

Avenues and Affiliate

Combined Financial Statements
and Supplementary Information

June 30, 2019 and 2018

Avenues and Affiliate

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Independent Auditors' Report

To the Board of Directors of
Avenues and Affiliate

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of Avenues and Affiliate (a nonprofit organization), which comprise the combined statements of financial position as of June 30, 2019 and 2018, and the related combined statements of activities and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Avenues and Affiliate as of June 30, 2019 and 2018, 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying supplementary information on pages 14 to 17 and the schedule of expenditures of federal awards on page 18, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2020, on our consideration of Avenues and Affiliate's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of Avenues and Affiliate's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Avenues and Affiliate's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Wilkes-Barre, Pennsylvania
February 4, 2020

Avenues and Affiliate

Combined Statements of Financial Position
June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Current Assets		
Cash	\$ 543,031	\$ 645,229
Accounts receivable	295,062	243,144
Grants receivable	1,211,950	1,290,857
Prepaid expenses	120,753	165,793
Deposits	2,150	-
Inventory	28,121	35,824
	<u>2,201,067</u>	<u>2,380,847</u>
Total current assets	2,201,067	2,380,847
Cash Restricted for Client Fund	6,107	6,121
Investments, Foundation	246,579	230,693
Property and Equipment, Net	<u>1,709,414</u>	<u>1,443,332</u>
Total assets	<u>\$ 4,163,167</u>	<u>\$ 4,060,993</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable, trade	\$ 284,526	\$ 414,403
Accrued payroll and payroll taxes	213,913	211,043
Current portion of long-term debt	20,194	-
Line of credit	197,000	225,000
Deposits	-	4,350
Deferred revenue	6,718	1,772
Client fund	6,107	6,121
	<u>728,458</u>	<u>862,689</u>
Total current liabilities	728,458	862,689
Long-Term Debt	<u>376,100</u>	<u>-</u>
Total liabilities	1,104,558	862,689
Net Assets		
Without donor restrictions	<u>3,058,609</u>	<u>3,198,304</u>
Total liabilities and net assets	<u>\$ 4,163,167</u>	<u>\$ 4,060,993</u>

See notes to combined financial statements

Avenues and Affiliate

Combined Statements of Activities
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Revenues		
Federal, state and county funding	\$ 6,852,647	\$ 6,531,347
Other program funding	926,922	1,117,549
Child day care	276,014	260,996
Contract revenue	183,826	207,634
Donations	64,947	128,785
Capital grant	-	104,000
United Way	94,716	96,203
Fundraising events	71,854	80,726
Other miscellaneous income	30,655	17,823
Investment income	18,544	7,613
Rental income	10,875	11,300
Annual appeal	12,325	9,720
	<u>8,543,325</u>	<u>8,573,696</u>
Expenses		
Salaries, benefits and employee expense	5,895,991	5,231,307
Northumberland contract expenses	482,743	543,646
Supplies	365,826	333,014
Bad debt expense	83,217	240,502
Vehicle expenses	257,637	220,209
Depreciation	192,885	179,680
Communications and information technology	209,772	190,374
Repairs and maintenance	209,529	186,950
Utilities	161,626	162,919
Rent	149,481	167,129
Program expenses	182,760	207,519
Insurance	127,745	90,861
Professional fees and outside services	127,110	93,661
Travel	81,235	58,281
Advertising	52,792	66,394
Outside services	-	15,447
Miscellaneous	24,616	39,107
Staff development	24,236	20,586
Registration fees and subscriptions	22,213	18,375
Fundraising events	28,594	28,482
Other expense	3,012	7,288
	<u>8,683,020</u>	<u>8,101,731</u>
Total expenses	<u>8,683,020</u>	<u>8,101,731</u>
(Decrease) increase in net assets without donor restrictions	(139,695)	471,965
Net Assets Without Donor Restrictions, Beginning	<u>3,198,304</u>	<u>2,726,339</u>
Net Assets Without Donor Restrictions, Ending	<u><u>\$ 3,058,609</u></u>	<u><u>\$ 3,198,304</u></u>

See notes to combined financial statements

Avenues and Affiliate

Combined Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows From Operating Activities		
(Decrease) increase in net assets	\$ (139,695)	\$ 471,965
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation	192,885	179,680
Changes in assets and liabilities:		
Cash restricted for client fund	14	7,335
Accounts receivable	(51,918)	(11,890)
Grants receivable	78,907	(576,501)
Prepaid expenses	45,040	(33,479)
Inventory	7,703	-
Accounts payable	(129,877)	203,226
Accrued payroll and payroll taxes	2,870	41,007
Client fund	(14)	(7,335)
Deposits	(6,500)	(2,150)
Deferred revenue	4,946	(1,402)
	<u>4,361</u>	<u>270,456</u>
Net cash provided by operating activities		
	<u>4,361</u>	<u>270,456</u>
Cash Flows From Investing Activities		
Proceeds from sale of investments	2,265	2,170
Purchases of investments	(18,151)	(7,446)
Purchases of property and equipment	(458,967)	(470,813)
	<u>(474,853)</u>	<u>(476,089)</u>
Net cash used in investing activities		
	<u>(474,853)</u>	<u>(476,089)</u>
Cash Flows From Financing Activities		
(Repayments) borrowings on line of credit	(28,000)	225,000
Proceeds from issuance of long-term debt	396,294	-
	<u>368,294</u>	<u>225,000</u>
Net cash provided by financing activities		
	<u>368,294</u>	<u>225,000</u>
Net (decrease) increase in cash	(102,198)	19,367
Cash, Beginning	<u>645,229</u>	<u>625,862</u>
Cash, Ending	<u>\$ 543,031</u>	<u>\$ 645,229</u>
Cash Paid for Interest	<u>\$ 10,973</u>	<u>\$ 901</u>

See notes to combined financial statements

Avenues and Affiliate

Notes to Combined Financial Statements
June 30, 2019 and 2018

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

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

Basis of Presentation

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

Investments, Foundation

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

Investments and Investment Risk

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

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

Receivables

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

Inventory

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

Cash Restricted for Client Fund

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

Avenues and Affiliate

Notes to Combined Financial Statements

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Property and Equipment

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

Contributions

Contributions received are recorded as support with donor restrictions or support without donor restrictions depending on the existence and/or nature of any donor restrictions. Net assets with donor restrictions are reclassified to net assets without donor restrictions upon satisfaction of the time or purpose restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, Avenues reports the support without donor restrictions. Unless specifically restricted by the donor, all contributions to the Foundation are considered to be available for use without donor restrictions. Avenues has no net assets with donor restrictions.

Income Taxes

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

Avenues accounts for uncertainty in income taxes using a recognition threshold of more likely than not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. Management determined there were no tax uncertainties that met the recognition threshold in 2019 and 2018.

Indirect Costs

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

Advertising Costs

Avenues follows the policy of charging costs of advertising to expense as incurred. Advertising costs were \$52,792 and \$66,394 for the years ended June 30, 2019 and 2018, respectively.

Related Party

Avenues has a depositor and creditor relationship with a bank that has an officer who is also a member of the Board. The relationship includes a traditional checking account, operating line of credit and construction loan.

Use of Estimates

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

Avenues and Affiliate

Notes to Combined Financial Statements
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New Accounting Standards

In 2019, Avenues adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources and the lack of consistency in the type of information provided about expenses and investment return. Avenues has adjusted the presentation of these combined financial statements accordingly. ASU No. 2016-14 has been applied retrospectively to all periods presented, except for the disclosures around liquidity and availability of resources and analysis of expenses by nature and function. These disclosures have been presented for 2019 only, as allowed by ASU No. 2016-14.

The new standard changes the following aspects of the combined financial statements:

- The unrestricted net assets class has been renamed Net Assets Without Donor Restrictions;
- The financial statements include a disclosure about liquidity and availability of resources at June 30, 2019 (Note 3).
- The functional expense disclosure for 2019 includes expenses reported both by nature and function (Note 10).

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 supersedes the revenue recognition requirements in *Topic 605, Revenue Recognition* and most industry-specific guidance. Under the requirements of ASU No. 2014-09, the core principle is that entities should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Avenues will be required to retrospectively adopt the guidance in ASU No. 2014-09 in the year ending June 30, 2020. Avenues is assessing the impact this standard will have on its combined financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU No. 2016-02 was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Under the provisions of ASU No. 2016-02, a lessee is required to recognize a right-to-use asset and lease liability, initially measured at the present value of the lease payments, in the balance sheet. In addition, lessees are required to provide qualitative and quantitative disclosures that enable users to understand more about the nature of the entity's leasing activities. Avenues will be required to retrospectively adopt the guidance in ASU No. 2016-02 its fiscal year ending June 30, 2021. Avenues is assessing the impact this standard will have on its combined financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230), Restricted Cash*. The amendments in this update require that a statement of cash flows explain the change during the period in the total cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. Avenues will be required to retrospectively adopt the guidance in ASU No. 2014-09 for its fiscal year ending June 30, 2020. Avenues is assessing the impact this standard will have on its combined financial statements.

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In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance is intended to clarify and improve account guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. Avenues will be required to adopt the guidance in ASU No. 2018-08 for its year ending June 30, 2020. Avenues is assessing the impact this standard will have on its combined financial statements.

Subsequent Events

Avenues evaluated subsequent events for recognition or disclosure through February 4, 2020, the date the combined financial statements were available to be issued.

2. Investments, Foundation and Fair Value Disclosures

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

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

The levels of the fair value hierarchy are as follows:

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

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

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

	<u>2019</u>	<u>2018</u>
	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>
Cash and cash equivalents	\$ 18,761	\$ 7,225
Mutual funds, equity	111,628	113,624
Mutual funds, fixed income	116,190	109,844
Total	<u>\$ 246,579</u>	<u>\$ 230,693</u>

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

3. Liquidity and Availability of Resources

Avenues' financial assets available for general expenditure within one year of the balance sheet date, consist of the following at June 30, 2019:

Cash and cash equivalents	\$	543,031
Accounts receivable		295,062
Grants receivable		1,211,950
Investments, Foundation		<u>246,579</u>
Total	\$	<u>2,296,622</u>

As part of the Avenues' liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, Avenues invests excess cash in short-term investments.

To assist management satisfy any unanticipated liquidity needs, Avenues has an \$1,500,000 line of credit with a bank that can be drawn upon (Note 5). The amount remaining which is available for Avenues to draw upon was \$1,303,000 at June 30, 2019.

4. Property and Equipment, Net

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

	<u>2019</u>	<u>2018</u>
Land	\$ 11,570	\$ 11,570
Buildings	1,824,114	1,824,114
Building improvements	1,436,195	779,765
Vehicles	1,371,785	1,298,739
Furniture and equipment	212,434	203,213
Construction in progress	<u>29,232</u>	<u>311,132</u>
Total	4,885,330	4,428,533
Less accumulated depreciation	<u>(3,175,916)</u>	<u>(2,985,201)</u>
Property and equipment, net	<u>\$ 1,709,414</u>	<u>\$ 1,443,332</u>

Depreciation expense totaled \$192,885 in 2019 and \$179,680 in 2018.

5. Demand Notes Payable

Avenues has an unsecured line of credit available with Mid Penn Bank in the amount of \$1,500,000. The interest rate is the Prime Rate plus 0 percent, which is 5.50 percent at June 30, 2019. The outstanding balance on the line of credit as of June 30, 2019 and 2018 was \$197,000 and \$225,000, respectively.

Avenues and Affiliate

Notes to Combined Financial Statements
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6. Long-Term Debt

Long-term debt at June 30, 2019 is as follows:

Construction loan payable	\$	396,294
Less current maturities		<u>(20,194)</u>
Total	\$	<u>376,100</u>

On June 29, 2018, Avenues was approved for a \$500,000 construction loan with Mid Penn Bank, of which \$396,294 was drawn down as of June 30, 2019. The proceeds of the construction loan were used to finance ongoing construction projects at the corporate office building. Monthly interest payments began on July 29, 2018 at a rate of 4.50 percent. Principal and interest payments will begin on July 29, 2019 at the same rate. Beginning July 29, 2023, interest will be payable based on the Prime Rate.

The construction loan is secured, as defined by the promissory note agreement, which includes a security interest in all rents and an open-end mortgage lien and security interest on all real property located in Schuylkill County, Pennsylvania.

Scheduled principal payments are as follows:

Years ending June 30:		
2020	\$	20,194
2021		21,069
2022		22,037
2023		23,049
2024		24,719
Thereafter		<u>285,226</u>
Total	\$	<u>396,294</u>

7. Contingencies and Credit Risk

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

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

8. Operating Leases

Avenues leases its facilities for the Lebanon County Eldercare, Northumberland County Adult Training Facility, Milton Adult Training Facility, Greater Hazleton Area and Valley View Program under operating leases. The leases expire at various times. The total rent paid during the years ended June 30, 2019 and 2018 was \$253,710 and \$274,217, respectively. Of these amounts, \$104,229 and \$107,588 is rent allocated to various programs that use the same buildings for June 30, 2019 and 2018, respectively.

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Notes to Combined Financial Statements
June 30, 2019 and 2018

Minimum future lease payments required under the various operating lease agreements in effect at June 30, 2019 were as follows:

Year ending June 30:	
2020	\$ 122,875
2021	101,664
2022	50,818
2023	51,538
2024	28,502
Thereafter	31,092
	<u>386,489</u>
	<u>\$ 386,489</u>

9. Tax-Deferred Annuity Plan

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

10. Expenses by Nature and Function

Avenues provides social services to families and individuals within its geographic location. Expenses related to providing these services at June 30, 2019 are as follows:

	Community Participation Support - 2380	Community Participation Support - 2390	Transportation	Older Adult Services	Child Services	Other Program	General and Administrative	Fundraising	Totals
Salaries, benefits and employee expense	\$ 2,091,132	\$ 1,743,876	\$ 450,217	\$ 544,831	\$ 273,075	\$ 145,656	\$ 647,204	\$ -	\$ 5,895,991
Northumberland contract expenses	460,377	-	22,366	-	-	-	-	-	482,743
Supplies	43,343	249,454	2,359	18,506	12,548	21,640	17,976	-	365,826
Bad debt expense	13,738	63,046	-	6,421	-	12	-	-	83,217
Vehicle expenses	61,698	17,616	175,322	-	-	-	3,001	-	257,637
Depreciation	43,633	36,589	103,210	5,444	2,293	-	1,716	-	192,885
Communications and information technology	30,642	56,216	11,215	18,561	9,525	2,625	80,988	-	209,772
Repairs and maintenance	66,701	72,088	37,128	15,449	8,774	-	9,389	-	209,529
Utilities	31,549	87,676	26,718	2,696	11,650	-	1,337	-	161,626
Rent	64,993	47,308	-	37,180	-	-	-	-	149,481
Program expenses	9,296	73,044	52,233	24,120	1,123	2,988	19,956	-	182,760
Insurance	19,873	24,842	51,404	3,028	4,001	961	23,636	-	127,745
Professional fees and outside services	14,308	33,351	10,515	3,290	3,279	2,350	60,017	-	127,110
Travel	38,911	21,455	1,083	2,146	6,571	3,460	7,609	-	81,235
Advertising	1,998	21,964	560	3,299	2,746	1,641	20,584	-	52,792
Miscellaneous	1,825	761	9,502	1,087	1,836	-	9,605	-	24,616
Staff development	6,886	4,296	980	2,781	698	550	8,045	-	24,236
Registration fees and subscriptions	865	551	-	1,974	120	-	18,703	-	22,213
Fundraising events	-	-	-	-	-	-	-	28,594	28,594
Other expense	-	3,012	-	-	-	-	-	-	3,012
Total	<u>\$ 3,001,768</u>	<u>\$ 2,557,145</u>	<u>\$ 954,812</u>	<u>\$ 690,813</u>	<u>\$ 338,239</u>	<u>\$ 181,883</u>	<u>\$ 929,766</u>	<u>\$ 28,594</u>	<u>\$ 8,683,020</u>

The financial statements report certain expense categories that are attributable to more than one service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including repairs and maintenance, utilities, insurance and depreciation, are allocated to a function based on square footage.

Avenues and Affiliate

Notes to Combined Financial Statements
June 30, 2019 and 2018

In 2018, Avenues incurred \$7,284,793 of expenses related to program services, \$788,456 related to general and administrative and \$7,732 related to fundraising.

11. Related Party

The Foundation pays \$1,375 per month to Avenues for the use of office equipment and support staff. At year-end, there is a receivable of \$21,695 at June 30, 2019 and \$64,676 at June 30, 2018 due from the Foundation for administrative costs and other costs during the year. All intercompany balances eliminate in consolidation.

Avenues and Affiliate

Combining Schedule of Financial Position
June 30, 2019

	<u>Avenues</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Combined</u>
Assets				
Current Assets				
Cash	\$ 437,231	\$ 105,800	\$ -	\$ 543,031
Accounts receivable	295,062	-	-	295,062
Accounts receivable, related party	21,695	-	(21,695)	-
Grants receivable	1,211,950	-	-	1,211,950
Prepaid expenses	120,002	751	-	120,753
Deposits	2,150	-	-	2,150
Inventory	28,121	-	-	28,121
	<u>2,116,211</u>	<u>106,551</u>	<u>(21,695)</u>	<u>2,201,067</u>
Total current assets	2,116,211	106,551	(21,695)	2,201,067
Cash Restricted for Client Fund	6,107	-	-	6,107
Investments, Foundation	-	246,579	-	246,579
Property and Equipment, Net	<u>1,709,414</u>	<u>-</u>	<u>-</u>	<u>1,709,414</u>
Total assets	<u>\$ 3,831,732</u>	<u>\$ 353,130</u>	<u>\$ (21,695)</u>	<u>\$ 4,163,167</u>
Liabilities and Net Assets				
Current Liabilities				
Accounts payable, trade	\$ 284,478	\$ 48	\$ -	\$ 284,526
Accounts payable, related party	-	21,695	(21,695)	-
Current portion of long-term debt	20,194	-	-	20,194
Deferred revenue	228	6,490	-	6,718
Client fund	6,107	-	-	6,107
Line of credit	197,000	-	-	197,000
Accrued payroll and payroll taxes	213,913	-	-	213,913
	<u>721,920</u>	<u>28,233</u>	<u>(21,695)</u>	<u>728,458</u>
Total current liabilities	721,920	28,233	(21,695)	728,458
Long-Term Debt	<u>376,100</u>	<u>-</u>	<u>-</u>	<u>376,100</u>
Total liabilities	1,098,020	28,233	(21,695)	1,104,558
Net Assets				
Without donor restrictions	<u>2,733,712</u>	<u>324,897</u>	<u>-</u>	<u>3,058,609</u>
Total liabilities and net assets	<u>\$ 3,831,732</u>	<u>\$ 353,130</u>	<u>\$ (21,695)</u>	<u>\$ 4,163,167</u>

Avenues and AffiliateCombining Schedule of Activities
Year Ended June 30, 2019

	<u>Avenues</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Combined</u>
Revenues Without Donor Restrictions				
Federal, state and county funding	\$ 6,852,647	\$ -	\$ -	\$ 6,852,647
Other program funding	926,922	-	-	926,922
Child day care	276,014	-	-	276,014
Contract revenue	183,826	-	-	183,826
Donations	122,283	40,024	(97,360)	64,947
United Way	94,716	-	-	94,716
Fundraising events	3,932	67,922	-	71,854
Other miscellaneous Income	19,210	11,445	-	30,655
Investment income	393	18,151	-	18,544
Rental income	10,875	-	-	10,875
Annual appeal	-	12,325	-	12,325
	<u>8,490,818</u>	<u>149,867</u>	<u>(97,360)</u>	<u>8,543,325</u>
Total support, revenue and gains				
Expenses				
Salaries, benefits and employee expense	5,895,991	-	-	5,895,991
Northumberland contract expenses	482,743	-	-	482,743
Supplies	347,629	18,197	-	365,826
Bad debt expense	83,217	-	-	83,217
Vehicle expenses	257,637	-	-	257,637
Depreciation	192,885	-	-	192,885
Communications and information technology	209,772	-	-	209,772
Repairs and maintenance	209,529	-	-	209,529
Utilities	161,626	-	-	161,626
Rent	149,481	-	-	149,481
Program expenses	179,964	100,156	(97,360)	182,760
Insurance	127,745	-	-	127,745
Professional fees and outside services	124,845	2,265	-	127,110
Travel	81,235	-	-	81,235
Advertising	51,416	1,376	-	52,792
Miscellaneous	24,616	-	-	24,616
Staff development	24,236	-	-	24,236
Registration fees and subscriptions	22,213	-	-	22,213
Fundraising events	865	27,729	-	28,594
Other expense	3,012	-	-	3,012
	<u>8,630,657</u>	<u>149,723</u>	<u>(97,360)</u>	<u>8,683,020</u>
Total expenses				
(Decrease) increase in net assets without donor restrictions	(139,839)	144	-	(139,695)
Net Assets Without Donor Restrictions, July 1, 2018	<u>2,873,551</u>	<u>324,753</u>	<u>-</u>	<u>3,198,304</u>
Net Assets Without Donor Restrictions, June 30, 2019	<u>\$ 2,733,712</u>	<u>\$ 324,897</u>	<u>\$ -</u>	<u>\$ 3,058,609</u>

Avenues and Affiliate

Combining Schedule of Financial Position
June 30, 2018

	<u>Avenues</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Combined</u>
Assets				
Current Assets				
Cash	\$ 485,585	\$ 159,644	\$ -	\$ 645,229
Accounts receivable	243,144	-	-	243,144
Accounts receivable, related party	64,676	-	(64,676)	-
Grants receivable	1,290,857	-	-	1,290,857
Prepaid expenses	165,193	600	-	165,793
Inventory	35,824	-	-	35,824
Total current assets	2,285,279	160,244	(64,676)	2,380,847
Cash Restricted for Client Fund	6,121	-	-	6,121
Investments, Foundation	-	230,693	-	230,693
Property and Equipment, Net	1,443,332	-	-	1,443,332
Total assets	<u>\$ 3,734,732</u>	<u>\$ 390,937</u>	<u>\$ (64,676)</u>	<u>\$ 4,060,993</u>
Liabilities and Net Assets				
Current Liabilities				
Accounts payable, trade	\$ 414,355	\$ 48	\$ -	\$ 414,403
Accounts payable, related party	-	64,676	(64,676)	-
Deposits	4,350	-	-	4,350
Deferred revenue	312	1,460	-	1,772
Client fund	6,121	-	-	6,121
Line of credit	225,000	-	-	225,000
Accrued payroll and payroll taxes	211,043	-	-	211,043
Total current liabilities	861,181	66,184	(64,676)	862,689
Net Assets				
Without donor restrictions	2,873,551	324,753	-	3,198,304
Total liabilities and net assets	<u>\$ 3,734,732</u>	<u>\$ 390,937</u>	<u>\$ (64,676)</u>	<u>\$ 4,060,993</u>

Avenues and AffiliateCombining Schedule of Activities
Year Ended June 30, 2018

	<u>Avenues</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Combined</u>
Revenues Without Donor Restrictions				
Federal, state and county funding	\$ 6,531,347	\$ -	\$ -	\$ 6,531,347
Other program funding	1,117,549	-	-	1,117,549
Child day care	260,996	-	-	260,996
Contract revenue	207,634	-	-	207,634
Donations	105,296	23,489	-	128,785
Capital grant	104,000	-	-	104,000
United Way	96,203	-	-	96,203
Fundraising events	6,767	73,959	-	80,726
Other miscellaneous income	17,818	5	-	17,823
Investment income	166	7,447	-	7,613
Rental income	11,300	-	-	11,300
Annual appeal	-	9,720	-	9,720
	<u>8,459,076</u>	<u>114,620</u>	<u>-</u>	<u>8,573,696</u>
Total support, revenue and gains				
Expenses				
Salaries, benefits and employee expenses	5,230,657	650	-	5,231,307
Northumberland contract expenses	543,646	-	-	543,646
Supplies	315,868	17,146	-	333,014
Bad debt expense	240,502	-	-	240,502
Vehicle expenses	220,209	-	-	220,209
Depreciation	179,680	-	-	179,680
Communications and information technology	190,374	-	-	190,374
Repairs and maintenance	186,950	-	-	186,950
Utilities	162,919	-	-	162,919
Rent	167,129	-	-	167,129
Program expenses	151,783	55,736	-	207,519
Insurance	90,861	-	-	90,861
Professional fees and outside services	91,335	2,326	-	93,661
Travel	58,281	-	-	58,281
Advertising	66,394	-	-	66,394
Outside services	15,447	-	-	15,447
Miscellaneous	39,147	(40)	-	39,107
Staff development	20,586	-	-	20,586
Registration fees and subscriptions	18,375	-	-	18,375
Fundraising events	2,192	26,290	-	28,482
Other expense	7,288	-	-	7,288
	<u>7,999,623</u>	<u>102,108</u>	<u>-</u>	<u>8,101,731</u>
Total expenses				
Increase in net assets without donor restrictions	459,453	12,512	-	471,965
Net Assets Without Donor Restrictions, July 1, 2017	<u>2,414,098</u>	<u>312,241</u>	<u>-</u>	<u>2,726,339</u>
Net Assets Without Donor Restrictions, June 30, 2018	<u>\$ 2,873,551</u>	<u>\$ 324,753</u>	<u>\$ -</u>	<u>\$ 3,198,304</u>

Avenues and Affiliate

Schedule of Expenditures of Federal Awards
June 30, 2019

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Grant Period Beginning / Ending Date	Federal Expenditures
U.S. Department of Health and Human Services			
Passed through Commonwealth of Pennsylvania Department of Human Services: Medical Assistance Program, Medicaid Cluster	93.778	July 1, 2018 - June 30, 2019	\$ 3,239,570
U.S. Department of Transportation			
Passed through Commonwealth of Pennsylvania Department of Transportation: Enhanced Mobility of Senior and Individuals with Disabilities	20.513	July 1, 2018 - June 30, 2019	\$ 97,360
Total expenditures of federal awards			<u>\$ 3,336,930</u>

Avenues and Affiliate

Notes to Schedule of Expenditures of Federal Awards
June 30, 2019

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Avenues and Affiliate under programs of the federal government for the fiscal year ended June 30, 2019. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule represents only a selected portion of the operations of Avenues and Affiliate, it is not intended to and does not present the financial position, activities, or cash flows of Avenues and Affiliate. Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the combined financial statements.

2. Summary of Significant Accounting Policies

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

3. Indirect Cost Rate

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

**Independent Auditors' Report on Internal Control
Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of
Financial Statements Performed in Accordance
With *Government Auditing Standards***

To the Board of Directors of
Avenues and Affiliate

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of Avenues and Affiliate (Avenues) (a nonprofit organization), which comprise the combined statements of financial position as of June 30, 2019, the related combined statements of activities and cash flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated February 4, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered Avenues' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Avenues' internal control. Accordingly, we do not express an opinion on the effectiveness of Avenues' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Avenues' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance on other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly Virchow Krause, LLP

Wilkes-Barre, Pennsylvania
February 4, 2020

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

To the Board of Directors of
Avenues and Affiliate

Report on Compliance for the Major Federal Program

We have audited Avenues and Affiliate's (collectively Avenues) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Avenues' major federal program for the year ended June 30, 2019. Avenues' major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for Avenues' major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Avenues' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on the Major Federal Program

In our opinion, Avenues complied, in all material respects, with the types of compliance requirements referred to above that could have direct and material effect on its major federal program for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of Avenues is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Avenues' internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Avenues' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Baker Tilly Virchow Krause, LLP

Wilkes-Barre, Pennsylvania
February 4, 2020

Avenues and Affiliate

Schedule of Findings and Questioned Costs
June 30, 2019

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	<u> </u> yes	<u> X </u> no
Significant deficiency(ies) identified?	<u> </u> yes	<u> X </u> none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major federal program:

Material weakness(es) identified?	<u> </u> yes	<u> X </u> no
Significant deficiency(ies) identified?	<u> </u> yes	<u> X </u> none reported

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

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

Identification of major federal program:

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

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

Auditee qualified as low-risk auditee? X yes no

Avenues and Affiliate

Schedule of Findings and Questioned Costs
June 30, 2019

Section II - Financial Statement Findings

None.

Section III - Federal Awards Findings and Questioned Costs

None.

Section IV - Schedule of Prior Year Findings and Questioned Costs

None.

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

To the Board of Directors of
Avenues and Affiliate

We have performed the procedures enumerated below, which were agreed to by Board of Directors of Avenues and the Commonwealth of Pennsylvania, Office of Developmental Programs, to the accompanying financial schedules of the Avenues and Affiliate (Avenues) for the year ended June 30, 2019, solely to assist you in evaluating Avenues' compliance with the requirements of the Pennsylvania Office of Developmental Programs. Avenues' management is responsible for compliance with the requirements of the Pennsylvania Office of Developmental Programs. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Procedures and findings are as follows:

- a) We agreed the expenditure amounts listed on the reconciliation schedule under the "Federal Expenditures per the SEFA" column to the audited Schedule of Expenditures of Federal Awards (SEFA) for the year ended June 30, 2019.
- b) We agreed the receipt amounts listed on the reconciliation schedule under the "Federal Awards Received per the audit confirmation reply from Pennsylvania" column to the sub-recipient Federal amounts that were reflected in the audit confirmation reply from the Office of Budget, Comptroller Operations.
- c) We recalculated the amounts listed under the "Difference" column and "Percent of Difference" column.
- d) We agreed the amounts listed under the "Difference" column to the audited books and records of Avenues and Affiliate.
- e) We agreed the "Detailed Explanation of the Differences" to the audited books and records of Avenues and Affiliate.
- f) The processes detailed in paragraphs (a) through (e) above, disclose no adjustments or findings.

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

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

Baker Tilly Virchow Krause, LLP

Wilkes-Barre, Pennsylvania
February 4, 2020

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Avenues and Affiliate

Reconciliation of Federal Awards Passed Through Pennsylvania Department of Human Services
Expenditures per the SEFA to Revenue Received per the Pennsylvania Audit Confirmation Reply
Year Ended June 30, 2019

CFDA Name	CFDA Number	Federal Expenditures per the SEFA	Federal Awards Received per the Audit Confirmation Reply From Pennsylvania	Difference	% Difference	Detailed Explanation of the Differences
Medical Assistance Program	93.778	\$ 3,336,930	\$ 3,311,936	\$ 24,994	0.8 %	Timing difference due to cash versus accrual records