Friendship Community

Years Ended June 30, 2017 and 2016

TROUT, EBERSOLE & GROFF LLP

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Friendship Community

Financial Statements with Supplementary Information

Years Ended June 30, 2017 and 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Friendship Community
Lititz, PA

We have audited the accompanying financial statements of **Friendship Community** (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities 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.

Auditors' 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 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 auditors consider 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Friendship Community** as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included in schedules I through V is presented for the purpose of additional analysis and is not a required part of the financial statements. The supplementary information included in schedule V is presented for the purpose of additional analysis as is required by the Department of Human Services to be a part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal *Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards*, is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2018, on our consideration of **Friendship Community'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 **Friendship Community's** internal control over financial reporting and compliance.

Trout, Ebersole & Groff, LLP

January 9, 2018
Lancaster, Pennsylvania

TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

Friendship Community

STATEMENTS of FINANCIAL POSITION

June 30, 2017 and 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 117,827	$ 704,730
Receivables:		
Pennsylvania Department of Human Services	1,203,383	1,003,486
Pledges and Grants	23,988	-0-
Other	14,487	68,575
Investment in Marketable Securities	20,565	102,252
Prepaid Expenses	73,468	44,332
Total Current Assets	**1,453,718**	**1,923,375**
ASSETS WHOSE USE is LIMITED		
Cash and Cash Equivalents:		
Temporarily Restricted for Program	55,627	278,181
Other Receivables:		
Temporarily Restricted Pledge/Grant Receivable for Program	13,000	10,000
Investment in Marketable Securities:		
Permanently Restricted for Endowment	91,440	91,040
Designated for Endowment	158,560	158,960
Total Assets Whose Use is Limited	**318,627**	**538,181**
PROPERTY and EQUIPMENT		
Land	1,073,589	1,073,589
Land Improvements	472,951	472,951
Buildings	7,519,295	7,466,487
Furnishings and Equipment	927,981	927,981
Adaptive Equipment	23,509	23,509
Vehicles	1,198,799	1,223,094
	11,216,124	11,187,611
Accumulated Depreciation	(6,757,557)	(6,418,117)
Net Property and Equipment	**4,458,567**	**4,769,494**
OTHER ASSETS		
Financing Cost, net of Accumulated Amortization of $12,192 and $10,684 for 2017 and 2016	5,906	7,414
Insurance Reserve Fund - MASP	366,328	199,120
Total Other Assets	**372,234**	**206,534**
TOTAL ASSETS	**$ 6,603,146**	**$ 7,437,584**

See notes to financial statements.

Friendship Community

STATEMENTS of FINANCIAL POSITION
(Continued)
June 30, 2017 and 2016

	2017	2016
LIABILITIES and NET ASSETS		
CURRENT LIABILITIES		
Current Maturities of Notes Payable	$ 363,237	$ 371,226
Deferred Revenue - Admission Fees	-0-	351
Line of Credit	433,653	1,376,853
Accounts Payable	140,109	149,060
Security Deposits	9,393	11,566
Accrued Expenses	434,280	610,979
Total Current Liabilities	**1,380,672**	**2,520,035**
LONG-TERM LIABILITIES		
Notes Payable, net of Current Maturities	1,755,306	2,127,663
Deferred Revenue - Other	1,000	1,000
Total Long-Term Liabilities	**1,756,306**	**2,128,663**
TOTAL LIABILITIES	**3,136,978**	**4,648,698**
NET ASSETS		
Unrestricted	3,306,101	2,409,665
Temporarily Restricted	68,627	288,181
Permanently Restricted	91,440	91,040
TOTAL NET ASSETS	**3,466,168**	**2,788,886**
TOTAL LIABILITIES and NET ASSETS	**$ 6,603,146**	**$ 7,437,584**

See notes to financial statements.

Friendship Community

STATEMENTS of ACTIVITIES

Years Ended June 30, 2017 and 2016

	2017	2016
UNRESTRICTED NET ASSETS		
Revenues, Gains, and Other Support		
Governmental Support	$ 11,853,131	$ 11,042,071
Resident, Admission, and Program Fees	936,011	896,180
Contributions and Grants	697,681	608,956
Special Events, net of Special Event Expenses of $25,226 in 2017 and $25,665 in 2016	32,113	31,717
Rental Income	139,286	376,420
Investment Income (Loss)	18,474	(8,437)
Other Revenues and Gains	72,276	93,384
Gain on Sale of Property and Equipment	11,915	436,147
Net Assets Released from Restrictions	364,494	270,034
Total Unrestricted Revenues, Gains, and Other Support	**14,125,381**	**13,746,472**
Functional Expenses		
Program Services	11,517,579	12,234,449
Supporting Services:		
General and Administrative	1,417,869	1,295,859
Fundraising	239,414	219,512
Public Relations	54,083	63,979
Total Functional Expenses	**13,228,945**	**13,813,799**
INCREASE (DECREASE) in UNRESTRICTED NET ASSETS	**896,436**	**(67,327)**
TEMPORARILY RESTRICTED NET ASSETS		
Contributions:		
Property and Equipment	51,265	44,871
Program	93,675	107,056
Net Assets Released from Restrictions	(364,494)	(270,034)
DECREASE in TEMPORARILY RESTRICTED NET ASSETS	**(219,554)**	**(118,107)**
PERMANENTLY RESTRICTED NET ASSETS		
Endowment Fund Contributions	**400**	**3,325**
CHANGES in NET ASSETS	**677,282**	**(182,109)**
NET ASSETS		
Beginning of Year	2,788,886	2,970,995
End of Year	**$ 3,466,168**	**$ 2,788,886**

See notes to financial statements.

Friendship Community

STATEMENTS of CASH FLOWS

Years Ended June 30, 2017 and 2016

	2017	2016
CASH FLOWS from OPERATING ACTIVITIES		
Changes in Net Assets	$ 677,282	$ (182,109)
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	386,503	552,111
Amortization	1,508	22,510
Realized and Unrealized (Gains) Losses on Marketable Securities	(14,098)	13,591
Gain on Sale of Property and Equipment	(11,915)	(436,147)
Contributions Restricted for Long-Term Purposes	(144,940)	(151,927)
(Increase) Decrease in Assets:		
Receivables	(169,797)	64,383
Prepaid Expenses	(29,136)	7,727
Increase (Decrease) in Liabilities:		
Deferred Revenue - Admission Fees	(351)	(703)
Accounts Payable	(8,951)	(40,853)
Security Deposits	(2,173)	(32,886)
Accrued Expenses	(176,699)	106,120
Net Cash Provided (Used) by Operating Activities	**507,233**	**(78,183)**
CASH FLOWS from INVESTING ACTIVITIES		
Proceeds from Sale of Property and Equipment, net Expenses	13,811	2,987,368
Purchase of Property and Equipment	(77,472)	(50,502)
Contributions Restricted for Purchase of Property and Equipment	51,265	44,871
Proceeds on Sale of Marketable Securities	119,964	192,211
Purchase of Marketable Securities	(24,179)	(67,207)
Decrease in Cash and Pledges Receivable - Limited Use	219,554	118,107
(Increase) Decrease in Insurance Reserve Fund - MASP	(167,208)	98,405
Net Cash Provided by Investing Activities	**135,735**	**3,323,253**
CASH FLOWS from FINANCING ACTIVITIES		
Proceeds from Contributions Restricted for Long-Term Purposes	93,675	107,056
Net Proceeds (Payments) on Line of Credit	(943,200)	32,076
Principal Payments on Notes Payable	(380,346)	(2,990,753)
Net Cash Used by Financing Activities	**$ (1,229,871)**	**$ (2,851,621)**

See notes to financial statements.

Friendship Community

STATEMENTS of CASH FLOWS
(Continued)
Years Ended June 30, 2017 and 2016

		2017		2016
INCREASE (DECREASE) in CASH and CASH EQUIVALENTS	$	**(586,903)**	$	**393,449**
CASH and CASH EQUIVALENTS				
Beginning of Year		704,730		311,281
End of Year	$	**117,827**	$	**704,730**
SUPPLEMENTAL DISCLOSURE of CASH FLOW INFORMATION				
Cash Paid During the Year for Interest		115,528		240,481
NONCASH INVESTING and FINANCING ACTIVITIES				
Debt Incurred for Acquisition of Vehicle		-0-		22,383

See notes to financial statements.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Nature of the Organization
Friendship Community (the Organization) was founded in 1972 as an agency of Eastern Mennonite Missions, providing community living arrangements for people with developmental disabilities. In 1987, **Friendship Community** became an independent legal entity. All facilities are licensed to operate in the Commonwealth of Pennsylvania.

These facilities, located in Lancaster and Lebanon Counties, Pennsylvania, offer residential, rehabilitative, and social services to developmentally disabled persons who desire a Christian living environment and lifestyle. The primary purpose is to maximize the potential of every individual and provide a pattern of life that is as close to normal as possible.

Divisions and Programs
Resources are classified, for accounting and reporting purposes, into two divisions established according to their nature and purpose as follows:

Government Division - The government division consists of two intermediate care facilities (ICF), a community living arrangement (CLA/waiver home), and a respite home.

The ICFs provide intensive training and supervision for men and women. All residents are engaged in structured vocational programs outside the facilities during the day. The activities of this division are supported by revenue received from the Pennsylvania Department of Human Services (DHS) under the Medicaid program.

The waiver program includes the following community living arrangements, which are funded by the Pennsylvania Department of Human Services and Lancaster and Lebanon Counties:

1. A semi-independent living arrangement at an apartment complex in Ephrata, which provides group support in a more independent, “homelike” environment, for residents to develop living skills to a higher level. This property was sold in April 2016, however the Organization continues to provide services to individuals living at this location.
2. A life sharing program, which provides for the living expenses of adults residing with families in the local community.
3. A supportive living program, which provides individualized life skills support for residents in independent apartment settings.
4. Twenty-four community residential facilities, three of which are rented and twenty-one of which are owned by **Friendship Community**.

The respite home is available for individuals supported through various funding sources including DHS and the private community. The home is designed to provide short-term lodging and care for individuals whose primary care providers are on a temporary leave of absence.

Ministries Division - The ministries division provides counseling and consultation to developmentally disabled individuals in the community, in foster homes, and to those who have graduated into independent living apartments. This division is privately funded and includes development of new programs and initiatives.

The division also owned and operated one independent living apartment building and owned one personal care boarding home. The personal care home was repurposed for a meaningful day program in March 2015 and the independent living apartment building was sold in 2016.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Divisions and Programs (Continued)
The Organization has lease agreements with different parties to provide a high-quality living environment for developmentally disabled persons in apartments.

Basis of Accounting
The financial statements of the Organization have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Basis of Presentation
The Organization's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP). Current US GAAP standards are contained in the Accounting Standards Codification (ASC) as set forth by the Financial Accounting Standards Board (FASB).

The financial statement presentation follows the recommendations of the FASB ASC Topic 958, *Not-for-Profit Entities*. Under this topic, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Restricted and Unrestricted Revenue and Pledges
Contributions that are restricted by the donor are reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. Restricted donations whose restrictions are met in the same reporting period are accounted for as temporarily restricted support and as net assets released from restrictions. When a 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 in the statements of activities as net assets released from restrictions.

Pledges and grants receivable are valued at fair value upon the initial recognition of the gifts and are recorded in the statements of financial position as assets whose use is limited and restricted for program related expenses. Pledges and grants are generally expected to be paid within one year. Therefore no discounting or allowance for uncollectible pledges was recorded. Pledges and grants receivable totaled $36,988 and $10,000 at June 30, 2017 and 2016, respectively.

Use of Estimates
The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, income, and expenses. Accordingly, actual results may differ from estimated amounts. Significant estimates used in the preparation of these financial statements relate to depreciation, amortization of finance costs, allowance for uncollectible receivables, fair value measurements including endowment assets, and the allocation of expenses by functional classification.

Allocated Costs
Administrative costs are allocated to the various programs based on the projected budgeted expenses for each home.

Miscellaneous program costs are allocated to the various programs based on the projected budgeted expenses for each home.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentrations of Credit and Market Risk
The Organization's financial instruments that are exposed to concentrations of credit risk consist primarily of cash, investments, and accounts receivable. The Organization maintains its cash balances with various financial institutions. At times, such balances may be in excess of the FDIC insurance limit. As of June 30, 2017 and 2016, the Organization had deposited uninsured funds with the Eastern Mennonite Missions' Church Investment Loan Fund in the amount of $7,871 and $7,845, respectively. The Organization believes the loan fund and accounts receivable exposure to credit risk is limited.

The Organization's investments in marketable securities consist of holdings in various money market and mutual funds where the account balances may at times exceed SIPC insured limits. The investments are held in a diversified portfolio with no concentrations of market risk.

Generally, the Organization does not obtain collateral to secure accounts receivable.

Tax Status and Income Taxes
The Organization is exempt from taxation as provided by Code Section 501(c)(3) of the Internal Revenue Code (the Code). Section 501(c)(3) defines the exempt organization as being "organized and operated for religious, charitable, scientific, testing for public safety, literacy or educational purposes, or the prevention of cruelty to children or animals." In addition, the Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Code.

The Organization is not aware of any unrelated business income that would be subject to taxation. Accordingly, the Internal Revenue Service Form 990-T will not be filed. The Organization follows the provisions of ASC Topic 740, *Income Taxes,* and is not aware of any uncertain tax positions, and accordingly, no corresponding liability, including penalties and interest, has been recorded in the accompanying financial statements.

The Organization previously received unrelated business income from various rental activities that was subject to tax. In 2016, the property that generated unrelated business income was sold.

Cash, Cash Equivalents, and Cash Whose Use is Limited
For the purposes of the statements of cash flows, cash and cash equivalents are defined as demand deposits at financial institutions, petty cash, and short-term investments with Eastern Mennonite Missions' Church Investment Loan Fund. The line of credit held with Ephrata National Bank is a component of a cash management account. Funds are swept automatically between the checking accounts and the line of credit, resulting in the potential for a short-term overdraft representing checks issued but not presented to the bank for payment.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash, Cash Equivalents, and Cash Whose Use is Limited (Continued)
A summary of cash and cash equivalents as of June 30, 2017 and 2016, follows:

	2017	2016
Ephrata National Bank	25,818	9,733
Fulton Bank	120,865	924,619
First National Bank	-0-	9,187
Church Investment Loan Fund	7,871	7,845
Everence Federal Credit Union	13,552	26,179
Petty Cash	5,348	5,348
	173,454	982,911
Cash Whose Use is Limited	(55,627)	(278,181)
Total Cash and Cash Equivalents	**117,827**	**704,730**

Cash whose use is limited is restricted for program expenses in accordance with the donor's intentions.

Accounts Receivable and Allowance for Doubtful Accounts
The Organization's accounts receivable are primarily comprised of rent receivable from their residents and billings to government agencies on contractual obligations. Accounts receivable are stated at unpaid balances, net of anticipated estimated cost settlements, and less an allowance for doubtful accounts.

The Organization uses the reserve method for recording bad debts and provides an allowance for doubtful accounts based upon what management believes to be a reasonable estimate of uncollectible accounts. Receivables are written off after exhausting collection efforts. There was no allowance for doubtful accounts as of June 30, 2017 and 2016.

Additionally, contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. The Organization uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. There was no allowance for uncollectible unconditional promises at June 30, 2017 and 2016, as management determined the promises to give were fully collectible.

The Organization considers various factors as of the date of the financial statements in evaluating the credit quality of other receivables, including the value of collateral, if any, historical collection experience and the Organization's assessment of the counterparties' ability to repay their obligation. To date, the Organization has not experienced any losses with respect to other receivables and believes that these receivables will be recovered: therefore, an allowance for uncollectible amounts has not been recorded.

Investments in Marketable Securities
Marketable securities investments are recorded at fair value. Unrealized gains and losses are based on the difference between the book value and fair value of each security. Realized gains and losses are determined using the specific identification method.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment
Property and equipment is carried at historical cost. Renewals and betterments in excess of $500 in the government division and $1,000 in the ministry division are charged to the property and equipment accounts while minor replacements (maintenance and repairs which do not improve or extend the life of the respective assets) are expensed currently. For waiver funded government programs, renewals and betterments in excess of $5,000 are recorded in the property and equipment accounts. Property donated to the Organization is recorded at fair value as determined by an independent appraiser on the date the property was donated. The Organization does not imply time restrictions with respect to donated property. Following is a list of the properties owned:

ICF Homes
517 West Orange Street, Lititz
2165 New Holland Pike, Lancaster

Independent Living
175 Old Mill Road, Ephrata (property sold April 2016)

CLA Homes/Life Sharing/Respite
164 Landis Drive, Lancaster
6321 Jackson Drive, East Petersburg
238 East Main Street, Leola
30 Clearview Drive, Lebanon
304 Fairview Drive, Lititz
453 Hostetter Drive, Millersville
1144 Sheep Hill Road, New Holland
2436 Willow Glen Drive, Lancaster
2139 Horseshoe Road, Lancaster
53 Redwood Circle, Ephrata
6380 Bayberry Avenue, Manheim
292 Robin Dale Drive, Leola
57 Timberline Drive, Leola
124 Valley View Place, Lebanon
216 South Conestoga Drive, Lancaster
207 Sun Hill Road, Manheim
348 West View Drive, Akron
149 Miller Drive, Manheim
269 Cedar Hollow Drive, Manheim
87 Summerlyn Drive, Ephrata

Meaningful Day Facility
1149-1159 East Oregon Road, Lititz

Depreciation
Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

Land Improvements	10 - 15 Years
Buildings	20 - 25 Years
Furnishings, Equipment, and Adaptive Equipment	5 - 15 Years
Vehicles	4 Years

Total depreciation charged to expense amounted to $386,503 and $552,111 for the years ended June 30, 2017 and 2016, respectively.

Amortization
Financing costs are being amortized over eight and fifteen years on a straight-line basis. Amortization expense was $1,508 and $22,510 for the years ended June 30, 2017 and 2016, respectively.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Revenue - Admission Fees
Prepaid admission fees consisted of refundable and nonrefundable portions which are amortized over a period of twenty years beginning with the date of admission for each resident in accordance with their resident agreement. Any remaining nonrefundable admission fee balances were recognized immediately as revenue when a resident left. As described above, the Organization decided to discontinue its personal care home program in 2015 and as a result, refunded admission fees in its ministries division (Note 5).

Contributed Services
Donations of services that create or enhance physical assets and essential services that require and are donated by persons with specialized skills are measured at their fair value and reported as increases in unrestricted net assets during the period provided. No contributions of services were recognized in the years ended June 30, 2017 and 2016. Services donated by persons without specialized skills are not recorded. However, the Organization receives contributed services for a variety of fundraising events.

Accounting Standards Not Yet Adopted
In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), which requires entities to recognize revenue when a customer obtains control rather than when entities have transferred substantially all risks and rewards of a good or service. This update is effective for annual reporting periods beginning on or after December 15, 2018. The Organization is currently assessing the impact the adoption of ASU 2014-09 will have on its financial statements.

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities* (ASU 2016-14), which improves current reporting requirements for not-for-profit entities. The most significant provisions of the ASU will require not-for-profit entities to: 1) report only two classes of net assets, 2) change the cash flow presentation or disclosure requirements for entities using the direct method of presenting cash flows, and 3) provide enhanced disclosure related to liquidity, underwater endowments, board designated net assets and time-restricted net assets. This update is effective for fiscal years beginning after December 15, 2017. The Organization is currently assessing the impact the adoption of ASU 2016-14 will have on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02 *Leases* (ASU 2016-02), which will require lessees to recognize most leases on their balance sheet, increasing their reported assets and liabilities. This update was developed to provide financial statement users with more information about an entity's leasing activities, and will require changes in processes and internal controls. This update is effective for fiscal years beginning after December 15, 2018, and will require application of the new guidance at the beginning of the earliest comparable period presented. The Organization is currently assessing the impact the adoption of ASU 2016-14 will have on its financial statements.

NOTE 2 - ACCOUNTS RECEIVABLE, NET of ESTIMATED COST SETTLEMENTS/ACCOUNTS PAYABLE

Pennsylvania Department of Human Services

Reimbursements received for program costs from the Pennsylvania Department of Human Services are based on the reimbursement principles set forth under PA Code 55 and are subject to review by the DHS. A liability reflects amounts received that are over the billing caps as well as estimated cost settlements due to the DHS. A receivable reflects amounts received that are under the billing caps as well as estimated costs settlements due to the Organization. Differences between the actual and estimated cost settlements are recorded in operations in the year of final settlement.

Counties of Lancaster and Lebanon

The CLA programs receive revenues from contracts with Lancaster and Lebanon Counties to provide behavioral health and developmental services. The final determination of amounts received under these contracts generally is based upon allowable costs reported to and reviewed by the county. Until such reviews have been completed and final settlement reached, there exists a contingency to refund any amount received in excess of allowable costs.

Summary

A summary of accounts receivable as of June 30, 2017 and 2016, follows:

	2017	2016
Pennsylvania Department of Human Services:		
CLA/Waiver Program	796,144	745,946
ICF Program:		
ICF Program	453,230	282,006
Prior Year Cost Settlements/Other	(45,991)	(24,466)
Pledge and Grant Receivable - Unrestricted	23,988	-0-
Grant Receivable Restricted for Program	13,000	10,000
Other	14,487	68,575
	1,254,858	**1,082,061**

NOTE 3 - INVESTMENT in MARKETABLE SECURITIES and FAIR VALUE MEASUREMENTS

The Organization has invested excess operating resources in mutual funds. In addition, assets restricted or designated for the endowment fund have been invested. A summary of marketable securities follows:

	Market Value	Cost	Unrealized Gains
June 30, 2017			
Money Market Funds	34,154	34,154	-0-
Mutual Funds - Securities	135,299	122,683	12,616
Mutual Funds - Bonds	101,112	99,183	1,929
	270,565	**256,020**	**14,545**

NOTE 3 - INVESTMENT in MARKETABLE SECURITIES and FAIR VALUE MEASUREMENTS (Continued)

	Market Value	Cost	Unrealized Gains
June 30, 2016			
Money Market Funds	81,272	81,272	-0-
Mutual Funds - Securities	156,617	161,408	(4,791)
Mutual Funds - Bonds	114,363	110,850	3,513
	352,252	**353,530**	**(1,278)**

Investment income is included in the statements of activities and includes interest and dividend income, realized and unrealized gains and losses, investment expenses on marketable securities, and interest income on other interest bearing accounts. A summary of investment income (losses) is as follows:

	2017	2016
Interest Earnings on Other Accounts	161	158
Marketable Securities:		
Interest and Dividends	7,540	9,047
Realized Losses	(1,725)	(8,235)
Unrealized Gains (Losses)	15,823	(5,356)
Administrative Fees	(3,325)	(4,051)
	18,474	**(8,437)**

FASB ASC Topic 820, *Fair Value Measurements and Disclosures,* establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodology used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2017 and 2016.

NOTE 3 - INVESTMENT in MARKETABLE SECURITIES and FAIR VALUE MEASUREMENTS (Continued)

Money Market/Mutual Funds: Valued at the net asset value (NAV) of shares held by the Organization at year end.

The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2017 and 2016:

2017	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets				
Money Market Funds	34,154	-0-	-0-	34,154
Mutual Funds:				
Fixed Income - Short Term	10,629	-0-	-0-	10,629
Fixed Income - Intermediate	90,482	-0-	-0-	90,482
Large Cap Core	25,261	-0-	-0-	25,261
Large Cap Growth	10,122	-0-	-0-	10,122
Large Cap Value	17,064	-0-	-0-	17,064
Mid Cap Growth	8,409	-0-	-0-	8,409
Small Cap Core	8,356	-0-	-0-	8,356
International Equities	35,408	-0-	-0-	35,408
Commodities	5,884	-0-	-0-	5,884
Real Estate	7,217	-0-	-0-	7,217
Tactical Assets	17,579	-0-	-0-	17,579
	270,565	**-0-**	**-0-**	**270,565**

2016	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets				
Money Market Funds	81,272	-0-	-0-	81,272
Mutual Funds:				
Fixed Income - Short Term	12,194	-0-	-0-	12,194
Fixed Income - Intermediate	102,168	-0-	-0-	102,168
Large Cap Core	28,521	-0-	-0-	28,521
Large Cap Growth	15,308	-0-	-0-	15,308
Large Cap Value	15,458	-0-	-0-	15,458
Mid Cap Growth	10,769	-0-	-0-	10,769
Small Cap Core	10,733	-0-	-0-	10,733
International Equities	39,337	-0-	-0-	39,337
Commodities	14,078	-0-	-0-	14,078
Real Estate	8,548	-0-	-0-	8,548
Tactical Assets	13,866	-0-	-0-	13,866
	352,252	**-0-**	**-0-**	**352,252**

NOTE 3 - INVESTMENT in MARKETABLE SECURITIES and FAIR VALUE MEASUREMENTS (Continued)

Level 1 and 2 Transfers
No transfers in and out of levels 1 and 2 occurred during the years ended June 30, 2017 and 2016.

Level 3 Gains and Losses
There were no level 3 assets or liabilities as of or during the years ended June 30, 2017 and 2016.

NOTE 4 - PREPAID and ACCRUED EXPENSES

A schedule of prepaid and accrued expenses at June 30, 2017 and 2016, is presented as follows:

	2017	2016
Prepaid Expenses:		
Advertising	901	-0-
Deposits	7,382	8,923
Insurance	49,372	21,142
Computer Maintenance	13,018	11,472
Inventory	2,795	2,795
	73,468	**44,332**
Accrued Expenses:		
Wages	237,013	474,229
Accrued Professional Fees	42,620	41,720
Payroll Withholdings	58,000	30,639
Insurance	53,727	47,083
Other	42,920	17,308
	434,280	**610,979**

NOTE 5 - DEFERRED REVENUE - ADMISSION FEES/OTHER

Government Division
In November 1996, **Friendship Community** entered into an agreement in which an advance was received from an individual residing in an ICF home. The unamortized balance of $-0- and $351 is recorded as deferred revenue - admission fees at June 30, 2017 and 2016, respectively. This fee is being amortized over twenty years. Accordingly, $351 and $703 has been recognized in resident and admission fee income during the years ended June 30, 2017 and 2016, respectively.

Ministries Division
The Organization had received admissions fees for the Agape, Jubilee, and Shalom Homes which were amortized and refunded in total when the personal care home program was discontinued in 2015.

Other deferred revenue for the ministries division consisted of a $1,000 deposit received from an unrelated party for a right of first refusal option to acquire a certain tract of land owned by the Organization.

NOTE 5 - DEFERRED REVENUE - ADMISSION FEES/OTHER (Continued)

Admission Fees:	**2017**	**2016**
Government Division:		
Amortizable in One Year	-0-	351
Other:		
Ministries Division:		
Deposit	1,000	1,000
	1,000	**1,351**

NOTE 6 - LINE of CREDIT

The Organization has a line of credit available from Ephrata National Bank in the amount of $2,200,000. The line of credit is a component of a cash management program and funds are withdrawn automatically by the bank to cover daily cash flow requirements. The line of credit is secured by a mortgage on property located at Oregon Road, Lititz with a net book value of $636,096 at June 30, 2017. The line of credit bears interest at the Wall Street Journal prime rate (currently 4.25%) and will be adjusted daily based on a variable rate agreement. The line of credit requires the Organization to maintain a minimum debt service coverage ratio of 1.10 to 1. The Organization has maintained the debt service coverage ratio as of June 30, 2017. The outstanding notes payable on the available line of credit facilities were $433,653 and $1,376,853 at June 30, 2017 and 2016, respectively.

NOTE 7 - LONG-TERM NOTES PAYABLE

A summary of the underlying obligations included in long-term debt is included below.

	2017	**2016**
Note payable, Eastern Mennonite Missions, secured by 2165 New Holland Pike, Lancaster, 517 West Orange Street, Lititz, 453 Hostetter Drive, Millersville, 53 Redwood Circle, Ephrata, 6380 Bayberry Avenue, Manheim, 216 South Conestoga Drive, Lancaster, 348 West View Drive, Akron, 292 Robin Dale Drive, Leola, 207 Sun Hill Road, Manheim, 87 Summerlyn Drive, Ephrata, and 124 Valley View Place, Lebanon, properties with a combined net book value of $2,688,280 at June 30, 2017. The mortgage currently provides for monthly payments of $12,129, including interest at an annual rate of 3.50% through April 2019. The interest rate and corresponding monthly payment may be adjusted annually, based on the cost of funds to the lender.	260,352	394,236

NOTE 7 - LONG-TERM NOTES PAYABLE (Continued)

	2017	2016
An adjustable rate mortgage loan of $200,000 with Eastern Mennonite Missions. The mortgage bore interest at a fixed rate of 5.5% per annum through April 2009, thereafter the interest rate is adjusted annually. The mortgage currently provides for an interest rate of 3.50% and monthly payments of $1,376 through April 2026. The loan is secured by a first lien mortgage on property located at 292 Robin Dale Drive, Leola with a net book value of $202,825 at June 30, 2017.	120,555	132,618
An adjustable rate mortgage loan of $135,000 with Eastern Mennonite Missions. The mortgage bore interest at a fixed rate of 5.5% per annum through April 2009, thereafter the interest rate is adjusted annually. The mortgage currently provides for an interest rate of 3.50% and monthly payments of $929 through April 2026. The loan is secured by a first lien mortgage on property located at 6380 Bayberry Avenue, Manheim with a net book value of $169,582 at June 30, 2017.	81,151	89,304
An adjustable rate mortgage loan of $200,000 with Eastern Mennonite Missions for the acquisition, construction, and equipping of a property located at 124 Valley View Place, Lebanon. The mortgage bore interest at a fixed rate of 4.75% per annum through April 2010, thereafter the interest rate is adjusted annually. The mortgage currently provides for an interest rate of 3.50% and monthly payments of $1,348 through June 2027. The loan is secured by a first lien mortgage on property located at 124 Valley View Place, Lebanon with a net book value of $190,260 at June 30, 2017.	130,408	141,802
An adjustable rate mortgage loan of $260,000 with Eastern Mennonite Missions. The mortgage bore interest at a fixed rate of 5.25% per annum through April 2010, thereafter the interest rate is adjusted annually. The mortgage currently provides for an interest rate of 3.50% and monthly payments of $1,752 through October 2027. The loan is secured by a first lien mortgage on property located at 216 South Conestoga Drive, Lancaster with a net book value of $202,159 at June 30, 2017.	173,823	188,484

NOTE 7 - LONG-TERM NOTES PAYABLE (Continued)

	2017	2016
An adjustable rate mortgage loan of $215,000 with Eastern Mennonite Missions. The mortgage bore interest at a fixed rate of 5.25% per annum through April 2011, thereafter the interest rate is adjusted annually. The mortgage currently provides for an interest rate of 3.50% and monthly payments of $1,450 through May 2028. The loan is secured by a first lien mortgage on property located at 348 West View Drive, Akron with a net book value of $253,658 at June 30, 2017.	150,747	162,644
An adjustable rate mortgage loan of $200,000 with Eastern Mennonite Missions. The mortgage bore interest at a fixed rate of 5.25% per annum through April 2011, thereafter the interest rate is adjusted annually. The mortgage currently provides for an interest rate of 3.50% and monthly payments of $1,348 through June 2028. The loan is secured by a first lien mortgage on property located at 207 Sun Hill Road, Manheim with a net book value of $265,174 at June 30, 2017.	141,241	152,263
An adjustable rate mortgage loan of $215,000 with Eastern Mennonite Missions. The mortgage bore interest at a fixed rate of 5.25% per annum through April 2011; thereafter the interest rate is adjusted annually. The mortgage currently provides for an interest rate of 3.50% and monthly payments of $1,450 through July 2028. The loan is secured by a first lien mortgage on property located at 87 Summerlyn Drive, Ephrata with a net book value of $274,358 at June 30, 2017.	153,071	164,888
An adjustable rate 20-year mortgage loan of $200,000 with Eastern Mennonite Missions. The mortgage bore interest at a fixed rate of 5.25% per annum through April 2011, thereafter the interest rate is adjusted annually. The mortgage currently provides for an interest rate of 3.50% and monthly payments of $1,348 through July 2028. The loan is secured by a first lien mortgage on property located at 149 Miller Drive, Manheim with a net book value of $191,567 at June 30, 2017.	142,140	153,131
An adjustable rate 20-year mortgage loan of $290,000 with Eastern Mennonite Missions. The mortgage bore interest at a fixed rate of 4.75% per annum through March 2013, thereafter the interest rate is adjusted annually. The mortgage currently provides for an interest rate of 3.50% and monthly payments of $1,875 through March 2030. The loan is secured by a first lien mortgage on property located at 269 Cedar Hollow Drive, Manheim with a net book value of $314,197 at June 30, 2017.	220,476	234,983

NOTE 7 - LONG-TERM NOTES PAYABLE (Continued)

	2017	2016
An adjustable rate mortgage loan of $219,000 with Eastern Mennonite Missions. The mortgage bore interest at a fixed rate of 4.50% per annum through November 2012, thereafter the interest rate is adjusted annually. The mortgage currently provides for an interest rate of 3.50% and monthly payments of $1,252 through December 2032. The loan is secured by a first lien mortgage on property located at 1144 Sheep Hill Road, New Holland with a net book value of $117,540 at June 30, 2017.	175,351	184,071
Ephrata Borough Authority Series A of 2007 tax-exempt obligation for the refinancing of eight existing mortgages. The note is serviced through First National Bank and bore interest at a tax-exempt fixed rate of 4.87% per annum through September 2011, at which time the rate was modified. The modified interest rate is 3.11% through December 2017, at which time the interest rate will be set at 65% of LIBOR plus 200 basis points with a maximum rate of 5.75%. Repayment of the note began January 2008 with monthly payments of $7,091, including interest, through the notes scheduled maturity of July 2021. The note is collateralized by a first lien mortgage on property located at 2139 Horseshoe Road, Lancaster and 2436 Willow Glen Drive, Lancaster with a combined net book value of $293,064 at June 30, 2017.	302,858	377,255
Notes payable to various institutions, secured by vehicles with a total net book value of $45,017 at June 30, 2017. Monthly payments are to be made ranging from $166 to $536, including interest ranging from 0.00% to 4.99%. Maturity dates range from August 2016 to March 2020.	66,370	123,210
	2,118,543	**2,498,889**
Current Maturities	363,237	371,226
Long-Term Portion	1,755,306	2,127,663

Annual maturities of long-term debt are as follows:

2018	363,237
2019	329,822
2020	207,477
2021	203,067
2022	130,756
Thereafter	884,184
	2,118,543

NOTE 7 - LONG-TERM NOTES PAYABLE (Continued)

The Organization expenses all interest costs as they are incurred. Interest cost incurred was $115,528 and $240,481 for the years ended June 30, 2017 and 2016, respectively.

NOTE 8 - NET ASSETS

Temporarily Restricted Net Assets
Temporarily restricted net assets reflect contributions which have been received for specific purposes or which have been restricted for time and for which the restrictions have not yet been met. Temporarily restricted net assets consist of the following:

	2017	2016
Donor Imposed Purpose Restrictions:		
Capital Projects Fund	-0-	24,000
Community Chest Scholarships	2,675	2,675
Home Based - Stabler Grant	13,000	-0-
Meaningful Day Academy	52,952	261,506
	68,627	**288,181**

Net assets released from restrictions is comprised of the following:

	2017	2016
Chester County Start-Up Funds	-0-	8,840
Activity Fund	35	15,806
Capital Projects	45,565	11,218
heARTS	71,926	40,971
Soda Route Expansion	-0-	2,142
Meaningful Day Academy	230,268	181,404
Stabler Foundation - Home Based	9,000	-0-
Home Projects	7,700	9,653
	364,494	**270,034**

Permanently Restricted Net Assets
Permanently restricted net assets have been restricted for the endowment program. The principal is restricted in perpetuity. However, the earnings may be used by the Organization.

	2017	2016
Restricted for Endowment	91,440	91,040

NOTE 8 - NET ASSETS (Continued)

Unrestricted Net Assets
Unrestricted net assets have been designated for specific projects by the Board of Directors as identified below.

	2017	2016
Undesignated	3,147,541	2,250,705
Board Designated - Endowment	158,560	158,960
	3,306,101	**2,409,665**

NOTE 9 - ENDOWMENTS

The Organization has adopted the provisions of FASB ASC Topic 958, *Not-for-Profit Entities,* which requires enhanced disclosures for all endowment funds. The Organization has interpreted laws related to the management of endowment funds, specifically Pennsylvania Act 141, to intend for the Organization to select a principal and income or a total return investment policy in the absence of specific donor stipulations. Act 141 seeks to preserve the value of the original gift as of the gift date of the donor restricted endowment funds and provides a framework for the prudent use of endowment earnings to support the Organization's operations or specified purpose. In accordance with Act 141, the Organization elects the total return investment policy in the absence of specific donor stipulations. The return objective is to earn a rate of return that exceeds the rate of inflation. As a result of this interpretation, the Organization classifies the original value of the gift and all subsequent gifts as permanently restricted net assets. Income derived from the endowments is used to support operations and is classified as unrestricted.

The Board of Directors has approved an investment policy for the Organization's endowments that assigns responsibilities to an investment manager and establishes investment principles to achieve prudent investment strategies. The policy underlines the need for diversification, preservation of capital, and risk awareness with the goal of providing endowment growth and income in perpetuity.

The Organization's endowment assets consist of funds, the earnings of which are unrestricted for general operations. These endowment funds are composed of assets permanently restricted by donor designations. The Organization has not formally adopted a spending policy, and therefore appropriates all income earned during the year for expenditure.

During the year ended June 30, 2015, the Board of Directors made a decision to designate $250,000 of investments in total, including the endowment balance classified in permanently restricted net assets. Balances over the $250,000 threshold are classified as unrestricted, undesignated marketable securities, included in current assets on the statements of financial position.

The following summarizes the changes in endowment net assets for the years ended June 30, 2017 and 2016, and presents the endowment net assets as of June 30, 2017 and 2016:

NOTE 9 - ENDOWMENTS (Continued)

	Unrestricted-Designated	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, June 30, 2015	162,285	-0-	87,715	250,000
Contributions	-0-	-0-	3,325	3,325
Investment Return:				
Interest and Dividends, net of Fees	1,646	-0-	-0-	1,646
Realized and Unrealized Gains	(4,478)	-0-	-0-	(4,478)
Transfer of Earnings in Lieu of Deposit	(3,325)	-0-	-0-	(3,325)
Transfer to Unrestricted	2,832	-0-	-0-	2,832
Endowment Net Assets, June 30, 2016	**158,960**	**-0-**	**91,040**	**250,000**
Contributions	-0-	-0-	400	400
Investment Return:				
Interest and Dividends, net of Fees	1,361	-0-	-0-	1,361
Realized and Unrealized Gains	4,550	-0-	-0-	4,550
Transfer of Earnings in Lieu of Deposit	(400)	-0-	-0-	(400)
Transfer to Unrestricted	(5,911)	-0-	-0-	(5,911)
Endowment Net Assets, June 30, 2017	**158,560**	**-0-**	**91,440**	**250,000**

NOTE 10 - LEASES

Lease Agreements as Lessee

Effective July 1, 2005, the Organization entered into a ten-year lease agreement for a group home with St. Stephens United Church of Christ with monthly rental payments of $670. The Organization held an option to renew the lease for an additional ten years, through June 2015. The Organization renewed the lease effective July 1, 2015, for a three year term with monthly rents of $670.

On July 1, 1996, the Organization entered into a one-year lease agreement for a group home (Millersville 1) with an individual. The lease automatically renews on a month-to-month basis and may be terminated with a 60-day advance notice by either party. Monthly rental payments were $1,350 for the years ended June 30, 2017 and 2016.

On June 10, 2013, the Organization relocated its art program and entered into a five-year lease agreement, commencing on August 1, 2013, with an option to renew for up to one year. Monthly rental payments were $2,829 through August 2014 and increase by 20 cents per square foot for each year thereafter.

On November 1, 2012, the Organization entered into a five-year lease agreement for residential property (Ephrata) with an individual. The lease is noncancellable with monthly rental payments of $1,825. A discount of $25 per month is given if paid before the due date which was granted by the landlord each month during the year ended June 30, 2017.

The Organization also incurs rental charges on a month-to-month basis for various family and independent living arrangements. The current lease agreements are for a one-year term ending December 31, 2017, with automatic renewal options on a month-to-month basis.

NOTE 10 - LEASES (Continued)

Rental expense for these facilities for the years ended June 30, 2017 and 2016, was $215,407 and $184,097, respectively.

Future minimum lease payments are as follows:

2018	51,149
2019	2,987
	54,136

Lease Agreements as Lessor
The Organization provides living arrangements for its program participants. The terms of the agreements depend upon the financial strength of the individual and their participation in county or state funded services. These arrangements are typically on a month-to-month basis, are based upon the arrangements with the funding agencies, and are not considered lease arrangements. The Organization also provides living arrangements for the live-in staff. Rental income is received in several of the ICF and CLA homes. Finally, the Organization rented apartments to individuals and families within the community through April 2016, at which time the apartment facility was sold to an unrelated party.

Total rental income was $139,286 and $376,420 for the years ended June 30, 2017 and 2016, respectively.

NOTE 11 - SIGNIFICANT CONCENTRATIONS

For the years ended June 30, 2017 and 2016, the Organization received revenue from one source which exceeded 10% of total revenue. Revenue from this source, the PA Department of Human Services Medical Assistance Program, was 84% and 80% of total revenue for the years ended June 30, 2017 and 2016, respectively.

NOTE 12 - RETIREMENT

The Organization maintains a defined contribution pension plan for all full-time and maximum part-time employees who have met the eligibility requirements as set forth in the plan. Contributions are based on up to five percent of gross salary for both 2017 and 2016. Retirement expense amounted to $135,135 and $106,845 for the years ended June 30, 2017 and 2016, respectively, and is funded as incurred.

NOTE 13 - SELF-INSURED HEALTH INSURANCE PLAN

The Organization participates in a self-insured health insurance plan through Mutual Aid Sharing Plan (MASP). The MASP is a group of nonprofit organizations who have pooled their health plans in order to reduce the overall cost of health insurance and to share the risk of claims in a mutual aid sharing environment. The Organization contracts with Mennonite Mutual Aid to administer medical claims and is responsible to cover all costs incurred by its employees throughout the year. Costs in excess of $25,000 per medical event are submitted to the MASP to be shared mutually with the other MASP participants. The MASP shared pool has a maximum coverage limit of $250,000. A stop-loss excess insurance policy is in place for claims exceeding the combined $275,000.

NOTE 13 - SELF-INSURED HEALTH INSURANCE PLAN (Continued)

At the September 30 close of the plan year, all participating organizations formerly submitted claim history and the mutual shared costs of each participant were estimated which created additional expenses or refunds to a single participant, based upon the claims experience of the group. The Organization is assessed directly on actual experience and remits payments monthly.

For the years ended June 30, 2017 and 2016, the Organization estimated health insurance expense to be \$1,524,273 and \$2,042,520, respectively, and has included the cost with employee benefits. There was no anticipated overpayment for shared costs of the MASP as of June 30, 2017 and 2016. The actual results of the health benefits plan could differ significantly from the annual estimates based upon the claims experience of each participating facility.

The Organization also provides dental and vision coverage for its employees. The coverage is self-administered and is not a component of the MASP.

Insurance Reserve Fund - MASP
As a component of participation with the MASP, participating organizations are asked to invest capital to aid in funding future reserves. As of June 30, 2017 and 2016, the Organization has invested \$366,328 and \$199,120, respectively in the MASP and has reflected the investment in other assets on the accompanying statements of financial position. The investment (net of final claims) is refundable upon withdrawal from the MASP.

NOTE 14 - GOVERNMENT CONTRACTS

The Organization receives certain revenues from contracts with various governmental agencies. The disbursement of funds received under these contracts generally requires compliance with specified contract terms and conditions and contracts are subject to audit by the contracting agencies. The amount of charges to these contracts may be disallowed if any contracts, by such audits, cannot be determined to be compliant. No provision for any liability that may result for noncompliance with governmental contracts has been made in the financial statements. However, management believes the Organization is in compliance with all terms under the governmental contracts, and no liability has arisen in the past or is currently expected. Governmental revenue represents 84% and 80% of total unrestricted revenue for the years ended June 30, 2017 and 2016, respectively (Note 11).

NOTE 15 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through January 9, 2018, which represents the date the financial statements were available to be issued.

Friendship Community

SCHEDULE I - SCHEDULE of FUNCTIONAL EXPENSES

Year Ended June 30, 2017

	Program Expenses	General and Administrative	Fundraising	Public Relations	2017 Expenses Total
Personnel					
Salaries and Wages	$ 6,736,195	$ 755,844	$ 125,784	$ 18,670	$ 7,636,493
Payroll Taxes	558,011	58,787	10,834	1,557	629,189
Retirement	101,310	28,875	4,378	572	135,135
Employee Benefits	1,648,381	143,334	16,672	3,746	1,812,133
Staff Development	36,811	4,586	2,635	230	44,262
Purchased Personnel	88,407	107,189	29,800	-0-	225,396
	9,169,115	**1,098,615**	**190,103**	**24,775**	**10,482,608**
Resident Development and Services					
Programs	321,366	-0-	-0-	-0-	321,366
Medical Supplies	36,358	-0-	-0-	-0-	36,358
Food	257,756	-0-	-0-	-0-	257,756
Clothing	2,694	-0-	-0-	-0-	2,694
Household	92,548	3,296	-0-	-0-	95,844
Transportation	227,905	(13,439)	1,119	46	215,631
	938,627	**(10,143)**	**1,119**	**46**	**929,649**
Occupancy Costs					
Rent	208,231	7,176	-0-	-0-	215,407
Interest	111,259	3,885	384	-0-	115,528
Utilities	162,670	26,459	-0-	-0-	189,129
Insurance	66,713	51,211	34	-0-	117,958
Building Maintenance	154,438	55,576	768	92	210,874
Depreciation	321,042	63,041	2,420	-0-	386,503
Real Estate Taxes	29,439	-0-	-0-	-0-	29,439
	1,053,792	**207,348**	**3,606**	**92**	**1,264,838**
Other Operating Expenses					
Communication	111,743	11,481	1,781	294	125,299
Office Supplies	33,655	10,156	1,863	184	45,858
Computer Support	3,869	23,957	865	-0-	28,691
Purchased Services	604	20,231	-0-	-0-	20,835
Amortization	1,428	80	-0-	-0-	1,508
Miscellaneous	117,741	4,443	4,938	-0-	127,122
Educational	1,431	25,381	4,656	-0-	31,468
Recreational	1,542	-0-	-0-	-0-	1,542
Professional Fees	42,750	-0-	2,250	-0-	45,000
Staff Recruitment	20,744	22,016	68	-0-	42,828
Meeting Costs	8,261	3,273	16,541	-0-	28,075
Newsletters and Mailings	12,277	1,031	11,624	28,692	53,624
	356,045	**122,049**	**44,586**	**29,170**	**551,850**
Total Expenses Before Allocations	**11,517,579**	**1,417,869**	**239,414**	**54,083**	**13,228,945**
Allocated General and Administrative Expenses	**1,237,324**	**(1,310,724)**	**65,536**	**7,864**	**-0-**
Total Expenses for 2017	**$ 12,754,903**	**$ 107,145**	**$ 304,950**	**$ 61,947**	**$ 13,228,945**

See independent auditors' report.

Friendship Community

SCHEDULE I - SCHEDULE of FUNCTIONAL EXPENSES
(Continued)
Year Ended June 30, 2016

	Program Expenses	General and Administrative	Fundraising	Public Relations	2016 Expenses Total
Personnel					
Salaries and Wages	$ 6,783,413	$ 651,161	$ 109,212	$ 18,811	$ 7,562,597
Payroll Taxes	520,643	48,879	8,408	1,395	579,325
Retirement	86,745	17,143	2,435	522	106,845
Employee Benefits	2,133,186	183,975	23,744	5,654	2,346,559
Staff Development	30,560	4,023	1,313	225	36,121
Purchased Personnel	97,907	102,321	24,965	-0-	225,193
	9,652,454	**1,007,502**	**170,077**	**26,607**	**10,856,640**
Resident Development and Services					
Programs	333,264	-0-	-0-	-0-	333,264
Medical Supplies	30,818	-0-	-0-	-0-	30,818
Food	270,362	-0-	-0-	-0-	270,362
Clothing	2,964	-0-	-0-	-0-	2,964
Household	84,651	2,837	-0-	-0-	87,488
Transportation	194,162	(11,824)	871	56	183,265
	916,221	**(8,987)**	**871**	**56**	**908,161**
Occupancy Costs					
Rent	176,921	7,176	-0-	-0-	184,097
Interest	234,866	5,334	281	-0-	240,481
Utilities	168,490	21,665	-0-	-0-	190,155
Insurance	63,153	52,579	-0-	-0-	115,732
Building Maintenance	137,500	47,572	1,141	113	186,326
Depreciation	485,861	62,620	3,630	-0-	552,111
Real Estate Taxes	20,198	-0-	-0-	-0-	20,198
	1,286,989	**196,946**	**5,052**	**113**	**1,489,100**
Other Operating Expenses					
Communication	121,138	11,606	1,751	319	134,814
Office Supplies	33,140	9,688	1,743	225	44,796
Computer Support	1,904	24,557	770	-0-	27,231
Purchased Services	966	19,946	-0-	-0-	20,912
Amortization	22,430	80	-0-	-0-	22,510
Miscellaneous	123,043	1,804	5,021	-0-	129,868
Educational	1,275	16,319	4,147	-0-	21,741
Recreational	1,524	-0-	-0-	-0-	1,524
Professional Fees	43,380	-0-	1,620	-0-	45,000
Staff Recruitment	17,083	13,822	136	-0-	31,041
Meeting Costs	6,538	2,329	16,828	-0-	25,695
Newsletters and Mailings	6,364	247	11,496	36,659	54,766
	378,785	**100,398**	**43,512**	**37,203**	**559,898**
Total Expenses Before Allocations	**12,234,449**	**1,295,859**	**219,512**	**63,979**	**13,813,799**
Allocated General and Administrative Expenses	**1,192,888**	**(1,247,039)**	**45,176**	**8,975**	**-0-**
Total Expenses for 2016	**$ 13,427,337**	**$ 48,820**	**$ 264,688**	**$ 72,954**	**$ 13,813,799**

See independent auditors' report.

Friendship Community

SCHEDULE II - SCHEDULE of FINANCIAL POSITION by DIVISION

June 30, 2017

ASSETS

	Government Division	Ministries Division	Total
CURRENT ASSETS			
Cash and Cash Equivalents	$ 41,880	$ 75,947	$ 117,827
Receivables:			
Pennsylvania Department of Human Services	1,104,079	99,304	1,203,383
Pledges	-0-	23,988	23,988
Other	-0-	14,487	14,487
Interdivisional	(1,177,329)	1,177,329	-0-
Investment in Marketable Securities	-0-	20,565	20,565
Prepaid Expenses	69,388	4,080	73,468
Total Current Assets	**38,018**	**1,415,700**	**1,453,718**
ASSETS WHOSE USE is LIMITED			
Cash and Cash Equivalents:			
Temporarily Restricted for Program	-0-	55,627	55,627
Other Receivables:			
Temporarily Restricted Pledge Grant Receivable for Program	13,000	-0-	13,000
Investment in Marketable Securities:			
Permanently Restricted for Endowment	-0-	91,440	91,440
Designated for Endowment	-0-	158,560	158,560
Total Assets Whose Use is Limited	**13,000**	**305,627**	**318,627**
PROPERTY and EQUIPMENT			
Land	1,070,045	3,544	1,073,589
Land Improvements	249,623	223,328	472,951
Buildings	6,875,348	643,947	7,519,295
Furnishings and Equipment	723,881	204,100	927,981
Adaptive Equipment	23,509	-0-	23,509
Vehicles	1,146,248	52,551	1,198,799
	10,088,654	1,127,470	11,216,124
Accumulated Depreciation	(5,841,397)	(916,160)	(6,757,557)
Net Property and Equipment	**4,247,257**	**211,310**	**4,458,567**
OTHER ASSETS			
Financing Cost, net of Accumulated Amortization of $12,192 and $10,684 for 2017 and 2016	5,906	-0-	5,906
Insurance Reserve Fund - MASP	328,740	37,588	366,328
Total Other Assets	**334,646**	**37,588**	**372,234**
TOTAL ASSETS	**$ 4,632,921**	**$ 1,970,225**	**$ 6,603,146**

See independent auditors' report.

Friendship Community

SCHEDULE II - SCHEDULE of FINANCIAL POSITION by DIVISION

(Continued)

June 30, 2017

LIABILITIES and NET ASSETS

	Government Division	Ministries Division	Total
CURRENT LIABILITIES			
Current Maturities of Notes Payable	$ 314,519	$ 48,718	$ 363,237
Line of Credit	433,653	-0-	433,653
Accounts Payable	118,308	21,801	140,109
Security Deposits	9,446	(53)	9,393
Accrued Expenses	407,802	26,478	434,280
Total Current Liabilities	**1,283,728**	**96,944**	**1,380,672**
LONG-TERM LIABILITIES			
Notes Payable, net of Current Maturities	1,732,584	22,722	1,755,306
Deferred Revenue - Other	-0-	1,000	1,000
Total Long-Term Liabilities	**1,732,584**	**23,722**	**1,756,306**
TOTAL LIABILITIES	**3,016,312**	**120,666**	**3,136,978**
NET ASSETS			
Unrestricted	1,603,609	1,702,492	3,306,101
Temporarily Restricted	13,000	55,627	68,627
Permanently Restricted	-0-	91,440	91,440
TOTAL NET ASSETS	**1,616,609**	**1,849,559**	**3,466,168**
TOTAL LIABILITIES and NET ASSETS	**$ 4,632,921**	**$ 1,970,225**	**$ 6,603,146**

See independent auditors' report.

Friendship Community

SCHEDULE III - SCHEDULE of ACTIVITIES by DIVISION

Year Ended June 30, 2017

	Government Division	Ministries Division	Total
UNRESTRICTED NET ASSETS			
Revenues, Gains, and Other Support			
Governmental Support	$ 11,421,837	$ 431,294	$ 11,853,131
Resident, Admission, and Program Fees	662,714	273,297	936,011
Contributions and Grants	-0-	697,681	697,681
Special Events	-0-	32,113	32,113
Rental Income	129,421	9,865	139,286
Investment Income	-0-	18,474	18,474
Other Revenues and Gains	71,679	597	72,276
Gain on Sale of Property and Equipment	11,915	-0-	11,915
Net Assets Released from Restrictions	16,700	347,794	364,494
Total Unrestricted Revenues, Gains, and Other Support	**12,314,266**	**1,811,115**	**14,125,381**
Expenses			
Program Services	10,718,728	798,851	11,517,579
Support Services:			
General and Administrative	1,175,720	242,149	1,417,869
Fundraising	-0-	239,414	239,414
Public Relations	-0-	54,083	54,083
Total Expenses	**11,894,448**	**1,334,497**	**13,228,945**
INCREASE in UNRESTRICTED NET ASSETS	**419,818**	**476,618**	**896,436**
TEMPORARILY RESTRICTED NET ASSETS			
Contributions:			
Property and Equipment	29,700	21,565	51,265
Program	-0-	93,675	93,675
Net Assets Released from Restrictions	(16,700)	(347,794)	(364,494)
INCREASE (DECREASE) in TEMPORARILY RESTRICTED NET ASSETS	**13,000**	**(232,554)**	**(219,554)**
PERMANENTLY RESTRICTED NET ASSETS			
Endowment Fund Contributions	**-0-**	**400**	**400**
CHANGES in NET ASSETS	**432,818**	**244,464**	**677,282**
NET ASSETS			
Beginning of Year	1,257,681	1,531,205	2,788,886
Interdivisional Fund Account Transfers	(73,890)	73,890	-0-
End of Year	**$ 1,616,609**	**$ 1,849,559**	**$ 3,466,168**

See independent auditors' report.

Friendship Community

SCHEDULE IV - SCHEDULE of FUNCTIONAL EXPENSES by DIVISION
Year Ended June 30, 2017 with Comparative Totals for 2016

	Program Expenses			
	Government Division			
	ICF	CLA	Respite	Government Total
Personnel				
Salaries and Wages	$ 806,996	$ 5,280,331	$ 231,713	$ 6,319,040
Payroll Taxes	66,479	437,344	19,149	522,972
Retirement	8,729	85,445	2,315	96,489
Employee Benefits	231,220	1,316,474	50,644	1,598,338
Staff Development	4,657	29,273	1,076	35,006
Purchased Personnel	8,908	67,423	-0-	76,331
	1,126,989	**7,216,290**	**304,897**	**8,648,176**
Resident Development and Services				
Programs	280,976	40,390	-0-	321,366
Medical Supplies	13,265	17,360	528	31,153
Food	26,157	220,922	8,635	255,714
Clothing	2,694	-0-	-0-	2,694
Household	11,550	71,490	2,056	85,096
Transportation	21,551	192,821	5,939	220,311
	356,193	**542,983**	**17,158**	**916,334**
Occupancy Costs				
Rent	-0-	89,318	-0-	89,318
Interest	19,912	87,819	2,356	110,087
Utilities	22,119	132,037	5,124	159,280
Insurance	6,848	55,004	2,256	64,108
Building Maintenance	21,927	125,661	3,979	151,567
Depreciation	52,414	211,991	9,045	273,450
Real Estate Taxes	-0-	-0-	-0-	-0-
	123,220	**701,830**	**22,760**	**847,810**
Other Operating Expenses				
Communication	9,429	92,943	3,854	106,226
Office Supplies	3,684	24,127	929	28,740
Computer Support	-0-	1,163	-0-	1,163
Purchased Services	604	-0-	-0-	604
Amortization	51	1,212	165	1,428
Miscellaneous	106,876	953	20	107,849
Educational	85	273	-0-	358
Recreational	5	161	10	176
Professional Fees	5,355	33,750	1,260	40,365
Staff Recruitment	1,836	17,098	565	19,499
Meeting Costs	-0-	-0-	-0-	-0-
Newsletters and Mailings	-0-	-0-	-0-	-0-
	127,925	**171,680**	**6,803**	**306,408**
Total Expenses Before Allocations	**1,734,327**	**8,632,783**	**351,618**	**10,718,728**
Allocated General and Administrative Expenses	**155,976**	**983,044**	**36,700**	**1,175,720**
Total Expenses for 2017	**1,890,303**	**9,615,827**	**388,318**	**11,894,448**
Total Expenses for 2016	**$ 1,920,516**	**$ 9,973,081**	**$ 379,038**	**$ 12,272,635**

See independent auditors' report.

Friendship Community

SCHEDULE IV - SCHEDULE of FUNCTIONAL EXPENSES by DIVISION

(Continued)

Year Ended June 30, 2017 with Comparative Totals for 2016

Program Expenses						
			Ministries Division			
General Ministries	Soda Route	heARTS Program	Meaningful Day	Ephrata Apartments	Supported Living	Ministries Total
$ 28,768	$ -0-	$ 145,535	$ 242,852	$ -0-	$ -0-	$ 417,155
2,348	-0-	12,227	20,464	-0-	-0-	35,039
921	-0-	2,239	1,661	-0-	-0-	4,821
(26,687)	-0-	27,589	49,141	-0-	-0-	50,043
115	-0-	806	884	-0-	-0-	1,805
-0-	-0-	10,501	1,575	-0-	-0-	12,076
5,465	**-0-**	**198,897**	**316,577**	**-0-**	**-0-**	**520,939**
-0-	-0-	-0-	-0-	-0-	-0-	-0-
-0-	-0-	5	5,200	-0-	-0-	5,205
-0-	-0-	-0-	2,042	-0-	-0-	2,042
-0-	-0-	-0-	-0-	-0-	-0-	-0-
-0-	-0-	4,469	2,983	-0-	-0-	7,452
426	-0-	1,946	5,222	-0-	-0-	7,594
426	**-0-**	**6,420**	**15,447**	**-0-**	**-0-**	**22,293**
8,052	-0-	35,345	75,516	-0-	-0-	118,913
321	-0-	161	690	-0-	-0-	1,172
(28)	-0-	3,418	-0-	-0-	-0-	3,390
1,496	-0-	285	824	-0-	-0-	2,605
58	-0-	1,354	1,459	-0-	-0-	2,871
40,086	-0-	1,366	6,140	-0-	-0-	47,592
28,584	-0-	855	-0-	-0-	-0-	29,439
78,569	**-0-**	**42,784**	**84,629**	**-0-**	**-0-**	**205,982**
571	-0-	4,061	885	-0-	-0-	5,517
92	-0-	3,417	1,406	-0-	-0-	4,915
-0-	-0-	2,648	58	-0-	-0-	2,706
-0-	-0-	-0-	-0-	-0-	-0-	-0-
-0-	-0-	-0-	-0-	-0-	-0-	-0-
436	-0-	9,452	4	-0-	-0-	9,892
75	-0-	998	-0-	-0-	-0-	1,073
-0-	-0-	-0-	1,366	-0-	-0-	1,366
405	-0-	945	1,035	-0-	-0-	2,385
68	-0-	686	491	-0-	-0-	1,245
588	-0-	7,673	-0-	-0-	-0-	8,261
-0-	-0-	9,003	3,274	-0-	-0-	12,277
2,235	**-0-**	**38,883**	**8,519**	**-0-**	**-0-**	**49,637**
86,695	**-0-**	**286,984**	**425,172**	**-0-**	**-0-**	**798,851**
3,932	**-0-**	**27,525**	**30,147**	**-0-**	**-0-**	**61,604**
90,627	**-0-**	**314,509**	**455,319**	**-0-**	**-0-**	**860,455**
$ 100,186	**$ 22,362**	**$ 298,802**	**$ 366,406**	**$ 339,020**	**$ 27,926**	**$ 1,154,702**

See independent auditors' report.

Friendship Community

SCHEDULE IV - SCHEDULE of FUNCTIONAL EXPENSES by DIVISION

(Continued)

Year Ended June 30, 2017 with Comparative Totals for 2016

	Program Expenses		
	Government Division	Ministries Division	Total Program Expenses
Personnel			
Salaries and Wages	$ 6,319,040	$ 417,155	$ 6,736,195
Payroll Taxes	522,972	35,039	558,011
Retirement	96,489	4,821	101,310
Employee Benefits	1,598,338	50,043	1,648,381
Staff Development	35,006	1,805	36,811
Purchased Personnel	76,331	12,076	88,407
	8,648,176	**520,939**	**9,169,115**
Resident Development and Services			
Programs	321,366	-0-	321,366
Medical Supplies	31,153	5,205	36,358
Food	255,714	2,042	257,756
Clothing	2,694	-0-	2,694
Household	85,096	7,452	92,548
Transportation	220,311	7,594	227,905
	916,334	**22,293**	**938,627**
Occupancy Costs			
Rent	89,318	118,913	208,231
Interest	110,087	1,172	111,259
Utilities	159,280	3,390	162,670
Insurance	64,108	2,605	66,713
Building Maintenance	151,567	2,871	154,438
Depreciation	273,450	47,592	321,042
Real Estate Taxes	-0-	29,439	29,439
	847,810	**205,982**	**1,053,792**
Other Operating Expenses			
Communication	106,226	5,517	111,743
Office Supplies	28,740	4,915	33,655
Computer Support	1,163	2,706	3,869
Purchased Services	604	-0-	604
Amortization	1,428	-0-	1,428
Miscellaneous	107,849	9,892	117,741
Educational	358	1,073	1,431
Recreational	176	1,366	1,542
Professional Fees	40,365	2,385	42,750
Staff Recruitment	19,499	1,245	20,744
Meeting Costs	-0-	8,261	8,261
Newsletters and Mailings	-0-	12,277	12,277
	306,408	**49,637**	**356,045**
Total Expenses Before Allocations	**10,718,728**	**798,851**	**11,517,579**
Allocated General and Administrative Expenses	**1,175,720**	**61,604**	**1,237,324**
Total Expenses for 2017	**11,894,448**	**860,455**	**12,754,903**
Total Expenses for 2016	**$ 12,272,635**	**$ 1,154,702**	**$ 13,427,337**

See independent auditors' report.

Friendship Community

SCHEDULE IV - SCHEDULE of FUNCTIONAL EXPENSES by DIVISION

(Continued)

Year Ended June 30, 2017 with Comparative Totals for 2016

Support Services			2017	2016
General and Administrative	Fundraising	Public Relations	Functional Expenses Total	Functional Expenses Total
$ 755,844	$ 125,784	$ 18,670	$ 7,636,493	$ 7,562,597
58,787	10,834	1,557	629,189	579,325
28,875	4,378	572	135,135	106,845
143,334	16,672	3,746	1,812,133	2,346,559
4,586	2,635	230	44,262	36,121
107,189	29,800	-0-	225,396	225,193
1,098,615	**190,103**	**24,775**	**10,482,608**	**10,856,640**
-0-	-0-	-0-	321,366	333,264
-0-	-0-	-0-	36,358	30,818
-0-	-0-	-0-	257,756	270,362
-0-	-0-	-0-	2,694	2,964
3,296	-0-	-0-	95,844	87,488
(13,439)	1,119	46	215,631	183,265
(10,143)	**1,119**	**46**	**929,649**	**908,161**
7,176	-0-	-0-	215,407	184,097
3,885	384	-0-	115,528	240,481
26,459	-0-	-0-	189,129	190,155
51,211	34	-0-	117,958	115,732
55,576	768	92	210,874	186,326
63,041	2,420	-0-	386,503	552,111
-0-	-0-	-0-	29,439	20,198
207,348	**3,606**	**92**	**1,264,838**	**1,489,100**
11,481	1,781	294	125,299	134,814
10,156	1,863	184	45,858	44,796
23,957	865	-0-	28,691	27,231
20,231	-0-	-0-	20,835	20,912
80	-0-	-0-	1,508	22,510
4,443	4,938	-0-	127,122	129,868
25,381	4,656	-0-	31,468	21,741
-0-	-0-	-0-	1,542	1,524
-0-	2,250	-0-	45,000	45,000
22,016	68	-0-	42,828	31,041
3,273	16,541	-0-	28,075	25,695
1,031	11,624	28,692	53,624	54,766
122,049	**44,586**	**29,170**	**551,850**	**559,898**
1,417,869	**239,414**	**54,083**	**13,228,945**	**13,813,799**
(1,310,724)	**65,536**	**7,864**	**-0-**	**-0-**
107,145	**304,950**	**61,947**	**13,228,945**	**$ 13,813,799**
$ 48,820	**$ 264,688**	**$ 72,954**	**$ 13,813,799**	

See independent auditors' report.

Friendship Community

SCHEDULE V - SCHEDULE of REVENUES and EXPENSES for INTERMEDIATE CARE FACILITIES

Year Ended June 30, 2017

	W. Orange MA No. 100000694-0086	New Holland MA No. 100000694-0088	Total All Sites
REVENUES			
MA Reimbursements	$ 950,726	$ 826,523	$ 1,777,249
Resident Income	53,410	57,526	110,936
Other:			
Rent from Live-in-Staff	434	12,840	13,274
Food Stamps	6,761	5,286	12,047
Cost Settlement Income	35,949	48,971	84,920
Unrestricted Contributions	351	-0-	351
Total Revenues	**1,047,631**	**951,146**	**1,998,777**
EXPENSES			
Wages and Salaries	420,257	386,739	806,996
Employee Benefits	160,833	145,595	306,428
Miscellaneous Personnel Costs	178,230	119,363	297,593
Occupancy Costs	17,236	16,433	33,669
Communications	4,278	5,151	9,429
Insurance	1,463	1,962	3,425
Office Supplies	2,022	1,662	3,684
Service Supplies	6,312	7,425	13,737
Food	11,701	14,456	26,157
Clothing	1,495	1,199	2,694
Transportation	13,394	12,031	25,425
Non-Capital Interest	7,431	7,015	14,446
Miscellaneous Operating Costs	59,955	51,669	111,624
Repairs	14,094	20,043	34,137
Depreciation	18,966	20,902	39,868
Capital Interest	2,287	2,728	5,015
Apportioned Costs	85,197	70,779	155,976
Total Expenses	**1,005,151**	**885,152**	**1,890,303**
INCOME and OFFSETS	**(7,546)**	**(18,126)**	**(25,672)**
Total Allowable Costs	**$ 997,605**	**$ 867,026**	**$ 1,864,631**

See independent auditors' report

Friendship Community

SCHEDULE of EXPENDITURES of FEDERAL AWARDS

Year Ended June 30, 2017

Federal Grantor	Pass-Through Agency	Federal Program	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/ Ending Date	Grant Amount	Total Received for the Year	Expenditures	Passed Through to Subrecipients
Medicaid Cluster										
U.S. Department of Health and Human Services	Pennsylvania Department of Human Services	Medical Assistance Program	I	93.778	MA #6940088	07/01/16 - 06/30/17	N/A	$ 428,456	$ 449,763	$ -0-
U.S. Department of Health and Human Services	Pennsylvania Department of Human Services	Medical Assistance Program	I	93.778	MA #6940086	07/01/16 - 06/30/17	N/A	492,840	518,620	-0-
			Total Medicaid Cluster					**$ 921,296**	**$ 968,383**	**$ -0-**

I = Indirect funding

CFDA = Catalog of Federal Domestic Assistance

See independent auditors' report.

Friendship Community

SCHEDULE of EXPENDITURES of FEDERAL AWARDS
(Continued)
Year Ended June 30, 2017

NOTES to SCHEDULE of EXPENDITURES of FEDERAL AWARDS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is prepared on the accrual basis of accounting.

NOTE 2 - FEDERAL BLENDED PERCENTAGE

The federal awards expended that passed through the Pennsylvania Department of Human Services were determined using a federal blended percentage rate of 51.84% provided by the Pennsylvania Department of Human Services.

NOTE 3 - DE MINIMIS INDIRECT COST RATE

The Organization did not elect to use the 10% de minimis indirect cost rate.

See 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*

To the Board of Directors
Friendship Community
Lititz, Pennsylvania

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 **Friendship Community** (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon January 9, 2018.

Internal Control over Financial Reporting
In planning and performing our audits of the financial statements, we considered **Friendship Community'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 **Friendship Community's** internal control. Accordingly, we do not express an opinion on the effectiveness of **Friendship Community'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 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items #2017-001 and #2017-002, that we consider to be material weaknesses.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Friendship Community'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.*

Friendship Community's Response to Findings

Friendship Community's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. **Friendship Community's** 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 Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Trout, Ebersole & Groff, LLP

January 9, 2018
Lancaster, Pennsylvania

TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT on COMPLIANCE for each MAJOR PROGRAM and on INTERNAL CONTROL over COMPLIANCE REQUIRED by the UNIFORM GUIDANCE

To the Board of Directors
Friendship Community
Lititz, Pennsylvania

Report on Compliance for Each Major Federal Program
We have audited **Friendship Community's** compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on **Friendship Community's** major federal program for the year ended June 30, 2017. **Friendship Community's** 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 the 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 **Friendship Community's** 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; 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 **Friendship Community's** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of **Friendship Community's** compliance.

Opinion on Each Major Federal Program
In our opinion, **Friendship Community** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

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Report on Internal Control over Compliance

Management of **Friendship Community** 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 **Friendship Community's** internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its 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 **Friendship Community's** internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a 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.

Trout, Ebersole & Groff, LLP

January 9, 2018
Lancaster, Pennsylvania

TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

Friendship Community

SCHEDULE of FINDINGS and QUESTIONED COSTS

Year Ended June 30, 2017

A. Summary of Auditors' Results

1. The independent auditors' report expresses an unmodified opinion on the financial statements of **Friendship Community.**

2. Two material weakness and no significant deficiencies relating to the audit of the financial statements are reported in the 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*.

3. No instances of noncompliance material to the financial statements of **Friendship Community** were disclosed during the audit.

4. No material weakness or significant deficiencies relating to the audit of the major federal award program are reported in the Independent Auditors' Report on Compliance for each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.

5. The independent auditors' report on compliance for the major federal award program for **Friendship Community** expresses an unmodified opinion.

6. Audit findings relative to the major federal award program for **Friendship Community** are reported in part C of this schedule.

7. The program tested as a major program is: Medical Assistance Program - CFDA #93.778.

8. The threshold for distinguishing Type A and B programs was $750,000.

9. **Friendship Community** was not determined to be a low-risk auditee.

B. Findings - Financial Statements Audit

Material Weaknesses

#2017-001 - Internal Control over Financial Reporting

Criteria: An integral component of an organization's internal control over financial reporting is the ability to prepare financial statements and the related notes to the financial statements.

Statement of Condition: The Organization has designated an employee responsible to oversee Trout, Ebersole & Groff, LLP's preparation of the financial statements. The Organization has assumed responsibility for evaluating the adequacy and results of the financial statements and accepted responsibility for them. Management has chosen to outsource the preparation of the financial statements to Trout, Ebersole & Groff, LLP because they understand that they are not experienced in preparing all of the required financial statements and notes to the financial statements in conformity with accounting principles generally accepted in the United States of America.

Cause and Effect: It is not uncommon for small organizations to lack the expertise necessary to prepare the financial statements and the notes to the financial statements. The Organization has evaluated the costs and benefits of developing the expertise, and determined that it is more beneficial to engage its independent auditors to provide the service.

Identification of Repeat Finding: Yes - #2016-001

Recommendation: The Organization should annually perform a cost benefit analysis of having an individual in the finance department with the expertise to draft the financial statements of the Organization.

Friendship Community's Response to Findings: The Director of Finance is assigned to oversee the Trout, Ebersole & Groff, LLP's preparation of the financial statements. He has the background to prepare the financial statements and notes in conformity with GAAP, but does not have the time to maintain the specialized knowledge of all the latest financial statement and government reporting requirements. In addition, Friendship Community does not have the specialized software to enable the completion of complex financial schedules included in the lengthy audit report. Having Trout, Ebersole & Groff, LLP prepare the financial statements is much more time and cost efficient in light of the size of Friendship Community. Due to funding constraints, it is not likely that the Finance Department will be able to expand and enable the Director of Finance to be more active in preparing the financial statements.

#2017-002 - IT Environment

Criteria: An effective information technology system provides for appropriate separation of duties within the IT department and limiting accessibility of computer functions.

Statement of Condition: **Friendship Community's** IT functions are managed by the chief financial officer (CFO). The CFO deferred most maintenance functions to the external IT vendor, Flagstream (formerly Landis Technologies), or to an employee who can process payroll and performs most IT functions. There are no in-house programmers and the main financial application, Blackbaud, is supported by the vendor.

B. Findings - Financial Statements Audit (Continued)

Material Weaknesses (Continued)

#2017-002 - IT Environment (Continued)
These individuals can change passwords of users, if necessary. Both can set up users and assign access rights. There is no separation of duties between IT and users because these individuals, in conjunction with Flagstream, are the IT department. Because Flagstream is a domain administrator, it has the highest level of access to the Organization's servers, as well as all applications and data. We recommend more separation of duties within the IT department and limiting accessibility of computer functions.

Cause and Effect: It is not uncommon for small organizations to lack the resources to provide for an adequate separation of duties within the IT department. Typically, one or two individuals have unlimited access to computer functions. The Organization has evaluated the costs and benefits of additional staff required to allow for segregation of duties within the IT department, and determined that it is more beneficial to outsource this function to an external IT vendor.

Identification of Repeat Finding: Yes - #2016-003

Recommendation: We recommend more separation of duties within the IT department and limiting accessibility of computer functions.

Friendship Community's Response to Findings: Due to the size of the organization, the present Team Member responsible for IT along with external IT vendor fulfills the IT responsibilities. The ability to change passwords of users and to set up users and access rights shall be assigned, when possible, to another Team Member as well who has IT background knowledge to provide adequate coverage.

C. Findings and Questioned Costs - Major Federal Awards Program Audit

None

Friendship Community

SUMMARY SCHEDULE of PRIOR AUDIT FINDINGS

Year Ended June 30, 2017

#2016-001 - Internal Control over Financial Reporting

The Organization is not experienced in preparing all of the required financial statements and the notes to the financial statements for the Organization to be in conformity with accounting principles generally accepted in the United States of America.

Recommendation: The Organization should annually perform a cost benefit analysis of having an individual in the finance department with the expertise to draft the financial statements of the Organization.

Current Status: As noted in #2017-001, the Organization has designated an employee responsible to oversee Trout, Ebersole & Groff, LLP's preparation of the financial statements. The Organization would be required to hire additional internal accountants or CPA's in order to appropriately draft the financial statements in conformity with accounting principles generally accepted in the United States of America. The Organization does not currently have the resources available to increase professional staff at this time.

#2016-002 - Segregation of Duties

The Organization has a lack of adequate segregation of duties in that the Organization's director of finance has a number of duties that may be incompatible with providing good internal control.

Recommendation: Management should continually monitor finances and matters relating to the Organization's operations.

Current Status: The Organization has implemented controls and improved staff utilization and training in the current year.

#2016-003 - IT Environment

The Organization's IT functions are managed by the chief financial officer (CFO). Most maintenance functions are managed by an external IT vendor, Flagstream, or to an employee who can process payroll and performs most IT functions. There are no in-house programmers and the main financial application, Blackbaud, is supported by the vendor.

Recommendation: The Organization should maintain a greater segregation of duties within the IT department and limit accessibility of computer functions.

Current Status: As noted in #2017-002, the Organization's lack of resources to invest in additional staffing to handle specific responsibilities, such as IT, makes it difficult to maintain appropriate segregation of duties. Certain restrictions, such as access to passwords and user setup, are in place to help manage the lack of segregation of duties within the IT department.

#2016-004 - Medical Assistance Program

As part of the Organization's internal control system, a proper NPO official is required to approve invoices and purchase orders before they are authorized for payment. The Organization has proper NPO officials in place that review each invoice before it is paid. However, when some of the routine invoices are reviewed by the NPO official, there is no signature of approval by the official to signify that the invoices have been approved for payment.

#2016-004 - Medical Assistance Program (Continued)

Recommendation: When the NPO official reviews invoices, they should also sign and date the invoice to signify that it has been approved for payment.

Current Status: The Organization has added procedures to sign and date invoices to approve for payment in the current year.

#2016-005 - Medical Assistance Program

As part of the new Uniform Guidance, organizations are required to have written procedures for cash management and allowability of cost. The Organization did not have written procedures in place for cash management and allowability of cost before June 30, 2016.

Recommendation: The Organization should prepare the required procedures for cash management and allowability of costs as soon as possible.

Current Status: The Organization has adopted written procedures for cash management and allowability of cost in the current year.

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Friendship COMMUNITY

CORRECTIVE ACTION PLAN
January 9, 2018

DEPARTMENT OF HEALTH AND HUMAN SERVICES (oversight agency for this audit)

Friendship Community respectfully submits the following corrective action plan for the year ended June 30, 2017.

Name and address of independent public accounting firm:
Trout, Ebersole & Groff, LLP
1705 Oregon Pike
Lancaster, PA 17601

Audit Period: Year ended June 30, 2017

The findings from the Schedule of Findings and Questioned Costs for the year ended June 30, 2015 are discussed below. The findings are numbered consistently with the numbers assigned in the schedule:

Findings - Financial Statement Audit

#2017-001 - Internal Control over Financial Reporting (Material Weakness)

Criteria: An integral component of an organization's internal control over financial reporting is the ability to prepare financial statements and the related notes to the financial statements.

Statement of Condition: The Organization has designated an employee responsible to oversee Trout, Ebersole & Groff, LLP's preparation of the financial statements. The Organization has assumed responsibility for evaluating the adequacy and results of the financial statements and accepted responsibility for them. Management has chosen to outsource the preparation of the financial statements to Trout, Ebersole & Groff, LLP because they understand that they are not experienced in preparing all of the required financial statements and notes to the financial statements in conformity with accounting principles generally accepted in the United States of America.

Cause and Effect: It is not uncommon for small organizations to lack the expertise necessary to prepare the financial statements and the notes to the financial statements. The Organization has evaluated the costs and benefits of developing the expertise, and determined that it is more beneficial to engage its independent auditors to provide the service.

Organization Response: The Director of Finance is assigned to oversee the Trout, Ebersole & Groff, LLP's preparation of the financial statements. He has the background to prepare the financial statements and notes in conformity with GAAP, but does not have the time to maintain the specialized knowledge of all the latest financial statement and government reporting requirements. In addition, Friendship Community does not have the specialized software to enable the completion of complex financial schedules included in the lengthy audit report. Having Trout, Ebersole & Groff, LLP prepare the financial statements is much more time and cost efficient in light of the size of Friendship Community. Due to funding constraints, it is not likely that the Finance Department will be able to expand and enable the Director of Finance to be more active in preparing the financial statements.

#2017-002 - IT Environment (Material Weakness)

Criteria: An effective information technology system provides for appropriate separation of duties within the IT department and limiting accessibility of computer functions.

Statement of Condition: **Friendship Community's** IT functions are managed by the chief financial officer (CFO). The CFO deferred most maintenance functions to the external IT vendor - Flagstream (formerly Landis Technologies), or to an employee who can process payroll and performs most IT functions. There are no in-house programmers and the main financial application, Blackbaud, is supported by the vendor.

These individuals can change passwords of users, if necessary. Both can set up users and assign access rights. There is no separation of duties between IT and users because these individuals, in conjunction with Flagstream, are the IT department. Because Flagstream is a domain administrator, it has the highest level of access to the Organization's servers, as well as all applications and data. We recommend more separation of duties within the IT department and limiting accessibility of computer functions.

Cause and Effect: It is not uncommon for small organizations to lack the resources to provide for an adequate separation of duties within the IT department. Typically, one or two individuals have unlimited access to computer functions. The Organization has evaluated the costs and benefits of additional staff required to allow for segregation of duties within the IT department, and determined that it is more beneficial to outsource this function to an external IT vendor.

Organization Response: Due to the size of the organization, the present Team Member responsible for IT along with external IT vendor fulfills the IT responsibilities. The ability to change passwords of users and to set up users and access rights shall be assigned, when possible, to another Team Member who has IT background knowledge to provide adequate coverage.

Director of Finance
Charles Condran

INDEPENDENT ACCOUNTANTS' REPORT on APPLYING AGREED-UPON PROCEDURES

To the Board of Directors
Friendship Community
and the Pennsylvania Department of Human Services

We have performed the procedures enumerated below, which were agreed to by **Friendship Community** and the Pennsylvania Department of Human Services (the specified parties), on the Schedule of Census Days of **Friendship Community** for the year ended June 30, 2017. **Friendship Community's** management is responsible for the Schedule of Census Days. The sufficiency of these procedures is solely the responsibility of those parties specified in the 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.

The procedures and associated findings are as follows:

1. We will obtain the facility attendance records prepared by **Friendship Community** for the West Orange Street and New Holland Pike ICF/MR facilities for the year ended June 30, 2017, and calculate the average annual rate of occupancy which is computed by dividing the total actual days provided by the total certified bed days available during the fiscal period, as per Pennsylvania Code, Title 55, Chapter 6211, Section 6211.62. The Schedule of Census Days for the year ended June 30, 2017, reflects those calculations.

2. We will compare the average annual rate of occupancy to the required minimum average annual rate of occupancy which is defined by Pennsylvania Code, Title 55, Chapter 6211, Section 6211.61 as 98%. The West Orange Street ICF/MR facility exceeded this required minimum, as reflected in the Schedule of Census Days for the year ended June 30, 2017.

3. If the required minimum average annual rate of occupancy is not met, then we would determine if a waiver was requested or an occupancy level adjustment was made, as required by Pennsylvania Code, Title 55, Chapter 6211, Section 6211.63 and Section 6211.64. Because the New Holland Pike ICF/MR facility average annual rate of occupancy did not exceed the required minimum average annual rate, we noted that **Friendship Community** requested a "Waiver of Minimum Occupancy" from the Pennsylvania Department of Human Services.

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This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. 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 the Schedule of Census Days. 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 the Board of Directors of **Friendship Community** and the Pennsylvania Department of Human Services, and is not intended to be and should not be used by anyone other than these specified parties.

Trout, Ebersole & Groff, LLP

January 9, 2018
Lancaster, Pennsylvania

TROUT, EBERSOLE & GROFF LLP
Certified Public Accountants

Friendship Community

SCHEDULE of CENSUS DAYS

Year Ended June 30, 2017

	West Orange Street MA No. 6940086	New Holland Pike MA No. 6940088	Total All Sites
CENSUS DAYS			
MA Resident Days	2,182	2,091	4,273
MA Hospital Days	-0-	15	15
MA Therapeutic Days	8	10	18
Total MA Days	**2,190**	**2,116**	**4,306**
NON-MA RESIDENT DAYS	**-0-**	**74**	**74**
Total Census Days	**2,190**	**2,190**	**4,380**
Total Certified Bed Days Available	**2,190**	**2,190**	**4,380**
Average Annual Rate of Occupancy	**100%**	**97%**	**98%**

See independent accountants' report on applying agreed-upon procedures.