Friendship Community

Years Ended June 30, 2018 and 2017

Trout, Ebersole & Groff LLP

CPAs | BUSINESS ADVISORS

SERVICE | ANSWERS | TRUST

Friendship Community

Financial Statements with Supplementary Information

Years Ended June 30, 2018 and 2017

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TROUT, EBERSOLE & GROFF LLP
CPAs | BUSINESS ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Friendship Community
Lititz, Pennsylvania

We have audited the accompanying financial statements of **Friendship Community** (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 IV 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 21, 2019, 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 the effectiveness of **Friendship Community's** internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **Friendship Community's** internal control over financial reporting and compliance.

Trout, Ebersole + Groff, LLP

January 21, 2019
Lancaster, Pennsylvania

TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

Friendship Community

STATEMENTS of FINANCIAL POSITION

June 30, 2018 and 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 270,333	$ 117,827
Receivables:		
Pennsylvania Department of Human Services	1,803,748	1,203,383
Pledges and Grants	8,000	23,988
Other	23,449	14,487
Investment in Marketable Securities	259,073	20,565
Prepaid Expenses	75,177	73,468
Total Current Assets	**2,439,780**	**1,453,718**
ASSETS WHOSE USE is LIMITED		
Cash and Cash Equivalents:		
Temporarily Restricted for Program	2,675	55,627
Other Receivables:		
Temporarily Restricted Pledge/Grant Receivable for Program	12,000	13,000
Investment in Marketable Securities:		
Permanently Restricted for Endowment	91,565	91,440
Designated for Endowment	158,435	158,560
Total Assets Whose Use is Limited	**264,675**	**318,627**
PROPERTY and EQUIPMENT		
Land	1,073,589	1,073,589
Land Improvements	494,386	472,951
Buildings	7,619,980	7,519,295
Furnishings and Equipment	1,012,236	927,981
Adaptive Equipment	23,509	23,509
Vehicles	1,449,072	1,198,799
	11,672,772	11,216,124
Accumulated Depreciation	(7,072,754)	(6,757,557)
Net Property and Equipment	**4,600,018**	**4,458,567**
OTHER ASSETS		
Financing Cost, net of Accumulated Amortization of $13,700 and $12,192 for 2018 and 2017	4,398	5,906
Insurance Reserve Fund - MASP	569,201	366,328
Total Other Assets	**573,599**	**372,234**
TOTAL ASSETS	**$ 7,878,072**	**$ 6,603,146**

See notes to financial statements.

Friendship Community

STATEMENTS of FINANCIAL POSITION
(Continued)
June 30, 2018 and 2017

	2018	2017
LIABILITIES and NET ASSETS		
CURRENT LIABILITIES		
Current Maturities of Notes Payable	$ 358,746	$ 363,237
Line of Credit	460,030	433,653
Accounts Payable	113,221	140,109
Security Deposits	8,501	9,393
Accrued Expenses	629,086	434,280
Total Current Liabilities	**1,569,584**	**1,380,672**
LONG-TERM LIABILITIES		
Notes Payable, net of Current Maturities	1,494,608	1,755,306
Other	1,000	1,000
Total Long-Term Liabilities	**1,495,608**	**1,756,306**
TOTAL LIABILITIES	**3,065,192**	**3,136,978**
NET ASSETS		
Unrestricted	4,706,640	3,306,101
Temporarily Restricted	14,675	68,627
Permanently Restricted	91,565	91,440
TOTAL NET ASSETS	**4,812,880**	**3,466,168**
TOTAL LIABILITIES and NET ASSETS	**$ 7,878,072**	**$ 6,603,146**

See notes to financial statements.

Friendship Community

STATEMENTS of ACTIVITIES

Years Ended June 30, 2018 and 2017

	2018	2017
UNRESTRICTED NET ASSETS		
Revenues, Gains, and Other Support		
Governmental Support	$ 13,866,288	$ 11,853,131
Resident, Admission, and Program Fees	999,593	936,011
Contributions and Grants	737,377	697,681
Special Events, net of Special Event Expenses of $26,141 in 2018 and $25,226 in 2017	42,452	32,113
Rental Income	125,608	139,286
Investment Income	7,966	18,474
Other Revenues and Gains	65,851	72,276
Gain on Sale of Property and Equipment	5,500	11,915
Net Assets Released from Restrictions	199,998	364,494
Total Unrestricted Revenues, Gains, and Other Support	**16,050,633**	**14,125,381**
Functional Expenses		
Program Services	12,767,847	11,517,579
Supporting Services:		
General and Administrative	1,587,091	1,417,869
Fundraising	244,468	239,414
Public Relations	50,688	54,083
Total Functional Expenses	**14,650,094**	**13,228,945**
INCREASE in UNRESTRICTED NET ASSETS	**1,400,539**	**896,436**
TEMPORARILY RESTRICTED NET ASSETS		
Contributions:		
Property and Equipment	35,110	29,265
Program	110,936	115,675
Net Assets Released from Restrictions	(199,998)	(364,494)
DECREASE in TEMPORARILY RESTRICTED NET ASSETS	**(53,952)**	**(219,554)**
PERMANENTLY RESTRICTED NET ASSETS		
Endowment Fund Contributions	**125**	**400**
CHANGES in NET ASSETS	**1,346,712**	**677,282**
NET ASSETS		
Beginning of Year	3,466,168	2,788,886
End of Year	**$ 4,812,880**	**$ 3,466,168**

See notes to financial statements.

Friendship Community

STATEMENTS of CASH FLOWS

Years Ended June 30, 2018 and 2017

	2018	2017
CASH FLOWS from OPERATING ACTIVITIES		
Changes in Net Assets	$ 1,346,712	$ 677,282
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	385,488	386,503
Amortization	1,508	1,508
Realized and Unrealized Gains on Marketable Securities	(593)	(14,098)
Gain on Sale of Property and Equipment	(5,500)	(11,915)
Contributions Restricted for Long-Term Purposes	(146,046)	(144,940)
(Increase) Decrease in Assets:		
Receivables	(593,339)	(169,797)
Prepaid Expenses	(1,709)	(29,136)
Increase (Decrease) in Liabilities:		
Deferred Revenue	-0-	(351)
Accounts Payable	(26,888)	(8,951)
Security Deposits	(892)	(2,173)
Accrued Expenses	194,806	(176,699)
Net Cash Provided by Operating Activities	**1,153,547**	**507,233**
CASH FLOWS from INVESTING ACTIVITIES		
Proceeds from Sale of Property and Equipment, net Expenses	2,500	13,811
Purchase of Property and Equipment	(403,275)	(77,472)
Contributions Restricted for Purchase of Property and Equipment	35,110	29,265
Proceeds on Sale of Marketable Securities	9,836	119,964
Purchase of Marketable Securities	(247,751)	(24,179)
Decrease in Cash and Pledges Receivable - Limited Use	53,952	219,554
Increase in Insurance Reserve Fund - MASP	(202,873)	(167,208)
Net Cash Provided (Used) by Investing Activities	**(752,501)**	**113,735**
CASH FLOWS from FINANCING ACTIVITIES		
Proceeds from Contributions Restricted for Long-Term Purposes	110,936	115,675
Net Proceeds (Payments) on Line of Credit	26,377	(943,200)
Principal Payments on Notes Payable	(385,853)	(380,346)
Net Cash Used by Financing Activities	**$ (248,540)**	**$ (1,207,871)**

See notes to financial statements.

Friendship Community

STATEMENTS of CASH FLOWS

(Continued)

Years Ended June 30, 2018 and 2017

	2018	2017
INCREASE (DECREASE) in CASH and CASH EQUIVALENTS	**$ 152,506**	**$ (586,903)**
CASH and CASH EQUIVALENTS		
Beginning of Year	117,827	704,730
End of Year	**$ 270,333**	**$ 117,827**
SUPPLEMENTAL DISCLOSURE of CASH FLOW INFORMATION		
Cash Paid During the Year for Interest	89,519	115,528
NONCASH INVESTING and FINANCING ACTIVITIES		
Debt Incurred for Acquisition of Vehicles	120,664	-0-
Trade in Value Received on Vehicle Disposals	3,000	-0-

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.

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 $20,000 and $36,988 at June 30, 2018 and 2017, 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 doubtful accounts, fair value measurements including investments in marketable securities, and the allocation of expenses by functional classification.

Allocated Costs
Administrative and certain 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, 2018 and 2017, the Organization's uninsured funds with the Eastern Mennonite Missions' Church Investment Loan Fund were $7,871. 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.

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, 2018 and 2017, follows:

	2018	**2017**
Ephrata National Bank	34,604	25,818
Fulton Bank	211,769	120,865
Church Investment Loan Fund	7,871	7,871
Everence Federal Credit Union	13,416	13,552
Petty Cash	5,348	5,348
	273,008	173,454
Cash Whose Use is Limited	(2,675)	(55,627)
Total Cash and Cash Equivalents	**270,333**	**117,827**

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, 2018 and 2017.

Additionally, contributions are recognized when the donor makes an unconditional promise to give to the Organization. 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, 2018 and 2017, 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

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

Vehicles with a cost of $174,399 were not in service at June 30, 2018, (Note 16).

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 $385,488 and $386,503 for the years ended June 30, 2018 and 2017, respectively.

Amortization

Financing costs are being amortized over eight and fifteen years on a straight-line basis. Amortization expense was $1,508 for each of the years ended June 30, 2018 and 2017.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2018 and 2017. 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 (FASB) 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 fiscal year ending June 30, 2020. 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 year ending June 30, 2019. The Organization is currently assessing the impact the adoption of ASU 2016-14 will have on its financial statements.

In February 2016, the Financial Accounting Standards Board (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 year ending June 30, 2021. The Organization is currently assessing the impact the adoption of ASU 2016-14 will have on its financial statements.

In June 2018, the Financial Accounting Standards Board (FASB) issued ASU No. 2018-08 *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08), which assists entities in evaluating whether transactions should be accounted for as contributions or as exchange transactions. This update is effective for fiscal year ending June 30, 2020. The Organization is currently assessing the impact the adoption of ASU 2018-08 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 cost 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, 2018 and 2017, follows:

	2018	**2017**
Pennsylvania Department of Human Services:		
CLA/Waiver Program	1,257,028	796,144
ICF Program:		
ICF Program	621,655	453,230
Prior Year Cost Settlements/Other	(74,935)	(45,991)
Pledge and Grant Receivable - Unrestricted	8,000	23,988
Grant Receivable Restricted for Program	12,000	13,000
Other	23,449	14,487
	1,847,197	**1,254,858**

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:

June 30, 2018	**Market Value**	**Cost**	**Unrealized Gains**
Money Market Funds	35,228	35,228	-0-
Mutual Funds - Securities	269,433	253,471	15,962
Mutual Funds - Bonds	204,412	205,846	(1,434)
	509,073	**494,545**	**14,528**

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

June 30, 2017	Market Value	Cost	Unrealized Gains
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**

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:

	2018	2017
Interest Earnings on Other Accounts	850	161
Marketable Securities:		
Interest and Dividends	9,533	7,540
Realized Gains (Losses)	610	(1,725)
Unrealized Gains (Losses)	(17)	15,823
Administrative Fees	(3,010)	(3,325)
	7,966	**18,474**

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, 2018 and 2017.

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, 2018 and 2017:

2018	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets				
Money Market Funds	35,228	-0-	-0-	35,228
Mutual Funds:				
Fixed Income - Short Term	21,501	-0-	-0-	21,501
Fixed Income - Intermediate	182,911	-0-	-0-	182,911
Large Cap Core	50,423	-0-	-0-	50,423
Large Cap Growth	20,557	-0-	-0-	20,557
Large Cap Value	33,690	-0-	-0-	33,690
Mid Cap Growth	16,955	-0-	-0-	16,955
Small Cap Core	16,930	-0-	-0-	16,930
International Equities	69,691	-0-	-0-	69,691
Commodities	11,473	-0-	-0-	11,473
Real Estate	14,714	-0-	-0-	14,714
Tactical Assets	35,000	-0-	-0-	35,000
	509,073	**-0-**	**-0-**	**509,073**

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**

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, 2018 and 2017.

Level 3 Gains and Losses
There were no level 3 assets or liabilities as of or during the years ended June 30, 2018 and 2017.

NOTE 4 - PREPAID and ACCRUED EXPENSES

A schedule of prepaid and accrued expenses at June 30, 2018 and 2017, is presented as follows:

	2018	2017
Prepaid Expenses:		
Advertising	-0-	901
Deposits	7,382	7,382
Insurance	51,388	49,372
Computer Maintenance	13,612	13,018
Inventory	2,795	2,795
	75,177	**73,468**
Accrued Expenses:		
Wages	303,361	237,013
Accrued Professional Fees	46,120	42,620
Payroll Withholdings	70,032	58,000
Insurance	109,926	53,727
Estimated Billings to be Refunded	80,000	-0-
Other	19,647	42,920
	629,086	**434,280**

NOTE 5 - OTHER LONG-TERM LIABILITIES

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 advance was completely amortized at June 30, 2017, and $351 was recognized in resident and admission fee income during the year ended June 30, 2017.

Ministries Division
Other long-term liabilities 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 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 $639,543 at June 30, 2018. The line of credit bears interest at the Wall Street Journal prime rate (5.00% at June 30, 2018) 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 and for the year ended June 30, 2018. The outstanding notes payable on the available line of credit facilities were $460,030 and $433,653 at June 30, 2018 and 2017, respectively.

NOTE 7 - LONG-TERM NOTES PAYABLE

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

	2018	**2017**
Note payable, Eastern Mennonite Missions, secured by 453 Hostetter Drive, Millersville and 53 Redwood Circle, Ephrata, properties with a combined net book value of $185,124 at June 30, 2018. The mortgage currently provides for monthly payments of $12,129, including interest at an annual rate of 4.00% through April 2019. The interest rate and corresponding monthly payment may be adjusted annually, based on the cost of funds to the lender.	121,699	260,352
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 4.00% 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 $201,645 at June 30, 2018.	108,155	120,555
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 4.00% 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 $161,750 at June 30, 2018.	72,771	81,151

NOTE 7 - LONG-TERM NOTES PAYABLE (Continued)

	2018	2017
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 4.00% 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 $182,017 at June 30, 2018.	118,708	130,408
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 4.00% 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 $193,001 at June 30, 2018.	158,775	173,823
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 4.00% 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 $245,584 at June 30, 2018.	138,544	150,747
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 4.00% 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 $255,346 at June 30, 2018.	129,936	141,241
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 4.00% 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 $269,535 at June 30, 2018.	140,952	153,071

NOTE 7 - LONG-TERM NOTES PAYABLE (Continued)

	2018	2017
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 4.00% 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 $183,983 at June 30, 2018.	130,867	142,140
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 4.00% 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 $303,166 at June 30, 2018.	205,627	220,476
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 4.00% 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 $112,862 at June 30, 2018.	166,460	175,351
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 includes a modified interest rate. The modified interest rate is 3.11% through December 2017, at which time the interest rate was set at 65% of LIBOR plus 200 basis points with a maximum rate of 5.75%. The interest rate as of June 30, 2018 was 2.66%. 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 $269,199 at June 30, 2018.	225,393	302,858

NOTE 7 - LONG-TERM NOTES PAYABLE (Continued)

	2018	2017
Notes payable to various institutions, secured by vehicles with a total net book value of $124,028 at June 30, 2018. Monthly payments are to be made ranging from $166 to $628, including interest ranging from 0.00% to 4.99%. Maturity dates range from November 2017 to April 2023.	135,467	66,370
	1,853,354	**2,118,543**
Current Maturities	358,746	363,237
Long-Term Portion	1,494,608	1,755,306

Annual maturities of long-term debt are as follows:

2019	358,746
2020	235,656
2021	215,005
2022	154,460
2023	147,992
Thereafter	741,495
	1,853,354

The Organization expenses all interest costs as they are incurred. Interest cost incurred was $89,519 and $115,528 for the years ended June 30, 2018 and 2017, 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:

	2018	2017
Donor Imposed Purpose Restrictions:		
Community Chest Scholarships	2,675	2,675
Home Based - Stabler Grant	12,000	13,000
Meaningful Day Academy	-0-	52,952
	14,675	**68,627**

NOTE 8 - NET ASSETS (Continued)

Net assets released from restrictions is comprised of the following:

	2018	2017
Activity Fund	-0-	35
Capital Projects	21,460	45,565
heARTS	77,570	71,926
Meaningful Day Academy	63,318	230,268
Stabler Foundation - Home Based	24,000	9,000
Home Projects	13,650	7,700
	199,998	**364,494**

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.

	2018	2017
Restricted for Endowment	91,565	91,440

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

	2018	2017
Undesignated	4,548,205	3,147,541
Board Designated - Endowment	158,435	158,560
	4,706,640	**3,306,101**

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.

NOTE 9 - ENDOWMENTS (Continued)

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 designated $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, 2018 and 2017, and presents the endowment net assets as of June 30, 2018 and 2017:

	Unrestricted-Designated	Temporarily Restricted	Permanently Restricted	Total
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**
Contributions	-0-	-0-	125	125
Investment Return:				
Interest and Dividends, net of Fees	2,105	-0-	-0-	2,105
Realized and Unrealized Gains	192	-0-	-0-	192
Transfer of Earnings in Lieu of Deposit	(125)	-0-	-0-	(125)
Transfer to Unrestricted	(2,297)	-0-	-0-	(2,297)
Endowment Net Assets, June 30, 2018	**158,435**	**-0-**	**91,565**	**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. The Organization renewed the lease for a one-year term effective July 1, 2018, with monthly rental payments of $770 beginning September 1, 2018. The lease provides for a one year option to renew.

NOTE 10 - LEASES (Continued)

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, 2018 and 2017.

Effective October 1, 2016, the Organization entered into a one-year lease agreement for a group home (Old Mill) 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 $875 for the years ended June 30, 2018 and 2017.

On June 10, 2013, the Organization relocated its art program and entered into a five-year lease agreement. The Organization renewed the lease for a one-year term through June 2019. Monthly rental payments are currently $2,977.

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 and continues on a month to month basis after initial five-year term. 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, 2018.

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, 2018, with automatic renewal options on a month-to-month basis.

Rental expense for these facilities for the years ended June 30, 2018 and 2017, was $188,675 and $215,407, respectively.

Future minimum lease payments are as follows:

2019	**44,770**

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.

Total rental income was $125,608 and $139,286 for the years ended June 30, 2018 and 2017, respectively.

NOTE 11 - SIGNIFICANT CONCENTRATIONS

For the years ended June 30, 2018 and 2017, 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 86% and 84% of total revenue for the years ended June 30, 2018 and 2017, 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 2018 and 2017. Retirement expense amounted to $134,537 and $135,135 for the years ended June 30, 2018 and 2017, 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. The Organization is assessed directly based on its actual experience and remits payments monthly.

For the years ended June 30, 2018 and 2017, the Organization estimated health insurance expense to be $1,740,477 and $1,524,273, respectively, and has included the cost with employee benefits. There was no anticipated overpayment for shared costs of the MASP as of June 30, 2018 and 2017. The actual results of the health benefits plan could differ significantly from the annual estimates based upon the claims experience of each participating organization.

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, 2018 and 2017, the Organization has invested $569,201 and $366,328, 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. The Organization has recorded a provision for a liability totaling $80,000 at June 30, 2018 related to an error in billing discovered during an internally conducted audit. The Organization is in the process of rebilling for services billed in error. Governmental revenue represents 86% and 84% of total unrestricted revenue for the years ended June 30, 2018 and 2017, respectively (Note 11).

NOTE 15 - RECLASSIFICATIONS

Certain amounts in the 2017 financial statements have been reclassified to be consistent with the classifications adopted for the year ended June 30, 2018. These reclassifications have no effect on the change in net assets.

NOTE 16 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through January 21, 2019, which represents the date the financial statements were available to be issued.

On June 27, 2018, **Friendship Community** acquired and paid for eight vehicles at a total cost of $174,399. The vehicles were delivered to the Organization and placed in service during July 2018. The Organization also obtained financing for these vehicles on July 3, 2018 from Everence Federal Credit Union. The financing is secured by the vehicles mentioned above. Monthly payments are to be made ranging from $289 to $487, including interest at 1.99%. All eight notes have a maturity date of July 15, 2023. The $174,399 paid to acquire the eight vehicles is included in the total amount for vehicles under property and equipment on the statement of financial position at June 30, 2018. The notes on the vehicles are not reflected under notes payable on the statement of financial position at June 30, 2018, since proceeds were obtained subsequent to year-end. Current and long-term portions of the eight notes as well as annual maturities are summarized below.

Current Maturities	29,079
Long-Term Portion	136,671

Annual maturities of long-term debt are as follows:

2019	29,079
2020	32,454
2021	33,106
2022	33,772
2023	34,446
Thereafter	2,893
	165,750

On August 23, 2018, the Organization entered into a three year lease agreement for the rental of office space commencing September 2018 with an option to renew for an additional three year term. Future minimum rental payments for the three year lease term are as follows:

2019	30,000
2020	30,900
2021	31,820
	92,720

In addition to the monthly rental payment, the Organization is required to pay monthly taxes, insurance, and operating costs. These costs are initially assessed at $983 per month.

Friendship Community

SCHEDULE I - SCHEDULE of FUNCTIONAL EXPENSES

Year Ended June 30, 2018

	Program Expenses	General and Administrative	Fundraising	Public Relations	2018 Expenses Total
Personnel					
Salaries and Wages	$ 7,775,976	$ 865,199	$ 126,879	$ 21,026	$ 8,789,080
Payroll Taxes	596,578	65,355	9,761	1,551	673,245
Retirement	100,195	30,091	3,659	592	134,537
Employee Benefits	1,820,431	173,542	23,088	4,627	2,021,688
Staff Development	30,997	6,000	2,301	226	39,524
Purchased Personnel	123,814	109,569	27,059	-0-	260,442
	10,447,991	**1,249,756**	**192,747**	**28,022**	**11,918,516**
Resident Development and Services					
Programs	374,231	-0-	-0-	-0-	374,231
Medical Supplies	33,664	-0-	-0-	-0-	33,664
Food	254,108	-0-	-0-	-0-	254,108
Clothing	2,194	-0-	-0-	-0-	2,194
Household	90,497	2,515	-0-	-0-	93,012
Transportation	230,652	(9,059)	1,272	56	222,921
	985,346	**(6,544)**	**1,272**	**56**	**980,130**
Occupancy Costs					
Rent	181,499	7,176	-0-	-0-	188,675
Interest	86,547	2,497	475	-0-	89,519
Utilities	167,658	25,934	-0-	-0-	193,592
Insurance	70,215	56,944	71	-0-	127,230
Building Maintenance	145,011	63,121	1,890	113	210,135
Depreciation	315,695	69,318	475	-0-	385,488
Real Estate Taxes	4,269	-0-	-0-	-0-	4,269
	970,894	**224,990**	**2,911**	**113**	**1,198,908**
Other Operating Expenses					
Communication	113,684	12,281	2,394	319	128,678
Office Supplies	35,854	10,103	2,447	226	48,630
Computer Support	2,029	27,476	1,070	-0-	30,575
Purchased Services	534	20,421	-0-	-0-	20,955
Amortization	1,428	80	-0-	-0-	1,508
Miscellaneous	127,743	2,660	6,901	-0-	137,304
Educational	2,025	21,095	390	-0-	23,510
Recreational	1,155	-0-	-0-	-0-	1,155
Professional Fees	42,345	-0-	2,655	-0-	45,000
Staff Recruitment	16,708	21,458	142	-0-	38,308
Meeting Costs	12,333	2,575	16,881	-0-	31,789
Newsletters and Mailings	7,778	740	14,658	21,952	45,128
	363,616	**118,889**	**47,538**	**22,497**	**552,540**
Total Expenses Before Allocations	**12,767,847**	**1,587,091**	**244,468**	**50,688**	**14,650,094**
Allocated General and Administrative Expenses	**1,390,618**	**(1,489,198)**	**88,156**	**10,424**	**-0-**
Total Expenses for 2018	**$ 14,158,465**	**$ 97,893**	**$ 332,624**	**$ 61,112**	**$ 14,650,094**

See independent auditors' report.

Friendship Community

SCHEDULE I - SCHEDULE of FUNCTIONAL EXPENSES
(Continued)
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 II - SCHEDULE of FINANCIAL POSITION by DIVISION

June 30, 2018

ASSETS

	Government Division	Ministries Division	Total
CURRENT ASSETS			
Cash and Cash Equivalents	$ 50,684	$ 219,649	$ 270,333
Receivables:			
Pennsylvania Department of Human Services	1,645,293	158,455	1,803,748
Pledges	-0-	8,000	8,000
Other	-0-	23,449	23,449
Interdivisional	(1,116,295)	1,116,295	-0-
Investment in Marketable Securities	-0-	259,073	259,073
Prepaid Expenses	71,998	3,179	75,177
Total Current Assets	**651,680**	**1,788,100**	**2,439,780**
ASSETS WHOSE USE is LIMITED			
Cash and Cash Equivalents:			
Temporarily Restricted for Program	-0-	2,675	2,675
Other Receivables:			
Temporarily Restricted Pledge Grant Receivable for Program	12,000	-0-	12,000
Investment in Marketable Securities:			
Permanently Restricted for Endowment	-0-	91,565	91,565
Designated for Endowment	-0-	158,435	158,435
Total Assets Whose Use is Limited	**12,000**	**252,675**	**264,675**
PROPERTY and EQUIPMENT			
Land	1,070,045	3,544	1,073,589
Land Improvements	271,058	223,328	494,386
Buildings	6,976,033	643,947	7,619,980
Furnishings and Equipment	808,136	204,100	1,012,236
Adaptive Equipment	23,509	-0-	23,509
Vehicles	1,293,637	155,435	1,449,072
	10,442,418	1,230,354	11,672,772
Accumulated Depreciation	(6,095,130)	(977,624)	(7,072,754)
Net Property and Equipment	**4,347,288**	**252,730**	**4,600,018**
OTHER ASSETS			
Financing Cost, net of Accumulated Amortization of $13,700 and $12,192 for 2018 and 2017	4,398	-0-	4,398
Insurance Reserve Fund - MASP	491,649	77,552	569,201
Total Other Assets	**496,047**	**77,552**	**573,599**
TOTAL ASSETS	**$ 5,507,015**	**$ 2,371,057**	**$ 7,878,072**

See independent auditors' report.

Friendship Community

SCHEDULE II - SCHEDULE of FINANCIAL POSITION by DIVISION

(Continued)

June 30, 2018

LIABILITIES and NET ASSETS

	Government Division	Ministries Division	Total
CURRENT LIABILITIES			
Current Maturities of Notes Payable	$ 266,327	$ 92,419	$ 358,746
Line of Credit	460,030	-0-	460,030
Accounts Payable	100,611	12,610	113,221
Security Deposits	8,501	-0-	8,501
Accrued Expenses	505,475	123,611	629,086
Total Current Liabilities	**1,340,944**	**228,640**	**1,569,584**
LONG-TERM LIABILITIES			
Notes Payable, net of Current Maturities	1,452,965	41,643	1,494,608
Deferred Revenue - Other	-0-	1,000	1,000
Total Long-Term Liabilities	**1,452,965**	**42,643**	**1,495,608**
TOTAL LIABILITIES	**2,793,909**	**271,283**	**3,065,192**
NET ASSETS			
Unrestricted	2,701,106	2,005,534	4,706,640
Temporarily Restricted	12,000	2,675	14,675
Permanently Restricted	-0-	91,565	91,565
TOTAL NET ASSETS	**2,713,106**	**2,099,774**	**4,812,880**
TOTAL LIABILITIES and NET ASSETS	**$ 5,507,015**	**$ 2,371,057**	**$ 7,878,072**

See independent auditors' report.

Friendship Community

SCHEDULE III - SCHEDULE of ACTIVITIES by DIVISION

Year Ended June 30, 2018

	Government Division	Ministries Division	Total
UNRESTRICTED NET ASSETS			
Revenues, Gains, and Other Support			
Governmental Support	$ 13,211,677	$ 654,611	$ 13,866,288
Resident, Admission, and Program Fees	652,243	347,350	999,593
Contributions and Grants	-0-	737,377	737,377
Special Events	-0-	42,452	42,452
Rental Income	114,574	11,034	125,608
Investment Income	-0-	7,966	7,966
Other Revenues and Gains	62,957	2,894	65,851
Gain on Sale of Property and Equipment	5,500	-0-	5,500
Net Assets Released from Restrictions	37,650	162,348	199,998
Total Unrestricted Revenues, Gains, and Other Support	**14,084,601**	**1,966,032**	**16,050,633**
Expenses			
Program Services	11,539,390	1,228,457	12,767,847
Support Services:			
General and Administrative	1,319,136	267,955	1,587,091
Fundraising	-0-	244,468	244,468
Public Relations	-0-	50,688	50,688
Total Expenses	**12,858,526**	**1,791,568**	**14,650,094**
INCREASE in UNRESTRICTED NET ASSETS	**1,226,075**	**174,464**	**1,400,539**
TEMPORARILY RESTRICTED NET ASSETS			
Contributions:			
Property and Equipment	13,650	21,460	35,110
Program	23,000	87,936	110,936
Net Assets Released from Restrictions	(37,650)	(162,348)	(199,998)
DECREASE in TEMPORARILY RESTRICTED NET ASSETS	**(1,000)**	**(52,952)**	**(53,952)**
PERMANENTLY RESTRICTED NET ASSETS			
Endowment Fund Contributions	**-0-**	**125**	**125**
CHANGES in NET ASSETS	**1,225,075**	**121,637**	**1,346,712**
NET ASSETS			
Beginning of Year	1,616,609	1,849,559	3,466,168
Interdivisional Fund Account Transfers	(128,578)	128,578	-0-
End of Year	**$ 2,713,106**	**$ 2,099,774**	**$ 4,812,880**

See independent auditors' report.

Friendship Community

SCHEDULE IV - SCHEDULE of FUNCTIONAL EXPENSES by DIVISION

Year Ended June 30, 2018 with Comparative Totals for 2017

	Program Expenses			
	Government Division			
	ICF	CLA	Respite	Government Total
Personnel				
Salaries and Wages	$ 845,911	$ 5,881,904	$ 279,321	$ 7,007,136
Payroll Taxes	63,862	451,453	21,478	536,793
Retirement	8,050	81,168	1,425	90,643
Employee Benefits	253,426	1,435,430	55,029	1,743,885
Staff Development	4,902	23,538	870	29,310
Purchased Personnel	19,644	71,697	300	91,641
	1,195,795	**7,945,190**	**358,423**	**9,499,408**
Resident Development and Services				
Programs	329,374	44,857	-0-	374,231
Medical Supplies	8,616	20,629	476	29,721
Food	25,055	220,668	7,876	253,599
Clothing	2,194	-0-	-0-	2,194
Household	12,627	68,207	2,463	83,297
Transportation	21,596	182,170	9,087	212,853
	399,462	**536,531**	**19,902**	**955,895**
Occupancy Costs				
Rent	-0-	63,575	-0-	63,575
Interest	12,139	70,369	1,712	84,220
Utilities	23,718	135,431	4,946	164,095
Insurance	7,345	57,673	2,384	67,402
Building Maintenance	12,565	121,994	4,719	139,278
Depreciation	50,015	195,573	9,260	254,848
Real Estate Taxes	-0-	-0-	-0-	-0-
	105,782	**644,615**	**23,021**	**773,418**
Other Operating Expenses				
Communication	10,207	93,992	3,929	108,128
Office Supplies	4,674	24,687	939	30,300
Computer Support	548	956	120	1,624
Purchased Services	534	-0-	-0-	534
Amortization	51	1,212	165	1,428
Miscellaneous	113,266	87	-0-	113,353
Educational	30	325	25	380
Recreational	-0-	192	15	207
Professional Fees	6,300	32,355	1,215	39,870
Staff Recruitment	2,265	11,850	730	14,845
Meeting Costs	-0-	-0-	-0-	-0-
Newsletters and Mailings	-0-	-0-	-0-	-0-
	137,875	**165,656**	**7,138**	**310,669**
Total Expenses Before Allocations	**1,838,914**	**9,291,992**	**408,484**	**11,539,390**
Allocated General and Administrative Expenses	**208,193**	**1,070,734**	**40,209**	**1,319,136**
Total Expenses for 2018	**2,047,107**	**10,362,726**	**448,693**	**12,858,526**
Total Expenses for 2017	**$ 1,890,303**	**$ 9,615,827**	**$ 388,318**	**$ 11,894,448**

See independent auditors' report.

Friendship Community

SCHEDULE IV - SCHEDULE of FUNCTIONAL EXPENSES by DIVISION

(Continued)

Year Ended June 30. 2018 with Comparative Totals for 2017

Program Expenses			
Ministries Division			
General Ministries	heARTS Program	Meaningful Day	Ministries Total
$ 33,852	$ 224,808	$ 510,180	$ 768,840
2,577	17,593	39,615	59,785
1,097	2,073	6,382	9,552
(20,490)	30,202	66,834	76,546
129	613	945	1,687
-0-	19,530	12,643	32,173
17,165	**294,819**	**636,599**	**948,583**
-0-	-0-	-0-	-0-
-0-	117	3,826	3,943
-0-	-0-	509	509
-0-	-0-	-0-	-0-
-0-	1,999	5,201	7,200
(408)	4,755	13,452	17,799
(408)	**6,871**	**22,988**	**29,451**
8,052	35,822	74,050	117,924
240	137	1,950	2,327
-0-	3,563	-0-	3,563
1,506	369	938	2,813
64	4,532	1,137	5,733
38,956	1,503	20,388	60,847
1,753	2,516	-0-	4,269
50,571	**48,442**	**98,463**	**197,476**
417	3,578	1,561	5,556
129	3,899	1,526	5,554
-0-	186	219	405
-0-	-0-	-0-	-0-
-0-	-0-	-0-	-0-
783	13,607	-0-	14,390
50	1,595	-0-	1,645
-0-	-0-	948	948
495	765	1,215	2,475
-0-	307	1,556	1,863
615	11,718	-0-	12,333
-0-	7,778	-0-	7,778
2,489	**43,433**	**7,025**	**52,947**
69,817	**393,565**	**765,075**	**1,228,457**
5,957	**25,316**	**40,209**	**71,482**
75,774	**418,881**	**805,284**	**1,299,939**
$ 90,627	**$ 314,509**	**$ 455,319**	**$ 860,455**

See independent auditors' report.

Friendship Community

SCHEDULE IV - SCHEDULE of FUNCTIONAL EXPENSES by DIVISION
(Continued)
Year Ended June 30. 2018 with Comparative Totals for 2017

	Program Expenses		
	Government Division	Ministries Division	Total Program Expenses
Personnel			
Salaries and Wages	$ 7,007,136	$ 768,840	$ 7,775,976
Payroll Taxes	536,793	59,785	596,578
Retirement	90,643	9,552	100,195
Employee Benefits	1,743,885	76,546	1,820,431
Staff Development	29,310	1,687	30,997
Purchased Personnel	91,641	32,173	123,814
	9,499,408	**948,583**	**10,447,991**
Resident Development and Services			
Programs	374,231	-0-	374,231
Medical Supplies	29,721	3,943	33,664
Food	253,599	509	254,108
Clothing	2,194	-0-	2,194
Household	83,297	7,200	90,497
Transportation	212,853	17,799	230,652
	955,895	**29,451**	**985,346**
Occupancy Costs			
Rent	63,575	117,924	181,499
Interest	84,220	2,327	86,547
Utilities	164,095	3,563	167,658
Insurance	67,402	2,813	70,215
Building Maintenance	139,278	5,733	145,011
Depreciation	254,848	60,847	315,695
Real Estate Taxes	-0-	4,269	4,269
	773,418	**197,476**	**970,894**
Other Operating Expenses			
Communication	108,128	5,556	113,684
Office Supplies	30,300	5,554	35,854
Computer Support	1,624	405	2,029
Purchased Services	534	-0-	534
Amortization	1,428	-0-	1,428
Miscellaneous	113,353	14,390	127,743
Educational	380	1,645	2,025
Recreational	207	948	1,155
Professional Fees	39,870	2,475	42,345
Staff Recruitment	14,845	1,863	16,708
Meeting Costs	-0-	12,333	12,333
Newsletters and Mailings	-0-	7,778	7,778
	310,669	**52,947**	**363,616**
Total Expenses Before Allocations	**11,539,390**	**1,228,457**	**12,767,847**
Allocated General and Administrative Expenses	**1,319,136**	**71,482**	**1,390,618**
Total Expenses for 2018	**12,858,526**	**1,299,939**	**14,158,465**
Total Expenses for 2017	**$ 11,894,448**	**$ 860,455**	**$ 12,754,903**

See independent auditors' report.

Friendship Community

SCHEDULE IV - SCHEDULE of FUNCTIONAL EXPENSES by DIVISION

(Continued)

Year Ended June 30. 2018 with Comparative Totals for 2017

Support Services				
General and Administrative	**Fundraising**	**Public Relations**	**2018 Functional Expenses Total**	**2017 Functional Expenses Total**
$ 865,199	$ 126,879	$ 21,026	$ 8,789,080	$ 7,636,493
65,355	9,761	1,551	673,245	629,189
30,091	3,659	592	134,537	135,135
173,542	23,088	4,627	2,021,688	1,812,133
6,000	2,301	226	39,524	44,262
109,569	27,059	-0-	260,442	225,396
1,249,756	**192,747**	**28,022**	**11,918,516**	**10,482,608**
-0-	-0-	-0-	374,231	321,366
-0-	-0-	-0-	33,664	36,358
-0-	-0-	-0-	254,108	257,756
-0-	-0-	-0-	2,194	2,694
2,515	-0-	-0-	93,012	95,844
(9,059)	1,272	56	222,921	215,631
(6,544)	**1,272**	**56**	**980,130**	**929,649**
7,176	-0-	-0-	188,675	215,407
2,497	475	-0-	89,519	115,528
25,934	-0-	-0-	193,592	189,129
56,944	71	-0-	127,230	117,958
63,121	1,890	113	210,135	210,874
69,318	475	-0-	385,488	386,503
-0-	-0-	-0-	4,269	29,439
224,990	**2,911**	**113**	**1,198,908**	**1,264,838**
12,281	2,394	319	128,678	125,299
10,103	2,447	226	48,630	45,858
27,476	1,070	-0-	30,575	28,691
20,421	-0-	-0-	20,955	20,835
80	-0-	-0-	1,508	1,508
2,660	6,901	-0-	137,304	127,122
21,095	390	-0-	23,510	31,468
-0-	-0-	-0-	1,155	1,542
-0-	2,655	-0-	45,000	45,000
21,458	142	-0-	38,308	42,828
2,575	16,881	-0-	31,789	28,075
740	14,658	21,952	45,128	53,624
118,889	**47,538**	**22,497**	**552,540**	**551,850**
1,587,091	**244,468**	**50,688**	**14,650,094**	**13,228,945**
(1,489,198)	**88,156**	**10,424**	**-0-**	**-0-**
97,893	**332,624**	**61,112**	**14,650,094**	**$ 13,228,945**
$ 107,145	**$ 304,950**	**$ 61,947**	**$ 13,228,945**	

See independent auditors' report.

Friendship Community

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

Year Ended June 30, 2018

	W. Orange MA No. 100000694-0086	New Holland MA No. 100000694-0088	Total All Sites
REVENUES			
MA Reimbursements	$ 1,054,779	$ 856,673	$ 1,911,452
Resident Income	60,364	48,381	108,745
Other:			
Rent from Live-in-Staff	-0-	8,040	8,040
Food Stamps	4,945	2,349	7,294
Cost Settlement Income	-0-	410	410
Other	-0-	300	300
Total Revenues	**1,120,088**	**916,153**	**2,036,241**
EXPENSES			
Wages and Salaries	471,521	374,390	845,911
Payroll Taxes and Employee Benefits	177,582	147,756	325,338
Miscellaneous Personnel Costs	230,210	125,642	355,852
Occupancy Costs	24,251	22,826	47,077
Communications	4,766	5,441	10,207
Insurance	1,687	2,213	3,900
Office Supplies	2,489	2,185	4,674
Service Supplies	5,799	3,354	9,153
Food	12,010	12,767	24,777
Clothing	1,485	709	2,194
Transportation	12,417	13,231	25,648
Non-Capital Interest	4,048	3,824	7,872
Miscellaneous Operating Costs	63,965	56,746	120,711
Purchase-Non Depreciable Assets	1,205	2,736	3,941
Repairs	5,387	4,377	9,764
Depreciation	10,821	27,414	38,235
Capital Interest	1,745	1,915	3,660
Apportioned Costs	111,532	96,661	208,193
Total Expenses	**1,142,920**	**904,187**	**2,047,107**
INCOME and OFFSETS	**(4,945)**	**(10,689)**	**(15,634)**
Total Allowable Costs	**$ 1,137,975**	**$ 893,498**	**$ 2,031,473**

See independent auditors' report.

Friendship Community

SCHEDULE of EXPENDITURES of FEDERAL AWARDS

Year Ended June 30, 2018

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	07/01/17 - 06/30/18	N/A	$ 443,806	$ 443,806	$ -0-
U.S. Department of Health and Human Services	Pennsylvania Department of Human Services	Medical Assistance Program	I	93.778	MA #6940086	07/01/17 - 06/30/18	N/A	546,436	546,436	-0-
			Total Medicaid Cluster					**$ 990,242**	**$ 990,242**	**$ -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, 2018

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 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, 2018 and 2017, 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 21, 2019.

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 of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items #2018-001 and #2018-002, 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 21, 2019
Lancaster, Pennsylvania

TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

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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, 2018. **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 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; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements*, *Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **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, 2018.

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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 21, 2019
Lancaster, Pennsylvania

TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

Friendship Community

SCHEDULE of FINDINGS and QUESTIONED COSTS

Year Ended June 30, 2018

A. Summary of Auditors' Results

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

2. Two material weaknesses 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

#2018-001 - 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 - #2017-001

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.

#2018-002 - 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)

#2018-002 - 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 - #2017-002

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 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, 2018

#2017-001 - 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 #2018-001, 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.

#2017-002 - 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 #2018-002, 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.

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Corrective Action Plan
January 21, 2019

Friendship COMMUNITY

Friendship Community respectfully submits the following corrective action plan for the year ending June 30, 2018.

Oversight Agency for Audit: Department of Health and Human Services

Name and address of independent public accounting firm: Trout, Ebersole & Groff, LLP, 1705 Oregon Pike, Lancaster, Pennsylvania 17601-4200

Audit Period: July 1, 2017 through June 30, 2018.

The finding from the Schedule of Findings and Questioned Costs for the year ended June 30, 2018 is discussed below. The finding is numbered consistently with the number assigned in the schedule:

Findings - Financial Statements Audit

Material Weaknesses

#2018-001 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 - #2017-001

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.

Management 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.

#2018-002 - 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. 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 - #2017-003

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

Management Response: Due to the size of the organization, the present Team Member responsible for IT along with the 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.

If the Department of Health and Human Services has questions regarding this plan, please call Charles Condran at 717-656-2466.

Sincerely,

Charles Condran
Director of Finance
Friendship Community

TROUT, EBERSOLE & GROFF LLP
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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, 2018. **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, 2018, 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, 2018, 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, 2018.

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 21, 2019
Lancaster, Pennsylvania

TROUT, EBERSOLE & GROFF LLP
Certified Public Accountants

Friendship Community

SCHEDULE of CENSUS DAYS

Year Ended June 30, 2018

	West Orange Street MA No. 6940086	New Holland Pike MA No. 6940088	Total All Sites
CENSUS DAYS			
MA Resident Days	2,181	1,453	3,634
MA Hospital Days	-0-	26	26
MA Therapeutic Days	9	1	10
Total MA Days	**2,190**	**1,480**	**3,670**
NON-MA RESIDENT DAYS	**-0-**	**710**	**710**
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%**	**68%**	**84%**

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

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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 (DHS), solely to assist the DHS in reconciling the federal awards provided for the fiscal year ended June 30, 2018, as noted in the revenue audit confirmation provided by the Commonwealth of Pennsylvania, to the total expended by the organization as reported on the Schedule of Expenditures of Federal Awards (the reconciliation) of **Friendship Community** for the year ended June 30, 2018. **Friendship Community's** management is responsible for the reconciliation as required by the 2017 DHS Single Audit Supplement. 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.

Our procedures are as follows:

1. We have agreed the expenditure amounts listed on the reconciliation schedule under the "Federal Expenditures per the SEFA" column C to the audited Schedule of Expenditures of Federal Awards (SEFA).

2. We have agreed the receipt amounts listed on the reconciliation schedule under the "Federal Awards Received per the Audit Confirmation Reply from Pennsylvania" column D to the subrecipient Federal amounts that were reflected in the audit confirmation reply from the Office of Budget, Comptroller Operations.

3. We have recalculated the amounts listed under the "Difference" column E and the "% Difference" column F.

4. We have agreed the amounts listed under the "Difference" column E to the audited books and records of the **Friendship Community**.

2017 Accounts Receivable	(306,811)
Additional 2016-2017 Waiver Claims Receivable	(84,271)
2018 Accounts Receivable	500,656
ICF Accounts Receivable Settlements	(32,622)
Other	2,731
Total Difference	79,683

5. We have agreed the “Detailed Explanation of the Differences” to the audited books and records of **Friendship Community**.

Our findings are as follows:

The processes detailed in #1 through #5 above disclosed the following adjustments and/or findings:

None

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 audit or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the reconciliation required by the 2017 DHS Single Audit Supplement. 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 21, 2019
Lancaster, Pennsylvania

TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

Friendship Community

RECONCILIATION of FEDERAL AWARDS PASSED THROUGH the PENNSYLVANIA DEPARTMENT
of HUMAN SERVICES EXPENDITURES per the SEFA to REVENUE RECEIVED per the
PENNSYLVANIA AUDIT CONFIRMATION REPLY
For the Year Ended June 30, 2018

(A)	(B)	(C)	(D)	(E)	(F)	(G)
CFDA Name	**CFDA Number**	**Federal Expenditures per the SEFA**	**Federal Awards Received per the Audit Confirmation Reply from Pennsylvania**	**Difference (C - D)**	**% Difference (E/D)**	**Detailed Explanation of the Differences**
Medical Assistance Program	93.778	$ 990,242	$ 910,559	$ 79,683	0.09	$79,683 represents a timing difference due to the Pennsylvania confirmation being on the cash basis while the SEFA is prepared on the accrual basis.