account's value. These restrictions may be met by the passage of time and actions of ARC. Temporarily restricted net assets are available for the following purposes:

	<u>2017</u>	<u>2016</u>
ARC mission - relief of human suffering - restricted to non-administrative expenses	\$ 28,639	\$ 28,639
ARC mission - client dental and medical needs - restricted to 6% annual distributions	30,941	30,400
Physical security of facilities	12,308	12,308
Other	<u>50,103</u>	<u>47,524</u>
	<u>\$ 121,991</u>	<u>\$ 118,871</u>

Permanently restricted net assets at September 30, 2017 and 2016 consist of endowment funds with donor imposed restrictions and contributions restricted within the Trust. These restrictions require the principal donation be kept intact permanently and maintained in separate deposit accounts. Income generated from ARC's endowment funds is restricted by the donor for specific purposes. Income generated from the Trust's assets is transferred to ARC each year and is unrestricted.

**THE ARC GATEWAY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017 AND 2016**

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

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

	<u>2017</u>	<u>2016</u>
Repair, maintenance, furnishing and operation of Pollak Training Center	\$ 18,500	\$ 18,500
Scholarships	20,000	20,000
Escambia County Association for Retarded Citizens Trust - ARC mission	<u>249,455</u>	<u>249,255</u>
	<u>\$ 287,955</u>	<u>\$ 287,755</u>

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

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

Changes in endowment net assets for the year ended September 30, 2016 were as follows:

	<u>ARC</u>	<u>Trust</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 38,500	\$ 248,155	\$ 286,655
Contributions	-	1,100	1,100
Investment income	2,155	1,353	3,508
Amounts appropriated for expenditure	<u>(2,155)</u>	<u>(1,353)</u>	<u>(3,508)</u>
Endowment net assets, end of year	<u>\$ 38,500</u>	<u>\$ 249,255</u>	<u>\$ 287,755</u>

**THE ARC GATEWAY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017 AND 2016**

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

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

**NOTE 11 - COMMITMENTS AND CONTINGENCIES**

*Medicaid Funding:*

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

*Contingencies:*

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

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

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

**THE ARC GATEWAY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017 AND 2016**

**NOTE 11 - COMMITMENTS AND CONTINGENCIES (Continued)**

*Uninsured Cash Balances:*

ARC's cash balances held at financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to certain limits. At September 30, 2017, ARC's uninsured cash balance at financial institutions totaled approximately \$943,000.

*Concentration of Credit Risk - Revenue Sources:*

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

	<u>2017</u>	<u>2016</u>
Medicaid	31%	37%
Federal and State agencies	33%	25%
Other contracts and grants	16%	13%

Amounts due from Medicaid and federal and state agencies comprised 59% and 41% of total accounts receivable as of September 30, 2017 and 2016, respectively.

*Litigation:*

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

**NOTE 12 - RELATED PARTY TRANSACTIONS**

Various members of ARC's Board of Directors hold key positions with vendors used by ARC. Total expenditures to these vendors were \$374,682 and \$89,643 for the years ended September 30, 2017 and 2016, respectively.

**NOTE 13 - ALLOCATION OF FUNCTIONAL EXPENSES**

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

Unallocated general and administrative expenses for the years ended September 30, 2017 and 2016 amounted to \$404,976 and \$315,274, respectively, and were offset by support and revenue included in contributions, special events, membership dues, and interest income.

## **SUPPLEMENTARY INFORMATION**



**THE ARC GATEWAY, INC.**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
**SEPTEMBER 30, 2017**  
**(With Comparative Totals for 2016)**

**ASSETS**

	ARC	PRC, Inc.	Trust	Foundation	Intercompany Transactions Eliminations	2017 Consolidated Total	2016 Consolidated Total
Cash and cash equivalents	\$ 909,950	\$ 18,349	\$ 9,458	\$ 312,504	\$ -	\$ 1,250,261	\$ 776,854
Investments	82,225	-	247,087	395,566	-	724,878	685,341
Accounts receivable, net	1,017,338	-	-	27,640	-	1,044,978	684,751
Accounts receivable-intercompany	713,544	1,130,195	-	19,800	(1,863,539)	-	-
Inventories	114,180	-	-	-	-	114,180	119,763
Prepaid expenses and other assets	112,398	30	-	5,105	-	117,533	62,911
Property and equipment, net	2,038,369	1,584,986	-	-	-	3,623,355	3,526,337
<b>Total Assets</b>	<b>\$ 4,988,004</b>	<b>\$ 2,733,560</b>	<b>\$ 256,545</b>	<b>\$ 760,615</b>	<b>\$ (1,863,539)</b>	<b>\$ 6,875,185</b>	<b>\$ 5,855,957</b>

**LIABILITIES AND NET ASSETS**

<b>Liabilities:</b>							
Accounts payable	\$ 136,694	\$ -	\$ -	\$ -	\$ -	\$ 136,694	\$ 120,112
Accounts payable-intercompany	1,149,995	674,545	7,090	31,909	(1,863,539)	-	-
Accrued expenses	319,113	-	-	-	-	319,113	306,298
Refundable advances	51,227	-	-	121,350	-	172,577	481,906
Capital lease obligation	30,201	-	-	-	-	30,201	47,750
Long-term debt	56,304	-	-	-	-	56,304	115,250
Total liabilities	1,743,534	674,545	7,090	153,259	(1,863,539)	714,889	1,071,316
<b>Commitments and Contingencies</b>	--	--	--	--	--	--	--
<b>Net Assets:</b>							
Unrestricted	3,114,920	2,059,015	-	576,415	-	5,750,350	4,378,015
Temporarily restricted	91,050	-	-	30,941	-	121,991	118,871
Permanently restricted	38,500	-	249,455	-	-	287,955	287,755
Total net assets	3,244,470	2,059,015	249,455	607,356	-	6,160,296	4,784,641
<b>Total Liabilities and Net Assets</b>	<b>\$ 4,988,004</b>	<b>\$ 2,733,560</b>	<b>\$ 256,545</b>	<b>\$ 760,615</b>	<b>\$ (1,863,539)</b>	<b>\$ 6,875,185</b>	<b>\$ 5,855,957</b>

**THE ARC GATEWAY, INC.**  
**CONSOLIDATING STATEMENT OF ACTIVITIES**  
**YEAR ENDED SEPTEMBER 30, 2017**  
**(With Comparative Totals for 2016)**

	ARC	PRC, Inc.	Trust	Foundation	Intercompany Transactions Eliminations	2017 Consolidated Total	2016 Consolidated Total
<b>Revenue and Support:</b>							
Medicaid -							
Developmental Disabilities Individual							
Budgeting waivers	\$ 3,008,533	\$ -	\$ -	\$ -	\$ -	\$ 3,008,533	\$ 3,020,880
Omnibus Budget Reconciliation Act (OBRA)	282,418	-	-	-	-	282,418	190,394
Federal and state grants	3,403,035	-	-	-	-	3,403,035	2,141,519
Department of Transportation contracts	698,458	-	-	-	-	698,458	678,115
Noncontract funding	238,694	-	-	-	-	238,694	241,179
Other contracts and financial assistance	683,666	-	-	-	-	683,666	220,710
Private insurance	466,313	-	-	-	-	466,313	483,490
Program income	93,023	-	-	-	-	93,023	93,498
Sales to public	595,634	-	-	-	-	595,634	627,588
United Way	99,139	-	-	-	-	99,139	97,491
Public support contributions	294,577	-	200	102,383	(83,370)	313,790	314,136
Special events	12,008	-	-	424,639	-	436,647	420,608
Membership revenue	28,384	-	-	-	-	28,384	19,469
Investment income, including unrealized							
gains and losses	1,899	-	2,234	37,738	-	41,871	35,119
Interest-intercompany	2,234	-	-	-	(2,234)	-	-
Miscellaneous	7,336	-	-	2,095	-	9,431	38,074
Contributions-intercompany	125,000	-	-	-	(125,000)	-	-
Staff reimbursement-intercompany	91,994	-	-	-	(91,994)	-	-
Repairs and maintenance-intercompany	55,907	-	-	-	(55,907)	-	-
Rent-intercompany	-	264,107	-	-	(264,107)	-	-
<b>Total Revenue and Support</b>	<b>10,188,252</b>	<b>264,107</b>	<b>2,434</b>	<b>566,855</b>	<b>(622,612)</b>	<b>10,399,036</b>	<b>8,622,270</b>
<b>Expenses:</b>							
Salaries	4,967,508	-	-	-	-	4,967,508	4,542,518
Employee benefits	650,953	-	-	-	-	650,953	582,258
Payroll taxes and workers compensation	452,755	-	-	-	-	452,755	407,605
Staff reimbursement-intercompany	-	-	-	89,594	(89,594)	-	-
Professional fees	610,695	3,250	-	4,800	-	618,745	591,952
Supplies and small equipment	511,176	-	-	25,590	-	536,766	257,922
Postage and freight	17,491	-	-	579	-	18,070	16,177
Interest	3,981	-	-	-	-	3,981	8,291
Interest distribution-intercompany	-	-	2,234	-	(2,234)	-	-

**THE ARC GATEWAY, INC.**  
**CONSOLIDATING STATEMENT OF ACTIVITIES**  
**YEAR ENDED SEPTEMBER 30, 2017**  
**(With Comparative Totals for 2016)**  
**(Continued)**

	ARC	PRC, Inc.	Trust	Foundation	Intercompany Transactions Eliminations	2017 Consolidated Total	2016 Consolidated Total
<b>Expenses (Continued):</b>							
Occupancy	\$ 569,830	\$ 140,285	\$ -	\$ -	\$ (320,014)	\$ 390,101	\$ 372,470
Telephone	89,927	-	-	1,121	-	91,048	84,272
Equipment maintenance and rental	104,835	-	-	665	-	105,500	46,753
Printing and publication	72,945	-	-	3,732	-	76,677	43,993
Travel	51,015	-	-	2,416	(2,400)	51,031	38,067
Vehicle expense	328,821	-	-	-	-	328,821	300,518
Special events	9,646	-	-	170,929	(60,370)	120,205	71,438
Costs of direct benefits to donors	-	-	-	58,485	-	58,485	71,207
Client assistance	1,798	-	-	-	-	1,798	3,939
Dues and memberships	6,882	-	-	1,774	-	8,656	7,185
Assessments	66,207	-	-	-	-	66,207	64,387
Miscellaneous	43,817	322	-	4,056	-	48,195	33,232
Contributions-intercompany	-	-	-	148,000	(148,000)	-	-
Depreciation	327,463	100,416	-	-	-	427,879	412,596
<b>Total Expenses</b>	<b>8,887,745</b>	<b>244,273</b>	<b>2,234</b>	<b>511,741</b>	<b>(622,612)</b>	<b>9,023,381</b>	<b>7,956,780</b>
<b>Change in Net Assets</b>	<b>1,300,507</b>	<b>19,834</b>	<b>200</b>	<b>55,114</b>	<b>-</b>	<b>1,375,655</b>	<b>665,490</b>
<b>Net Assets, Beginning of Year</b>	<b>1,943,963</b>	<b>2,039,181</b>	<b>249,255</b>	<b>552,242</b>	<b>-</b>	<b>4,784,641</b>	<b>4,119,151</b>
<b>Net Assets, End of Year</b>	<b>\$ 3,244,470</b>	<b>\$ 2,059,015</b>	<b>\$ 249,455</b>	<b>\$ 607,356</b>	<b>\$ -</b>	<b>\$ 6,160,296</b>	<b>\$ 4,784,641</b>

**THE ARC GATEWAY, INC.**  
**CONSOLIDATING SCHEDULE OF FUNCTIONAL EXPENSES**  
**YEAR ENDED SEPTEMBER 30, 2017**  
**(With Comparative Totals for 2016)**

	<b>PROGRAM SERVICES</b>					
	Pollak Training Center	Pollak Industries	Community Based Employment	Employment Services	Pearl Nelson Child Development Center	Group Homes
Salaries	\$ 561,986	\$ 397,855	\$ 594,502	\$ 106,645	\$ 579,713	\$ 888,100
Employee benefits	111,482	44,311	45,882	17,904	62,283	159,559
Payroll taxes and workers compensation	49,169	36,429	53,778	10,056	52,276	85,175
Staff reimbursement - intercompany	-	-	-	-	-	-
Professional fees	11,420	6,560	7,462	2,067	352,061	18,616
Supplies and small equipment	26,820	12,869	39,656	2,427	126,704	122,106
Postage and freight	2,476	2,678	12	136	2,967	175
Interest	-	-	452	-	-	983
Interest distribution - intercompany	-	-	-	-	-	-
Occupancy	131,559	90,238	24,567	4,867	77,279	84,087
Telephone	6,626	6,675	4,065	4,732	12,200	27,507
Equipment maintenance and rental	6,080	5,180	5,404	1,922	8,095	4,389
Printing and publication	11,181	335	-	65	3,216	-
Travel	-	-	5,164	7,615	23,304	196
Vehicle expense	16,718	13,983	28,687	1,036	-	40,910
Special events	890	734	463	-	686	491
Costs of direct benefits to donors	-	-	-	-	-	-
Client assistance	-	18	-	-	-	54
Dues and memberships	1,654	-	-	-	500	279
Assessments	-	-	41,907	-	-	-
Miscellaneous	4,453	7,024	10,296	-	3,746	101
Contributions - intercompany	-	-	-	-	-	-
Depreciation	12,959	11,061	13,290	-	11,503	54,432
Total Direct Expenses	<u>955,473</u>	<u>635,950</u>	<u>875,587</u>	<u>159,472</u>	<u>1,316,533</u>	<u>1,487,160</u>
Allocation of intercompany expenses from consolidation	13,203	9,009	11,382	2,137	16,145	17,701
Total Direct Expenses, net	<u>968,676</u>	<u>644,959</u>	<u>886,969</u>	<u>161,609</u>	<u>1,332,678</u>	<u>1,504,861</u>
Allocation of general and administration expenses	61,435	41,937	52,977	9,944	75,150	82,385
Total Expenses	<u>\$ 1,030,111</u>	<u>\$ 686,896</u>	<u>\$ 939,946</u>	<u>\$ 171,553</u>	<u>\$ 1,407,828</u>	<u>\$ 1,587,246</u>

**THE ARC GATEWAY, INC.**  
**CONSOLIDATING SCHEDULE OF FUNCTIONAL EXPENSES**  
**YEAR ENDED SEPTEMBER 30, 2017**  
**(With Comparative Totals for 2016)**  
**(Continued)**

**PROGRAM SERVICES**

	Supported Living	Senior Adult Program	Transportation	Program for Adult Learning and Support	Jeff's Corner Garden	Program Services Total
Salaries	\$ 77,970	\$ 131,404	\$ 204,564	\$ 793,188	\$ 14,127	\$ 4,350,054
Employee benefits	15,075	12,919	21,043	100,779	-	591,237
Payroll taxes and workers compensation	8,238	11,464	18,912	71,212	1,048	397,757
Staff reimbursement - intercompany	-	-	-	-	-	-
Professional fees	1,273	2,371	6,104	155,857	725	564,516
Supplies and small equipment	487	4,560	2,128	84,093	46,825	468,675
Postage and freight	36	1	44	724	30	9,279
Interest	-	-	1,457	-	-	2,892
Interest distribution - intercompany	-	-	-	-	-	-
Occupancy	4,867	29,303	6,150	55,597	17,420	525,934
Telephone	4,503	690	3,816	5,917	1,063	77,794
Equipment maintenance and rental	1,026	805	893	2,014	-	35,808
Printing and publication	-	-	-	10,409	-	25,206
Travel	6,376	341	-	1,636	325	44,957
Vehicle expense	-	-	144,701	78,826	1,344	326,205
Special events	216	450	150	216	-	4,296
Costs of direct benefits to donors	-	-	-	-	-	-
Client assistance	81	-	-	-	-	153
Dues and memberships	46	65	-	1,025	-	3,569
Assessments	-	-	-	-	-	41,907
Miscellaneous	23	29	157	553	-	26,382
Contributions - intercompany	-	-	-	-	-	-
Depreciation	-	183	61,848	124,686	5,649	295,611
Total Direct Expenses	<u>120,217</u>	<u>194,585</u>	<u>471,967</u>	<u>1,486,732</u>	<u>88,556</u>	<u>7,792,232</u>
Allocation of intercompany expenses from consolidation	1,504	2,361	6,753	47,073	-	127,268
Total Direct Expenses, net	<u>121,721</u>	<u>196,946</u>	<u>478,720</u>	<u>1,533,805</u>	<u>88,556</u>	<u>7,919,500</u>
Allocation of general and administration expenses	7,015	11,007	31,430	226,500	-	599,780
Total Expenses	<u>\$ 128,736</u>	<u>\$ 207,953</u>	<u>\$ 510,150</u>	<u>\$ 1,760,305</u>	<u>\$ 88,556</u>	<u>\$ 8,519,280</u>

**THE ARC GATEWAY, INC.**  
**CONSOLIDATING SCHEDULE OF FUNCTIONAL EXPENSES**  
**YEAR ENDED SEPTEMBER 30, 2017**  
**(With Comparative Totals for 2016)**  
**(Continued)**

**SUPPORTING SERVICES**

	Fund Raising	General & Administrative			Total Supporting Services	ARC Subtotal
	Dove Shop/Beads	General	Maintenance	General & Administrative Total		
Salaries	\$ 48,267	\$ 543,063	\$ 26,124	\$ 569,187	\$ 617,454	\$ 4,967,508
Employee benefits	116	52,666	6,934	59,600	59,716	650,953
Payroll taxes and workers compensation	4,636	48,121	2,241	50,362	54,998	452,755
Staff reimbursement - intercompany	-	-	-	-	-	-
Professional fees	897	44,996	286	45,282	46,179	610,695
Supplies and small equipment	1,158	40,020	1,323	41,343	42,501	511,176
Postage and freight	4,012	4,200	-	4,200	8,212	17,491
Interest	-	1,089	-	1,089	1,089	3,981
Interest distribution - intercompany	-	-	-	-	-	-
Occupancy	3,838	29,401	10,657	40,058	43,896	569,830
Telephone	101	10,901	1,131	12,032	12,133	89,927
Equipment maintenance and rental	432	67,175	1,420	68,595	69,027	104,835
Printing and publication	8,170	39,569	-	39,569	47,739	72,945
Travel	3,189	2,869	-	2,869	6,058	51,015
Vehicle expense	-	80	2,536	2,616	2,616	328,821
Special events	-	5,350	-	5,350	5,350	9,646
Costs of direct benefits to donors	-	-	-	-	-	-
Client assistance	-	1,645	-	1,645	1,645	1,798
Dues and memberships	45	3,268	-	3,268	3,313	6,882
Assessments	-	24,300	-	24,300	24,300	66,207
Miscellaneous	5,340	12,095	-	12,095	17,435	43,817
Contributions - intercompany	-	-	-	-	-	-
Depreciation	-	31,658	194	31,852	31,852	327,463
Total Direct Expenses	<u>80,201</u>	<u>962,466</u>	<u>52,846</u>	<u>1,015,312</u>	<u>1,095,513</u>	<u>8,887,745</u>
Allocation of intercompany expenses from consolidation	<u>7,734</u>	<u>-</u>	<u>634</u>	<u>634</u>	<u>8,368</u>	<u>135,636</u>
Total Direct Expenses, net	<u>87,935</u>	<u>962,466</u>	<u>53,480</u>	<u>1,015,946</u>	<u>1,103,881</u>	<u>9,023,381</u>
Allocation of general and administration expenses	<u>11,190</u>	<u>(613,841)</u>	<u>2,871</u>	<u>(610,970)</u>	<u>(599,780)</u>	<u>-</u>
Total Expenses	<u>\$ 99,125</u>	<u>\$ 348,625</u>	<u>\$ 56,351</u>	<u>\$ 404,976</u>	<u>\$ 504,101</u>	<u>\$ 9,023,381</u>

**THE ARC GATEWAY, INC.**  
**CONSOLIDATING SCHEDULE OF FUNCTIONAL EXPENSES**  
**YEAR ENDED SEPTEMBER 30, 2017**  
**(With Comparative Totals for 2016)**  
**(Continued)**

	ARC	PRC, Inc.	Trust	Foundation	Eliminations	2017 Consolidated Total	2016 Consolidated Total
Salaries	\$ 4,967,508	\$ -	\$ -	\$ -	\$ -	\$ 4,967,508	\$ 4,542,518
Employee benefits	650,953	-	-	-	-	650,953	582,258
Payroll taxes and workers compensation	452,755	-	-	-	-	452,755	407,605
Staff reimbursement - intercompany	-	-	-	89,594	(89,594)	-	-
Professional fees	610,695	3,250	-	4,800	-	618,745	591,952
Supplies and small equipment	511,176	-	-	25,590	-	536,766	257,922
Postage and freight	17,491	-	-	579	-	18,070	16,177
Interest	3,981	-	-	-	-	3,981	8,291
Interest distribution - intercompany	-	-	2,234	-	(2,234)	-	-
Occupancy	569,830	140,285	-	-	(320,014)	390,101	372,470
Telephone	89,927	-	-	1,121	-	91,048	84,272
Equipment maintenance and rental	104,835	-	-	665	-	105,500	46,753
Printing and publication	72,945	-	-	3,732	-	76,677	43,993
Travel	51,015	-	-	2,416	(2,400)	51,031	38,067
Vehicle expense	328,821	-	-	-	-	328,821	300,518
Special events	9,646	-	-	170,929	(60,370)	120,205	71,438
Costs of direct benefits to donors	-	-	-	58,485	-	58,485	71,207
Client assistance	1,798	-	-	-	-	1,798	3,939
Dues and memberships	6,882	-	-	1,774	-	8,656	7,185
Assessments	66,207	-	-	-	-	66,207	64,387
Miscellaneous	43,817	322	-	4,056	-	48,195	33,232
Contributions - intercompany	-	-	-	148,000	(148,000)	-	-
Depreciation	327,463	100,416	-	-	-	427,879	412,596
Total Direct Expenses	<u>8,887,745</u>	<u>244,273</u>	<u>2,234</u>	<u>511,741</u>	<u>(622,612)</u>	<u>9,023,381</u>	<u>7,956,780</u>
Allocation of intercompany expenses from consolidation	<u>135,636</u>	<u>(244,273)</u>	<u>(2,234)</u>	<u>(511,741)</u>	<u>622,612</u>	<u>-</u>	<u>-</u>
Total Direct Expenses, net	<u>9,023,381</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,023,381</u>	<u>7,956,780</u>
Allocation of general and administration expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenses	<u>\$ 9,023,381</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,023,381</u>	<u>\$ 7,956,780</u>

**THE ARC GATEWAY, INC**  
**SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE**  
**YEAR ENDED SEPTEMBER 30, 2017**

<u>State Grantor/Pass-through Grantor, Project Title</u>	<u>CSFA Number</u>	<u>Contract / Grant Number</u>	<u>Expenditures</u>
<b><u>State of Florida,</u></b>			
<b><u>Agency for Persons with Disabilities</u></b>			
Program for Adult Learning and Support	67.036	WCX21/ ACX29	\$ 1,582,899
Total Expenditures of State Financial Assistance			<u>\$ 1,582,899</u>

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



**OTHER REPORTS AND SCHEDULE**

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of The Arc Gateway, Inc. (a nonprofit organization) (the "Organization"), which comprise the consolidated statement of financial position as of September 30, 2017, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated January 26, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

Board of Directors  
The Arc Gateway, Inc.

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Pensacola, Florida  
January 26, 2018

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

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

**Report on Compliance for Each Major State Project**

We have audited The Arc Gateway, Inc.'s (the "Organization's") compliance with the types of compliance requirements described in the *Executive Office of the Governor's State Project Compliance Supplement* that could have a direct and material effect on the Organization's major state project for the year ended September 30, 2017. The Organization's major state project is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditor's Responsibility**

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

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

### **Opinion on Each Major State Project**

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major state project for the year ended September 30, 2017.

### **Report on Internal Control Over Compliance**

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

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

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

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



Pensacola, Florida  
January 26, 2018

**THE ARC GATEWAY, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED SEPTEMBER 30, 2017**

**A. SUMMARY OF AUDIT RESULTS**

1. The independent auditor's report expresses an unmodified opinion on the consolidated financial statements of The Arc Gateway, Inc.
2. No significant deficiencies in internal control relating to the audit of the consolidated financial statements are reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the consolidated financial statements of The Arc Gateway, Inc., which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major state project are reported in the Independent Auditor's Report on Compliance for Each Major State Project and on Internal Control Over Compliance Required by Chapter 10.650, Rules of the Auditor General.
5. The auditor's report on compliance for the major state project for The Arc Gateway, Inc. expresses an unmodified opinion.
6. There are no audit findings relative to the major state project for The Arc Gateway, Inc. which are required to be reported in accordance with Chapter 10.656, Rules of the Auditor General.
7. The project tested as major was:  
  
Program for Adult Learning and Support (CSFA No. 67.036).
8. The threshold for distinguishing Type A and B programs was \$300,000 for the major state project.

**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

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

**C. FINDINGS AND QUESTIONED COSTS - MAJOR STATE PROJECT**

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

**THE ARC GATEWAY, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED SEPTEMBER 30, 2017**  
**(Continued)**

**D. OTHER ISSUES**

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

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

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