UNITED COMMUNITY SERVICES OF LAWRENCE COUNTY, INC.

Financial Report
June 30, 2018

Arnett Carbis Toothman llp
CPAs & Advisors

C O N T E N T S

INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Statements of financial position	2 - 3
Statements of activities and changes in net assets	4 - 5
Statements of functional expenses	6 - 7
Statements of cash flows	8
Notes to financial statements	9 - 12

Arnett
Carbis
Toothman llp
CPAs & Advisors

actcpas.com

2599 Wilmington Road
New Castle, PA 16105
724.658.1565 | 724.658.2402 fax
800.452.3003

INDEPENDENT AUDITOR'S REPORT

Board of Directors
United Community Services of
Lawrence County, Inc.
New Castle, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of United Community Services of Lawrence County, Inc. (Organization) which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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 Organization 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.

Arnett Carbis Toothman LLP

New Castle, Pennsylvania
November 21, 2018

UNITED COMMUNITY SERVICES OF LAWRENCE COUNTY, INC.

STATEMENTS OF FINANCIAL POSITION
June 30, 2018 and 2017

	2018		
	Unrestricted	Temporarily Restricted	Total
ASSETS			
Cash	$ 327,446	$ -	$ 327,446
Accounts receivable	29,372	-	29,372
Accounts receivable, related party	139,435	-	139,435
Interest receivable	3,966	-	3,966
Prepaid expenses	2,785	-	2,785
Building improvements, net of accumulated depreciation 2018 $1,097; 2017 $935	1,311	-	1,311
Equipment, net of accumulated depreciation 2018 $65,964; 2017 $65,663	266	-	266
Note receivable, related party	500,000	-	500,000
Total assets	$ 1,004,581	$ -	$ 1,004,581
LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts payable	$ 4,697	$ -	$ 4,697
Accounts payable, related party	102,529	-	102,529
Accrued wages	22,704	-	22,704
Accrued payroll taxes	9,081	-	9,081
Accrued pension	5,373	-	5,373
Accrued other	11,200	-	11,200
Total liabilities	155,584	-	155,584
NET ASSETS	848,997	-	848,997
Total liabilities and net assets	$ 1,004,581	$ -	$ 1,004,581

See Notes to Financial Statements

2017		
	Temporarily	
Unrestricted	Restricted	Total
$ 632,720	$ -	$ 632,720
38,801	-	38,801
130,215	-	130,215
-	-	-
13,930	-	13,930
1,472	-	1,472
567	-	567
-	-	-
$ 817,705	$ -	$ 817,705
$ 2,765	$ -	$ 2,765
64,421	-	64,421
36,258	-	36,258
13,399	-	13,399
24,586	-	24,586
4,685	-	4,685
146,114	-	146,114
671,591	-	671,591
$ 817,705	$ -	$ 817,705

See Notes to Financial Statements

UNITED COMMUNITY SERVICES OF LAWRENCE COUNTY, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Years Ended June 30, 2018 and 2017

	2018		
	Unrestricted	Temporarily Restricted	Total
REVENUE			
Progam fees	$ 1,920,594	$ -	$ 1,920,594
Keystone STARS	28,932	-	28,932
Interest income	5,542	-	5,542
Net assets released from restrictions	-	-	-
Total revenue	1,955,068	-	1,955,068
EXPENDITURES			
Program services	1,750,580	-	1,750,580
Support activities	27,082	-	27,082
Total expenditures	1,777,662	-	1,777,662
Change in net assets	177,406	-	177,406
Net assets:			
Beginning	671,591	-	671,591
Ending	$ 848,997	$ -	$ 848,997

See Notes to Financial Statements

2017		
Unrestricted	Temporarily Restricted	Total
$ 1,872,989	$ -	$ 1,872,989
22,505	-	22,505
1,364	-	1,364
3,146	(3,146)	-
1,900,004	(3,146)	1,896,858
1,717,594	-	1,717,594
12,242	-	12,242
1,729,836	-	1,729,836
170,168	(3,146)	167,022
501,423	3,146	504,569
$ 671,591	$ -	$ 671,591

See Notes to Financial Statements

UNITED COMMUNITY SERVICES OF LAWRENCE COUNTY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended June 30, 2018 and 2017

	2018		
	Program Services	Support Activities	Total
Salaries	$ 724,483	$ -	$ 724,483
Leased employee expenses	210,223	-	210,223
Meals	191,522	-	191,522
Rent	162,237	-	162,237
Fringe benefits	114,404	-	114,404
Payroll taxes	71,462	-	71,462
Supplies	57,602	-	57,602
Retirement plan	52,786	-	52,786
Indirect costs	48,372	-	48,372
Purchased services	39,530	-	39,530
Professional fees	-	27,082	27,082
Insurance	24,813	-	24,813
Repairs and maintenance	11,897	-	11,897
Bad debts	11,156	-	11,156
Staff development	5,975	-	5,975
Field trips	5,199	-	5,199
Utilities	5,176	-	5,176
Telephone	3,543	-	3,543
Advertising	3,384	-	3,384
Travel	3,354	-	3,354
Dues and publications	889	-	889
Postage	694	-	694
Depreciation	510	-	510
Bank charges	317	-	317
Miscellaneous	1,052	-	1,052
Total functional expenses	$ 1,750,580	$ 27,082	$ 1,777,662

See Notes to Financial Statements

2017		
Program Services	Support Activities	Total
$ 774,181	$ -	$ 774,181
194,448	-	194,448
157,732	-	157,732
159,707	-	159,707
123,977	-	123,977
81,141	-	81,141
41,721	-	41,721
60,022	-	60,022
41,448	-	41,448
30,491	-	30,491
-	12,242	12,242
13,390	-	13,390
13,120	-	13,120
5,186	-	5,186
1,971	-	1,971
5,951	-	5,951
3,970	-	3,970
1,623	-	1,623
1,470	-	1,470
2,304	-	2,304
494	-	494
608	-	608
689	-	689
983	-	983
967	-	967
$ 1,717,594	$ 12,242	$ 1,729,836

See Notes to Financial Statements

UNITED COMMUNITY SERVICES OF LAWRENCE COUNTY, INC.

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	**$ 177,406**	$ 167,022
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	**510**	689
Bad debt expense	**11,156**	5,186
(Increase) decrease in assets:		
Accounts receivable	**(1,727)**	(11,261)
Accounts receivable, related party	**(9,268)**	(14,379)
Interest receivable	**(3,966)**	-
Prepaid expenses	**11,145**	(12,261)
Increase (decrease) in liabilities:		
Accounts payable	**1,932**	(3,880)
Accounts payable, related party	**38,108**	(54,595)
Accrued wages and payroll taxes	**(17,872)**	10,619
Accrued pension	**(19,213)**	(10,737)
Accrued other	**6,515**	4,685
Net cash provided by operating activities	**194,726**	81,088
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in restricted cash	**-**	3,146
Borrowings on note receivable, related party	**(500,000)**	-
Net cash provided by (used in) investing activities	**(500,000)**	3,146
Net increase (decrease) in cash	**(305,274)**	84,234
Cash:		
Beginning	**632,720**	548,486
Ending	**$ 327,446**	$ 632,720
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Decrease in accounts receivable, related party through decrease in building improvements and equipment	**$ 48**	$ 112

See Notes to Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies

United Community Services of Lawrence County, Inc. (Organization) is a not-for-profit organization which provides day care and in-home services to residents of Lawrence County. The purpose of the day care program is to provide a quality developmental program which gives each child an opportunity for intellectual growth, social and physical development, preparation for future education, and to help families in Lawrence County improve their socioeconomic function by freeing parents for employment or training programs. The Organization and Lawrence County Social Services, Inc. Head Start Program have formed a partnership bringing a higher standard of preschool education, coupled with nutrition, health, mental health, and social service support to the classroom.

A summary of the Organization's significant accounting policies follows:

Basis of accounting: The financial statements of the Organization have been prepared on the accrual basis of accounting. Revenue is recognized when it is earned and expenditures when they are incurred.

Deposit risk: The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts.

Accounts receivable: Accounts receivable are stated at the amount the Organization expects to collect.

Bad debts: The Organization has elected to record bad debts using the direct write-off method. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

Building improvements and equipment: Building improvements and equipment are stated at cost. Depreciation of building improvements and equipment is calculated on the straight-line method, based on estimated useful lives.

Maintenance and repairs of building improvements and equipment are charged to operations and major improvements and repairs are capitalized. Upon retirement, sale, or other disposition of building improvements or equipment, the cost and accumulated depreciation are eliminated from the accounts and any gain or loss is included in operations.

Net assets: Unrestricted net assets are neither permanently nor temporarily restricted by donor or grantor imposed stipulations.

Temporarily restricted net assets result from contributions, grants, or other inflows of assets whose use by the Organization is limited by donor or grantor imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations, from other asset enhancements and diminishments subject to the same kinds of stipulations, or from reclassifications to or from other classes of net assets as a consequence of donor or grantor imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the Organization pursuant to those stipulations.

Permanently restricted net assets result from contributions, grants, or other inflows of assets whose use by the Organization is limited by donor or grantor imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization, from other asset enhancements and diminishments subject to the same kinds of stipulations, or from reclassifications from or to other classes of net assets as a consequence of donor or grantor imposed stipulations.

The Organization does not have any temporarily or permanently restricted net assets as of June 30, 2018 or 2017.

Contributions: Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported on the statements of activities and changes in net assets as net assets released from restrictions. Donor-restricted contributions, whose restrictions are met in the same reporting period as contributions are earned, are reported as unrestricted support.

The Organization reports gifts of goods and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. Property and equipment received as donations are recorded and reflected in the accompanying financial statements at their fair values at the date of receipt.

Grants: Grants received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any grant restrictions. Grant income is recorded in the program fees on the statements of activities and changes in net assets.

In-kind services: The Organization receives various contributed services for the operation of the day care program. These services are recorded at fair value and include donated services, supplies, and utilities. There were no in-kind services for the years ended June 30, 2018 or 2017.

Advertising: The Organization follows the policy of charging the cost of advertising to expense as incurred. Advertising expense amounted to $3,384 and $1,470 for the years ended June 30, 2018 and 2017, respectively.

Use of estimates: The preparation of financial statements in accordance 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 financial statements and revenue and expenses, including functional allocations, during the reporting period. Actual results could differ from those estimates.

Income taxes: The Organization is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (Code) and has been recognized as tax exempt under Section 501(a) of the Code. Accordingly, no provision for income taxes has been provided. Generally, tax returns for years ended June 30, 2015, and thereafter remain subject to examination by federal and state tax authorities.

Subsequent events: In preparing these financial statements, the Organization evaluated events that occurred through November 21, 2018, the date the financial statements were available to be issued, for potential recognition or disclosure.

Recent Accounting Pronouncements

Revenue Recognition: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, which clarifies the principles for recognizing revenue and develops a common revenue standard for U.S. GAAP. This ASU attempts to remove inconsistencies and weaknesses in the current revenue recognition requirements, provides a more robust framework for addressing issues, improves comparability across entities and industries, provides more useful information to the users of the financial statements, and simplifies the preparation of financial statements by consolidating the number of requirements required to be referenced. Early adoption is not permitted. The guidance permits the use of either a retrospective or modified retrospective (cumulative effect) transition method. The Organization is currently evaluating the impact, if any, that adoption will have on its June 30, 2020, financial statements. Management has not yet selected a transition method nor has the effect of this guidance on the Organization’s ongoing financial reporting been determined.

Leases: In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842) which supersedes FASB ASC Topic 840, *Leases*, and makes other conforming amendments to U.S. GAAP. This ASU requires, among other changes to the lease accounting guidance, lessees to recognize most leases on the balance sheet via a right-of-use asset and lease liability, and additional qualitative and quantitative disclosures. In addition, the updated guidance requires that lessors separate lease and non-lease components in a contract in accordance with the new revenue guidance in ASU 2014-09. Transition guidance is provided within the ASU and generally requires a retrospective approach. The Organization is currently evaluating the impact, if any, that adoption will have on its June 30, 2021, financial statements.

Not-for-Profit Entities: In August 2016, the FASB issued ASU 2016-14, (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. The amendments of this ASU change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. The amendments include qualitative and quantitative requirements in the financial statement presentation and disclosures regarding net asset classes, investment return, expenses, liquidity and availability of resources, and presentation of operating cash flows. The Organization will implement the provisions of ASU 2016-14 as of July 1, 2018. The Organization is currently evaluating the impact that adoption will have on its financial statements.

In June 2018, the FASB issued ASU 2018-08, (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958 or as exchange (reciprocal) transactions subject to other guidance and determining whether a contribution is conditional. The Organization is currently evaluating the impact, if any, the adoption of ASU 2018-08 will have on its June 30, 2020, financial statements.

Statement of Cash Flows: In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows* (Topic 230), which requires companies to include cash and cash equivalents that have restrictions on withdrawal or use in total cash and cash equivalents on the statement of cash flows. The Organization is required to adopt ASU No. 2016-18 as of June 30, 2020. The Organization is currently evaluating the impact, if any, that adoption will have on its financial statements.

Note 2. Related Party Transactions and Note Receivable

Related party transactions: The Organization, Lawrence County Social Services, Inc. (LCSS, Inc.), and Allied Coordinated Transportation Services, Inc. (ACTS, Inc.) are considered related parties with shared management. The Organization received $40,019 and $23,515 of Community Service Block Grant monies and $120,857 and $117,457 of Child Care Food Program funds from LCSS, Inc. during the years ended June 30, 2018 and 2017, respectively. Also, LCSS, Inc. provides management services to the Organization, which includes leasing of employees. Such expenses amounted to $210,223 and $194,448 for the years ended June 30, 2018 and 2017, respectively. In addition to the leased employees' salaries and benefits, LCSS, Inc. also allocates certain additional costs from LCSS, Inc. based on the leased employees' salaries. The Organization has payables to LCSS, Inc. in the amount of $102,529 and $64,421 as of June 30, 2018 and 2017, respectively, for the management services provided. The Organization also has receivables from LCSS, Inc. in the amount of $139,435 and $130,215 as of June 30, 2018 and 2017, respectively, where they fulfill the Head Start and Early Head Start contract requirements to provide child care services to eligible Head Start and Early Head Start children in a model which maximizes quality and individualization of services to children and families.

Note receivable, related party: In April 2018, the Organization entered into an agreement with ACTS, Inc. to lend $500,000 to finance the purchase of property. The note calls for monthly installments commencing May 1, 2019, of a fixed principal amount of $4,886, plus interest at 4.75%, with the final payment due May 1, 2029. The amount due from ACTS, Inc., including accrued interest, amounted to $503,996 as of June 30, 2018.

Note 3. Line of Credit

The Organization has a $250,000 line of credit with a financial institution. The line bears interest at the London InterBank Offered Rate (LIBOR) plus 2.522%. The line is collateralized by all chattel paper, accounts, equipment, and general intangibles and is guaranteed by ACTS, Inc. and LCSS, Inc., which are related parties to the Organization. There were no outstanding borrowings on the line of credit as of June 30, 2018.

Note 4. Retirement Plan

The Organization maintains a retirement plan (Plan). The employer's contribution is discretionary and is determined by management. The Plan has a six month waiting period service requirement and an employee must have attained the age of 21 to become eligible to participate. Vesting is 100% after two years of service. The retirement contributions for the years ended June 30, 2018 and 2017, amounted to $52,786 and $60,022, respectively.

Note 5. Leases and License Agreements

The Organization leases a building under a five year cancelable license agreement with ACTS, Inc., with an option to renew for an additional one year term if the Organization provides written notice sixty days prior to expiration of the lease. Thereafter, this lease, which commenced January 2016, shall renew automatically, and each anniversary thereafter, for an additional one year term at a monthly cost of $1,631. In addition, the Organization leases a building under a one year cancelable license agreement with LCSS, Inc. with an option to renew for an additional one year term if the Organization provides written notice sixty days prior to expiration of the lease. Thereafter, this lease, which commenced September 2015, shall renew automatically, and each anniversary thereafter, for an additional one year term at a monthly cost of $11,400. The Organization also incurs a corporate allocated rent expense for building space used. Corporate rent expense totaled $5,865 and $3,335 for the years ended June 30, 2018 and 2017, respectively. Total rent expense for the years ended June 30, 2018 and 2017, amounted to $162,237 and $159,707, respectively.

Note 6. Net Assets Released from Restriction

Net assets are released from donor restrictions by incurring expenses satisfying the restrictive purpose of the grant. Net assets released from restrictions consisted of the following for the years ended June 30:

	2018	2017
Parent funds	**$ -**	$ 3,146

Note 7. Commitments and Contingencies

The Organization is a guarantor of debt held by LCSS, Inc. in the form of a line of credit. The balance as of June 30, 2018, amounted to $500,000. The Organization would be required to perform under the guarantee should LCSS, Inc. default on the obligation.