



LOFTIS GROUP LLC
CERTIFIED PUBLIC ACCOUNTANTS ▪ BUSINESS ADVISORS



Consolidated Financial Statements
and
Independent Auditors' Report

June 30, 2016 and 2015

ARCA

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Independent Auditors' Report

To the Board of Directors of ARCA

We have audited the accompanying consolidated financial statements of ARCA (a nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the ARCA's preparation and fair presentation of the consolidated 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 ARCA'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of ARCA 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.

Reports on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements of financial position and consolidating statements of activities on pages 36 through 47 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Loftis Group ^{uc}

Albuquerque, New Mexico
October 5, 2016

Consolidated Financial Statements

ARCA
Consolidated Statements of Financial Position
June 30,

	2016	2015
Assets		
Current assets		
Cash and cash equivalents	\$ 3,927,243	\$ 4,064,729
Investments	1,740,354	1,776,317
Accounts receivable	2,500,426	3,188,840
Unconditional promises to give	34,148	103,379
Prepaid expenses	396,045	494,556
Total current assets	8,598,216	9,627,821
Property, furniture and equipment, net	9,246,964	8,662,029
Other Assets		
Restricted deposits and funded reserves		
Cash held in trust for persons served	1,823,117	1,675,698
Unconditional promises to give - non-current, net of discount	-	992
Investment - quasi endowment	241,773	242,330
Investment - permanently restricted endowment	821,472	784,423
Accrued interest and other assets	1,600	1,766
Total other assets	2,887,962	2,705,209
Total assets	\$ 20,733,142	\$ 20,995,059

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

ARCA
Consolidated Statements of Financial Position - continued
June 30,

	2016	2015
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 510,538	\$ 563,899
Accrued liabilities:		
Salaries and payroll taxes	684,480	679,784
Compensated absences	891,116	847,121
Mortgage interest	10,552	6,025
Deferred revenue	225,494	244,696
Current portion of long-term debt	256,840	238,999
Total current liabilities	2,579,020	2,580,524
Long-term Liabilities		
Long-term debt, less current portion	3,041,774	3,299,026
Cash held in trust for persons served	1,823,117	1,675,698
Other long-term liabilities	4,750	4,550
Total long-term liabilities	4,869,641	4,979,274
Total liabilities	7,448,661	7,559,798
Net assets		
Unrestricted:		
Undesignated	7,390,716	6,359,073
Board designated - quasi endowment	241,773	242,330
Board designated	4,579,961	5,772,852
Total unrestricted	12,212,450	12,374,255
Temporarily restricted	275,117	276,583
Permanently restricted	796,914	784,423
Total net assets	13,284,481	13,435,261
Total liabilities and net assets	\$ 20,733,142	\$ 20,995,059

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

ARCA
Consolidated Statement of Activities
For the Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Public Support and Revenue				
Public support				
Government funding:				
NM Department of Health and Human Services	\$ 950,081	\$ -	\$ -	\$ 950,081
NM Children, Youth and Families Department	2,211,095	-	-	2,211,095
U.S. Department of Transportation	153,035	-	-	153,035
Private contracts	659,023	-	-	659,023
Contributions	970,354	347,905	12,491	1,330,750
Grants	61,757	37,839	-	99,596
Total public support	<u>5,005,345</u>	<u>385,744</u>	<u>12,491</u>	<u>5,403,580</u>
Revenue				
Medicaid waiver	14,173,090	-	-	14,173,090
Medicaid ICF/MR	8,652,241	-	-	8,652,241
Fees and rent	1,514,182	-	-	1,514,182
Investment income (loss):				
Endowment fund	(26,830)	-	-	(26,830)
Other investments	(13,183)	-	-	(13,183)
	<u>24,299,500</u>	<u>-</u>	<u>-</u>	<u>24,299,500</u>
Interest income from cash and cash equivalents	596	-	-	596
Other	129,266	-	-	129,266
Contracts and sales	16,797	-	-	16,797
Total revenue	<u>24,446,159</u>	<u>-</u>	<u>-</u>	<u>24,446,159</u>
Net Assets Released from Restrictions				
Donor and time restrictions	<u>387,210</u>	<u>(387,210)</u>	<u>-</u>	<u>-</u>
Total public support and revenue	<u>29,838,714</u>	<u>(1,466)</u>	<u>12,491</u>	<u>29,849,739</u>

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

ARCA
Consolidated Statement of Activities – continued
For the Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Expenses				
Program services:				
Community services	17,189,355	-	-	17,189,355
InterCare	8,110,997	-	-	8,110,997
Business enterprises	204,081	-	-	204,081
Total program expenses	<u>25,504,433</u>	<u>-</u>	<u>-</u>	<u>25,504,433</u>
Supporting services:				
Management and general	4,314,590	-	-	4,314,590
Fundraising	181,496	-	-	181,496
Total supporting expenses	<u>4,496,086</u>	<u>-</u>	<u>-</u>	<u>4,496,086</u>
Total expenses	<u>30,000,519</u>	<u>-</u>	<u>-</u>	<u>30,000,519</u>
Change in net assets	(161,805)	(1,466)	12,491	(150,780)
Net assets, beginning of year	<u>12,374,255</u>	<u>276,583</u>	<u>784,423</u>	<u>13,435,261</u>
Net assets, end of year	<u>\$ 12,212,450</u>	<u>\$ 275,117</u>	<u>\$ 796,914</u>	<u>\$ 13,284,481</u>

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

ARCA
Consolidated Statement of Activities
For the Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Public Support and Revenue				
Public support				
Government funding:				
NM Department of Health and Human Services	\$ 816,514	\$ -	\$ -	\$ 816,514
NM Children, Youth and Families Department	2,176,352	-	-	2,176,352
U.S. Department of Transportation	178,463	-	-	178,463
Private contracts	587,643	-	-	587,643
Contributions	967,366	158,904	7,875	1,134,145
Grants	17,993	28,544	-	46,537
Total public support	<u>4,744,331</u>	<u>187,448</u>	<u>7,875</u>	<u>4,939,654</u>
Revenue				
Medicaid waiver	14,172,881	-	-	14,172,881
Medicaid ICF/MR	8,396,662	-	-	8,396,662
Fees and rent	1,508,872	-	-	1,508,872
Investment income:				
Endowment fund	(7,821)	-	-	(7,821)
Other investments	1,285	-	-	1,285
	<u>24,071,879</u>	<u>-</u>	<u>-</u>	<u>24,071,879</u>
Interest income from cash and cash equivalents	1,221	-	-	1,221
Other	41,229	-	-	41,229
Contracts and sales	9,664	-	-	9,664
Total revenue	<u>24,123,993</u>	<u>-</u>	<u>-</u>	<u>24,123,993</u>
Net Assets Released from Restrictions				
Donor and time restrictions	<u>266,063</u>	<u>(266,063)</u>	<u>-</u>	<u>-</u>
Total public support and revenue	<u>29,134,387</u>	<u>(78,615)</u>	<u>7,875</u>	<u>29,063,647</u>

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

ARCA
Consolidated Statement of Activities – continued
For the Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Expenses				
Program services:				
Community services	16,659,071	-	-	16,659,071
InterCare	7,362,775	-	-	7,362,775
Business enterprises	186,070	-	-	186,070
Total program expenses	<u>24,207,916</u>	<u>-</u>	<u>-</u>	<u>24,207,916</u>
Supporting services:				
Management and general	3,377,420	-	-	3,377,420
Fundraising	127,113	-	-	127,113
Total supporting expenses	<u>3,504,533</u>	<u>-</u>	<u>-</u>	<u>3,504,533</u>
Total expenses	<u>27,712,449</u>	<u>-</u>	<u>-</u>	<u>27,712,449</u>
Change in net assets	1,421,938	(78,615)	7,875	1,351,198
Net assets, beginning of year	<u>10,952,317</u>	<u>355,198</u>	<u>776,548</u>	<u>12,084,063</u>
Net assets, end of year	<u>\$ 12,374,255</u>	<u>\$ 276,583</u>	<u>\$ 784,423</u>	<u>\$ 13,435,261</u>

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

ARCA
Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2016

	Program Services			Total Program Services
	Community Services	InterCare	Business Enterprises	
Salaries, taxes and benefits	\$ 11,854,033	\$ 6,580,458	\$ 118,519	\$ 18,553,010
Expenses for persons served	3,498,323	772,034	130	4,270,487
Facilities	1,037,095	506,454	28,245	1,571,794
Transportation	647,966	195,523	22,191	865,680
Contractual services	85,274	23,398	11,719	120,391
Office expenses	56,755	26,882	21,493	105,130
Public relations	9,909	6,248	1,784	17,941
Total expenses	\$ 17,189,355	\$ 8,110,997	\$ 204,081	\$ 25,504,433

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

ARCA
Consolidated Statement of Functional Expenses - continued
For the Year Ended June 30, 2016

	Support Services		Total Supporting Services	Totals
	Management and General	Fundraising		
Salaries, taxes and benefits	\$ 2,593,943	\$ 115,581	\$ 2,709,524	\$ 21,262,534
Expenses for persons served	95,291	-	95,291	4,365,778
Facilities	495,856	-	495,856	2,067,650
Transportation	31,141	-	31,141	896,821
Contractual services	814,242	-	814,242	934,633
Office expenses	212,051	-	212,051	317,181
Public relations	72,066	65,915	137,981	155,922
Total expenses	\$ 4,314,590	\$ 181,496	\$ 4,496,086	\$ 30,000,519

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

ARCA
Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2015

	Program Services			Total Program Services
	Community Services	InterCare	Business Enterprises	
Salaries, taxes and benefits	\$ 11,097,061	\$ 5,908,476	\$ 125,456	\$ 17,130,993
Expenses for persons served	3,724,234	733,987	-	4,458,221
Facilities	1,026,498	506,884	30,030	1,563,412
Transportation	651,492	173,972	19,182	844,646
Contractual services	101,697	15,448	3,386	120,531
Office expenses	49,786	13,821	6,935	70,542
Public relations	8,303	10,187	1,081	19,571
Total expenses	\$ 16,659,071	\$ 7,362,775	\$ 186,070	\$ 24,207,916

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

ARCA
Consolidated Statement of Functional Expenses - continued
For the Year Ended June 30, 2015

	Support Services		Total Supporting Services	Totals
	Management and General	Fundraising		
Salaries, taxes and benefits	\$ 2,376,016	\$ 86,430	\$ 2,462,446	\$ 19,593,439
Expenses for persons served	4,744	-	4,744	4,462,965
Facilities	163,247	-	163,247	1,726,659
Transportation	19,128	-	19,128	863,774
Contractual services	658,482	-	658,482	779,013
Office expenses	113,376	-	113,376	183,918
Public relations	42,427	40,683	83,110	102,681
Total expenses	\$ 3,377,420	\$ 127,113	\$ 3,504,533	\$ 27,712,449

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

ARCA
Statements of Cash Flows
For the Years Ended June 30,

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Cash received from the State of New Mexico	\$ 26,674,921	\$ 24,584,505
Cash received from contributors	1,641,113	1,385,766
Cash received from other sources	2,295,793	2,147,408
Cash paid to employees	(21,209,316)	(19,409,366)
Cash paid to suppliers	(7,911,419)	(7,454,415)
Investment income	33,492	32,713
Interest paid	(162,522)	(82,334)
Net cash provided by operating activities	<u>1,362,062</u>	<u>1,204,277</u>
Cash flows from investing activities		
Proceeds from sale of investments	37,809	41,854
Purchase of investments	(111,247)	(96,663)
Purchase of property and equipment	(1,220,831)	(1,032,993)
Proceeds from the sales of property and equipment	21,641	2,296
Net cash used by investing activities	<u>(1,272,628)</u>	<u>(1,085,506)</u>
Cash flows from financing activities		
Mortgage repayments	(239,411)	(188,611)
Restricted contributions	12,491	7,875
Net cash used by financing activities	<u>(226,920)</u>	<u>(180,736)</u>
Net decrease in cash and cash equivalents	(137,486)	(61,965)
Cash and cash equivalents, beginning of year	<u>4,064,729</u>	<u>4,126,694</u>
Cash and cash equivalents, end of year	<u>\$ 3,927,243</u>	<u>\$ 4,064,729</u>

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

ARCA
Statements of Cash Flows – continued
For the Years Ended June 30,

	<u>2016</u>	<u>2015</u>
Reconciliation of change in net assets to net cash provided by operating activities		
Change in net assets	<u>\$ (150,780)</u>	<u>\$ 1,351,198</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	637,896	596,097
Unrealized loss on investments	109,852	129,083
Realized gain on investments	(36,943)	(91,055)
Gain on sale of assets	(21,641)	-
Donated property and equipment	(2,000)	-
Restricted contributions	(12,491)	(7,875)
(Increase) decrease in:		
Accounts receivable	688,414	(977,904)
Unconditional promises to give	70,223	34,496
Prepaid expenses	98,511	(67,516)
Cash held in trust for persons served	(147,419)	(87,015)
Accrued interest and other assets	166	-
Increase (decrease) in:		
Accounts payable	(53,361)	(55,023)
Accrued liabilities	53,218	206,593
Cash held in trust for persons served	147,419	87,015
Deferred revenue and other long-term liabilities	<u>(19,002)</u>	<u>86,183</u>
Total adjustments	<u>1,512,842</u>	<u>(146,921)</u>
Net cash provided by operating activities	<u>\$ 1,362,062</u>	<u>\$ 1,204,277</u>

Supplemental Disclosure

ARCA purchased buildings and land of approximately \$2,190,000 by acquiring notes payable of approximately \$1,713,000 during the year ended June 30, 2015.

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

ARCA
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

1) Nature of Organization

ARCA is a not-for-profit corporation that was originally founded in 1957 by a group of parents desiring community-based opportunities for their family members with developmental disabilities. ARCA is dedicated to providing premier services to approximately 600 individuals with developmental disabilities in the Albuquerque area and provides services to approximately 50 individuals statewide as part of New Mexico's Prader Willi Project. ARCA's primary program activities are divided into three divisions: InterCare, Community Services, and Business Enterprises. InterCare provides 24-hour residential services along with employment services at their La Paloma Greenhouses. Community Services provides various community living options, family living services and employment and other community inclusion opportunities. The Business Enterprises primarily provides employment services to individuals.

ARCA Foundation (Foundation) conducts fundraising for the purpose of providing financial resources to ARCA.

The Board of Directors of ARCA appoints the Board of Directors of the Foundation and can remove them at any time with a majority vote.

2) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements referred to as "ARCA" present the consolidated financial position, changes in net assets, cash flows and functional expense of ARCA and ARCA Foundation. All significant intercompany accounts and transactions have been eliminated. ARCA has board control and economic interest in the ARCA Foundation. Accordingly, the ARCA Foundation's financial statements have been consolidated with ARCA's financial statements.

ARCA follows the accounting and reporting standards required by *Not for Profit* Entities. Generally accepted accounting standards require ARCA to report information regarding its financial position and activities according to three classes of net assets:

Unrestricted Net Assets – These assets result from revenues from providing services, producing goods, unrestricted contributions, and dividends and interest from income-providing assets less applicable related expenses. ARCA treats restricted contributions whose restrictions are satisfied during the same fiscal year as unrestricted support. All contributions made to ARCA are considered to be available for unrestricted use unless restricted by the donor.

ARCA
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

2) Summary of Significant Accounting Policies — continued

Temporarily Restricted Net Assets – These assets result from (a) contributions and other inflows of assets whose use by ARCA is limited by donor imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of ARCA pursuant to those stipulations; (b) other assets enhancements and diminishments subject to the same kinds of stipulations; and (c) imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of ARCA pursuant to those stipulations.

Permanently Restricted Net Assets – These assets have donor-imposed restrictions that stipulate that resources be maintained permanently but permit ARCA to use or expand part or all of the time economic benefits derived from the donated assets.

The accounting records supporting the accompanying consolidated financial statements are organized on the basis of divisions. The revenues and expenditures of each division are accounted for separately. The divisional revenues and expenditures are consolidated into a single set of accounts that summarize ARCA's assets, liabilities and net assets. Divisions maintained are InterCare, Community Services and Business Enterprises.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United State 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.

Financial Instruments

The carrying amounts of cash, receivables, payables, accrued expenses, and other liabilities approximate fair value due to short maturity periods of these instruments. The fair value of long-term debt is the carrying value due to the adjustable market rate of interest. For purposes of the consolidated statements of cash flows, ARCA does not consider restricted deposits, or tenant deposits to be cash or cash equivalents. Cash and cash equivalents is defined as amounts held in checking accounts, savings accounts, and money market funds. Liquid investments are defined as those investments with a remaining maturity of one year or less and include certain types of fixed income investments such as CDs, U.S. Treasury and Agency debt securities. ARCA maintains a portion of its cash

ARCA
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

2) Summary of Significant Accounting Policies — continued

Financial Instruments – continued

and cash equivalents in bank deposit accounts, which, at times, exceed federally insured limits. ARCA has not experienced any losses in such accounts.

Accounts Receivable

ARCA's primary income source is from Medicaid funds, which are received after the service is performed. Accounts receivable are stated at the amount management expects to collect from outstanding balances due from the State and other fees for service contracts. Individual accounts are evaluated and determined delinquent based on known facts and circumstances. Management believes all accounts receivable are collectible, and as a result, no allowance has been recorded.

Unconditional Promises to Give

Unconditional promises to give are recorded as receivables and revenue when received. ARCA distinguishes between contributions received for each net asset category in accordance with donor-imposed restrictions. Pledges are recorded after being discounted to the anticipated net present value of the future cash flows. The discount rate used was the Daily T-bill rate on the date of the promise for pledges received during the years ended June 30, 2016 and June 30, 2015. Management believes the promises to give are fully collectible and, as a result, no allowance has been recorded.

Investments

Investments in marketable securities with readily-determinable fair values and all investments in debt securities are reported at fair values in the consolidated statements of financial position. ARCA also invests in certificates of deposit, which are collateralized by U.S. Government Securities.

Income Taxes

All entities of ARCA are non-profit corporations and qualify as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code and are classified as other than a private foundation. As such, their normal activities not directly related to ARCA's tax exempt purpose is subject to taxation as unrelated business income. There was no taxable unrelated business income for the years ended June 30, 2016 and 2015.

ARCA
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

2) Summary of Significant Accounting Policies — continued

Income Taxes – continued

In 2006, the Financial Accounting Standards Board (FASB) issued authoritative guidance relating to the accounting for uncertainty in income taxes. This pronouncement was amended in 2009 to include non-profit entities, which was effective for ARCA for the year ended June 30, 2010. The guidance clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements in accordance with GAAP. The guidance also requires the evaluation of tax positions taken or expected to be taken in the course of preparing ARCA's information returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current year. In addition, guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition was also provided. As of June 30, 2016, ARCA performed a review of its material tax positions in accordance with recognition and measurement standards established by GAAP. As a result of this review, ARCA qualified as a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code and had no unrecorded income derived from unrelated business activities and did not identify any entity level tax positions that would not meet the more-likely-than-not threshold.

ARCA files information tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, ARCA is subject to examination by federal, state, and local jurisdictions, where applicable. As of June 30, 2016, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the year ended June 30, 2013 and forward.

ARCA would recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. There was no such interest or penalties in operating expenses. There was no such interest or penalties recorded for the years ended June 30, 2016 and 2015.

Property, Furniture, and Equipment

ARCA has a Board adopted capitalization policy. Property and equipment over \$5,000 are capitalized at cost or, if donated, at fair market value at the day of donation. Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the assets. The estimated useful lives for buildings are 30 years, furnishings are 5 years, building improvements and leasehold improvements range from 5 to 30 years, furnishings and equipment ranges from 3 to 10 years and vehicles have estimated useful lives of 5 years.

ARCA
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

2) Summary of Significant Accounting Policies — continued

Impairment of Long-lived Assets and Long-lived Assets to be Disposed of
ARCA reviews its long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of, if any, are reported at the lower of the carrying amount or the fair value less costs to sell.

Inventory

Inventory is valued at lower of cost or market.

Revenue Recognition

ARCA reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donation. All other gifts of cash or other assets are reported as increases to unrestricted net assets. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restriction.

Revenues on fee-for-service contracts and Medicaid revenue are recognized when the services are provided to the persons served. Such revenue is subject to audit by the grantor or funding agency and could result in a request for reimbursement. In the event that it may be determined that ARCA receives Medicaid payments in excess of the agreed-upon contract rates, these amounts would be due back to Medicaid. It is management's opinion that amounts, if any, that may be found to be refundable would not be significant and, therefore, would be charged against income in the period detected.

Promises to Give

Unconditional promises to give are recognized as revenues or gains in the period awarded and as assets, decreases of liabilities or expenses, depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

ARCA
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

2) Summary of Significant Accounting Policies — continued

Endowment Fund

ARCA has adopted generally accepted accounting standards as they related to *Endowment of Not-for-Profit Organizations – Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act and Enhanced Disclosures for All Endowment Funds*, which includes the following financial statement disclosure requirements for ARCA for the year ended June 30, 2016 and 2015.

Classification of Net Assets – Endowment funds are used to account for investments in which the principal is temporarily or permanently restricted or Board-designated for a specific purpose.

Interpretation of Relevant Law – ARCA has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds asset explicit donor stipulations to the contrary. As a result of this interpretation, ARCA classifies as permanent restricted net assets: (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulation to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund is classified as temporarily restricted nets assets until those amounts are appropriated for expenditure by ARCA in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, ARCA considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effects of inflation and deflation, (5) the expected total return from the income and the appreciation of investments, (6) other resources of ARCA, and (7) ARCA investment policies.

La Paloma and ARCA Organics Greenhouses

ARCA operates greenhouses that provide vocational training to persons served. Items produced in the greenhouses are sold to the public. Gross revenue, as defined by the IRS, generated by the La Paloma Greenhouse is not subject to unrelated business income tax. Gross revenue, as defined by the IRS, generated by ARCA Organics Greenhouse is subject to unrelated business income tax.

ARCA
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

2) Summary of Significant Accounting Policies — continued

Deferred Revenue

Income from Children, Youth and Family Department (CYFD) related to respite care and private pay is deferred and recognized when the service is provided. Advance payments for camp fees are deferred until the event occurs.

Donated Services and Materials

Contributions of services and materials are recognized in the accompanying consolidated financial statements in accordance with ASC 958-605 if the services received enhance or create non-financial assets, require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. In the absence of any donor stipulations regarding how long donated assets must be maintained, ARCA reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. ARCA reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Fair Value of Financial Instruments

ARCA adopted generally accepted accounting standards as they relate to Fair Value Measurement which provides a framework for measuring fair value under GAAP and expands disclosures about fair value measurement. Generally accepted accounting standards defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. These standards require that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. The standards also establish a fair value hierarchy, which priorities the valuation inputs into three level inputs that may be used to measure fair value:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

ARCA
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

2) Summary of Significant Accounting Policies — continued

Level 2 – Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs other than quoted prices that are observable for the asset or liability (such as interest rates and yield curves, prepayment speeds, loss credit risk, etc.)

Level 3 – Unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. Unobservable inputs shall be developed based on the best information available in the circumstances, which might include the reporting entity's own data and assumptions.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2016 and 2015.

Pooled Trust-Units held in pooled separate accounts are valued using the net asset value (NAV) of the fund. The NAV is based on the fair value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of units outstanding. The net asset value of the pooled separate account is calculated based on a compilation of primarily observable market information. The number of units of the fund that are outstanding on the calculation date is derived from observable purchase and considered Level 2 of the valuation hierarchy. ARCA invests in the following pooled investment funds:

New Mexico Community Foundation - Fund strategy is long-term capital appreciation without undue risk to principal, capital appreciation by investing primarily in securities of emerging or growth-oriented companies.

Albuquerque Community Foundation – Fund strategy is long-term capital appreciation without undue risk to principal, capital appreciation by investing primarily in securities of emerging or other growth-oriented companies.

Trading Securities – Value at the closing price reported on the major market on which the individual securities are traded.

ARCA
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

2) Summary of Significant Accounting Policies — continued

Fixed Income Securities – Value at the closing price reported on the major market on which the individual securities are traded.

Mutual Funds – Valued at the net asset value (NAV) of shares held at year end using prices quoted by relevant pricing agent.

There are three general valuation techniques that may be used to measure fair value, as described below:

Market Approach – Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Prices may be indicated by pricing guides, sale transactions market trades, or other sources.

Cost Approach – Based on the amount that currently would be required to replace the service capital of an asset (replacement cost).

Income Approach – Uses valuation techniques to convert future amounts to a single present amount based on current market expectations about the future amounts (includes present value techniques and option-pricing models). Net present value is an income approach where a stream of expected cash flows is discounted at an appropriate market interest rate.

ARCA carries its investments in marketable securities with readily determinable fair values. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities.

The carrying amount of cash and cash equivalents, accounts receivable, prepaid expenses, accounts payable and accrued liabilities approximate fair value due to the short maturity of these financial instruments.

Functional Allocation of Expense

The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statements of activities and the consolidated statement of functional expenses. According, certain costs have been allocated among the programs and supporting services benefited.

Advertising and Marketing

Advertising costs included in marketing, general and administrative, are expensed when the advertising first takes place. Advertising expense was \$41,088 and \$8,990 for fiscal years 2016 and 2015, respectively.

ARCA
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

3) Fair Value Measurements

Assets itemized below were measured at fair value during the year ended June 30, 2016 using the market approach for Level 1 and Level 2 inputs.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Investment in community funds			
Pooled trust	\$ -	\$ 821,472	\$ 821,472
Trading securities			
Equities - multi-strategy equity funds	<u>774,079</u>	<u>117,331</u>	<u>891,410</u>
Total stocks	<u>774,079</u>	<u>938,803</u>	<u>1,712,882</u>
Fixed income securities			
Foreign obligations	11,200	-	11,200
Pooled fixed income funds	<u>718,211</u>	<u>59,927</u>	<u>778,138</u>
Total fixed income securities	<u>729,411</u>	<u>59,927</u>	<u>789,338</u>
Mutual funds			
Open ended investments	<u>116,757</u>	<u>55,008</u>	<u>171,765</u>
Cash and cash equivalents	<u>120,107</u>	<u>9,507</u>	<u>129,614</u>
Total investments	<u>\$ 1,740,354</u>	<u>\$ 1,063,245</u>	<u>\$ 2,803,599</u>

ARCA
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

3) Fair Value Measurements - continued

Assets itemized below were measured at fair value during the year ended June 30, 2015 using the market approach for Level 1 and Level 2 inputs.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Investment in community funds			
Pooled trust	\$ -	\$ 841,993	\$ 841,993
Trading securities			
Equities - multi-strategy equity funds	<u>1,055,123</u>	<u>108,377</u>	<u>1,163,500</u>
Total stocks	<u>1,055,123</u>	<u>950,370</u>	<u>2,005,493</u>
Fixed income securities			
Foreign obligations	12,252	-	12,252
Pooled fixed income funds	<u>650,372</u>	<u>50,107</u>	<u>700,479</u>
Total fixed income securities	<u>662,624</u>	<u>50,107</u>	<u>712,731</u>
Mutual funds			
Open ended investments	<u>-</u>	<u>51,805</u>	<u>51,805</u>
Cash and cash equivalents	<u>-</u>	<u>33,041</u>	<u>33,041</u>
Total investments	<u>\$ 1,717,747</u>	<u>\$ 1,085,323</u>	<u>\$ 2,803,070</u>

Investments at June 30, are shown on the consolidated statements of financial position as follows:

	<u>2016</u>	<u>2015</u>
Investments	<u>\$ 1,740,354</u>	<u>\$ 1,776,317</u>
Quasi endowment	<u>241,773</u>	<u>242,330</u>
Permanently restricted endowment	<u>821,472</u>	<u>784,423</u>
	<u>\$ 2,803,599</u>	<u>\$ 2,803,070</u>

ARCA
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

3) Fair Value Measurements - continued

Investments are shown on the consolidated statements of activities as follows for the years ended June 30,:

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 49,973	\$ 47,330
Expenses	(17,077)	(15,838)
Net realized and unrealized loss	<u>(72,909)</u>	<u>(38,028)</u>
	<u>\$ (40,013)</u>	<u>\$ (6,536)</u>

4) Accounts Receivable

Accounts receivable were as follows at June 30:

	<u>2016</u>	<u>2015</u>
New Mexico Department of Health and Human Services:		
Medicaid waiver	\$ 1,229,878	\$ 1,281,610
Medicaid ICF/MR	754,953	1,442,203
General fund	86,881	87,494
New Mexico Children, Youth and Families Department:		
Family-based services	160,515	191,323
Other	<u>268,199</u>	<u>186,210</u>
Total accounts receivable	<u>\$ 2,500,426</u>	<u>\$ 3,188,840</u>

At June 30, 2016 and 2015, \$71,242 and \$11,904 respectively, of accounts receivable were outstanding over 90 days.

ARCA
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

5) Unconditional Promises to Give

Pledges are expected to be realized in the following periods:

	2016	2015
In one year or less	\$ 34,148	\$ 103,379
Between one year and five years	-	1,000
	<u>34,148</u>	<u>104,379</u>
Less discount at .85%	-	(8)
	<u><u>\$ 34,148</u></u>	<u><u>\$ 104,371</u></u>

6) Restricted Deposits

ARCA serves as the custodian for certain funds that ARCA holds in trust for persons served. These funds are recorded as a liability on the statement of financial position and are not available for use in ARCA's operations.

7) Property and Equipment

At June 30, property and equipment were comprised of the following:

	2016	2015
Building	\$ 9,321,589	\$ 9,293,772
Vehicles	3,035,649	2,840,461
Building improvements	2,487,191	1,837,338
Furnishing and equipment	863,295	650,758
Other	<u>15,351</u>	<u>15,351</u>
	15,723,075	14,637,680
Less accumulated depreciation	<u>9,202,109</u>	<u>8,699,649</u>
	6,520,966	5,938,031
Land	<u>2,725,998</u>	<u>2,723,998</u>
Property and equipment, net	<u><u>\$ 9,246,964</u></u>	<u><u>\$ 8,662,029</u></u>

ARCA
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

8) Short-Term and Long-Term Debt

ARCA opened a \$1,200,000 revolving line of credit on August 24, 2015, expiring on September 10, 2016. This line is collateralized by an UCC filing, inventory, and equipment. Interest is payable monthly on outstanding balances at an interest rate of LIBOR plus 2.25%. There were no borrowings during the years ended June 30, 2016 and June 30, 2015.

ARCA had mortgages payable for the purchase of residential homes and office space, all secured by land and buildings, as follows at June 30:

	2016	2015
Mortgages payable to a mortgage company due in monthly installments ranging from \$262 to \$1,683, including interest at 4.50% - 4.875%, with final payments due between September 2024 and July 2025	\$ 1,220,560	\$ 1,336,730
Mortgages payable to a bank, due in monthly installments ranging from \$1,276 to \$3,146, including interest at 2.75%, with final payments due between January and March 2021	408,947	488,630
Mortgages payable to a bank, due in monthly installments ranging from \$910 to \$10,551, including interest at 4.95% - 5.08%, with final payments due July 2035	1,669,107	1,712,665
	3,298,614	3,538,025
Less current portion	<u>256,840</u>	<u>238,999</u>
	<u>\$ 3,041,774</u>	<u>\$ 3,299,026</u>

ARCA
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

8) Short-Term and Long-Term Debt - continued

Future minimum principal payments are as follows:

<u>Year ending June 30</u>		
2017	\$	256,840
2018		267,953
2019		279,575
2020		291,514
2021		279,496
Thereafter		<u>1,923,236</u>
	<u>\$</u>	<u>3,298,614</u>

9) **Leases**

ARCA leases buildings used to provide care to individuals under operating lease agreements expiring in various months during 2017. Monthly rent payments for both buildings are approximately \$3,600. Total minimum future lease payments are \$43,000 for 2017. Rental expense under operating leases was approximately \$47,000 and \$44,000 for the years ended June 30, 2016 and 2015, respectively. ARCA also leases various other items under month-to-month lease agreements.

10) **Commitment and Contingencies**

ARCA places its cash with financial institutions and investment brokerage firms. Cash with financial institutions is federally insured and cash held by brokerage firms is insured by the investments brokerage firm. Cash held by community foundations is insured by the community foundations' brokerage firms.

ARCA receives a significant portion of its revenues from Medicaid waiver and Medicaid ICF/MR and is, therefore, subject to possible cutbacks due to changes in funding priorities. During each of the years ended June 30, 2016 and 2015, ARCA received approximately 78% percent of its gross public support and revenues from Medicaid waiver and Medicaid ICF/MR. Accounts receivable for the Medicaid waiver and Medicaid ICF/MR represented approximately 79% and 85% of total accounts receivable, respectively, at June 30, 2016 and 2015.

ARCA
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

11) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets consist of donations restricted for purpose and time restrictions of \$275,117 and \$276,583 as of June 30, 2016 and 2015, respectively.

Permanently restricted net assets consist of donations made to an endowment fund. The purpose of the endowment fund is to provide a permanent source of capital for future needs. ARCA has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to achieve a return consistent with the level of risk authorized by the investment policy that provide optimum growth consistent with a long-term time horizon. The investment policy establishes that the assets will be invested in a pooled fund and the risk tolerance of the pooled fund will be monitored annually. If at any time the risk tolerance is not aligned with the investment policy objectives, the funds will be redirected. The current return objective over a complete business cycle (three to five years) is for an overall annualized return, after deducting transaction costs and advisory, money manager and custodial fees, equal to or above the benchmark index for the pooled fund of the assets. On an annual basis, the Board of Directors may elect to withdraw up to five percent of the average market value based on the previous 12 quarters. The withdrawals are to be used for ARCA's programs as determined by the Board of Director's.

ARCA
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

11) Temporarily and Permanently Restricted Net Assets – continued

Endowment fund composition by type of fund as of June 30, 2016 is as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Net Assets</u>
Endowment net assets, beginning of year	\$ 237,909	\$ 784,423	\$ 1,022,332
Investment return			
Interest income	4,891	-	4,891
Net depreciation - realized and unrealized	<u>(35,871)</u>	<u>-</u>	<u>(35,871)</u>
	206,929	784,423	991,352
Contributions	5,000	12,491	17,491
Amounts appropriated for expenditure	<u>(1,408)</u>	<u>-</u>	<u>(1,408)</u>
Endowment net assets, end of year	<u>\$ 210,521</u>	<u>\$ 796,914</u>	<u>\$ 1,007,435</u>

ARCA
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

11) Temporarily and Permanently Restricted Net Assets – continued

Endowment fund composition by type of fund as of June 30, 2015 is as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Net Assets</u>
Endowment net assets, beginning of year	\$ 228,241	\$ 776,548	\$ 1,004,789
Investment return			
Interest income	6,883	-	6,883
Net depreciation - realized and unrealized	<u>(13,741)</u>	<u>-</u>	<u>(13,741)</u>
	221,383	776,548	997,931
Contributions	41,680	7,625	49,305
Amounts appropriated for expenditure	(25,154)	-	(25,154)
Other changes:			
Adjust pledges to fair value	<u>-</u>	<u>250</u>	<u>250</u>
Endowment net assets, end of year (deficit)	<u>\$ 237,909</u>	<u>\$ 784,423</u>	<u>\$ 1,022,332</u>

12) **Designation of Unrestricted Net Assets**

It is the policy of the Board of Directors of ARCA to review its plans for future estimated cash shortfalls and to designate appropriate sums of unrestricted net assets to assure adequate cash reserves to provide necessary working capital. The total amount of designated net assets for these purposes was \$4,579,961 and \$5,772,852 at June 30, 2016 and 2015, respectively.

During the year ended June 30, 2014, the board of directors established a quasi-endowment with a significant contribution from one contributor. The quasi-endowment of \$241,773 and \$242,330 is recorded as board designated unrestricted net assets as of June 30, 2016 and 2015, respectively. This board designation can be changed by a majority vote of the board of directors.

ARCA
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

13) Retirement Plans

ARCA had a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code available to employees, regardless of age. There was no service requirement for employee pre-tax deferrals. There was a three month service requirement to be eligible for any employer matching contribution. Employees were allowed to defer up to the maximum allowed by the Internal Revenue Code. For the years ended June 30, 2016 and June 30, 2015, ARCA matched employees' contributions up to four percent of the employees' gross salary. There were no contributions made to this plan for the year ended June 30, 2016. Total contributions to this plan were approximately \$74,000 for the year ended June 30, 2015. The Board of Directors of the Plan's Sponsor, voted to terminate the Plan subject to the provisions of ERISA. The effective termination date was September 5, 2014. Upon termination, participants became 100% vested in their accounts.

ARCA's current employees have the option of participating in the 401(k) plan, a defined contribution plan, which began operation on September 5, 2014.

ARCA's 401(k) Plan (the Plan) covers all employees eligible for Plan participation. There is no service requirement for employee pre-tax deferrals. ARCA matches participants' contributions to the Plan up to 4% of the individual participant's compensation. Total expense for the years ended June 30, 2016 and 2015, was approximately \$590,000 and \$430,000, respectively.

14) Compensated Absences

Full-time and part-time regular employees earn from 15 to 25 days of Paid Time Off (PTO) each year. ARCA's compensated absence policy allows regular employees to accumulate a maximum of 320 hours of PTO for employees who work 40 hours per week or pro-rated for part-time employees. Leave in excess of the maximum hours will not be paid out to employees annually, but instead will be transferred into a Long-Term PTO (LTPTO) bank which can only be used for designated Family Medical Leave. An employee's LTPTO will be capped at five weeks of leave (200 hours) for full-time and pro-rated for part-time employees. Annually, on July 1, unused excess LTPTO beyond the cap will be forfeited by the employee. Employees who resign or are terminated shall be paid for all unused PTO up to 320 hours at their current rate of pay. Unused accrued LTPTO will be not payable upon separation.

ARCA
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

14) **Compensated Absences – continued**

ARCA accrues the cost incurred for PTO as obligations of unrestricted net assets. At June 30, 2016 and 2015, ARCA had accrued approximately \$891,000 and \$847,000, respectively.

15) **Related Parties**

On June 26, 2015, ARCA borrowed \$396,526 from the ARCA Foundation for the down payment on ARCA’s new office building. Principal and interest of 1.70% is due on June 26, 2017. ARCA had no significant related party activity during the year ended June 30, 2016.

16) **Donated Services, Materials, Property and Equipment**

During the years ended June 30, 2016 and 2015, ARCA received the following non-cash contributions of services and materials:

	2016	2015
Professional Services	21,900	21,900
Rent	6,000	6,000
Total	<u>\$ 27,900</u>	<u>\$ 27,900</u>

ARCA receives in-kind services from a network of advertising agencies that advertise using various media throughout the state of New Mexico. Management believes they derive minimal benefits from advertising that take place outside the Albuquerque area. The value of the advertising within the Albuquerque area donated during the fiscal years ended June 30, 2016 and 2015 was approximately \$186,000 and \$149,000, respectively. ARCA would not have purchased this advertising had it not been donated to them and, therefore, did not record the revenue and related expense for the donated service, in accordance with generally accepted accounting standards as they related to, *Accounting for Contributions Received and Contributions Made*.

ARCA
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

16) Donated Services, Materials, Property and Equipment – continued

Additionally, ARCA receives donated services for the Community Service and InterCare program. Activities include assisting with the wellness initiative, camp and tax preparation for individuals served by ARCA. Activities also include various duties at the ARCA Organics farm. The volunteers do not have specialized skills to perform these activities nor were assets enhanced by these activities; therefore, the revenue and the related expense are not recorded in the statements of activities. Fair value of these services for the years ended June 30, 2016 and 2015 was approximately \$62,000 and \$63,000, respectively.

17) **Subsequent Events**

Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are issued or are available to be issued. ARCA recognized in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. ARCA's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before the financial statements are available to be issued.

ARCA has evaluated subsequent events through October 5, 2016 which is the date the financial statements were available to be issued.

ARCA
Consolidating Statement of Financial Position
June 30, 2016

	ARCA	Foundation	Eliminating Entries	Consolidated
Assets				
Current assets				
Cash and cash equivalents	\$ 2,763,445	\$ 1,163,798	\$ -	\$ 3,927,243
Investments	-	1,740,354	-	1,740,354
Accounts receivable	2,554,339	-	(53,913)	2,500,426
Note receivable from ARCA	-	396,526	(396,526)	-
Unconditional promises to give	-	34,148	-	34,148
Prepaid expenses	395,070	975	-	396,045
Total current assets	<u>5,712,854</u>	<u>3,335,801</u>	<u>(450,439)</u>	<u>8,598,216</u>
Property, furniture and equipment, net	<u>9,208,064</u>	<u>38,900</u>	<u>-</u>	<u>9,246,964</u>
Other Assets				
Restricted deposits and funded reserves				
Cash held in trust for persons served	260,124	1,562,993	-	1,823,117
Unconditional promises to give - non-current, net of discount	-	-	-	-
Investment - quasi endowment	-	241,773	-	241,773
Investment - permanently restricted endowment	-	821,472	-	821,472
Accrued interest and other assets	1,600	-	-	1,600
Total other assets	<u>261,724</u>	<u>2,626,238</u>	<u>-</u>	<u>2,887,962</u>
Total assets	<u>\$ 15,182,642</u>	<u>\$ 6,000,939</u>	<u>\$ (450,439)</u>	<u>\$ 20,733,142</u>

ARCA
Consolidating Statement of Financial Position - continued
June 30, 2016

	ARCA	Foundation	Eliminating Entries	Consolidated
Liabilities and Net Assets				
Current liabilities				
Accounts payable	\$ 510,538	\$ 53,913	(53,913)	\$ 510,538
Accrued liabilities:				
Salaries and payroll taxes	684,480	-	-	684,480
Compensated absences	891,116	-	-	891,116
Mortgage interest	10,552	-	-	10,552
Deferred revenue	225,494	-	-	225,494
Current portion of long-term debt	653,366	-	(396,526)	256,840
Total current liabilities	<u>2,975,546</u>	<u>53,913</u>	<u>(450,439)</u>	<u>2,579,020</u>
Long-term Liabilities				
Long-term debt, less current portion	3,041,774	-	-	3,041,774
Cash held in trust for persons served	260,124	1,562,993	-	1,823,117
Other long-term liabilities	4,750	-	-	4,750
Total long-term liabilities	<u>3,306,648</u>	<u>1,562,993</u>	<u>-</u>	<u>4,869,641</u>
Total liabilities	<u>6,282,194</u>	<u>1,616,906</u>	<u>(450,439)</u>	<u>7,448,661</u>
Net assets				
Unrestricted:				
Undesignated	5,421,387	1,969,329	-	7,390,716
Board designated - quasi endowment	-	241,773	-	241,773
Board designated	3,357,819	1,222,142	-	4,579,961
Total unrestricted	8,779,206	3,433,244	-	12,212,450
Temporarily restricted	121,242	153,875	-	275,117
Permanently restricted	-	796,914	-	796,914
Total net assets	<u>8,900,448</u>	<u>4,384,033</u>	<u>-</u>	<u>13,284,481</u>
Total liabilities and net assets	<u>\$ 15,182,642</u>	<u>\$ 6,000,939</u>	<u>\$ (450,439)</u>	<u>\$ 20,733,142</u>

ARCA
Consolidating Statement of Activities
For the Year Ended June 30, 2016

	ARCA Unrestricted	ARCA Temporarily Restricted	ARCA Permanently Restricted	Totals
Public Support and Revenue				
Public support				
Government funding:				
NM Department of Health and Human Services	\$ 950,081	\$ -	\$ -	\$ 950,081
NM Children, Youth and Families Department	2,211,095	-	-	2,211,095
U.S. Department of Transportation	153,035	-	-	153,035
Private contracts	659,023	-	-	659,023
Contributions	213,955	-	-	213,955
Grants	547,913	37,839	-	585,752
Total public support	<u>4,735,102</u>	<u>37,839</u>	<u>-</u>	<u>4,772,941</u>
Revenue				
Medicaid waiver	14,173,090	-	-	14,173,090
Medicaid ICF/MR	8,652,241	-	-	8,652,241
Fees and rent	1,514,182	-	-	1,514,182
Investment income (loss):				
Endowment fund	-	-	-	-
Other investments	-	-	-	-
	<u>24,339,513</u>	<u>-</u>	<u>-</u>	<u>24,339,513</u>
Interest income from cash and cash equivalents	596	-	-	596
Other	75,675	-	-	75,675
Contracts and sales	61,250	-	-	61,250
Total revenue	<u>24,477,034</u>	<u>-</u>	<u>-</u>	<u>24,477,034</u>
Net Assets Released from Restrictions				
Donor and time restrictions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total public support and revenue	<u>29,212,136</u>	<u>37,839</u>	<u>-</u>	<u>29,249,975</u>

ARCA
Consolidating Statement of Activities - continued
For the Year Ended June 30, 2016

Foundation Unrestricted	Foundation Temporarily Restricted	Foundation Permanently Restricted	Totals	Eliminating Entries	Totals
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 950,081
-	-	-	-	-	2,211,095
-	-	-	-	-	153,035
-	-	-	-	-	659,023
954,452	347,905	12,491	1,314,848	(198,053)	1,330,750
-	-	-	-	(486,156)	99,596
<u>954,452</u>	<u>347,905</u>	<u>12,491</u>	<u>1,314,848</u>	<u>(684,209)</u>	<u>5,403,580</u>
-	-	-	-	-	14,173,090
-	-	-	-	-	8,652,241
-	-	-	-	-	1,514,182
(26,830)	-	-	(26,830)	-	(26,830)
(13,183)	-	-	(13,183)	-	(13,183)
(40,013)	-	-	(40,013)	-	24,299,500
-	-	-	-	-	596
53,591	-	-	53,591	-	129,266
260	-	-	260	(44,713)	16,797
<u>13,838</u>	<u>-</u>	<u>-</u>	<u>13,838</u>	<u>(44,713)</u>	<u>24,446,159</u>
<u>387,210</u>	<u>(387,210)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>1,355,500</u>	<u>(39,305)</u>	<u>12,491</u>	<u>1,328,686</u>	<u>(728,922)</u>	<u>29,849,739</u>

ARCA
Consolidating Statement of Activities - continued
For the Year Ended June 30, 2016

	ARCA Unrestricted	ARCA Temporarily Restricted	ARCA Permanently Restricted	Totals
Expenses				
Program services:				
Community services	17,189,355	-	-	17,189,355
InterCare	8,109,797	-	-	8,109,797
Business enterprises	210,081	-	-	210,081
Total program expenses	<u>25,509,233</u>	<u>-</u>	<u>-</u>	<u>25,509,233</u>
Supporting services:				
Management and general	4,259,820	-	-	4,259,820
Fundraising	44,957	-	-	44,957
Total supporting expenses	<u>4,304,777</u>	<u>-</u>	<u>-</u>	<u>4,304,777</u>
Total expenses	<u>29,814,010</u>	<u>-</u>	<u>-</u>	<u>29,814,010</u>
Change in net assets	(601,874)	37,839	-	(564,035)
Net assets, beginning of year	<u>9,381,080</u>	<u>83,403</u>	<u>-</u>	<u>9,464,483</u>
Net assets, end of year	<u>\$ 8,779,206</u>	<u>\$ 121,242</u>	<u>\$ -</u>	<u>\$ 8,900,448</u>

ARCA
Consolidating Statement of Activities - continued
For the Year Ended June 30, 2016

Foundation Unrestricted	Foundation Temporarily Restricted	Foundation Permanently Restricted	Totals	Eliminating Entries	Totals
-	-	-	-		17,189,355
-	-	-	-	1,200	8,110,997
679,409	-	-	679,409	(685,409)	204,081
<u>679,409</u>	<u>-</u>	<u>-</u>	<u>679,409</u>	<u>(684,209)</u>	<u>25,504,433</u>
99,483	-	-	99,483	(44,713)	4,314,590
136,539	-	-	136,539	-	181,496
<u>236,022</u>	<u>-</u>	<u>-</u>	<u>236,022</u>	<u>(44,713)</u>	<u>4,496,086</u>
<u>915,431</u>	<u>-</u>	<u>-</u>	<u>915,431</u>	<u>(728,922)</u>	<u>30,000,519</u>
440,069	(39,305)	12,491	413,255	-	(150,780)
<u>2,993,175</u>	<u>193,180</u>	<u>784,423</u>	<u>3,970,778</u>	<u>-</u>	<u>13,435,261</u>
<u>\$ 3,433,244</u>	<u>\$ 153,875</u>	<u>\$ 796,914</u>	<u>\$ 4,384,033</u>	<u>\$ -</u>	<u>\$ 13,284,481</u>

ARCA
Consolidating Statement of Financial Position
June 30, 2015

	ARCA	Foundation	Eliminating Entries	Consolidated
Assets				
Current assets				
Cash and cash equivalents	\$ 2,988,337	\$ 1,076,392	\$ -	\$ 4,064,729
Investments	-	1,776,317	-	1,776,317
Accounts receivable	3,240,952	-	(52,112)	3,188,840
Unconditional promises to give	-	103,379	-	103,379
Prepaid expenses	491,404	3,152	-	494,556
Total current assets	<u>6,720,693</u>	<u>2,959,240</u>	<u>(52,112)</u>	<u>9,627,821</u>
Property, furniture and equipment, net	<u>8,625,129</u>	<u>36,900</u>	<u>-</u>	<u>8,662,029</u>
Other Assets				
Restricted deposits and funded reserves				
Cash held in trust for persons served	263,980	1,411,718	-	1,675,698
Unconditional promises to give - non-current, net of discount	-	992	-	992
Investment - quasi endowment	-	242,330	-	242,330
Investment - permanently restricted endowment	-	784,423	-	784,423
Accrued interest and other assets	1,766	-	-	1,766
Total other assets	<u>265,746</u>	<u>2,439,463</u>	<u>-</u>	<u>2,705,209</u>
Total assets	<u>\$ 15,611,568</u>	<u>\$ 5,435,603</u>	<u>\$ (52,112)</u>	<u>\$ 20,995,059</u>

ARCA
Consolidating Statement of Financial Position – continued
June 30, 2015

	ARCA	Foundation	Eliminating Entries	Consolidated
Liabilities and Net Assets				
Current liabilities				
Accounts payable	\$ 562,904	\$ 53,107	\$ (52,112)	\$ 563,899
Accrued liabilities:				
Salaries and payroll taxes	679,784	-	-	679,784
Compensated absences	847,121	-	-	847,121
Mortgage interest	6,025	-	-	6,025
Deferred revenue	244,696	-	-	244,696
Current portion of long-term debt	238,999	-	-	238,999
Total current liabilities	<u>2,579,529</u>	<u>53,107</u>	<u>(52,112)</u>	<u>2,580,524</u>
Long-term Liabilities				
Long-term debt, less current portion	3,299,026	-	-	3,299,026
Cash held in trust for persons served	263,980	1,411,718	-	1,675,698
Other long-term liabilities	4,550	-	-	4,550
Total long-term liabilities	<u>3,567,556</u>	<u>1,411,718</u>	<u>-</u>	<u>4,979,274</u>
Total liabilities	<u>6,147,085</u>	<u>1,464,825</u>	<u>(52,112)</u>	<u>7,559,798</u>
Net assets				
Unrestricted:				
Undesignated	4,889,682	1,469,391	-	6,359,073
Board designated - quasi endowment	-	242,330	-	242,330
Board designated	4,491,398	1,281,454	-	5,772,852
Total unrestricted	<u>9,381,080</u>	<u>2,993,175</u>	<u>-</u>	<u>12,374,255</u>
Temporarily restricted	83,403	193,180	-	276,583
Permanently restricted	-	784,423	-	784,423
Total net assets	<u>9,464,483</u>	<u>3,970,778</u>	<u>-</u>	<u>13,435,261</u>
Total liabilities and net assets	<u>\$ 15,611,568</u>	<u>\$ 5,435,603</u>	<u>\$ (52,112)</u>	<u>\$ 20,995,059</u>

ARCA
Consolidating Statement of Activities
For the Year Ended June 30, 2015

	ARCA <u>Unrestricted</u>	ARCA Temporarily Restricted	ARCA Permanently Restricted	<u>Totals</u>
Public Support and Revenue				
Public support				
Government funding:				
NM Department of Health and Human Services	\$ 816,514	\$ -	\$ -	\$ 816,514
NM Children, Youth and Families Department	2,176,352	-	-	2,176,352
U.S. Department of Transportation	178,463	-	-	178,463
Private contracts	587,643	-	-	587,643
Contributions	125,434	-	-	125,434
Grants	346,523	28,544	-	375,067
Total public support	<u>4,230,929</u>	<u>28,544</u>	<u>-</u>	<u>4,259,473</u>
Revenue				
Medicaid waiver	14,172,881	-	-	14,172,881
Medicaid ICF/MR	8,396,662	-	-	8,396,662
Fees and rent	1,508,872	-	-	1,508,872
Investment income (loss):				
Endowment fund	-	-	-	-
Other investments	-	-	-	-
	<u>24,078,415</u>	<u>-</u>	<u>-</u>	<u>24,078,415</u>
Interest income from cash and cash equivalents	1,221	-	-	1,221
Other	15,062	-	-	15,062
Contracts and sales	35,080	-	-	35,080
Total revenue	<u>24,129,778</u>	<u>-</u>	<u>-</u>	<u>24,129,778</u>
Net Assets Released from Restrictions				
Donor and time restrictions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total public support and revenue	<u>28,360,707</u>	<u>28,544</u>	<u>-</u>	<u>28,389,251</u>

ARCA
Consolidating Statement of Activities - continued
For the Year Ended June 30, 2015

Foundation Unrestricted	Foundation Temporarily Restricted	Foundation Permanently Restricted	Totals	Eliminating Entries	Totals
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 816,514
-	-	-	-	-	2,176,352
-	-	-	-	-	178,463
-	-	-	-	-	587,643
987,951	158,904	7,875	1,154,730	(146,019)	1,134,145
14,585	-	-	14,585	(343,115)	46,537
<u>1,002,536</u>	<u>158,904</u>	<u>7,875</u>	<u>1,169,315</u>	<u>(489,134)</u>	<u>4,939,654</u>
-	-	-	-	-	14,172,881
-	-	-	-	-	8,396,662
-	-	-	-	-	1,508,872
(7,821)	-	-	(7,821)	-	(7,821)
1,285	-	-	1,285	-	1,285
(6,536)	-	-	(6,536)	-	24,071,879
-	-	-	-	-	1,221
26,167	-	-	26,167	-	41,229
220	-	-	220	(25,636)	9,664
<u>19,851</u>	<u>-</u>	<u>-</u>	<u>19,851</u>	<u>(25,636)</u>	<u>24,123,993</u>
<u>266,063</u>	<u>(266,063)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>1,288,450</u>	<u>(107,159)</u>	<u>7,875</u>	<u>1,189,166</u>	<u>(514,770)</u>	<u>29,063,647</u>

ARCA
Consolidating Statement of Activities - continued
For the Year Ended June 30, 2015

	ARCA Unrestricted	ARCA Temporarily Restricted	ARCA Permanently Restricted	Totals
Expenses				
Program services:				
Community services	16,636,579	-	-	16,636,579
InterCare	7,362,775	-	-	7,362,775
Business enterprises	186,070	-	-	186,070
Total program expenses	<u>24,185,424</u>	<u>-</u>	<u>-</u>	<u>24,185,424</u>
Supporting services:				
Management and general	3,340,293	-	-	3,340,293
Fundraising	42,310	-	-	42,310
Total supporting expenses	<u>3,382,603</u>	<u>-</u>	<u>-</u>	<u>3,382,603</u>
Total expenses	<u>27,568,027</u>	<u>-</u>	<u>-</u>	<u>27,568,027</u>
Change in net assets	792,680	28,544	-	821,224
Net assets, beginning of year	<u>8,588,400</u>	<u>54,859</u>	<u>-</u>	<u>8,643,259</u>
Net assets, end of year	<u>\$ 9,381,080</u>	<u>\$ 83,403</u>	<u>\$ -</u>	<u>\$ 9,464,483</u>

ARCA
Consolidating Statement of Activities - continued
For the Year Ended June 30, 2015

Foundation Unrestricted	Foundation Temporarily Restricted	Foundation Permanently Restricted	Totals	Eliminating Entries	Totals
-	-	-	-	22,492	16,659,071
-	-	-	-	-	7,362,775
513,455	-	-	513,455	(513,455)	186,070
<u>513,455</u>	<u>-</u>	<u>-</u>	<u>513,455</u>	<u>(490,963)</u>	<u>24,207,916</u>
60,934	-	-	60,934	(23,807)	3,377,420
84,803	-	-	84,803	-	127,113
<u>145,737</u>	<u>-</u>	<u>-</u>	<u>145,737</u>	<u>(23,807)</u>	<u>3,504,533</u>
<u>659,192</u>	<u>-</u>	<u>-</u>	<u>659,192</u>	<u>(514,770)</u>	<u>27,712,449</u>
629,258	(107,159)	7,875	529,974	-	1,351,198
<u>2,363,917</u>	<u>300,339</u>	<u>776,548</u>	<u>3,440,804</u>	<u>-</u>	<u>12,084,063</u>
<u>\$ 2,993,175</u>	<u>\$ 193,180</u>	<u>\$ 784,423</u>	<u>\$ 3,970,778</u>	<u>\$ -</u>	<u>\$ 13,435,261</u>