

THE ARC FRESNO/MADERA COUNTIES

ANNUAL FINANCIAL REPORT

**FOR THE FISCAL YEARS ENDING
JUNE 30, 2015 AND 2014**

THE ARC FRESNO/MADERA COUNTIES

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HUDSON HENDERSON & COMPANY, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The Arc Fresno/Madera Counties

Report of the Financial Statements

We have audited the accompanying financial statements of The Arc Fresno/Madera Counties (the Organization), a nonprofit organization, which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization'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 Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

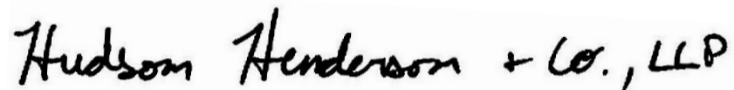
Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements for the year ended June 30, 2014, were audited by other auditors who have ceased operations, and they expressed an unmodified opinion on them in their report dated September 11, 2014, but they have not performed any auditing procedures since that date.

HUDSON HENDERSON & COMPANY, LLP

A handwritten signature in black ink that reads "Hudson Henderson + Co., LLP". The signature is written in a cursive, slightly slanted style.

Clovis, California
September 23, 2015

**THE ARC FRESNO/MADERA COUNTIES
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2015 AND 2014**

	2015	2014
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,488,517	\$ 1,806,611
Investments	955,566	1,157,838
Accounts receivable, net	1,058,530	930,549
Prepaid expenses	<u>149,768</u>	<u>224,861</u>
Total current assets	<u>3,652,381</u>	<u>4,119,859</u>
Fixed Assets		
Property and equipment, net	7,217,813	4,395,083
Construction in progress	<u>20,740</u>	<u>228,168</u>
Total fixed assets	<u>7,238,553</u>	<u>4,623,251</u>
Other Assets		
Deposits	<u>11,576</u>	<u>13,897</u>
Total Assets	<u><u>\$ 10,902,510</u></u>	<u><u>\$ 8,757,007</u></u>
LIABILITIES AND NET ASSETS		
Liabilities		
Current Liabilities		
Accounts payable and accrued expenses	\$ 89,127	\$ 93,518
Accrued payroll and related taxes	470,273	392,534
Notes payable, current portion	<u>722,571</u>	<u>87,568</u>
Total current liabilities	<u>1,281,971</u>	<u>573,620</u>
Long-Term Liabilities		
Notes payable, long-term portion	<u>1,603,006</u>	<u>467,097</u>
Total long-term liabilities	<u>1,603,006</u>	<u>467,097</u>
Total liabilities	<u>2,884,977</u>	<u>1,040,717</u>
Net Assets		
Unrestricted	<u>8,017,533</u>	<u>7,716,290</u>
Total net assets	<u>8,017,533</u>	<u>7,716,290</u>
Total Liabilities and Net Assets	<u><u>\$ 10,902,510</u></u>	<u><u>\$ 8,757,007</u></u>

The accompanying notes are an integral part of the financial statements.

**THE ARC FRESNO/MADERA COUNTIES
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

	2015	2014
SUPPORT AND REVENUES		
Support for client services	\$ 7,986,255	\$ 8,062,933
Contributions and grants	1,188,491	1,194,534
Sales and contract services	466,543	891,384
Donations	62,130	875,303
Investment income/(loss)	16,998	141,637
Gain/(loss) on disposal of assets	1,320	16,356
Other income	10,762	32,746
	<hr/>	<hr/>
Total Support and Revenues	9,732,499	11,214,893
EXPENSES		
PROGRAM SERVICES		
Fresno production center	482,249	473,307
Secure document destruction	360,327	398,228
Enrichment center	1,131,471	1,157,174
Kerman training center - DTAC	159,431	143,832
Kerman training center - ADP	142,165	106,820
Reedley training center - DTAC	170,170	180,695
Reedley training center - ADP	886,718	789,513
Blythe training center	1,027,093	916,048
Independent living services	272,954	218,848
Community integration program	804,492	788,903
Employment plus	1,151,018	1,074,007
Discovery house	196,436	216,991
Heartland training center- ADP	223,782	209,997
Heartland training center- DTAC	263,215	309,049
Heartland training center- Mobile	62,380	78,324
Madera production center - EP	442,741	596,795
Madera production center - WAP	328,669	359,677
Oakhurst recycling	8,563	42,136
SUPPORTING SERVICES		
General and administrative	1,317,382	1,142,980
	<hr/>	<hr/>
Total Expenses	9,431,256	9,203,324
Change in Net Assets	301,243	2,011,569
Net Assets-Unrestricted at Beginning of Year	<hr/>	<hr/>
	7,716,290	5,704,721
Net Assets-Unrestricted at End of Year	<hr/> <hr/>	<hr/> <hr/>
	\$ 8,017,533	\$ 7,716,290

The accompanying notes are an integral part of the financial statements.

**THE ARC FRESNO/MADERA COUNTIES
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

	PROGRAM SERVICES			
	Fresno Production Center	Secure Document Destruction	Enrichment Center	Kerman Training Center - DTAC
Client wages	\$ 92,664	\$ 50,188	\$ 1,239	\$ 7,302
Client health & welfare	21,815	28,559	276	1,776
Salaries & wages	178,754	118,106	683,519	81,168
Employee costs	75,243	37,283	160,119	15,058
Facility costs	53,375	32,761	182,167	34,473
Equipment & furniture costs	12,066	10,372	32,902	7,283
Vehicle costs	6,834	39,706	18,687	3,363
Shop costs	7,257	21,467	-	320
Administrative & office costs	19,545	11,579	13,662	4,552
Program expenses	<u>14,696</u>	<u>10,306</u>	<u>38,900</u>	<u>4,136</u>
Total Expenses Year Ended June 30, 2015	<u>\$ 482,249</u>	<u>\$ 360,327</u>	<u>\$ 1,131,471</u>	<u>\$ 159,431</u>
Total Expenses Year Ended June 30, 2014	<u>\$ 473,307</u>	<u>\$ 398,228</u>	<u>\$ 1,157,174</u>	<u>\$ 143,832</u>

The accompanying notes are an integral part of the financial statements.

**THE ARC FRESNO/MADERA COUNTIES
STATEMENTS OF FUNCTIONAL EXPENSES (continued)
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

	PROGRAM SERVICES			
	Kerman Training Center - ADP	Reedley Training Center - DTAC	Reedley Training Center - ADP	Blythe Training Center
Client wages	\$ 205	\$ 23,363	\$ 18,753	\$ 479
Client health & welfare	51	5,387	4,473	115
Salaries & wages	92,772	79,117	540,841	615,046
Employee costs	24,579	12,267	116,108	152,358
Facility costs	17,698	28,104	32,582	73,038
Equipment & furniture costs	2,106	2,568	8,990	6,061
Vehicle costs	594	10,657	132,397	160,332
Shop costs	6	17	-	-
Administrative & office costs	2,356	3,119	6,296	4,775
Program expenses	<u>1,798</u>	<u>5,571</u>	<u>26,278</u>	<u>14,889</u>
Total Expenses Year Ended June 30, 2015	<u>\$ 142,165</u>	<u>\$ 170,170</u>	<u>\$ 886,718</u>	<u>\$ 1,027,093</u>
Total Expenses Year Ended June 30, 2014	<u>\$ 106,820</u>	<u>\$ 180,695</u>	<u>\$ 789,513</u>	<u>\$ 916,048</u>

The accompanying notes are an integral part of the financial statements.

**THE ARC FRESNO/MADERA COUNTIES
STATEMENTS OF FUNCTIONAL EXPENSES (continued)
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

	PROGRAM SERVICES			
	Independent Living Services	Community Integration Program	Employment Plus	Discovery House
Client wages	\$ 621	\$ 3,256	\$ 325,463	\$ -
Client health & welfare	57	801	77,591	-
Salaries & wages	170,846	486,932	369,426	135,066
Employee costs	44,174	140,395	141,733	31,522
Facility costs	8,414	44,200	28,720	2,616
Equipment & furniture costs	4,038	11,321	7,711	5,268
Vehicle costs	37,901	103,017	115,997	3,682
Shop costs	-	-	35,022	-
Administrative & office costs	4,145	3,616	5,841	13,893
Program expenses	<u>2,758</u>	<u>10,954</u>	<u>43,514</u>	<u>4,389</u>
Total Expenses Year Ended June 30, 2015	<u>\$ 272,954</u>	<u>\$ 804,492</u>	<u>\$ 1,151,018</u>	<u>\$ 196,436</u>
Total Expenses Year Ended June 30, 2014	<u>\$ 218,848</u>	<u>\$ 788,903</u>	<u>\$ 1,074,007</u>	<u>\$ 216,991</u>

The accompanying notes are an integral part of the financial statements.

**THE ARC FRESNO/MADERA COUNTIES
STATEMENTS OF FUNCTIONAL EXPENSES (continued)
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

	PROGRAM SERVICES			
	Heartland Training Center - ADP	Heartland Training Center - DTAC	Heartland Training Center - Mobile	Madera Production Center - EP
Client wages	\$ -	\$ 4,832	\$ 10,624	\$ 50,044
Client health & welfare	11	1,171	2,553	11,836
Salaries & wages	139,779	139,937	26,411	94,632
Employee costs	43,990	44,680	12,374	24,146
Facility costs	24,747	40,184	5,536	13,802
Equipment & furniture costs	2,852	5,749	558	1,275
Vehicle costs	2,714	14,207	3,364	8,684
Shop costs	-	-	-	2,098
Administrative & office costs	6,918	7,668	593	5,934
Program expenses	<u>2,771</u>	<u>4,787</u>	<u>367</u>	<u>230,290</u>
Total Expenses Year Ended June 30, 2015	<u>\$ 223,782</u>	<u>\$ 263,215</u>	<u>\$ 62,380</u>	<u>\$ 442,741</u>
Total Expenses Year Ended June 30, 2014	<u>\$ 209,997</u>	<u>\$ 309,049</u>	<u>\$ 78,324</u>	<u>\$ 596,795</u>

The accompanying notes are an integral part of the financial statements.

**THE ARC FRESNO/MADERA COUNTIES
STATEMENTS OF FUNCTIONAL EXPENSES (continued)
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

	<u>PROGRAM SERVICES</u>		<u>SUPPORTING SERVICES</u>	TOTAL	
	Madera Production Center - WAP	Oakhurst Recycling	General and Administrative	2015	2014
Client wages	\$ 66,009	\$ -	\$ -	\$ 655,042	\$ 664,149
Client health & welfare	16,305	-	-	172,777	161,735
Salaries & wages	105,052	-	608,367	4,665,771	4,405,100
Employee costs	47,106	-	188,052	1,311,187	1,238,235
Facility costs	55,784	7,074	114,982	800,257	725,124
Equipment & furniture costs	13,056	-	103,954	238,130	203,445
Vehicle costs	475	-	16,762	679,373	725,551
Shop costs	2,519	-	-	68,706	80,054
Administrative & office costs	6,991	1,489	253,967	376,939	353,793
Program expenses	<u>15,372</u>	<u>-</u>	<u>31,298</u>	<u>463,074</u>	<u>646,138</u>
Total Expenses Year Ended June 30, 2015	<u>\$ 328,669</u>	<u>\$ 8,563</u>	<u>\$ 1,317,382</u>	<u>\$ 9,431,256</u>	
Total Expenses Year Ended June 30, 2014	<u>\$ 359,677</u>	<u>\$ 42,136</u>	<u>\$ 1,142,980</u>		<u>\$ 9,203,324</u>

The accompanying notes are an integral part of the financial statements.

**THE ARC FRESNO/MADERA COUNTIES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

	2015	2014
Cash Flows from Operating Activities		
Change in net assets	\$ 301,243	\$ 2,011,569
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation	316,466	300,249
Changes in operating assets and liabilities:		
Accounts receivable	(127,981)	(253,815)
Prepaid expenses	75,093	(85,135)
Deposits	2,321	6,788
Accounts payable and accrued expenses	(4,391)	18,707
Accrued payroll and related taxes	77,739	100,440
	<u>640,490</u>	<u>2,098,803</u>
Cash Flows from Investing Activities		
Purchases of investments	-	(38,078)
Redemptions of investments	202,272	-
Proceeds from sale of fixed assets	5,473	-
Acquisition of property and equipment	(2,937,241)	(1,971,857)
	<u>(2,729,496)</u>	<u>(2,009,935)</u>
Cash Flows from Financing Activities		
Proceeds from notes payable	1,875,000	-
Payments on notes payable	(104,088)	(81,891)
	<u>1,770,912</u>	<u>(81,891)</u>
Net cash provided (used) by financing activities		
	<u>1,770,912</u>	<u>(81,891)</u>
Net change in cash and cash equivalents	(318,094)	6,977
Cash and Cash Equivalents, Beginning of Year	<u>1,806,611</u>	<u>1,799,634</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,488,517</u>	<u>\$ 1,806,611</u>
Supplemental Cash Flows Disclosures		
Cash payments during the year for:		
Interest	<u>\$ 59,968</u>	<u>\$ 42,335</u>

The accompanying notes are an integral part of the financial statements.

**THE ARC FRESNO/MADERA COUNTIES
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities: The Arc Fresno/Madera Counties (the "Organization") is a California nonprofit public benefit corporation with the primary purpose of empowering individuals with developmental disabilities to attain greater independence by offering everyday life experiences in a supportive community. The Organization was founded in 1953 by a group of parents who wanted to create more opportunities and life experiences for their children with developmental disabilities. Their vision and passionate dedication has grown into an organization that serves over 750 developmentally disabled adults through ten diverse programs.

The Organization is supported by governmental agencies, contracted services, sales and fund raising activities.

Basis of Presentation: Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*. Under ASC Topic 958, 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.

Unrestricted net assets are the portion of net assets over which the governing board has discretionary control for the general operations of the Organization. The Organization accounts for revenues and expenses of the General Fund as unrestricted. The only limits on unrestricted net assets are limits resulting from contractual agreements.

Temporarily restricted net assets are the portion of net assets resulting from contribution, pledges, and other inflows of assets whose use by the Organization is limited by donor-imposed restrictions that expire by the passage of time.

Permanently restricted net assets are the portion of net assets restricted by external parties (donors, grantors, or laws and regulations) in ways that are not dependent on the passage of time.

Method of Accounting: The Organization uses the accrual basis method of accounting in accordance with accounting principles generally accepted in the United States of America.

Cash and Cash Equivalents: For purposes of reporting the statement of cash flows, the Organization considers all cash accounts and all highly liquid debt instruments purchased with an original maturity of three (3) months or less to be cash equivalents. Certificates of deposit with original maturity dates of greater than three (3) months are classified as investments.

Investments: Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the statements of activities. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized. Short-term investments consist of debt securities with original maturities of twelve months or less. Long-term investments consist of debt securities with original maturities greater than twelve months.

**THE ARC FRESNO/MADERA COUNTIES
NOTES TO FINANCIAL STATEMENTS (continued)**

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts Receivable: The Organization utilizes the allowance method of accounting for and reporting uncollectible or doubtful accounts. The Organization's accounts receivable primarily consists of amounts due from other organizations and agencies. The Organization estimates 99% of all outstanding receivables are collectible and as of June 30, 2015 and 2014 has recorded a \$5,000 allowance for doubtful accounts. The net accounts receivable balance at June 30, 2015 and 2014 was \$1,058,530 and \$930,549, respectively.

Property and Equipment: Property and equipment are stated at cost, less accumulated depreciation. Depreciation is computed by using the straight-line method depreciated over the estimated useful life of the asset. Leasehold improvements are depreciated using the straight-line method over the lesser of the estimated useful life of the asset or the related lease term. Major replacements and improvements, in excess of \$5,000, or per management's discretion as determined to have a useful life, are capitalized at cost. Maintenance, repairs, and minor replacements are expensed when incurred. Estimated useful lives vary within the following ranges:

	Years
Buildings and improvements	30 - 40
Shop equipment	5 - 10
Vehicles	5 - 10
Furniture and fixtures	3 - 7

Furniture and equipment acquired with specific grant funds are considered to be owned by the Organization while used in the program; however, these specific funding agencies have a reversionary interest in all such property. Such equipment is shown as Contributed Capital. Accordingly, further use or disposition thereof, as well as utilization of any proceeds from disposition, is subject to applicable regulations as provided for by law or by the specific funding agency's contract.

Compensated Absences: Employees of the Organization are entitled to paid vacation and paid sick days, depending on length of service and other factors. The Organization recognizes compensated absences as a liability for amounts due staff employees for accrued vacation at pay rates currently in effect for the employee. Accrued compensated absences are recorded in accrued payroll and related taxes.

Support and Revenue: The Organization is primarily supported by governmental agencies, contracted services, sales, and fund raising activities. Support received is recognized when earned under the terms and conditions of the award, generally when the related grant expenditure is incurred or service is provided.

In-Kind Contributions: Contributions of donated non-cash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

Exchange Transactions: Revenues earned from contracts, grants, and service fees are considered to be exchange transactions. Revenues from exchange transactions are reported gross of any related expense in the accompanying financial statements.

THE ARC FRESNO/MADERA COUNTIES
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Advertising Costs: Advertising costs, except for costs associated with direct-response advertising, are charged to operations when incurred. The costs of direct-response advertising are capitalized and amortized over the period during which future benefits are expected to be received. There were no capitalized costs. Advertising costs of \$4,185 and \$12,155 were incurred during the years ended June 30, 2015 and 2014, respectively.

Income Taxes: The Organization is a tax-exempt Organization under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the State of California Corporate Code. The Organization is subject to taxation on any unrelated business income.

Allocation of Expenses: The Organization charges all direct expenses to the appropriate programs. The costs of providing various programs and activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Fair Value of Financial Instruments: Financial instruments include cash and cash equivalents, investments, receivables, accounts payable, and accrued expenses, none of which are held for trading purposes. The fair values of all financial instruments do not differ materially from the aggregate carrying values of the financial instruments recorded in the accompanying statements of financial position. The carrying amounts of these financial instruments approximate fair value because of the short-term maturities of those instruments.

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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations of Credit Risk: The Organization maintains cash balances in several financial institutions. Cash balances in interest-bearing transaction accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000 per institution. Money market funds in brokerage accounts are not FDIC insured, however, these accounts have limited private insurance coverage through the Securities Investor Protection Corporation. As of June 30, 2015 and 2014, the amounts in excess of federally insured limits totaled \$794,390 and \$1,085,225, respectively. Management considers this a normal business risk, and no losses have occurred in prior years.

Reclassifications: Certain reclassifications have been made to the June 30, 2014 financial statements presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

Subsequent Events: In compliance with accounting standards, management has evaluated events that have occurred after year-end to determine if these events are required to be disclosed in the these basic financial statements. Management has determined that no events require disclosure in accordance with accounting standards. These subsequent events have been evaluated through September 23, 2015, which is the date the financial statements were available to be issued.

THE ARC FRESNO/MADERA COUNTIES
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 2 – INVESTMENTS

Investments, as presented at their fair value as of June 30, 2015 and 2014 are summarized as follows:

	2015	2014
Common Stocks	\$ 541,375	\$ 972,572
US Government Securities	146,811	185,266
Corporate Short Term Bonds	245,581	-
Money Markets	<u>21,799</u>	<u>-</u>
 Total	 <u>\$ 955,566</u>	 <u>\$ 1,157,838</u>

Investment income for the years ending June 30, 2015 and 2014 are summarized as follows:

	2015	2014
Dividends and Interest	\$ 26,541	\$ 22,562
Unrealized and Realized Gains and (Losses)	<u>(9,543)</u>	<u>119,075</u>
 Total	 <u>\$ 16,998</u>	 <u>\$ 141,637</u>

NOTE 3 – FAIR VALUE MEASUREMENTS

The Organization applies generally accepted accounting principles for fair value measurements of financial assets and liabilities. These accounting principles define fair value and establishes a hierarchy that prioritizes fair value measurements based on the types of inputs used for the various valuation techniques. The Organization uses appropriate valuation techniques to determine value based on inputs available.

When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available. The following description summarizes the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying statements of financial position.

The three levels of inputs used to measure fair value are as follows:

Level 1 – Values measured using quoted prices in active markets for identical investments. The fair value of these financial instruments and investments is based on quoted market prices or dealer quotes in active markets. The fair value of the Organization's investments were measured using quoted market prices in active markets.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly. The Organization did not have any input into the fair value of Level 2 investments. The Organization did not have any assets reported at fair value with Level 2 inputs for the years ended June 30, 2015 and 2014.

THE ARC FRESNO/MADERA COUNTIES
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 3 – FAIR VALUE MEASUREMENTS (continued)

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement. The Organization did not have any assets reported at fair value with Level 3 inputs for the years ended June 30, 2015 and 2014.

The table below presents the level within the fair value hierarchy at which investments are measured at June 30, 2015 and 2014:

Fair Value Measurements on a Recurring Basis as of June 30, 2015

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common Stocks	\$ 541,375	\$ -	\$ -	\$ 541,375
US Government Securities	146,811	-	-	146,811
Corporate Short Term Bonds	245,581	-	-	245,581
Money Markets	21,799	-	-	21,799
	<u>\$ 955,566</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 955,566</u>

Fair Value Measurements on a Recurring Basis as of June 30, 2014

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common Stocks	\$ 972,572	\$ -	\$ -	\$ 972,572
US Government Securities	185,266	-	-	185,266
	<u>\$ 1,157,838</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,157,838</u>

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2015 and 2014:

	2015	2014
Land	\$ 680,125	\$ 560,126
Buildings and Improvements	7,174,731	4,271,927
Shop Equipment	302,804	321,976
Vehicles	1,250,046	1,243,450
Furniture and Fixtures	530,185	431,328
Property and Equipment - Gross	9,937,891	6,828,807
Less: Accumulated Depreciation	<u>(2,720,078)</u>	<u>(2,433,724)</u>
Property and Equipment - Net	<u>\$ 7,217,813</u>	<u>\$ 4,395,083</u>

Depreciation expense for the years ended June 30, 2015 and 2014, was \$316,466 and \$300,249, respectively.

**THE ARC FRESNO/MADERA COUNTIES
NOTES TO FINANCIAL STATEMENTS (continued)**

NOTE 5 – ACCRUED PAYROLL AND RELATED TAXES

Accrued payroll and related taxes consisted of the following as of June 30, 2015 and 2014:

	2015	2014
Wages and Payroll Taxes	\$ 258,700	\$ 230,888
Accrued Vacation	130,085	128,900
Insurance and Other Liabilities	<u>81,488</u>	<u>32,746</u>
Total	<u>\$ 470,273</u>	<u>\$ 392,534</u>

NOTE 6 – NOTES PAYABLE

The Organization's obligations under notes payable consists of the following as of June 30, 2015 and 2014:

	2015	2014
Note payable to a financial institution, due in monthly payments of principal and interest at 2.19%, secured by a deed of trust on the Enrichment Center. Fifteen year loan, with a maturity date of July 15, 2021.	\$ 428,761	\$ 487,322
Note payable to an individual, due in monthly payments of \$3,053 with interest at 6.0%, secured by a deed of trust on the Reedley Training Center. Ten year loan, with a maturity date of August 20, 2016.	38,335	67,343
Note payable to a financial institution, due in monthly payments of principal and interest at 3.95%, secured by a deed of trust on the Ashlan Loewen Achievement Center. Ten year loan, with a maturity date of April 5, 2025.	1,292,184	-
Due on demand note payable to a financial institution, due in monthly payments of principal and interest at 3.65%, secured by the investments held in accounts with the financial institution. Thirty year loan, with a maturity date of February 1, 2045.	<u>566,297</u>	<u>-</u>
Total Notes Payable	2,325,577	554,665
Less current portion due:	<u>(722,571)</u>	<u>(87,568)</u>
Notes payable, long-term portion:	<u>\$ 1,603,006</u>	<u>\$ 467,097</u>

**THE ARC FRESNO/MADERA COUNTIES
NOTES TO FINANCIAL STATEMENTS (continued)**

NOTE 6 – NOTES PAYABLE (continued)

Interest expense for the years ended June 30, 2015 and 2014, was \$59,968 and \$42,335, respectively.

Future scheduled maturities of notes payable are as follows:

Year Ending June 30,	Amount
2016	\$ 722,571
2017	128,386
2018	134,652
2019	144,628
2020	155,342
Thereafter	1,039,998
	\$ 2,325,577

NOTE 7 – EMPLOYEE BENEFIT PLAN

The Organization sponsors a salary reduction contribution plan pursuant to Section 403(b) of the Internal Revenue Code, covering substantially all employees. The Organization may make contributions to the plan at the Board of Directors' discretion. For the fiscal years ended June 30, 2015 and 2014, the board approved a matching contribution (up to \$4,000) for each participant. Employer contributions for the years ended June 30, 2015 and 2014, were \$75,316 and \$48,834, respectively.

NOTE 8 – OPERATING LEASES

The Organization leases building facilities, a vehicle, and office equipment under operating leases expiring in various years through 2016. Monthly payments range from \$900 to \$3,100 a month. In the absence of renewing the operating leases the organization has the ability to operate on a month-to-month basis. Total rent and lease expense for the years ended June 30, 2015 and 2014, respectively, were \$138,960 and \$169,572.

Annual future minimum rentals as follows:

Year Ending June 30,	Amount
2016	\$ 48,971
2017	7,176
2018	7,176
2019	7,176
2020	4,784
Thereafter	-
	\$ 75,283

**THE ARC FRESNO/MADERA COUNTIES
NOTES TO FINANCIAL STATEMENTS (continued)**

NOTE 9 – ECONOMIC DEPENDENCY

The Organization received approximately 84% of its funding from Central Valley Regional Center. Discontinuance of funding from this organization could have an adverse effect on the Organization's ability to continue its operations.

NOTE 10 – RELATED PARTY TRANSACTIONS

The Organization currently has an agreement for insurance services with an insurance brokerage agency that employs one of the Organization's board members. The Organization also holds an account with a financial institution where one of the board members is an employee. The board member has no signing authority on the account.

NOTE 11 – FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing various programs and other activities have been summarized below. Expenses are charged to programs and supporting services on the basis of program costs. Administrative costs include those expenses that are not directly identifiable with any specific function but provide for the overall support and direction of the Organization. The Organization's supportive services are below the 15% administrative cap threshold, as summarized below for the years ended June 30, 2015 and 2014.

	<u>2015</u>	<u>2014</u>
Program Services	\$ 8,113,874 86.0%	\$ 8,060,344 87.6%
Supporting Services	<u>1,317,382 14.0%</u>	<u>1,142,980 12.4%</u>
Total	<u>\$ 9,431,256</u>	<u>\$ 9,203,324</u>

NOTE 12 – INCOME TAXES

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state law.

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Organization and various positions related to the potential sources of unrelated business taxable income ("UBTI"). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for fiscal years ending June 30, 2015 and 2014.

The Organization files tax forms in the U.S. federal jurisdiction and the State of California. The Organization is generally no longer subject to examination by the Internal Revenue Service for years before 2012.

THE ARC FRESNO/MADERA COUNTIES
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 13 – HEARTLAND ASSET TRANSFER AGREEMENT

On July 1, 2013, the Arc Fresno entered into an Asset Transfer Agreement for the Assets of Heartland Opportunity Center, Inc. in Madera County, California. Subsequently, The Arc Fresno amended its legal name to The Arc Fresno/Madera Counties. The one time transaction resulted in additional donation revenue of \$832,883, and a net increase of assets in the amount of \$832,883, for the year ended June 30, 2014.