

GREATER WALTHAM ARC, INC.

Financial Statements

June 30, 2014

GREATER WALTHAM ARC, INC.

Index

June 30, 2014

Independent Auditors' Report

**Independent Auditors' 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***

Financial Statements

Statement of Financial Position as of June 30, 2014
with Comparative Totals as of June 30, 2013

Statement of Activities for the Year Ended June 30, 2014
with Comparative Totals for the Year ended June 30, 2013

Statement of Cash Flows for the Year Ended June 30, 2014

Statement of Functional Expenses for the Year Ended June 30, 2014

Notes to Financial Statements

Schedule of Findings and Responses



Independent Auditors' Report

To the Board of Directors of
Greater Waltham Arc, Inc.
Waltham, Massachusetts

We have audited the accompanying financial statements of Greater Waltham Arc, Inc. (a nonprofit organization), (the Agency), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our 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 we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The financial statements of Greater Waltham Arc, Inc. as of June 30, 2013 were audited by other auditors whose report dated September 23, 2013 expressed an unmodified opinion on those statements. The prior year summarized comparative information is not intended to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2014, on our consideration of the Agency'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 Agency's internal control over financial reporting and compliance.



October 20, 2014



Independent Auditors' 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 of
Greater Waltham Arc, Inc.
Waltham, Massachusetts

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 financial statements of Greater Waltham Arc, Inc. (a nonprofit organization), (the Agency), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 20, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 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.

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 Agency's 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 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 Agency'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 Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Nunin P. Martini & Chantre P.C.

October 20, 2014

GREATER WALTHAM ARC, INC.

Statement of Financial Position

As of June 30, 2014
With Comparative Totals as of June 30, 2013

| | <u>2014</u> | <u>2013</u> |
|--|---------------------|---------------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 262,191 | \$ 272,985 |
| Accounts receivable | 234,820 | 254,937 |
| Prepaid expenses | <u>64,950</u> | <u>58,525</u> |
| Total Current Assets | <u>561,961</u> | <u>586,447</u> |
| Fixed Assets | | |
| Land, buildings, and equipment | 1,906,822 | 1,904,486 |
| Less: accumulated depreciation | <u>(1,202,784)</u> | <u>(1,179,243)</u> |
| Total Net Fixed Assets | <u>704,038</u> | <u>725,243</u> |
| Other Assets | | |
| Investments | <u>1,960,512</u> | <u>1,797,739</u> |
| Total Other Assets | <u>1,960,512</u> | <u>1,797,739</u> |
| Total Assets | <u>\$ 3,226,511</u> | <u>\$ 3,109,429</u> |
| Liabilities and Net Assets | | |
| Current Liabilities | | |
| Accounts payable | \$ 87,846 | \$ 64,991 |
| Accrued expenses | 63,394 | 89,544 |
| Capital lease obligations - current | <u>7,580</u> | <u>5,977</u> |
| Total Current Liabilities | <u>158,820</u> | <u>160,512</u> |
| Long-Term Liabilities | | |
| Capital lease obligations - net of current portion | <u>14,889</u> | <u>-</u> |
| Total Long-Term Liabilities | <u>14,889</u> | <u>-</u> |
| Total Liabilities | <u>173,709</u> | <u>160,512</u> |
| Net Assets | | |
| Unrestricted | 2,946,334 | 2,830,873 |
| Temporarily restricted | <u>106,468</u> | <u>118,044</u> |
| Total Net Assets | <u>3,052,802</u> | <u>2,948,917</u> |
| Total Liabilities and Net Assets | <u>\$ 3,226,511</u> | <u>\$ 3,109,429</u> |

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

GREATER WALTHAM ARC, INC.

Statement of Activities

For the Year Ended June 30, 2014
With Comparative Totals for the Year Ended June 30, 2013

| | Unrestricted | Temporarily Restricted | 2014 Total | 2013 Total |
|--|--------------|---------------------------|---------------|---------------|
| Revenue and Support | | | | |
| Program Service Revenue | | | | |
| Government contracts | \$ 2,789,115 | \$ - | \$ 2,789,115 | \$ 2,556,395 |
| Commercial contracts | 339,435 | - | 339,435 | 331,069 |
| Private fees | 9,637 | - | 9,637 | 7,377 |
| Total Program Service Revenue | 3,138,187 | - | 3,138,187 | 2,894,841 |
| Other Revenue and Support | | | | |
| In-kind contributions | 109,087 | - | 109,087 | 137,280 |
| Special events | 69,530 | - | 69,530 | 62,690 |
| Contributions and grants | 48,755 | 8,400 | 57,155 | 99,760 |
| Investment revenue | 231,963 | - | 231,963 | 126,993 |
| Total Other Revenue and Support | 459,335 | 8,400 | 467,735 | 426,723 |
| Net assets released from restrictions | 19,976 | (19,976) | - | - |
| Total Revenue and Support | 3,617,498 | (11,576) | 3,605,922 | 3,321,564 |
| Functional Expenses | | | | |
| Program services | 2,932,381 | - | 2,932,381 | 2,745,353 |
| General and administrative | 430,588 | - | 430,588 | 460,057 |
| Fundraising | 139,068 | - | 139,068 | 133,135 |
| Total Functional Expenses | 3,502,037 | - | 3,502,037 | 3,338,545 |
| Change in Net Assets | 115,461 | (11,576) | 103,885 | (16,981) |
| Net Assets at Beginning of Year | 2,830,873 | 118,044 | 2,948,917 | 2,965,898 |
| Net Assets at End of Year | \$ 2,946,334 | \$ 106,468 | \$ 3,052,802 | \$ 2,948,917 |

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

GREATER WALTHAM ARC, INC.

Statement of Cash Flows

For the Year Ended June 30, 2014
With Comparative Totals for the Year Ended June 30, 2013

| | 2014 | 2013 |
|---|------------|-------------|
| Cash Flows from Operating Activities | | |
| Change in net assets | \$ 103,885 | \$ (16,981) |
| Adjustments to reconcile change in net assets to net cash used in operating activities | | |
| Depreciation | 71,713 | 73,341 |
| Net gain on investments | (200,822) | (88,243) |
| Changes in operating assets and liabilities | | |
| (Increase) decrease in: | | |
| Accounts receivable | 20,117 | (73,312) |
| Prepaid expenses | (6,425) | (249) |
| Increase (decrease) in: | | |
| Accounts payable | 22,855 | 7,049 |
| Accrued expenses | (26,150) | 8,079 |
| Net Cash Used in Operating Activities | (14,827) | (90,316) |
| Cash Flows from Investing Activities | | |
| Purchase of land, buildings and equipment | (26,653) | (25,734) |
| Purchase of investments | (364,074) | (882,387) |
| Sale of investments | 402,123 | 856,749 |
| Net Cash Provided by (Used in) Investing Activities | 11,396 | (51,372) |
| Cash Flows from Financing Activities | | |
| Payments on capital lease obligations | (7,363) | (8,998) |
| Net Cash Used in Financing Activities | (7,363) | (8,998) |
| Net Decrease in Cash and Cash Equivalents | (10,794) | (150,686) |
| Cash and Cash Equivalents, Beginning of Year | 272,985 | 423,671 |
| Cash and Cash Equivalents, End of Year | \$ 262,191 | \$ 272,985 |
| Noncash Investing and Financing Activities | | |
| Disposal of fully depreciated fixed assets | \$ 48,172 | \$ - |
| Fixed asset additions financed through capital lease obligations | \$ 23,855 | \$ - |

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

GREATER WALTHAM ARC, INC.

Statement of Functional Expenses

**For the Year Ended June 30, 2014
With Comparative Totals for the Year Ended June 30, 2013**

| | <u>Program Services</u> | | | | | <u>General and Administrative</u> | <u>Fundraising</u> | <u>Total 2014</u> | <u>Total 2013</u> |
|---------------------------------------|----------------------------|--------------------------|-----------------------------|------------------------------|-----------------------------------|---------------------------------------|--------------------|-----------------------|-----------------------|
| | <u>BIS/ Employment</u> | <u>Day Education</u> | <u>Support Services</u> | <u>Adult Family Care</u> | <u>Total Program Services</u> | | | | |
| Personnel Expenses | | | | | | | | | |
| Salaries | \$ 426,564 | \$ 680,158 | \$ 57,268 | \$ 89,857 | \$ 1,253,847 | \$ 187,696 | \$ 70,312 | \$ 1,511,855 | \$ 1,509,869 |
| Fringe benefits | 96,444 | 90,667 | 6,265 | 9,022 | 202,398 | 31,360 | 7,214 | 240,972 | 240,817 |
| Payroll taxes | 45,899 | 73,498 | 5,605 | 8,855 | 133,857 | 22,279 | 6,788 | 162,924 | 153,732 |
| Total Personnel Expenses | <u>568,907</u> | <u>844,323</u> | <u>69,138</u> | <u>107,734</u> | <u>1,590,102</u> | <u>241,335</u> | <u>84,314</u> | <u>1,915,751</u> | <u>1,904,418</u> |
| Other Operating Expenses | | | | | | | | | |
| Caregiver expenses | - | - | - | 369,769 | 369,769 | - | - | 369,769 | 205,506 |
| Occupancy expenses | 35,984 | 235,901 | 2,107 | 2,633 | 276,625 | 18,434 | 3,160 | 298,219 | 273,982 |
| Direct client wages | 223,868 | 4,631 | - | - | 228,499 | - | - | 228,499 | 214,725 |
| Professional fees | 315 | 112,417 | - | 11,727 | 124,459 | 63,131 | 10,500 | 198,090 | 225,418 |
| Transportation/mileage | 106,661 | 4,374 | 2,003 | 4,650 | 117,688 | 2,284 | 543 | 120,515 | 124,296 |
| Temporary help | - | 42,572 | - | 975 | 43,547 | 26,337 | 755 | 70,639 | 90,516 |
| Office supplies/expenses | 30,880 | 15,224 | 1,522 | 684 | 48,310 | 9,160 | 4,684 | 62,154 | 68,239 |
| Dues and subscriptions | - | 2,505 | - | - | 2,505 | 20,147 | 1,229 | 23,881 | 22,230 |
| Donated items for special events | - | - | - | - | - | - | 22,250 | 22,250 | 31,850 |
| Miscellaneous | 2,037 | 2,040 | 4,746 | 160 | 8,983 | 8,271 | 3,602 | 20,856 | 14,761 |
| Telephone | 6,064 | 1,962 | 497 | 481 | 9,004 | 9,947 | 335 | 19,286 | 20,332 |
| Recreation | - | 1,107 | 17,622 | - | 18,729 | - | - | 18,729 | 11,254 |
| Data processing | 2,460 | 1,500 | - | 2,910 | 6,870 | 9,691 | - | 16,561 | 13,427 |
| Public relations | 25 | 103 | 2,975 | - | 3,103 | 1,631 | 6,946 | 11,680 | 10,721 |
| Insurance | - | - | 3,059 | - | 3,059 | 7,791 | - | 10,850 | 19,334 |
| Staff training | 817 | 4,841 | 332 | 655 | 6,645 | 714 | 410 | 7,769 | 1,972 |
| Minor equipment | 1,859 | 5,763 | - | - | 7,622 | - | - | 7,622 | 2,276 |
| Medicine/pharmacy | - | 4,472 | - | - | 4,472 | - | - | 4,472 | 4,209 |
| Employment ads | 200 | 348 | 650 | 650 | 1,848 | 625 | - | 2,473 | 5,479 |
| Interest | - | - | - | - | - | 259 | - | 259 | 259 |
| Total Other Operating Expenses | <u>411,170</u> | <u>439,760</u> | <u>35,513</u> | <u>395,294</u> | <u>1,281,737</u> | <u>178,422</u> | <u>54,414</u> | <u>1,514,573</u> | <u>1,360,786</u> |
| Total Operating Expenses | <u>980,077</u> | <u>1,284,083</u> | <u>104,651</u> | <u>503,028</u> | <u>2,871,839</u> | <u>419,757</u> | <u>138,728</u> | <u>3,430,324</u> | <u>3,265,204</u> |
| Depreciation | <u>12,431</u> | <u>47,601</u> | <u>227</u> | <u>283</u> | <u>60,542</u> | <u>10,831</u> | <u>340</u> | <u>71,713</u> | <u>73,341</u> |
| Total Functional Expenses | <u>\$ 992,508</u> | <u>\$ 1,331,684</u> | <u>\$ 104,878</u> | <u>\$ 503,311</u> | <u>\$ 2,932,381</u> | <u>\$ 430,588</u> | <u>\$ 139,068</u> | <u>\$ 3,502,037</u> | <u>\$ 3,338,545</u> |

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

GREATER WALTHAM ARC, INC.

Notes to Financial Statements

June 30, 2014

(1) Summary of Significant Accounting Policies

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The significant accounting policies followed by Greater Waltham Arc, Inc. (the Agency) are described below to enhance the usefulness of the financial statements to the reader.

(a) Nature of Activities

The Agency is a Massachusetts, non-profit organization established in 1956. The Agency provides educational and vocational training, employment and support services to assist the developmentally disabled to meet their whole life needs in the greater Waltham, Massachusetts area.

The following program divisions are listed in order of relative importance based upon total program expenditures:

Day Education - This program serves developmentally disabled men and women. The goal of the program is to further develop participant communication, mobility skills and gross and small motor skills through speech and language therapy, music therapy, sensory activities, arts, dance, crafts, cooking, pet therapy and socialization with peers in supportive settings. The Day Education program accounted for approximately 45% of total programmatic expenditures.

BIS/Employment - This program offers individuals an innovative program that maximizes practical skills for independence. Employment services include independent community work with job coaching/support and group supported employment at local universities. The BIS/Employment program accounted for approximately 34% of total programmatic expenditures.

Adult Family Care - This program provides Medicaid funded tax-free financial support to families caring for their adolescent/adult children with intellectual and developmental disabilities and/or the elderly in their homes. The Adult Family Care division accounted for 17% of total program expenditures.

Support Services - This program organizes community-based and in-house activities for adults, adolescents and children in the community and for Agency participants. Agency participants and community members join together to learn to make and influence better choices in their lives. The Support Services program accounted for approximately 4% of total programmatic expenditures.

GREATER WALTHAM ARC, INC.

Notes to Financial Statements

June 30, 2014

(1) Summary of Significant Accounting Policies - continued

(b) Basis of Presentation

The statement of activities reports all changes in net assets, including changes in unrestricted net assets from operating and non-operating activities. Operating revenues consist of those monies received and other contributions attributable to the Agency's ongoing efforts. Investment income, realized and unrealized gains and losses on investments, net of related management fees, are reported as non-operating revenue because such assets are managed for long-term stabilization of the Agency's activities.

(c) Revenue Recognition

The Agency earns revenue as follows:

Program Service Fees - Program service fees are earned and recognized by the Agency when units or services are provided and billed under various agreements funded primarily by governmental agencies. All contracts are unit-rate with ceiling amounts. Unit-rate contracts provide that revenue is to be earned and recognized at a negotiated or class rate for each unit-of-service that is provided under the terms of the contract. Billings on the contracts are subject to final approval by the governmental agency.

Contributions - Contributions are recorded as support at the date of donation, pledge or dates stated in award letters 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.

Special Events - Special event revenue is primarily derived from contributions collected and fees charged for admission at various sponsored events. Special event contributions and fees are recognized as income when received. Special event revenue was \$69,530 for the year ended June 30, 2014.

Substantially all of the Agency's revenue is derived from its activities in Massachusetts. During the year ended June 30, 2014, the Agency derived approximately 49% of its total revenue from Medicaid, 25% from the Commonwealth of Massachusetts, 9% from commercial contracts, 7% from foundations and individual donors, 6% from investment revenue and 4% from other sources. All revenue is recorded at the estimated net realizable amounts.

GREATER WALTHAM ARC, INC.

Notes to Financial Statements

June 30, 2014

(1) Summary of Significant Accounting Policies - continued

(d) 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 outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. As of June 30, 2014, management has determined any allowance would be immaterial.

The Agency does not have a policy to accrue interest on accounts receivables. The Agency has no policies requiring collateral or other security to secure the accounts receivable. Substantially all of the Agency's receivables are due from entities located in Massachusetts. As of June 30, 2014, the Agency's trade receivables were due as follows: approximately 54% due from Medicaid, 31% due from the Commonwealth of Massachusetts, 11% due from commercial contracts and 4% due from other sources.

(e) Standards of Accounting and Reporting

The Agency's net assets (excess of its assets over liabilities) and its revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

The statement of financial position presents three classes of net assets (unrestricted, temporarily restricted and permanently restricted) and the statement of activities displays the change in each class of net assets.

The classes of net assets applicable to the Agency are presented as follows:

Unrestricted - Unrestricted net assets are not subject to donor imposed restrictions. Unrestricted net assets consist of assets and contributions available for the support of operations. Unrestricted net assets may be designated for specific purposes by management or the Board of Directors. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or law.

Temporarily Restricted - Temporarily restricted net assets are subject to donor-imposed stipulations that may or will be met, either by actions of the Agency and/or passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Restricted contributions and investment income whose restrictions are met in the same reporting period are recorded as temporarily restricted income and as net assets released from restrictions.

GREATER WALTHAM ARC, INC.

Notes to Financial Statements

June 30, 2014

(1) Summary of Significant Accounting Policies - continued

(f) Income Taxes

The Agency qualifies as an organization formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC) and therefore is not subject to income tax. The Agency is not a private foundation under Section 509(a)(1). Certain unrelated business income, as defined in the IRC, is subject to federal income tax. For the year ended June 30, 2014, there was no liability for tax on unrelated business income.

GAAP prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. For the year ended June 30, 2014, the Agency has determined that it has not taken any tax positions which would result in an uncertainty requiring recognition in the accompanying financial statements. The Agency recognizes interest and penalties, if any, related to unrecognized tax benefits in interest expense. There were no interest or penalties for the year ended June 30, 2014.

Generally, the Agency's information returns remain open for possible federal income tax examination for three years after the filing date. The Agency is not currently under examination by any taxing jurisdiction.

(g) Fundraising

Fundraising relates to the activities of raising general and specific contributions to the Agency and promoting special events. Fundraising expenses as a percentage of total contribution and special event revenue was 59% for the year ended June 30, 2014. The ratio of expenses to amounts raised is computed using actual expenses and related revenue on an accrual basis.

(h) Advertising Costs

The Agency expenses advertising costs when they are incurred. Advertising expense was immaterial for the year ended June 30, 2014.

GREATER WALTHAM ARC, INC.

Notes to Financial Statements

June 30, 2014

(1) Summary of Significant Accounting Policies - continued

(i) Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are allocated to programs and supporting services. Administration expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Agency.

Payroll and associated costs are allocated to functions based upon actual time charges. Occupancy costs are allocated based upon square footage.

(j) Use of Estimates

In preparing the Agency's financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(k) Special Events

The Agency has determined that special events are incidental to its operations and therefore the direct costs of benefit to the donors is reported with fundraising expense and is not included with special events revenue.

(l) Cash and Cash Equivalents

The Agency considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

The Agency maintains its cash balances at several financial institutions located in Massachusetts. Certain cash balances are insured by the Federal Deposit Insurance Corporation. At times these balances may exceed the federal insurance limits; however, the Agency has not experienced any losses with respect to its bank balances in excess of government provided insurance or with respect to its bank balances not insured. Management believes that no significant concentration of credit risk exists with respect to these cash balances as of June 30, 2014.

GREATER WALTHAM ARC, INC.

Notes to Financial Statements

June 30, 2014

(1) Summary of Significant Accounting Policies - continued

(m) Investments

The Agency carries investments in marketable securities at fair value which is determined by quoted market prices. Changes in fair value are reflected in the statement of activities as gains or losses on investments. Investments are exposed to risks such as interest rate, credit and overall market volatility.

(n) Fair Value Measurements

GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Additionally, the inputs used to measure fair value are prioritized based on a three-level hierarchy. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels used to measure fair value are as follows:

Level 1: Quoted prices for identical instruments traded in active markets.

Level 2: Observable inputs other than quoted prices included in Level 1. Assets and liabilities included in this level are valued using quoted prices for similar assets and liabilities in active markets or other inputs that are observable or can be corroborated by observable market data.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

Recurring Measurements

In accordance with GAAP, certain assets and liabilities are required to be recorded at fair value on a recurring basis. The Agency's assets that are adjusted to fair value on a recurring basis are investments in equity and debt securities. The Agency currently has no liabilities that are adjusted to fair value on a recurring basis.

GREATER WALTHAM ARC, INC.

Notes to Financial Statements

June 30, 2014

(1) Summary of Significant Accounting Policies - continued

(n) Fair Value Measurements - continued

Recurring Fair Value Measurements - continued

Investments in Trading Securities

The fair values of investments using quoted market prices from daily exchange traded markets were based on the closing price as of the balance sheet date and were classified as Level 1.

The following table summarizes assets measured at fair value on a recurring basis as of June 30, 2014.

Fair Value Measurements on a Recurring Basis

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|------------------------------|---------------------|----------------|----------------|---------------------|
| Mutual funds | \$ 1,594,633 | \$ - | \$ - | \$ 1,594,633 |
| Marketable equity securities | <u>165,652</u> | <u>-</u> | <u>-</u> | <u>165,652</u> |
| | <u>\$ 1,760,285</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,760,285</u> |

Refer to Note 2 for additional information related to the composition of investments.

The Agency's policy is to recognize transfers into and out of levels as of the date an event or change in circumstances causes the transfer. There were no transfers between levels during the year ended June 30, 2014.

Nonrecurring Measurements

In addition to assets and liabilities that are recorded at fair value on a recurring basis, the Agency records assets and liabilities at fair value on a nonrecurring basis as required by GAAP. The Agency had no assets and liabilities measured at fair value on a nonrecurring basis as of June 30, 2014.

GREATER WALTHAM ARC, INC.

Notes to Financial Statements

June 30, 2014

(1) Summary of Significant Accounting Policies - continued

(o) Land, Building and Equipment

Land, building and equipment are recorded at cost or if donated, fair value on the date of receipt. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives. Improvements, including planned major maintenance activities are capitalized, while expenditures for routine maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the statement of activities.

The Agency computes depreciation using the straight-line method over the following estimated lives:

| | |
|-------------------------|------------|
| Building | 40 years |
| Building improvements | 5-40 years |
| Furniture and equipment | 5-20 years |
| Leasehold improvements | 5-20 years |
| Land improvements | 7-10 years |
| Motor vehicles | 7 years |

The Agency reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the property and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. There were no impairment losses recognized in 2014.

(p) Contributed Services and Gifts in Kind

Donated materials and facilities are reported as contributions in the financial statements at their estimated fair values at the time of receipt. Donated services are similarly reported when services are performed which would otherwise have been purchased or performed by Agency personnel.

Many individuals volunteer their time and perform a variety of tasks that assist the Agency with specific assistance programs, campaign solicitations and various committee assignments. The Agency would not have paid for these volunteered services if they had not been donated and therefore, they have not been reflected in the financial statements. During the year ended June 30, 2014, the Agency received approximately 165 volunteer hours (unaudited).

GREATER WALTHAM ARC, INC.

Notes to Financial Statements

June 30, 2014

(1) Summary of Significant Accounting Policies - continued

(q) Summarized Financial Information for 2013

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Also, the financial statements do not include a full presentation of the statement of functional expenses, as certain prior year summarized comparative information is presented in total but not by functional classification. In addition, the financial statements do not include full financial statement disclosures for the prior year. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Agency's financial statements for the year ended June 30, 2013, from which the summarized information was derived.

(r) Reclassifications

Certain amounts in the prior year have been reclassified to conform to the current year presentation.

(2) Investments

Investments are comprised of the following as of June 30, 2014:

| | |
|-----------------------------------|---------------------|
| Mutual funds | \$ 1,594,633 |
| U.S. bank certificates of deposit | 200,227 |
| Marketable equity securities | <u>165,652</u> |
| Total | \$ <u>1,960,512</u> |

Investment return consisted of the following for the year ended June 30, 2014:

| | |
|---|-------------------|
| Interest and dividends net of management fees | \$ 20,652 |
| Net realized and unrealized gains | <u>200,822</u> |
| Total gain on investments | \$ <u>221,474</u> |

Mutual funds consist primarily of a diversified portfolio of established domestic mutual funds investing in relatively conservative debt and equity securities. U.S. bank certificates of deposits are held at several local financial institutions. The marketable equity securities consist primarily of common stock traded on the New York Stock Exchange. Investment brokerage fees were \$10,489 for the year ended June 30, 2014 and are included with administration expenses on the accompanying statement of activities.

Management intends to retain investments for future uses. As of June 30, 2014, all investments are classified as long-term on the accompanying statement of financial position.

GREATER WALTHAM ARC, INC.

Notes to Financial Statements

June 30, 2014

(3) Property and Equipment

Property and equipment consists of the following as of June 30, 2014:

| | | |
|-------------------------|----|------------------|
| Land | \$ | 104,559 |
| Building | | 272,512 |
| Building improvements | | 311,258 |
| Furniture and equipment | | 350,185 |
| Leasehold improvements | | 715,769 |
| Land improvements | | 118,043 |
| Motor vehicles | | <u>34,496</u> |
| | \$ | <u>1,906,822</u> |

Depreciation amounted to \$71,713 for the year ended June 30, 2014.

(4) Line of Credit

The Agency has an arrangement with a bank to provide for working capital when needed. A secured, revolving, demand line of credit in the amount of \$200,000 is available. Interest is payable monthly at the Bank's prime rate plus 1% per annum (4.25% as of June 30, 2014). The line of credit extends through April 20, 2015, and is secured by a first lien on all corporate assets. There was no balance outstanding as of June 30, 2014.

(5) Capital Lease Obligations

The Agency leases certain assets under capital lease arrangements. The economic substance of the leases is that the Agency is financing the acquisition of assets through the leases and, accordingly, their value is recorded on the statement of financial position. Capital leases are recorded at the lower of fair market value or the present value of future lease payments using interest rates appropriate at the inception of each lease. The following is an analysis of the assets under capital leases included in land, building and equipment on the accompanying statement of financial position as of June 30, 2014:

| | | |
|------------------------------|----|----------------|
| Land, building and equipment | \$ | 23,855 |
| Accumulated depreciation | | <u>(3,976)</u> |
| | \$ | <u>19,879</u> |

Depreciation expense on capital lease assets amounted to \$8,475 for the year ended June 30, 2014.

GREATER WALTHAM ARC, INC.

Notes to Financial Statements

June 30, 2014

(5) Capital Lease Obligations - continued

The minimum lease payments for assets under capital leases are as follows:

| | |
|------------------------------|------------------|
| 2015 | \$ 8,739 |
| 2016 | 8,739 |
| 2017 | <u>6,554</u> |
| Total minimum obligations | 24,032 |
| Less: interest amount | <u>(1,563)</u> |
| Present value of obligations | 22,469 |
| Less: current portion | <u>(7,580)</u> |
| Long-term obligation | \$ <u>14,889</u> |

The Agency's monthly aggregate capital lease payments approximate \$730. Interest rates on these obligations are approximately 6%. Maturities of capital lease obligations are as follows:

| | |
|------|----------|
| 2015 | \$ 7,580 |
| 2016 | 8,066 |
| 2017 | 6,823 |

Interest expense on all capital lease obligations amounted to \$259 for the year ended June 30, 2014.

(6) Temporarily Restricted Net Assets

Temporarily restricted net assets consist of resources available to meet future obligations, but only in compliance with the restrictions specified by donors. As of June 30, 2014, temporarily restricted net assets are restricted for the following purposes:

| Nature of Restriction | Amount |
|-----------------------|-------------------|
| Adult recreation | \$ 104,218 |
| Other recreation | 1,000 |
| Staff training | <u>1,250</u> |
| Total | \$ <u>106,468</u> |

GREATER WALTHAM ARC, INC.

Notes to Financial Statements

June 30, 2014

(7) Contributed Services, Facilities and Gifts in Kind

Contributed services, facilities and gifts in kind for the year ended June 30, 2014 were as follows:

| | |
|----------------------------------|-------------------|
| Facilities (see Note 11) | \$ 84,662 |
| Donated items for special events | 22,250 |
| Professional services | 1,500 |
| Miscellaneous | <u>675</u> |
| Total | <u>\$ 109,087</u> |

(8) Employee Benefits

The Agency has a plan that qualifies as a “Cafeteria Plan” under Section 125 of the IRC. The plan allows the Agency’s employees to pay for medical and dental insurance and daycare on a pre-tax basis. A new employee is immediately eligible upon enrollment.

The Agency has a 403(b) retirement plan covering substantially all employees who meet certain eligibility requirements such as age, term of employment, etc. The Agency did not make matching or voluntary contributions during the year ended June 30, 2014, and reserves the right to terminate or amend the plan at any time.

The Agency has a 401(a) profit-sharing plan covering substantially all employees who meet certain eligibility requirements such as age, term of employment, etc. The plan is an employer-only contributory plan with full vesting over a six year period and full vesting at the time of retirement. The Agency made contributions of \$45,779 (included in employee compensation and related expenses in the statements of functional expenses) during the year ended June 30, 2014, and reserves the right to terminate or amend the plan at any time.

(9) Commitments and Contingencies

The Agency receives a portion of its funding from government agencies. The ultimate determination of amounts received under these programs generally is based upon allowable costs reported to and audited by the government. Until such audits have been completed, if any, and final settlement reached, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

GREATER WALTHAM ARC, INC.

Notes to Financial Statements

June 30, 2014

(9) Commitments and Contingencies - continued

The Agency's operations are concentrated in the social service provider field. As such, the Agency operates in a heavily regulated environment. The operations of the Agency are subject to administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to the following:

- Executive Office of Health and Human Services
- Department of Developmental Services
- Massachusetts Commission for the Blind
- Massachusetts Rehabilitation Commission
- Operational Services Division

Such administrative directives, rules and regulations are subject to change by an act of Congress, act of the state and local legislature or an administrative change mandated by the above mentioned parties. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change. Additionally, contractual funding may decrease or be withdrawn with little notice.

(10) Related Party Transactions

During the year ended June 30, 2014, the Agency had two certificate of deposit accounts at two separate financial institutions where board members are officers.

(11) Operating Lease Commitments

The Agency's facility located at 56 Chestnut Street, Waltham, Massachusetts was leased from the City of Waltham in 1977 for one dollar. The lease ends and the building reverts to the City when the Agency ceases to serve the needs of the developmentally disabled. Rent expense, included in occupancy expenses and recorded as an in-kind donation, amounted to \$84,662 for the year ended June 30, 2014.

(12) Subsequent Events

The Agency has performed an evaluation of subsequent events through October 20, 2014, which is the date the Agency's financial statements were available to be issued. No material subsequent events have occurred since June 30, 2014 that required recognition or disclosure in these financial statements.

GREATER WALTHAM ARC, INC.

Schedule of Findings and Responses

June 30, 2014

(1) Current Year Findings

No significant deficiencies or material weaknesses reported.

(2) Status of Prior Year Findings

No significant deficiencies or material weaknesses reported.