

**THE ARC FRESNO/MADERA COUNTIES**

---

**ANNUAL FINANCIAL REPORT**

**FOR THE FISCAL YEARS ENDING  
JUNE 30, 2016 AND 2015**

# THE ARC FRESNO/MADERA COUNTIES

## TABLE OF CONTENTS

	<u>Page</u>
<b>Independent Auditors' Report</b> .....	1
<b>Financial Statements:</b>	
Statements of Financial Position.....	3
Statements of Activities .....	4
Statements of Functional Expenses .....	5
Statements of Cash Flows .....	10
Notes to Financial Statements.....	11



## **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 statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **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, 2016 and 2015, 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.

HUDSON HENDERSON & COMPANY, INC.

*Hudson Henderson & Company, Inc.*

Clovis, California  
September 22, 2016

**THE ARC FRESNO/MADERA COUNTIES  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2016 AND 2015**

	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 2,288,099	\$ 1,488,517
Investments	936,619	955,566
Accounts receivable, net	980,898	1,058,530
Prepaid expenses	16,171	149,768
Inventory	7,730	-
	<u>4,229,517</u>	<u>3,652,381</u>
Total current assets		
Fixed Assets		
Property and equipment, net	6,974,335	7,217,813
Construction in progress	-	20,740
	<u>6,974,335</u>	<u>7,238,553</u>
Total fixed assets		
Note Receivable	74,600	-
Deposits	6,569	11,576
Total Assets	<u>\$ 11,285,021</u>	<u>\$ 10,902,510</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Current Liabilities		
Accounts payable and accrued expenses	\$ 113,756	\$ 89,127
Accrued payroll and related taxes	422,818	470,273
Notes payable, current portion	651,094	722,571
	<u>1,187,668</u>	<u>1,281,971</u>
Total current liabilities		
Long-Term Liabilities		
Notes payable, long-term portion	1,533,255	1,603,006
	<u>1,533,255</u>	<u>1,603,006</u>
Total long-term liabilities		
Total liabilities	<u>2,720,923</u>	<u>2,884,977</u>
Net Assets		
Unrestricted	<u>8,564,098</u>	<u>8,017,533</u>
Total net assets	<u>8,564,098</u>	<u>8,017,533</u>
Total Liabilities and Net Assets	<u>\$ 11,285,021</u>	<u>\$ 10,902,510</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, 2016 AND 2015**

	<b>2016</b>	<b>2015</b>
<b>SUPPORT AND REVENUES</b>		
Support for client services	\$ 8,570,019	\$ 7,986,255
Sales and contract services	1,410,074	1,655,034
Donations	61,575	62,130
Investment income (loss)	(3,508)	16,998
Gain (loss) on disposal of assets	(55,570)	1,320
Other income	37,910	10,762
	<hr/>	<hr/>
Total Support and Revenues	10,020,500	9,732,499
<b>EXPENSES</b>		
<b>PROGRAM SERVICES</b>		
Fresno production center	498,149	482,249
Secure document destruction	341,628	360,327
Enrichment center	1,285,681	1,131,471
Kerman training center - DTAC	153,785	159,431
Kerman training center - ADP	222,697	142,165
Reedley training center - DTAC	173,190	170,170
Reedley training center - ADP	885,043	886,718
Blythe training center	-	1,027,093
Independent living services	333,423	272,954
Community integration program	-	804,492
Employment plus	1,164,612	1,151,018
Discovery house	194,001	196,436
Loewen achievement center	1,999,431	80,329
Heartland training center- ADP	245,984	223,782
Heartland training center- DTAC	314,389	263,215
Heartland training center- Mobile	72,198	62,380
Madera production center - EP	26,577	442,741
Madera production center - WAP	406,190	328,669
Oakhurst recycling	1,917	8,563
Department of Rehab	15,886	-
<b>SUPPORTING SERVICES</b>		
General and administrative	1,139,154	1,237,053
	<hr/>	<hr/>
Total Expenses	9,473,935	9,431,256
Change in Net Assets	546,565	301,243
Net Assets-Unrestricted at Beginning of Year	8,017,533	7,716,290
	<hr/>	<hr/>
Net Assets-Unrestricted at End of Year	<u>\$ 8,564,098</u>	<u>\$ 8,017,533</u>

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, 2016 AND 2015**

	PROGRAM SERVICES			
	Fresno Production Center	Secure Document Destruction	Enrichment Center	Kerman Training Center - DTAC
Client wages	\$ 90,588	\$ 52,097	\$ 1,505	\$ 6,976
Client health & welfare	22,104	22,862	242	1,559
Salaries & wages	196,038	112,722	804,032	64,779
Employee costs	87,023	42,061	177,424	12,906
Facility costs	50,527	27,819	190,924	44,497
Equipment & furniture costs	11,115	3,117	24,135	7,104
Vehicle costs	9,923	39,423	26,451	4,835
Shop costs	5,404	25,280	1,208	-
Administrative & office costs	13,542	9,605	19,853	4,215
Program expenses	<u>11,885</u>	<u>6,642</u>	<u>39,907</u>	<u>6,914</u>
Total Expenses Year Ended June 30, 2016	<u>\$ 498,149</u>	<u>\$ 341,628</u>	<u>\$ 1,285,681</u>	<u>\$ 153,785</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>

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, 2016 AND 2015**

	PROGRAM SERVICES			
	Kerman Training Center - ADP	Reedley Training Center - DTAC	Reedley Training Center - ADP	Blythe Training Center
Client wages	\$ 119	\$ 20,281	\$ 16,455	\$ -
Client health & welfare	15	4,568	3,490	-
Salaries & wages	153,049	82,484	558,741	-
Employee costs	33,967	11,432	124,846	-
Facility costs	22,182	31,369	33,518	-
Equipment & furniture costs	4,058	6,773	10,958	-
Vehicle costs	1,366	7,932	111,068	-
Shop costs	-	-	139	-
Administrative & office costs	2,628	2,890	8,195	-
Program expenses	<u>5,313</u>	<u>5,461</u>	<u>17,633</u>	<u>-</u>
Total Expenses Year Ended June 30, 2016	<u>\$ 222,697</u>	<u>\$ 173,190</u>	<u>\$ 885,043</u>	<u>\$ -</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>

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, 2016 AND 2015**

	PROGRAM SERVICES				
	Independent Living Services	Community Integration Program	Employment Plus	Discovery House	Loewen Achievement Center
Client wages	\$ 110	\$ -	\$ 319,956	\$ -	\$ 1,906
Client health & welfare	94	-	71,252	-	453
Salaries & wages	226,298	-	394,054	132,227	1,144,751
Employee costs	51,203	-	153,339	24,702	337,484
Facility costs	9,899	-	30,399	10,459	189,764
Equipment & furniture costs	4,304	-	6,029	2,144	45,412
Vehicle costs	37,576	-	119,490	9,792	232,228
Shop costs	-	-	28,733	-	-
Administrative & office costs	1,950	-	8,360	9,174	19,825
Program expenses	<u>1,989</u>	<u>-</u>	<u>33,000</u>	<u>5,503</u>	<u>27,608</u>
Total Expenses Year Ended June 30, 2016	<u>\$ 333,423</u>	<u>\$ -</u>	<u>\$ 1,164,612</u>	<u>\$ 194,001</u>	<u>\$ 1,999,431</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>	<u>\$ 80,329</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, 2016 AND 2015**

	PROGRAM SERVICES				
	Heartland Training Center - ADP	Heartland Training Center - DTAC	Heartland Training Center - Mobile	Madera Production Center - EP	Madera Production Center - WAP
Client wages	\$ -	\$ 3,025	\$ 7,750	\$ 2,905	\$ 90,372
Client health & welfare	-	400	1,796	542	20,377
Salaries & wages	151,841	178,759	41,160	11,957	136,947
Employee costs	40,156	61,380	14,024	3,754	47,406
Facility costs	29,065	37,597	4,451	1,904	84,185
Equipment & furniture costs	2,754	4,277	541	77	7,652
Vehicle costs	4,363	15,071	914	1,417	5,438
Shop costs	-	63	-	168	2,698
Administrative & office costs	14,342	6,133	1,045	2,976	5,788
Program expenses	<u>3,463</u>	<u>7,684</u>	<u>517</u>	<u>877</u>	<u>5,327</u>
Total Expenses Year Ended June 30, 2016	<u>\$ 245,984</u>	<u>\$ 314,389</u>	<u>\$ 72,198</u>	<u>\$ 26,577</u>	<u>\$ 406,190</u>
Total Expenses Year Ended June 30, 2015	<u>\$ 223,782</u>	<u>\$ 263,215</u>	<u>\$ 62,380</u>	<u>\$ 442,741</u>	<u>\$ 328,669</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, 2016 AND 2015**

	<u>PROGRAM SERVICES</u>		<u>SUPPORTING SERVICES</u>	<b>TOTAL</b>	
	<u>Oakhurst Recycling</u>	<u>Department of Rehab</u>	<u>General and Administrative</u>	<b>2016</b>	<b>2015</b>
Client wages	\$ -	\$ 896	\$ -	\$ 614,941	\$ 655,042
Client health & welfare	-	71	-	149,825	169,326
Salaries & wages	-	9,593	585,013	4,984,445	4,434,558
Employee costs	-	3,731	168,835	1,395,673	1,545,851
Facility costs	1,883	236	66,846	867,524	809,014
Equipment & furniture costs	-	-	60,006	200,456	239,102
Vehicle costs	-	1,307	14,905	643,499	679,373
Shop costs	-	-	-	63,693	68,706
Administrative & office costs	34	32	216,246	346,833	380,725
Program expenses	-	20	27,303	207,046	449,559
Total Expenses Year Ended June 30, 2016	<u>\$ 1,917</u>	<u>\$ 15,886</u>	<u>\$ 1,139,154</u>	<u>\$ 9,473,935</u>	
Total Expenses Year Ended June 30, 2015	<u>\$ 8,563</u>	<u>\$ -</u>	<u>\$ 1,237,053</u>		<u>\$ 9,431,256</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, 2016 AND 2015**

	<b>2016</b>	<b>2015</b>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 546,565	\$ 301,243
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	402,540	316,466
Realized/Unrealized Loss on investments	28,233	9,543
(Gain) loss on disposal of assets	55,570	(1,320)
Changes in operating assets and liabilities:		
Accounts receivable	77,632	(127,981)
Prepaid expenses	133,597	75,093
Inventory	(7,730)	-
Deposits	5,007	2,321
Accounts payable and accrued expenses	24,629	(4,391)
Accrued payroll and related taxes	(47,455)	77,739
	<u>1,218,588</u>	<u>648,713</u>
Net cash provided by operating activities		
<b>Cash Flows from Investing Activities</b>		
Redemption (purchases) of investments, net	(9,286)	192,729
Proceeds from sale of fixed assets	22,657	5,473
Acquisition of property and equipment	(291,149)	(2,935,921)
	<u>(277,778)</u>	<u>(2,737,719)</u>
Net cash used by investing activities		
<b>Cash Flows from Financing Activities</b>		
Proceeds from notes payable	-	1,875,000
Payments on notes payable	(141,228)	(104,088)
	<u>(141,228)</u>	<u>1,770,912</u>
Net cash provided (used) by financing activities		
Net change in cash and cash equivalents	799,582	(318,094)
Cash and Cash Equivalents, Beginning of Year	<u>1,488,517</u>	<u>1,806,611</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,288,099</u>	<u>\$ 1,488,517</u>
<b>Supplemental Cash Flows Disclosures</b>		
Cash payments during the year for:		
Interest	<u>\$ 102,102</u>	<u>\$ 59,968</u>
Noncash investing and financing activities:		
Note receivable acquired through sale of property	<u>\$ 74,600</u>	<u>\$ -</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.

**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, 2016 and 2015 has recorded a \$5,000 allowance for doubtful accounts. The net accounts receivable balance at June 30, 2016 and 2015 was \$980,898 and \$1,058,530, 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:

	<u>Years</u>
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 \$28,793 and \$12,827 were incurred during the years ended June 30, 2016 and 2015, 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, 2016 and 2015, the amounts in excess of federally insured limits totaled \$1,688,487 and \$794,390, respectively. Management considers this a normal business risk, and no losses have occurred in prior years.

Reclassifications: Certain June 30, 2015 amounts have been reclassified to conform to the June 30, 2016 financial statement presentation. No change in net position occurred due to the 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 22, 2016, 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, 2016 and 2015 are summarized as follows:

	<b>2016</b>	<b>2015</b>
Common Stocks	\$ 500,337	\$ 541,375
US Government Securities	122,883	146,811
Corporate Short Term Bonds	277,033	245,581
Money Markets	<u>36,366</u>	<u>21,799</u>
 Total	 <u>\$ 936,619</u>	 <u>\$ 955,566</u>

Investment income (loss) for the years ending June 30, 2016 and 2015 are summarized as follows:

	<b>2016</b>	<b>2015</b>
Dividends and Interest	\$ 24,725	\$ 26,541
Unrealized and Realized Gains and (Losses)	<u>(28,233)</u>	<u>(9,543)</u>
 Total	 <u>\$ (3,508)</u>	 <u>\$ 16,998</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, 2016 and 2015.



**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, 2016 and 2015.

The table below presents the level within the fair value hierarchy at which investments are measured at June 30, 2016 and 2015:

Fair Value Measurements on a Recurring Basis as of June 30, 2016

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common Stocks	\$ 500,337	\$ -	\$ -	\$ 500,337
US Government Securities	122,883	-	-	122,883
Corporate Short Term Bonds	277,033	-	-	277,033
Money Markets	36,366	-	-	36,366
	<u>\$ 936,619</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 936,619</u>

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>

**NOTE 4 – PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at June 30, 2016 and 2015:

	<b>2016</b>	<b>2015</b>
Land	\$ 1,035,125	\$1,055,125
Buildings and Improvements	6,719,561	6,799,731
Furniture and Fixtures	550,338	530,185
Vehicles	1,423,123	1,250,046
Shop Equipment	302,804	302,804
Property and Equipment - Gross	10,030,951	9,937,891
Less: Accumulated Depreciation	<u>(3,056,616)</u>	<u>(2,720,078)</u>
Property and Equipment - Net	<u>\$ 6,974,335</u>	<u>\$7,217,813</u>

Depreciation expense for the years ended June 30, 2016 and 2015, was \$402,540 and \$316,466, 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, 2016 and 2015:

	<b>2016</b>	<b>2015</b>
Wages and Payroll Taxes	\$ 233,874	\$ 258,700
Accrued Vacation	149,788	130,085
Insurance and Other Liabilities	<u>39,156</u>	<u>81,488</u>
 Total	 <u>\$ 422,818</u>	 <u>\$ 470,273</u>

**NOTE 6 – NOTES PAYABLE**

The Organization's obligations under notes payable consists of the following as of June 30, 2016 and 2015:

	<b>2016</b>	<b>2015</b>
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.	\$ 370,407	\$ 428,761
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. The note was paid in full during the year ended June 30, 2016.	-	38,335
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.	1,260,977	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>552,965</u>	<u>566,297</u>
Total Notes Payable	2,184,349	2,325,577
Less current portion due:	<u>(651,094)</u>	<u>(722,571)</u>
Notes payable, long-term portion:	<u>\$ 1,533,255</u>	<u>\$ 1,603,006</u>

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

**NOTE 6 – NOTES PAYABLE (continued)**

Interest expense for the years ended June 30, 2016 and 2015, was \$102,102 and \$59,968, respectively.

Future scheduled maturities of notes payable are as follows:

Year Ending June 30,	Amount
2017	\$ 651,094
2018	101,065
2019	107,430
2020	114,093
2021	125,418
Thereafter	1,085,249
	\$ 2,184,349

**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, 2016 and 2015, the board approved a matching contribution (up to \$4,000) for each participant. Employer contributions for the years ended June 30, 2016 and 2015, were \$60,662 and \$75,316, respectively.

**NOTE 8 – OPERATING LEASES**

The Organization leases a building facility, a vehicle, and office equipment under operating leases expiring in various years through 2020. Monthly payments range from \$598 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, 2016 and 2015, respectively, were \$49,804 and \$138,960.

Annual future minimum rentals as follows:

Year Ending June 30,	Amount
2017	\$ 7,176
2018	7,176
2019	7,176
2020	4,784
	\$ 26,312

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

**NOTE 9 – ECONOMIC DEPENDENCY**

The Organization received approximately 85% and 84% of its funding from Central Valley Regional Center for the years ended June 30, 2016 and 2015, respectively. 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, 2016 and 2015.

	<b>2016</b>		<b>2015</b>
Program Services	\$ 8,334,781	88.0%	\$ 8,194,203 86.9%
Supporting Services	1,139,154	12.0%	1,237,053 13.1%
Total	<u>\$ 9,473,935</u>		<u>\$ 9,431,256</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, 2016 and 2015.

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 2013.