

**THE ARC FRESNO/MADERA COUNTIES**

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**ANNUAL FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

**FOR THE FISCAL YEARS ENDING  
JUNE 30, 2018 AND 2017**

**THE ARC FRESNO/MADERA COUNTIES**

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## **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, 2018 and 2017, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

HUDSON HENDERSON & COMPANY, INC.

*Hudson Henderson & Company, Inc.*

Fresno, California  
September 10, 2018

**THE ARC FRESNO/MADERA COUNTIES  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2018 AND 2017**

	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 899,380	\$ 747,828
Investments	2,369,607	2,323,046
Accounts receivable, net	1,091,778	1,170,039
Prepaid expenses	53,945	11,300
Inventory	7,865	6,811
Total current assets	4,422,575	4,259,024
Fixed Assets		
Property and equipment, net	7,502,113	6,797,932
Construction in progress	-	90,903
Total fixed assets	7,502,113	6,888,835
Deposits	15,009	6,250
Total Assets	\$ 11,939,697	\$ 11,154,109
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Current Liabilities		
Accounts payable and accrued expenses	\$ 209,813	\$ 166,407
Accrued payroll and related taxes	457,024	533,390
Line of credit, current portion	30,417	-
Notes payable, current portion	107,430	101,065
Total current liabilities	804,684	800,862
Long-Term Liabilities		
Line of credit, long-term portion	470,871	-
Notes payable, long-term portion	1,190,367	1,370,794
Total long-term liabilities	1,661,238	1,370,794
Total liabilities	2,465,922	2,171,656
Net Assets		
Unrestricted	9,473,775	8,982,453
Total net assets	9,473,775	8,982,453
Total Liabilities and Net Assets	\$ 11,939,697	\$ 11,154,109

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

**THE ARC FRESNO/MADERA COUNTIES  
STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	<b>2018</b>	<b>2017</b>
<b>SUPPORT AND REVENUES</b>		
Government funding revenue	\$ 9,408,786	\$ 9,580,760
Contract service revenue	1,352,043	1,430,824
Contributions	66,515	35,225
Grant revenue	46,641	-
Investment income	181,388	132,202
Loss on disposal of assets	(3,121)	(2,548)
Other income	23,073	14,071
	<u>11,075,325</u>	<u>11,190,534</u>
<b>EXPENSES</b>		
PROGRAM SERVICES		
Adult day program	5,456,884	5,288,353
Daily training activity center	566,994	655,258
Supported employment programs	1,389,292	1,416,845
Supported living	475,741	704,784
Work activity program	1,372,473	1,425,366
SUPPORTING SERVICES		
General and administrative	1,322,619	1,281,573
	<u>10,584,003</u>	<u>10,772,179</u>
Total Expenses	<u>10,584,003</u>	<u>10,772,179</u>
Change in Net Assets	491,322	418,355
Net Assets-Unrestricted at Beginning of Year	<u>8,982,453</u>	<u>8,564,098</u>
Net Assets-Unrestricted at End of Year	<u>\$ 9,473,775</u>	<u>\$ 8,982,453</u>

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

**THE ARC FRESNO/MADERA COUNTIES  
STATEMENTS OF FUNCTIONAL EXPENSES  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	PROGRAM SERVICES					Total Program Services	SUPPORTING SERVICES	TOTAL	
	Adult Day Program	Daily Training Activity Center	Supported Employment Programs	Supported Living	Work Activity Program		General and Administrative	2018	2017
Cost of sales:									
Contract supplies	\$ 978	\$ 471	\$ 24,161	\$ -	\$ 17,217	\$ 42,827	\$ -	\$ 42,827	\$ 34,083
Gasoline and propane purchases	945	-	9,380	-	19,915	30,240	-	30,240	26,994
Contract disposal services	-	-	11,145	-	12,102	23,247	-	23,247	10,815
Snack shack purchases	11,898	907	-	-	-	12,805	-	12,805	18,250
Client wages	28,876	27,302	348,964	-	243,238	648,380	-	648,380	678,915
Client health and welfare benefits	-	-	-	-	5,369	5,369	-	5,369	6,682
Client payroll taxes	2,176	2,075	26,687	-	19,071	50,009	-	50,009	52,458
Client workers' compensation	4,507	5,282	67,589	-	47,876	125,254	-	125,254	125,869
Bad debt write-offs	222	-	10,539	-	-	10,761	-	10,761	-
<b>Total cost of sales</b>	<b>49,602</b>	<b>36,037</b>	<b>498,465</b>	<b>-</b>	<b>364,788</b>	<b>948,892</b>	<b>-</b>	<b>948,892</b>	<b>954,066</b>
Staff payroll:									
Salaries	3,447,457	311,314	451,530	294,387	471,468	4,976,156	739,124	5,715,280	5,794,123
Payroll taxes	252,045	23,376	33,548	20,892	34,128	363,989	53,165	417,154	421,933
Employee benefits	439,589	32,490	76,802	62,897	101,850	713,628	135,899	849,527	868,798
Workers' compensation	97,765	8,722	78,755	8,483	84,418	278,143	9,501	287,644	303,894
<b>Total staff payroll</b>	<b>4,236,856</b>	<b>375,902</b>	<b>640,635</b>	<b>386,659</b>	<b>691,864</b>	<b>6,331,916</b>	<b>937,689</b>	<b>7,269,605</b>	<b>7,388,748</b>
Facility costs:									
Building depreciation	179,684	18,241	-	-	10,354	208,279	25,846	234,125	223,638
Building interest expense	54,391	232	-	-	-	54,623	11,479	66,102	78,450
Building repairs and maintenance	47,549	14,967	6,111	247	22,932	91,806	6,141	97,947	108,230
Janitorial supplies	23,154	3,877	485	-	7,023	34,539	-	34,539	42,413
Janitorial and landscaping maintenance service	35,176	7,826	45	-	18,627	61,674	3,917	65,591	77,357
Facility rent	15,281	2,934	32,668	5,617	53,626	110,126	1,270	111,396	74,769
Utilities	94,868	20,985	5,178	576	46,696	168,303	7,568	175,871	198,920
Telephone and internet	34,067	6,719	10,023	10,500	19,193	80,502	6,897	87,399	89,611
Miscellaneous facility costs	5,614	1,461	1,817	59	5,021	13,972	405	14,377	15,781
<b>Total Facility Costs</b>	<b>489,784</b>	<b>77,242</b>	<b>56,327</b>	<b>16,999</b>	<b>183,472</b>	<b>823,824</b>	<b>63,523</b>	<b>887,347</b>	<b>909,169</b>
Furniture and equipment costs:									
Furniture and equipment depreciation	16,774	-	-	-	-	16,774	16,281	33,055	29,205
Expendable computer and software equipment	9,500	1,572	2,736	2,667	10,224	26,699	14,019	40,718	66,137
Computer maintenance expense	29,783	5,840	9,579	2,194	14,057	61,453	45,985	107,438	114,491
Expendable furniture and equipment	25,831	7,328	8,851	638	4,993	47,641	250	47,891	44,402
Repairs and maintenance	2,001	72	85	-	121	2,279	502	2,781	3,180
Photocopy expense	8,336	1,380	1,285	16	3,702	14,719	10,461	25,180	24,598
<b>Total furniture and equipment costs</b>	<b>92,225</b>	<b>16,192</b>	<b>22,536</b>	<b>5,515</b>	<b>33,097</b>	<b>169,565</b>	<b>87,498</b>	<b>257,063</b>	<b>282,013</b>

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

**THE ARC FRESNO/MADERA COUNTIES**  
**STATEMENTS OF FUNCTIONAL EXPENSES (continued)**  
**FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	PROGRAM SERVICES					Total Program Services	SUPPORTING SERVICES	TOTAL	
	Adult Day Program	Daily Training Activity Center	Supported Employment Programs	Supported Living	Work Activity Program		General and Administrative	2018	2017
<b>Vehicle costs:</b>									
Vehicle depreciation	\$ 78,643	\$ 4,666	\$ 30,717	\$ 3,832	\$ 17,205	\$ 135,063	\$ 7,200	\$ 142,263	\$ 132,718
Gasoline	147,429	10,963	50,317	2,243	-	210,952	1,329	212,281	187,234
Vehicle insurance	49,413	6,300	15,029	1,106	4,722	76,570	1,338	77,908	74,772
Vehicle repairs and maintenance	119,302	11,970	25,847	1,546	6,435	165,100	(172)	164,928	188,093
Staff mileage reimbursement	7,275	1,588	8,044	48,998	3,597	69,502	7,475	76,977	75,262
Other vehicle expenses	10,514	1,083	3,115	486	7,883	23,081	403	23,484	9,801
<b>Total vehicle costs</b>	<b>412,576</b>	<b>36,570</b>	<b>133,069</b>	<b>58,211</b>	<b>39,842</b>	<b>680,268</b>	<b>17,573</b>	<b>697,841</b>	<b>667,880</b>
<b>Shop costs:</b>									
Shop equipment depreciation	-	-	3,783	-	532	4,315	-	4,315	3,739
Shop equipment repairs and maintenance	-	-	12,437	-	16,473	28,910	-	28,910	24,395
Shop equipment and supplies	2	-	654	-	1,161	1,817	-	1,817	8,451
<b>Total shop costs</b>	<b>2</b>	<b>-</b>	<b>16,874</b>	<b>-</b>	<b>18,166</b>	<b>35,042</b>	<b>-</b>	<b>35,042</b>	<b>36,585</b>
<b>Other administrative costs:</b>									
Professional services	17,122	965	4,144	1,035	6,138	29,404	37,728	67,132	90,554
Investment fees	-	-	-	-	-	-	23,461	23,461	15,920
Late fees and interest	1,486	65	1	-	17	1,569	(4,853)	(3,284)	11,115
Dues and subscriptions	5,043	1,056	901	584	4,313	11,897	50,721	62,618	61,888
Liability and property insurance	22,944	5,443	9,483	1,878	10,971	50,719	13,398	64,117	64,319
Office supplies	5,365	959	1,076	659	1,904	9,963	13,903	23,866	23,626
Donation expense	-	-	-	-	100	100	950	1,050	20,300
Miscellaneous	3,707	753	826	48	3,813	9,147	24,468	33,615	49,265
<b>Total other administrative costs</b>	<b>55,667</b>	<b>9,241</b>	<b>16,431</b>	<b>4,204</b>	<b>27,256</b>	<b>112,799</b>	<b>159,776</b>	<b>272,575</b>	<b>336,987</b>
<b>Other program costs:</b>									
Consumer activity expenses	10,496	2,570	162	453	2,562	16,243	-	16,243	16,942
Uniforms	2,536	336	414	908	478	4,672	9,654	14,326	11,453
Recruitment	16,270	659	288	365	1,499	19,081	3,222	22,303	21,243
Program supplies	54,286	6,534	89	34	595	61,538	-	61,538	61,702
Conferences and education	25,487	4,474	1,868	1,215	6,686	39,730	41,512	81,242	53,235
Program appreciation	7,554	907	1,539	970	1,510	12,480	2,082	14,562	21,606
Miscellaneous program expenses	3,543	330	595	208	658	5,334	90	5,424	10,550
<b>Total other program costs</b>	<b>120,172</b>	<b>15,810</b>	<b>4,955</b>	<b>4,153</b>	<b>13,988</b>	<b>159,078</b>	<b>56,560</b>	<b>215,638</b>	<b>196,731</b>
<b>Total Expenses</b>	<b>\$ 5,456,884</b>	<b>\$ 566,994</b>	<b>\$ 1,389,292</b>	<b>\$ 475,741</b>	<b>\$ 1,372,473</b>	<b>\$ 9,261,384</b>	<b>\$ 1,322,619</b>	<b>\$ 10,584,003</b>	<b>\$ 10,772,179</b>

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



**THE ARC FRESNO/MADERA COUNTIES  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	<b>2018</b>	<b>2017</b>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 491,322	\$ 418,355
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	413,758	389,300
Realized/unrealized (gain) loss on investments	(127,634)	(98,593)
(Gain) loss on disposal of assets	3,121	2,548
Changes in operating assets and liabilities:		
Accounts receivable	78,261	(189,141)
Prepaid expenses	(42,645)	4,871
Inventory	(1,054)	919
Deposits	(8,759)	319
Accounts payable and accrued expenses	43,406	24,007
Accrued payroll and related taxes	(76,366)	139,216
	<u>773,410</u>	<u>691,801</u>
Net cash provided by operating activities		
<b>Cash Flows from Investing Activities</b>		
Redemption (purchases) of investments, net	81,073	(1,287,834)
Proceeds from sale of fixed assets	2,330	457
Acquisition of property and equipment	(1,032,487)	(306,805)
Payments received on notes receivable	-	74,600
	<u>(949,084)</u>	<u>(1,519,582)</u>
Net cash used by investing activities		
<b>Cash Flows from Financing Activities</b>		
Proceeds from line of credit	501,288	-
Payments on notes payable	(174,062)	(712,490)
	<u>327,226</u>	<u>(712,490)</u>
Net cash provided (used) by financing activities		
Net change in cash and cash equivalents	151,552	(1,540,271)
Cash and Cash Equivalents, Beginning of Year	<u>747,828</u>	<u>2,288,099</u>
Cash and Cash Equivalents, End of Year	<u>\$ 899,380</u>	<u>\$ 747,828</u>
<b>Supplemental Cash Flows Disclosures</b>		
Cash payments during the year for:		
Interest	<u>\$ 66,102</u>	<u>\$ 78,450</u>

The accompanying notes are an integral part of these 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 Statements 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, 2018 and 2017 has recorded a \$5,000 allowance for doubtful accounts. The net accounts receivable balance at June 30, 2018 and 2017 was \$1,091,778 and \$1,170,039, 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 \$5,627 and \$10,720 were incurred during the years ended June 30, 2018 and 2017, 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 and Statements of Functional Expenses. 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, receivables, prepaid expenses, inventory, 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, 2018 and 2017, the amounts in excess of federally insured limits totaled \$609,448 and \$540,237, respectively. Management considers this a normal business risk, and no losses have occurred in prior years.

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 financial statements. Management has determined that no events require disclosure in accordance with accounting standards. These subsequent events have been evaluated through September 10, 2018, 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, 2018 and 2017 are summarized as follows:

	<b>2018</b>	<b>2017</b>
Common Stocks	\$ 2,304,271	\$ 2,148,414
Short Term Bonds	-	109,626
Cash and Money Markets	<u>65,336</u>	<u>65,006</u>
 Total Investments	 <u>\$ 2,369,607</u>	 <u>\$ 2,323,046</u>

Investment income for the years ending June 30, 2018 and 2017 are summarized as follows:

	<b>2018</b>	<b>2017</b>
Dividends and Interest	\$ 53,754	\$ 33,609
Unrealized and Realized Gains	<u>127,634</u>	<u>98,593</u>
 Total Investment Income	 <u>\$ 181,388</u>	 <u>\$ 132,202</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, 2018 and 2017.

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, 2018 and 2017.

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

**NOTE 3 – FAIR VALUE MEASUREMENTS (continued)**

The table below presents the level within the fair value hierarchy at which investments are measured at June 30, 2018 and 2017:

Fair Value Measurements on a Recurring Basis as of June 30, 2018

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common Stocks	\$ 2,304,271	\$ -	\$ -	\$ 2,304,271
Cash and Money Markets	<u>65,336</u>	<u>-</u>	<u>-</u>	<u>65,336</u>
	<u>\$ 2,369,607</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,369,607</u>

Fair Value Measurements on a Recurring Basis as of June 30, 2017

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common Stocks	\$ 2,148,414	\$ -	\$ -	\$ 2,148,414
Short Term Bonds	109,626	-	-	109,626
Cash and Money Markets	<u>65,006</u>	<u>-</u>	<u>-</u>	<u>65,006</u>
	<u>\$ 2,323,046</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,323,046</u>

**NOTE 4 – PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at June 30, 2018 and 2017:

	<b>2018</b>	<b>2017</b>
Land	\$ 1,035,125	\$ 1,035,125
Buildings and Improvements	7,724,338	6,719,562
Furniture and Fixtures	597,706	562,781
Vehicles	1,573,317	1,556,513
Shop Equipment	<u>321,717</u>	<u>321,717</u>
Property and Equipment - Gross	11,252,203	10,195,698
Less: Accumulated Depreciation	<u>(3,750,090)</u>	<u>(3,397,766)</u>
Property and Equipment - Net	<u>\$ 7,502,113</u>	<u>\$ 6,797,932</u>

Depreciation expense for the years ended June 30, 2018 and 2017, was \$413,758 and \$389,300, 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, 2018 and 2017:

	<b>2018</b>	<b>2017</b>
Wages and payroll taxes	\$ 270,722	\$ 354,621
Accrued vacation	<u>186,302</u>	<u>178,769</u>
 Total accrued payroll and related taxes	 <u>\$ 457,024</u>	 <u>\$ 533,390</u>

**NOTE 6 – LINE OF CREDIT**

The Organization has a line of credit agreement with Wells Fargo Clearing Services, LLC. The line of credit is limited to the amounts invested with Wells Fargo Advisors. The interest rate is a variable rate equal to the Wells Fargo base rate minus 1.75%. The interest rate on the line of credit at June 30, 2018 was 5.5%. The line of credit is secured by the investments held with Wells Fargo Advisors. There is no maturity date, however the Organization anticipates making monthly payments of \$5,000 per month. At June 30, 2018 and 2017, the balance on the line of credit was \$501,288 and \$0.

Future anticipated principal payments on the line of credit are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 30,417
2020	34,975
2021	36,948
2022	39,032
2023	41,234
Thereafter	<u>318,682</u>
	 <u>\$ 501,288</u>

Interest expense on the line of credit was \$1,288 and \$0 for the years ended June 30, 2018 and 2017.

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

**NOTE 7 – NOTES PAYABLE**

The Organization's obligations under notes payable consists of the following as of June 30, 2018 and 2017:

	<b>2018</b>	<b>2017</b>
Note payable to a financial institution, due in monthly payments of principal and interest at a variable rate equal to 4.08% at June 30, 2018, secured by a deed of trust on the Enrichment Center. Fifteen year loan, with a maturity date of July 15, 2021.	\$ 240,407	\$ 307,733
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.	<u>1,057,390</u>	<u>1,164,126</u>
Total Notes Payable	1,297,797	1,471,859
Less current portion due:	<u>(107,430)</u>	<u>(101,065)</u>
Notes payable, long-term portion:	<u><u>\$ 1,190,367</u></u>	<u><u>\$ 1,370,794</u></u>

Future scheduled maturities of notes payable are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 107,430
2020	114,093
2021	128,456
2022	39,585
2023	41,120
Thereafter	<u>867,113</u>
	<u><u>\$ 1,297,797</u></u>

Interest expense on the notes payable for the years ended June 30, 2018 and 2017, was \$64,814 and \$78,450, respectively.



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

**NOTE 8 – 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 years ended June 30, 2018 and 2017, the board approved a matching contribution for each participant up to \$5,000. Employer contributions for the years ended June 30, 2018 and 2017, were \$90,153 and \$90,160, respectively.

**NOTE 9 – OPERATING LEASES**

The Organization leases a building facility and office equipment under operating leases expiring in various years through 2023. Monthly payments range from \$226 to \$4,788 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, 2018 and 2017, respectively, were \$131,298 and \$94,695.

Annual future minimum rentals as follows:

Year Ending June 30,	Amount
2019	\$ 114,672
2020	114,672
2021	52,338
2022	47,328
2023	16,158
	\$ 345,168

**NOTE 10 – ECONOMIC DEPENDENCY AND CONCENTRATIONS**

The Organization received approximately 85% and 85% of its funding from Central Valley Regional Center for the years ended June 30, 2018 and 2017, respectively. Approximately 74% and 75% of accounts receivable was due from Central Valley Regional Center at June 30, 2018 and 2017, respectively. Discontinuance of funding from this organization could have an adverse effect on the Organization’s ability to continue its operations.

**NOTE 11 – 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 ARC FRESNO/MADERA COUNTIES**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**NOTE 12 – FUNCTIONAL ALLOCATION OF EXPENSES**

The costs of providing various programs and other activities have been summarized on a functional basis on the Statements of Activities and Statements of Functional Expenses. 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 for the years ended June 30, 2018 and 2017.

**NOTE 13 – 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 the years ending June 30, 2018 and 2017.

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 2015.