



Avenues and Affiliate

Combined Financial Statements
and Supplementary Information

June 30, 2018 and 2017

Avenues and Affiliate

Table of Contents
June 30, 2018 and 2017

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Combined Statements of Financial Position	3
Combined Statements of Activities	4
Combined Statements of Cash Flows	5
Notes to Combined Financial Statements	6
Supplementary Information	
Combined Schedule of Financial Position - 2018	12
Combined Schedule of Activities - 2018	13
Combined Schedule of Financial Position - 2017	14
Combined Schedule of Activities - 2017	15
Schedule of Expenditures of Federal Awards	16
Notes to Schedule of Expenditures of Federal Awards	17
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 <i>Government Auditing Standards</i>	18
Independent Auditors' Report on Compliance for the Major Federal Program and Report on Internal Control over Compliance Required by the Uniform Guidance	20
Schedule of Findings and Questioned Costs	22
Independent Accountants' Report on Applying Agreed Upon Procedures on the Reconciliation - Schedule of Expenditures of Federal Awards (SEFA) to the Federal Award Income Received from the Pennsylvania Department of Human Services per the Pennsylvania Audit Confirmation Reply	24
Reconciliation of Federal Awards Passed Through Pennsylvania Department of Human Services Expenditures per the SEFA to Revenue Received per the Pennsylvania Audit Confirmation Reply	25

Independent Auditors' Report

To the Board of Directors of
Avenues and Affiliate

Report on the Financial Statements

We have audited the accompanying combined financial statements of Avenues and Affiliate (a nonprofit organization), which comprise the combined statements of financial position as of June 30, 2018 and 2017, and the related combined statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Combined Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of Avenues and Affiliate as of June 30, 2018 and 2017 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying supplementary information on pages 12 to 15 and the schedule of expenditures of federal awards on page 16, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance") is presented for purposes of additional analysis and is not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined 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 combined 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 February 27, 2019, on our consideration of Avenues and Affiliate's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Avenues and Affiliate's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Avenues and Affiliate's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Wilkes-Barre, Pennsylvania
February 27, 2019

Avenues and Affiliate

Combined Statements of Financial Position
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Current Assets		
Cash	\$ 645,229	\$ 625,862
Accounts receivable	243,144	231,254
Grants receivable	1,290,857	714,356
Prepaid expenses	165,793	132,314
Inventory	35,824	35,824
	<hr/>	<hr/>
Total current assets	2,380,847	1,739,610
Cash Restricted for Client Fund	6,121	13,456
Investments, Foundation	230,693	225,417
Property and Equipment, Net	<u>1,443,332</u>	<u>1,152,199</u>
	<hr/>	<hr/>
Total assets	<u>\$ 4,060,993</u>	<u>\$ 3,130,682</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 414,403	\$ 211,177
Accrued payroll and payroll taxes	211,043	170,036
Line of credit	225,000	-
Deposits	4,350	6,500
Deferred revenue	1,772	3,174
Client fund	6,121	13,456
	<hr/>	<hr/>
Total liabilities	862,689	404,343
Net Assets		
Unrestricted	<u>3,198,304</u>	<u>2,726,339</u>
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 4,060,993</u>	<u>\$ 3,130,682</u>

See notes to combined financial statements

Avenues and Affiliate

Combined Statements of Activities
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Unrestricted Revenues		
Federal, state and county funding	\$ 6,531,347	\$ 5,215,334
Other program funding	1,117,549	1,106,802
Child day care	260,996	234,317
Contract revenue	207,634	223,190
Donations	128,785	104,164
Capital grant	104,000	-
United Way	96,203	97,437
Fundraising events	59,976	65,358
Other miscellaneous income	17,823	16,152
Investment income	7,613	11,204
Rental income	11,300	10,003
Annual appeal	9,720	6,165
Gain on sale of vehicle	-	600
	<u>8,552,946</u>	<u>7,090,726</u>
Total support, revenue, and gains		
Expenses		
Salaries, benefits and employee expense	5,231,307	4,879,911
Northumberland contract expenses	543,646	429,371
Supplies	333,014	343,500
Bad debt expense	240,502	3,890
Vehicle expenses	220,209	203,195
Depreciation	179,680	183,736
Communications and information technology	190,374	174,092
Repairs and maintenance	186,950	163,334
Utilities	162,919	153,695
Rent	167,129	151,360
Program expenses	207,519	143,744
Insurance	90,861	98,640
Professional fees and outside services	93,661	78,926
Travel	58,281	55,608
Advertising	66,394	54,137
Outside services	15,447	26,635
Miscellaneous	39,107	24,974
Staff development	20,586	21,532
Registration fees and subscriptions	18,375	17,054
Fundraising events	7,732	7,215
Other expense	7,288	1,057
	<u>8,080,981</u>	<u>7,215,606</u>
Total expenses		
Increase (decrease) in unrestricted net assets	471,965	(124,880)
Unrestricted Net Assets, July 1, 2017	<u>2,726,339</u>	<u>2,851,219</u>
Unrestricted Net Assets, June 30, 2018	<u>\$ 3,198,304</u>	<u>\$ 2,726,339</u>

See notes to combined financial statements

Avenues and Affiliate

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

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$ 471,965	\$ (124,880)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation	179,680	183,736
Changes in assets and liabilities:		
Cash restricted for client fund	7,335	(3,310)
Receivable	(11,890)	87,438
Grants receivable	(576,501)	(49,080)
Prepaid expenses	(33,479)	(19,257)
Inventory	-	(11,821)
Accounts payable	203,226	(147,961)
Accrued payroll and payroll taxes	41,007	(6,308)
Client fund	(7,335)	3,310
Deposits	(2,150)	-
Deferred revenue	(1,402)	(414)
	<u>270,456</u>	<u>(88,547)</u>
Net cash provided by (used in) operating activities		
Cash Flows from Investing Activities		
Proceeds from sale of investments	2,170	1,988
Purchases of investments	(7,446)	(10,574)
Purchases of property and equipment	(470,813)	(108,912)
	<u>(476,089)</u>	<u>(117,498)</u>
Net cash used in investing activities		
Cash Flows from Financing Activities		
Borrowings on line of credit	225,000	-
	<u>225,000</u>	<u>-</u>
Net increase (decrease) in cash	19,367	(206,045)
Cash, Beginning	<u>625,862</u>	<u>831,907</u>
Cash, Ending	<u>\$ 645,229</u>	<u>\$ 625,862</u>
Cash paid for interest	<u>\$ 901</u>	<u>\$ -</u>

See notes to combined financial statements

Avenues and Affiliate

Notes to Combined Financial Statements
June 30, 2018 and 2017

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Avenues and Affiliate ("Avenues") is a nonprofit corporation, incorporated in the Commonwealth of Pennsylvania. It is a human service organization committed to providing quality services that enhance the lives of individuals with developmental and/or acquired disabilities. Avenues oversees many programs for the handicapped, disabled, and non-handicapped individuals including day care programs for children and adults, work activities and sheltered employment, vocational evaluation, personal and work adjustment training, and recreation for teenagers and adults. Avenues operates in several locations throughout Schuylkill County, Lebanon County, Northumberland County and Luzerne County, Pennsylvania.

Basis of Presentation

The combined financial statements reflect the financial position and changes in net assets and cash flows of Avenues and Avenues Foundation, a nonprofit organization organized to raise funds to help support the charitable purposes of Avenues.

During 2017, Avenues' wholly owned subsidiary Habilitation, Inc. was dissolved. Habilitation, Inc. was inactive and the dissolution had no impact on the combined financial statements.

Investments - Foundation

Investments in marketable securities with readily determinable fair values are reported at their fair values in the combined statement of financial position.

Investments and Investment Risk

The fair value of substantially all securities is determined by quoted market prices. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in investment income unless the income or loss is restricted by donor or law. Interest income is measured as earned on the accrual basis. Dividends are measured based on the ex-dividend date. Purchases and sales of securities and realized gains and losses are recorded on a trade-date basis.

Avenues' Foundation investments are comprised of a variety of financial instruments and are managed by an investment advisor. The fair values reported in the combined statement of financial position are subject to various risks including changes in the equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the combined statement of financial position could change materially in the near term.

Receivables

Accounts and grants receivable are reported at net realizable value. Accounts are written off as bad debt expense when, in the opinion of management, they are uncollectible. Potential bad debts are considered immaterial; therefore, no allowance has been established.

Inventory

Inventories consist of program materials available for sale and are valued at the lower of cost or net realizable value.

Cash Restricted for Client Fund

Client fund is accounted for as a trust fund and is maintained separate and distinct from other funds.

Avenues and Affiliate

Notes to Combined Financial Statements
June 30, 2018 and 2017

Property and Equipment

Property and equipment acquisitions are recorded at cost. Avenues capitalizes all expenditures for property and equipment in excess of \$5,000, and for major repairs in excess of \$10,000. Depreciation is computed on a straight-line basis over the useful lives of the assets, ranging from 5 to 40 years.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Temporarily restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, Avenues reports the support as unrestricted. Unless specifically restricted by the donor, all contributions to the Foundation are considered to be available for unrestricted use. Avenues has no temporarily or permanently restricted net assets.

Income Taxes

Avenues is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code ("IRC") and is exempt from federal income taxes on its exempt income under Section 501(a) of the IRC.

Avenues accounts for uncertainty in income taxes using a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. Management determined there were no tax uncertainties that met the recognition threshold in 2018 and 2017.

Indirect Costs

Avenues has an indirect cost allocation plan that allocates administrative cost based on the total direct costs of each program.

Advertising Costs

Avenues follows the policy of charging costs of advertising to expense as incurred. Advertising costs were \$66,394 and \$54,137 for the years ended June 30, 2018 and 2017, respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Standards Not Yet Adopted

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 supersedes the revenue recognition requirements in *Topic 605, Revenue Recognition*, and most industry-specific guidance. Under the requirements of ASU 2014-09, the core principle is that entities should recognize revenue to depict the transfer of promised goods or services to customers (patients) in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for Avenues' fiscal year ending June 30, 2020. Avenues is assessing the impact this standard will have on its combined financial statements.

Avenues and Affiliate

Notes to Combined Financial Statements
June 30, 2018 and 2017

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance is intended to improve and simplify the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU 2016-14 is effective for Avenues' fiscal year ending June 30, 2019. ASU 2016-14 is to be applied retroactively with transition provisions. Avenues is assessing the impact this standard will have on its combined financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Under the provisions of ASU 2016-02, a lessee is required to recognize a right-to-use asset and lease liability, initially measured at the present value of the lease payments, in the balance sheet. In addition, lessees are required to provide qualitative and quantitative disclosures that enable users to understand more about the nature of the entity's leasing activities. Avenues will be required to retrospectively adopt the guidance in ASU 2016-02 for its fiscal year ending June 30, 2021. Avenues is assessing the impact this standard will have on its combined financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230), Restricted Cash*. The amendments in this update require that a statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. Avenues will be required to retrospectively adopt the guidance in ASU 2016-08 for its fiscal year ending June 30, 2020. Early adoption is permitted. Avenues is assessing the impact this standard will have on its combined financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance is intended to clarify and improve account guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluation whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. Avenues will be required to retrospectively adopt the guidance in ASU 2018-08 for its fiscal year ending June 30, 2020. Avenues is assessing the impact this standard will have on its combined financial statements.

Subsequent Events

Avenues evaluated subsequent events for recognition or disclosure through February 27, 2019, the date the combined financial statements were available to be issued.

2. Investments, Foundation and Fair Value Disclosures

Avenues follows authoritative accounting guidance on fair value measurements, which defines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the United States of America, and provides guidance on disclosures about fair value measurements.

Fair value is defined as the price that would be received to sell an asset or the price that would be paid to dispose of a liability in an orderly transaction between market participants at the measurement date. The framework for measuring fair value includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement.

Avenues and Affiliate

Notes to Combined Financial Statements

June 30, 2018 and 2017

The levels of the fair value hierarchy are as follows:

Level 1 - Fair value is based on unadjusted quoted prices in active markets that are accessible to the Avenues for identical assets. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 - Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the full term of the asset through corroboration with observable market data. Level 2 inputs include quoted market prices in inactive markets for similar assets, quoted market prices in markets that are not active for identical or similar assets and other observable inputs.

Level 3 - Fair value would be based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows, and other similar techniques. The fair value of investments were measured using the following inputs:

	2018	2017
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Quoted Prices in Active Markets for Identical Assets (Level 1)
Cash and cash equivalents	\$ 7,225	\$ 33,172
Mutual funds, equity	113,624	112,069
Mutual funds, fixed income	109,844	80,176
Total	<u>\$ 230,693</u>	<u>\$ 225,417</u>

Mutual funds are measured at fair value based on quoted market prices in active markets for identical assets. Avenues does not have any Level 2 or 3 investments.

3. Property and Equipment, Net

Property and equipment and accumulated depreciation as of June 30, 2018 and 2017 are as follows:

	2018	2017
Land	\$ 11,570	\$ 11,570
Buildings	1,824,114	1,824,114
Building improvements	779,765	771,665
Vehicles	1,298,739	1,306,779
Furniture and equipment	203,213	199,587
Construction in progress	311,132	-
Total	4,428,533	4,113,715
Less accumulated depreciation	<u>(2,985,201)</u>	<u>(2,961,516)</u>
Property and equipment, net	<u>\$ 1,443,332</u>	<u>\$ 1,152,199</u>

Depreciation expense totaled \$179,680 in 2018 and \$183,736 in 2017.

Construction in progress consists of cost associated with renovating the corporate office building with estimated costs to complete the project of \$10,000 at June 30, 2018.

Avenues and Affiliate

Notes to Combined Financial Statements

June 30, 2018 and 2017

4. Demand Notes Payable

Avenues has an unsecured line of credit available with First National Bank of Pennsylvania in the amount of \$1,500,000. The interest rate is the Prime Rate plus 0 percent, which is 5.0 percent at June 30, 2018. The line of credit expires May 31, 2019. The outstanding balance on the line of credit as of June 30, 2018 was \$225,000. There was no outstanding balance on the line of credit as of June 30, 2017.

5. Commitment

On June 29, 2018, Avenues was approved for a \$500,000 construction loan with Mid Penn Bank. As of June 30, 2018, there have been no draws on the loan. Monthly interest payments will begin on July 29, 2018 at a rate of 4.50 percent. Principal and interest payments will begin on July 29, 2019. Beginning July 29, 2023, interest will be payable based on the Prime Rate.

6. Contingencies and Credit Risk

Avenues participates in state and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representative. Avenues is potentially liable for any expenditure which may be disallowed pursuant to the terms of the grant programs.

Avenues maintains cash accounts, which, at times, may exceed federally insured limits. Avenues has not experienced any losses from maintaining cash accounts in excess of federally insured limits. Management believes it is not subject to any significant credit risk on its cash accounts.

7. Operating Leases

Avenues leases its facilities for the Lebanon County Eldercare, Northumberland County Adult Training Facility, Milton Adult Training Facility, Greater Hazleton Area, and Valley View Program under operating leases. The leases expire at various times. The total rent paid during the years ended June 30, 2018 and 2017 was \$274,217 and \$300,515, respectively. Of these amounts, \$107,588 and \$149,155 is rent allocated to various programs that use the same buildings for June 30, 2018 and 2017, respectively.

Minimum future lease payments required under the various operating lease agreements in effect at June 30, 2018 were as follows:

Year ending June 30:	
2019	\$ 119,852
2020	111,175
2021	101,664
2022	50,818
2023	51,538
Thereafter	59,594
	<hr/>
	\$ 494,641
	<hr/>

8. Tax Deferred Annuity Plan

Avenues maintains a tax-deferred annuity plan qualified under Section 401(k) of the IRC. The plan is available to all employees of Avenues. Avenues does not contribute any amounts to the plan. Employees may make contributions to the plan up to the maximum amount allowed by the IRC if they wish. Employees may choose among several existing insurance companies under the plan to establish their tax-deferred annuity.

Avenues and Affiliate

Notes to Combined Financial Statements
June 30, 2018 and 2017

9. Functional Expenses

Avenues provides social services to families and individuals within its geographic location. Expenses related to providing these services at June 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Program	\$ 7,284,793	\$ 6,475,933
Fundraising events	7,732	7,215
Administration	<u>788,456</u>	<u>732,458</u>
Total	<u>\$ 8,080,981</u>	<u>\$ 7,215,606</u>

10. Related Party

The Foundation pays \$1,375 per month to Avenues for the use of office equipment and support staff. At year-end, there is a receivable of \$64,676 at June 30, 2018 and \$60,832 at June 30, 2017 due from the Foundation for administrative costs and other costs during the year. All intercompany balances eliminate in consolidation.

Avenues and Affiliate

Combining Schedule of Financial Position
June 30, 2018

	<u>Avenues</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Combined</u>
Assets				
Current Assets				
Cash	\$ 485,585	\$ 159,644	\$ -	\$ 645,229
Accounts receivable	243,144	-	-	243,144
Accounts receivable, related party	64,676	-	(64,676)	-
Grants receivable	1,290,857	-	-	1,290,857
Prepaid expenses	165,193	600	-	165,793
Inventory	35,824	-	-	35,824
Total current assets	2,285,279	160,244	(64,676)	2,380,847
Cash Restricted for Client Fund	6,121	-	-	6,121
Investments, Foundation	-	230,693	-	230,693
Property and Equipment, Net	1,443,332	-	-	1,443,332
Total assets	<u>\$ 3,734,732</u>	<u>\$ 390,937</u>	<u>\$ (64,676)</u>	<u>\$ 4,060,993</u>
Liabilities and Net Assets				
Current Liabilities				
Accounts payable, trade	\$ 414,355	\$ 48	\$ -	\$ 414,403
Accounts payable, related party	-	64,676	(64,676)	-
Deposits	4,350	-	-	4,350
Deferred revenue	312	1,460	-	1,772
Client fund	6,121	-	-	6,121
Line of credit	225,000	-	-	225,000
Accrued payroll and payroll taxes	211,043	-	-	211,043
Total current liabilities	861,181	66,184	(64,676)	862,689
Net Assets				
Unrestricted	2,873,551	324,753	-	3,198,304
Total liabilities and net assets	<u>\$ 3,734,732</u>	<u>\$ 390,937</u>	<u>\$ (64,676)</u>	<u>\$ 4,060,993</u>

Avenues and Affiliate

Combining Schedule of Activities
Year Ended June 30, 2018

	<u>Avenues</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Combined</u>
Unrestricted Revenues				
Federal, state and county funding	\$ 6,531,347	\$ -	\$ -	\$ 6,531,347
Other program revenue	1,117,549	-	-	1,117,549
Child day care	260,996	-	-	260,996
Contract revenue	207,634	-	-	207,634
Donations	105,296	23,489	-	128,785
Capital grant	104,000	-	-	104,000
United Way	96,203	-	-	96,203
Fundraising events	6,767	53,209	-	59,976
Other miscellaneous Income	17,818	5	-	17,823
Investment income	166	7,447	-	7,613
Rental income	11,300	-	-	11,300
Annual appeal	-	9,720	-	9,720
	<u>8,459,076</u>	<u>93,870</u>	<u>-</u>	<u>8,552,946</u>
Total support, revenue, and gains				
Expenses				
Salaries, benefits and employee expense	5,230,657	650	-	5,231,307
Northumberland contract expenses	543,646	-	-	543,646
Supplies	315,868	17,146	-	333,014
Bad debt expense	240,502	-	-	240,502
Vehicle expenses	220,209	-	-	220,209
Depreciation	179,680	-	-	179,680
Communications and information technology	190,374	-	-	190,374
Repairs and maintenance	186,950	-	-	186,950
Utilities	162,919	-	-	162,919
Rent	167,129	-	-	167,129
Program expenses	151,783	55,736	-	207,519
Insurance	90,861	-	-	90,861
Professional fees and outside services	91,335	2,326	-	93,661
Travel	58,281	-	-	58,281
Advertising	66,394	-	-	66,394
Outside services	15,447	-	-	15,447
Miscellaneous	39,147	(40)	-	39,107
Staff development	20,586	-	-	20,586
Registration fees and subscriptions	18,375	-	-	18,375
Fundraising events	2,192	5,540	-	7,732
Other expense	7,288	-	-	7,288
	<u>7,999,623</u>	<u>81,358</u>	<u>-</u>	<u>8,080,981</u>
Total expenses				
Increase in unrestricted net assets	459,453	12,512	-	471,965
Unrestricted Net Assets, July 1, 2017	<u>2,414,098</u>	<u>312,241</u>	<u>-</u>	<u>2,726,339</u>
Unrestricted Net Assets, June 30, 2018	<u>\$ 2,873,551</u>	<u>\$ 324,753</u>	<u>\$ -</u>	<u>\$ 3,198,304</u>

Avenues and Affiliate

Combining Schedule of Financial Position
June 30, 2017

	<u>Avenues</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Combined</u>
Assets				
Current Assets				
Cash	\$ 475,167	\$ 150,695	\$ -	\$ 625,862
Accounts receivable	231,254	-	-	231,254
Accounts receivable, related party	60,832	-	(60,832)	-
Grants receivable	714,356	-	-	714,356
Prepaid expenses	132,293	21	-	132,314
Inventory	35,824	-	-	35,824
Total current assets	1,649,726	150,716	(60,832)	1,739,610
Cash Restricted for Client Fund	13,456	-	-	13,456
Investments, Foundation	-	225,417	-	225,417
Property and Equipment, Net	1,152,199	-	-	1,152,199
Total assets	<u>\$ 2,815,381</u>	<u>\$ 376,133</u>	<u>\$ (60,832)</u>	<u>\$ 3,130,682</u>
Liabilities and Net Assets				
Current Liabilities				
Accounts payable, trade	\$ 211,177	\$ -	\$ -	\$ 211,177
Accounts payable, related party	-	60,832	(60,832)	-
Deposits	6,500	-	-	6,500
Deferred revenue	114	3,060	-	3,174
Client fund	13,456	-	-	13,456
Accrued payroll and payroll taxes	170,036	-	-	170,036
Total current liabilities	401,283	63,892	(60,832)	404,343
Net Assets				
Unrestricted	2,414,098	312,241	-	2,726,339
Total liabilities and net assets	<u>\$ 2,815,381</u>	<u>\$ 376,133</u>	<u>\$ (60,832)</u>	<u>\$ 3,130,682</u>

Avenues and Affiliate

Combining Schedule of Activities
Year Ended June 30, 2017

	<u>Avenues</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Combined</u>
Unrestricted Revenues				
Federal, state and county funding	\$ 5,215,334	\$ -	\$ -	\$ 5,215,334
Other program revenue	1,106,802	-	-	1,106,802
Child day care	234,317	-	-	234,317
Contract revenue	223,190	-	-	223,190
Donations	92,775	11,389	-	104,164
United Way	97,437	-	-	97,437
Fundraising events	4,746	60,612	-	65,358
Other miscellaneous income	16,152	-	-	16,152
Investment income	620	10,584	-	11,204
Rental income	10,003	-	-	10,003
Annual appeal	-	6,165	-	6,165
Gain on sale of vehicle	600	-	-	600
	<u>7,001,976</u>	<u>88,750</u>	<u>-</u>	<u>7,090,726</u>
Total support, revenue, and gains				
	<u>7,001,976</u>	<u>88,750</u>	<u>-</u>	<u>7,090,726</u>
Expenses				
Salaries, benefits and employee expenses	4,879,911	-	-	4,879,911
Northumberland contract expenses	429,371	-	-	429,371
Supplies	326,629	16,871	-	343,500
Vehicle expenses	203,195	-	-	203,195
Depreciation	183,736	-	-	183,736
Communications and information technology	174,092	-	-	174,092
Repairs and maintenance	163,334	-	-	163,334
Utilities	153,695	-	-	153,695
Rent	151,360	-	-	151,360
Program expenses	126,997	16,747	-	143,744
Insurance	98,640	-	-	98,640
Professional fees and outside services	76,929	1,997	-	78,926
Travel	55,608	-	-	55,608
Advertising	54,137	-	-	54,137
Outside services	26,635	-	-	26,635
Miscellaneous	24,999	(25)	-	24,974
Staff development	21,532	-	-	21,532
Registration fees and subscriptions	17,054	-	-	17,054
Fundraising events	388	6,827	-	7,215
Bad debt expense	3,890	-	-	3,890
Other expense	1,057	-	-	1,057
	<u>7,173,189</u>	<u>42,417</u>	<u>-</u>	<u>7,215,606</u>
Total expenses				
	<u>7,173,189</u>	<u>42,417</u>	<u>-</u>	<u>7,215,606</u>
(Decrease) increase in unrestricted net assets	(171,213)	46,333	-	(124,880)
Unrestricted Net Assets, July 1, 2016	<u>2,585,311</u>	<u>265,908</u>	<u>-</u>	<u>2,851,219</u>
Unrestricted Net Assets, June 30, 2017	<u>\$ 2,414,098</u>	<u>\$ 312,241</u>	<u>\$ -</u>	<u>\$ 2,726,339</u>

Avenues and Affiliate

Schedule of Expenditures of Federal Awards
June 30, 2018

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Period Beginning / Ending Date</u>	<u>Federal Expenditures</u>
U.S. Department of Health and Human Services			
Passed through Commonwealth of Pennsylvania Department of Human Services: Medical Assistance Program, Medicaid Cluster	93.778	July 1, 2017 - June 30, 2018	<u>\$ 3,067,160</u>
Total Expenditures of Federal Awards			<u>\$ 3,067,160</u>

Avenues and Affiliate

Notes to Schedule of Expenditures of Federal Awards
June 30, 2018 and 2017

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Avenues and Affiliate under programs of the federal government for the fiscal year ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule represents only a selected portion of the operations of Avenues and Affiliate, it is not intended to and does not present the financial position, activities, or cash flows of Avenues and Affiliate. Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the combined financial statements.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

3. Indirect Cost Rate

Avenues and Affiliate has elected not to use the 10 percent de minimus indirect cost rate as allowed under the Uniform Guidance.

**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
Avenues and Affiliate

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 combined financial statements of Avenues and Affiliate ("Avenues") (a nonprofit organization), which comprise the combined statements of financial position as of June 30, 2018, the related combined statements of activities and cash flows, and the related notes to the combined financial statements, and have issued our report thereon dated February 27, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered Avenues' 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 Avenues' internal control. Accordingly, we do not express an opinion on the effectiveness of Avenues' 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Avenues' financial statements are free of 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 on other matters that are required to be reported under *Government Auditing Standards*.

Avenues' Response to Finding

Avenues' response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Avenues' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

Baker Tilly Virchow Krause, LLP

Wilkes-Barre, Pennsylvania
February 27, 2019

**Independent Auditors' Report on Compliance
for the Major Federal Program and
Report on Internal Control Over Compliance
Required by the Uniform Guidance**

To the Board of Directors of
Avenues and Affiliate

Report on Compliance for the Major Federal Program

We have audited Avenues and Affiliate's (collectively "Avenues") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Avenues' major federal program for the year ended June 30, 2018. Avenues' major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for Avenues' major federal program 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance 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 federal program occurred. An audit includes examining, on a test basis, evidence about Avenues' 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 each major federal program. However, our audit does not provide a legal determination of Avenues' compliance.

Opinion on Each Major Federal Program

In our opinion, Avenues complied, in all material respects, with the types of compliance requirements referred to above that could have direct and material effect on its major federal program for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of Avenues 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 Avenues' internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 Avenues' 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 federal program 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 federal program 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 federal program 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Baker Tilly Virchow Krause, LLP

Wilkes-Barre, Pennsylvania
February 27, 2019

Avenues and Affiliate

Schedule of Findings and Questioned Costs
June 30, 2018

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? X yes none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major federal program:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? yes X none reported

Type of auditors' report issued on compliance for major federal program: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes X no

Identification of major federal program:

<u>CFDA Number(s)</u>	<u>Name of Program or Cluster</u>
93.778	Medical Assistance

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? X yes no

Avenues and Affiliate

Schedule of Findings and Questioned Costs
June 30, 2018

Section II - Financial Statement Findings

Finding 2018-001: Billing Process

Criteria: The entity's billing system must be sufficient to capture appropriate information to submit bills within the required time frame to be reimbursed. If bills are rejected due to errors, timely review should be done along with follow up until payment is received.

Condition/Context: Effective July 2017 , new billing codes and procedures were required by the Commonwealth of Pennsylvania. Due to the complexity of the procedures and multiple errors detected during the billing process, the bills were not submitted within the required time frame and therefore were not able to be reimbursed.

Effect: Billings for services performed were not reimbursed resulting in a write off of approximately \$241,000.

Cause: Since the billing process was new , Avenues' was not able to follow up in a timely manner due to the volume of billing errors that caused the bills to be rejected.

Recommendation: We recommend management consider hiring an additional person to assist with the billing process. In addition, management should review their billing process by focusing on the reason for the errors and put policies and procedures in place that will minimize these errors.

Views of Responsible Officials: Avenues' agrees with the finding and has incorporated new templates to assist in capturing the information needed for the submission of bills.

Section III - Federal Awards Findings and Questioned Costs

None.

Section IV - Schedule of Prior Year Findings and Questioned Costs

None.

**Independent Accountants' Report on
Applying Agreed Upon Procedures on the
Reconciliation - Schedule of Expenditures of
Federal Awards (SEFA) to the Federal Award Income Received
from the Pennsylvania Department of Human Services per
the Pennsylvania Audit Confirmation Reply**

To the Board of Directors of
Avenues and Affiliate

We have performed the procedures enumerated below, which were agreed to by Board of Directors of Avenues and the Commonwealth of Pennsylvania, Office of Developmental Programs, to the accompanying financial schedules of the Avenues and Affiliate ("Avenues") for the year ended June 30, 2018, solely to assist you in evaluating Avenues' compliance with the requirements of the Pennsylvania Office of Developmental Programs. Avenues' management is responsible for compliance with the requirements of the Pennsylvania Office of Developmental Programs. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Procedures and findings are as follows:

- a) We agreed the expenditure amounts listed on the reconciliation schedule under the "Federal Expenditures per the SEFA" column to the audited Schedule of Expenditures of Federal Awards (SEFA) for the year ended June 30, 2018.
- b) We agreed the receipt amounts listed on the reconciliation schedule under the "Federal Awards Received per the audit confirmation reply from Pennsylvania" column to the sub-recipient Federal amounts that were reflected in the audit confirmation reply from the Office of Budget, Comptroller Operations.
- c) We recalculated the amounts listed under the "Difference" column and "% of Difference" column.
- d) We agreed the amounts listed under the "Difference" column to the audited books and records of Avenues and Affiliate.
- e) We agreed the "Detailed Explanation of the Differences" to the audited books and records of Avenues and Affiliate.
- f) The processes detailed in paragraphs (a) through (e) above, disclose no adjustments.

We were not engaged to, and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on any of the financial schedules referred to above. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of Board of Directors of Avenues and Pennsylvania Office of Developmental Programs and is not intended to be, and should not be, used by anyone other than these specified parties.

Baker Tilly Virchow Krause, LLP

Wilkes-Barre, Pennsylvania
February 27, 2019

Avenues and Affiliate

Reconciliation of Federal Awards Passed Through the Pennsylvania Department of Human Services
Expenditures per the SEFA to Revenue Received per the Pennsylvania Audit Confirmation Reply
Year Ended June 30, 2018

<u>CFDA Name</u>	<u>CFDA Number</u>	<u>Federal Expenditures per the SEFA</u>	<u>Federal Awards Received per the Audit Confirmation Reply from Pennsylvania</u>	<u>Difference</u>	<u>% Difference</u>	<u>Detailed Explanation of the Differences</u>
Medical Assistance Program	93.778	\$ 3,067,160	\$ 2,634,224	\$ 432,936	16.44%	Timing difference due to cash versus accrual records