

**THE ARC GATEWAY, INC.**  
**PENSACOLA, FLORIDA**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015 AND 2014**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
The Arc Gateway, Inc.  
Pensacola, Florida

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of The Arc Gateway, Inc. (a nonprofit organization), which comprise the consolidated statements of financial position as of September 30, 2015 and 2014, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 risk 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 entity'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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

Board of Directors  
The Arc Gateway, Inc.

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 The Arc Gateway, Inc. as of September 30, 2015 and 2014, 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.

### **Other Matters**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information on pages 21-27 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The schedule of expenditures of state financial assistance on page 28, as required by Chapter 10.650, Rules of the Auditor General, is presented for purposes of additional analysis and is 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 audits of the consolidated financial statements and certain other 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.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2016, on our consideration of The Arc Gateway, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Arc Gateway, Inc.'s internal control over financial reporting and compliance.



Pensacola, Florida  
January 27, 2016

**THE ARC GATEWAY, INC.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**SEPTEMBER 30, 2015 AND 2014**

**ASSETS**

	2015	2014
Cash and cash equivalents	\$ 505,524	\$ 648,606
Investments	643,864	713,542
Accounts receivable, net	667,642	641,753
Inventories	109,434	107,354
Prepaid expenses and other assets	61,302	51,760
Property and equipment, net	3,110,829	2,280,911
<b>Total Assets</b>	<b>\$ 5,098,595</b>	<b>\$ 4,443,926</b>

**LIABILITIES AND NET ASSETS**

**Liabilities:**

Borrowings under line of credit	\$ 100,000	\$ -
Accounts payable	277,604	100,366
Accrued expenses	246,659	217,322
Refundable advances	165,047	538,603
Capital lease obligation	18,322	27,123
Long-term debt	171,812	83,472
Total liabilities	979,444	966,886

**Commitments and Contingencies**

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**Net Assets:**

Unrestricted	3,715,193	3,049,182
Temporarily restricted	117,303	117,303
Permanently restricted	286,655	310,555
Total net assets	4,119,151	3,477,040

**Total Liabilities and Net Assets**

	<b>\$ 5,098,595</b>	<b>\$ 4,443,926</b>
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The accompanying notes are an integral  
part of these consolidated financial statements.

**THE ARC GATEWAY, INC.**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**  
**YEARS ENDED SEPTEMBER 30, 2015 AND 2014**

	2015	2014
<b>Changes in Unrestricted Net Assets:</b>		
Revenue, Support and Reclassifications:		
Medicaid -		
Developmental Disabilities Individual Budgeting waivers	\$ 2,965,426	\$ 2,795,208
Omnibus Budget Reconciliation Act (OBRA)	197,443	166,317
Federal and state grants	2,627,789	279,205
Department of Transportation contracts	657,589	636,349
Noncontract funding	247,170	232,440
Other contracts and financial assistance	254,141	253,123
Private insurance	406,288	274,643
Program income	102,023	99,691
Sales to public (net of direct costs of \$288,044 in 2015 and \$271,407 in 2014)	631,638	627,486
United Way	98,045	113,407
Public support contributions	345,455	385,474
Special events	392,835	372,015
Membership revenue	20,795	20,539
Investment income, including unrealized gains and losses	(332)	9,017
Miscellaneous	72,408	72,041
Net assets released from restrictions	40,733	11,319
	<b>9,059,446</b>	<b>6,348,274</b>
Expenses:		
Program Services -		
Pollak Training Center	1,004,866	941,693
Pollak Industries	612,655	600,883
Community Based Employment	937,076	922,277
Employment Services	112,623	118,242
Pearl Nelson Child Development Center	993,698	937,137
Group Homes	1,445,095	1,458,328
Supported Living	164,556	178,331
Senior Adult Program	152,812	138,108
Transportation	545,434	470,710
Program for Adult Learning and Support	1,928,551	14,799
	<b>7,897,366</b>	<b>5,780,508</b>

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

**THE ARC GATEWAY, INC.**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**  
**YEARS ENDED SEPTEMBER 30, 2015 AND 2014**  
**(Continued)**

	2015	2014
<b>Changes in Unrestricted Net Assets (Continued):</b>		
Expenses (Continued):		
Supporting Services -		
Fund raising	\$ 123,657	\$ 114,594
General and administrative -		
General	322,490	315,431
Maintenance	49,922	49,944
Total supporting services	496,069	479,969
 Total expenses	 8,393,435	 6,260,477
 Change in unrestricted net assets	 666,011	 87,797
<b>Changes in Temporarily Restricted Net Assets:</b>		
Public support contributions	15,733	14,498
Net assets released from restriction	(15,733)	(11,319)
 Change in temporarily restricted net assets	 -	 3,179
<b>Change in Permanently Restricted Net Assets:</b>		
Public support contributions	1,100	1,150
Net assets released from restriction	(25,000)	-
 Change in permanently restricted net assets	 (23,900)	 1,150
 <b>Change in Net Assets</b>	 642,111	 92,126
 <b>Net Assets, Beginning of Year</b>	 3,477,040	 3,384,914
 <b>Net Assets, End of Year</b>	 \$ 4,119,151	 \$ 3,477,040

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

**THE ARC GATEWAY, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED SEPTEMBER 30, 2015 AND 2014**

	2015	2014
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ 642,111	\$ 92,126
Adjustments to reconcile change in net assets to net cash provided by operating activities -		
Depreciation	299,027	210,799
Donation of property and equipment	(10,775)	(13,195)
Donation of common stock	-	(25,138)
Unrealized loss on investments	12,700	2,531
Contributions restricted for long-term purposes	(1,100)	(1,150)
Changes in operating assets and liabilities -		
Accounts receivable	(25,889)	(3,263)
Inventories	(2,080)	(13,319)
Prepaid expenses and other assets	(9,542)	(24,416)
Accounts payable	79,968	18,051
Accrued expenses	29,337	23,793
Refundable advances	(373,556)	498,238
Net cash provided by operating activities	640,201	765,057
<b>Cash Flows From Investing Activities:</b>		
Purchase of property and equipment	(898,412)	(261,105)
Purchase of investments, including reinvested earnings	(59,387)	(361,049)
Proceeds from sale and maturities of investments	116,365	129,922
Net cash used in investing activities	(841,434)	(492,232)
<b>Cash Flows From Financing Activities:</b>		
Net change in line of credit	100,000	(100,000)
Proceeds from long-term debt	18,000	-
Principal payments of long-term debt	(52,148)	(90,399)
Principal payments on capital lease obligation	(8,801)	(8,463)
Contributions to permanent endowments	1,100	1,150
Net cash provided by (used in) financing activities	58,151	(197,712)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(143,082)	75,113
<b>Cash and Cash Equivalents, Beginning of Year</b>	648,606	573,493
<b>Cash and Cash Equivalents, End of Year</b>	\$ 505,524	\$ 648,606
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash paid during the year for interest	\$ 5,207	\$ 9,169
<b>Supplemental Disclosure of Noncash Investing and Financing Activities:</b>		
Assumption of debt for the purchase of vehicles	\$ 122,488	\$ 77,835
Purchase of property in accounts payable	\$ 97,270	\$ -

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



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**THE ARC GATEWAY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015 AND 2014**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Organization:*

The Arc Gateway, Inc. (ARC) was formed for the purpose of providing assistance to and enhancing the social welfare of people with developmental disabilities in the community. The accompanying consolidated financial statements include the assets, liabilities, net assets, and financial activities of three related entities: the Escambia County Association for Retarded Citizens Trust (the Trust), Pollak Rehabilitation Center, Inc. (PRC, Inc.), and the Arc Gateway Foundation, Inc. (the Foundation).

The Trust is a perpetual, public charitable trust, which distributes its net income annually to ARC. Contributions received by the Trust are permanently restricted and become part of the Trust corpus. In August 2015, the trust agreement was amended to allow ARC to use \$25,000 from the trust principal. Accordingly, permanently restricted net assets were released from restriction and contributed to ARC.

PRC, Inc. is a title holding company whose function is to own and lease-back real property to ARC.

The Foundation is a support organization whose sole purpose is to raise, invest, and manage funds specifically to support programs and services of ARC. Unrestricted contributions received by the Foundation may be disbursed to ARC with approval of the Foundation's Board of Directors. Temporarily restricted contributions received by the Foundation are held until the time restrictions have ended.

*Principles of Consolidated Financial Statements:*

The accompanying consolidated financial statements include the accounts of ARC and its related entities, the Trust, PRC, Inc., and the Foundation as those entities are controlled by the same management and share economic interests. All inter-entity transactions have been eliminated in consolidation.

*Basis of Accounting:*

The consolidated financial statements of ARC have been prepared using the accrual basis of accounting, which recognizes revenue when earned and expenses as incurred, and may involve the use of management estimates. Federal, state and local government and public grants are recorded as support when performance occurs under the terms of the grant agreement. Grant monies received for which performance has not yet occurred and contributions received for special events that have not yet taken place are recorded as refundable advances.

*Use of Estimates:*

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

**THE ARC GATEWAY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015 AND 2014**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Financial Statement Presentation:*

ARC reports information regarding financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Net assets are classified based on externally imposed restrictions, if any, that may or may not be met by actions of management or by the passage of time.

*Medicaid:*

ARC receives a substantial amount of its support from the Agency for Persons with Disabilities (APD) under the Developmental Disabilities Individual Budgeting waivers (DDIB). The DDIB waivers provide services to individuals with developmental disabilities to assist them to live in their home or the community. Medicaid reimbursement for DDIB waiver services is based on rates incorporated into rule. Services included under the DDIB waivers include adult day training, respite, supported living coaching, supported employment, and transportation. The DDIB waivers also provide residential habilitation and companion services.

*Contributions:*

ARC records contributions received as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Unconditional promises to give are recorded as received. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. An allowance for uncollectible pledges is provided based on management's evaluation of potential uncollectible pledges receivable at year end. Conditional promises to give are not included as support until the conditions are substantially met.

**THE ARC GATEWAY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015 AND 2014**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*In-Kind Donations:*

Significant services, materials and facilities are donated to ARC by various individuals and organizations. Donated services, materials and occupancy of \$123,901 and \$138,655 for the years ended September 30, 2015 and 2014, respectively, were recorded at fair value at the date of donation, and have been included in revenue and expenses, or capitalized where applicable, in the period received.

*Cash Equivalents:*

ARC considers all highly liquid investment instruments with original maturities of three months or less as cash equivalents, excluding amounts whose use is temporarily or permanently restricted.

*Investments:*

Investments consist of certificates of deposit that mature within one to three years of purchase and exchange traded funds. Donated stock is valued at the estimated fair value on the date of the donation. Certificates of deposit are stated at cost plus earnings. Exchange traded funds are stated at fair value. Interest income, dividends, and unrealized gains and losses are reflected in the consolidated statements of activities.

*Inventories:*

Inventories are stated at the lower of cost or market. Cost is determined on the first-in, first-out (FIFO) method.

*Accounts Receivable:*

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

ARC has established an allowance for contractual adjustments that result from differences between the amounts billed and the expected realizable amounts. Actual adjustments between the amounts billed and the amounts received are charged against the allowance. Revenues are reported net of estimated contractual adjustments in the period services are rendered.

**THE ARC GATEWAY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015 AND 2014**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Property and Equipment:*

Property and equipment are carried at cost. Donated property is valued at the estimated fair value on the date of the donation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period. The cost of maintenance and repairs is charged to expense as incurred; renewals and betterments exceeding \$1,000 are capitalized. Estimated useful lives of property and equipment range as follows:

Buildings	3 - 45 years
Equipment, furniture and fixtures	3 - 20 years
Vehicles	3 - 10 years

*General and Administrative Expenses:*

General and administrative expenses, net of general and administrative revenue, are allocated to the various programs based on each program's percentage of direct expenses to total direct expenses.

*Income Taxes:*

ARC, the Trust, and the Foundation are not-for-profit organizations exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). PRC, Inc. is a not-for-profit organization exempt from federal income taxes under Internal Revenue Code Section 501(c)(2). Income from certain activities not directly related to ARC's tax-exempt purpose is subject to taxation as unrelated business income.

*Subsequent Events:*

Management has evaluated subsequent events through January 27, 2016, which is the date the consolidated financial statements were available to be issued.

**THE ARC GATEWAY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015 AND 2014**

**NOTE 2 - INVESTMENTS**

Investments are summarized as follows:

	<u>Cost</u>	<u>Carrying Amount</u>
<b>September 30, 2015 -</b>		
Unrestricted:		
Certificates of deposit	\$ 12,581	\$ 12,581
Exchange traded funds	343,854	331,154
	<u>356,435</u>	<u>343,735</u>
Temporarily restricted:		
Certificate of deposit	28,983	28,983
Permanently restricted:		
Certificates of deposit	<u>271,146</u>	<u>271,146</u>
Total investments	<u>\$ 656,564</u>	<u>\$ 643,864</u>
 <b>September 30, 2014 -</b>		
Unrestricted:		
Certificates of deposit	\$ 34,957	\$ 34,957
Exchange traded funds	341,983	339,452
	<u>376,940</u>	<u>374,409</u>
Temporarily restricted:		
Certificate of deposit	28,983	28,983
Permanently restricted:		
Certificates of deposit	<u>310,150</u>	<u>310,150</u>
Total investments	<u>\$ 716,073</u>	<u>\$ 713,542</u>

**THE ARC GATEWAY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015 AND 2014**

**NOTE 2 - INVESTMENTS (Continued)**

The following schedule summarizes the investment return and its classification in the consolidated statements of activities:

	2015	2014
Unrestricted:		
Interest, dividends, and realized gain (loss)	\$ 12,368	\$ 11,548
Unrealized loss	(12,700)	(2,531)
Total investment return	\$ (332)	\$ 9,017

**NOTE 3 - FAIR VALUE MEASUREMENTS**

Financial Accounting Standards Board Accounting Standards Codification (ASC) 820, *Fair Value Measurements*, defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The guidance establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset.

ASC 820 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. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Three levels of inputs may be used to measure fair value:

Level 1: Observable inputs such as quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Exchange traded funds are classified as Level 1 as they are traded in an active market for which closing prices are readily available.

**THE ARC GATEWAY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015 AND 2014**

**NOTE 3 - FAIR VALUE MEASUREMENTS (Continued)**

The following table presents the financial instruments carried at fair value:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Exchange traded funds:				
U.S. Large Cap	\$ 115,013	\$ -	\$ -	\$ 115,013
U.S. Mid Cap	16,427	-	-	16,427
U.S. Small Cap	12,995	-	-	12,995
Non-U.S. Developing				
Market Equity	29,634	-	-	29,634
Investment Grade Intermediate				
Maturity Fixed Income	109,252	-	-	109,252
Investment Grade Short				
Maturity Fixed Income	17,455	-	-	17,455
Non-Investment Grade				
Fixed Income	30,378	-	-	30,378
	<u>331,154</u>	<u>-</u>	<u>-</u>	<u>331,154</u>
Total, September 30, 2015	<u>\$ 331,154</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 331,154</u>
Exchange traded funds:				
U.S. Large Cap	\$ 106,108	\$ -	\$ -	\$ 106,108
U.S. Mid Cap	16,455	-	-	16,455
U.S. Small Cap	13,013	-	-	13,013
Non-U.S. Developing				
Market Equity	33,150	-	-	33,150
Investment Grade Intermediate				
Maturity Fixed Income	79,214	-	-	79,214
Investment Grade Short				
Maturity Fixed Income	13,823	-	-	13,823
Non-Investment Grade				
Fixed Income	23,625	-	-	23,625
Global Fixed Income Strategies	30,180	-	-	30,180
Alternative Strategies	23,884	-	-	23,884
	<u>339,452</u>	<u>-</u>	<u>-</u>	<u>339,452</u>
Total, September 30, 2014	<u>\$ 339,452</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 339,452</u>



**THE ARC GATEWAY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015 AND 2014**

**NOTE 4 - ACCOUNTS RECEIVABLE**

Accounts receivable are summarized as follows:

	<u>2015</u>	<u>2014</u>
Funding agencies	\$ 395,426	\$ 394,027
Private insurance, net of allowance for contractual adjustments of \$266,432 in 2015 and \$208,285 in 2014	165,940	138,173
Trade, net of allowance for uncollectible accounts of \$17,086 in 2015 and 2014	93,394	95,757
Other	<u>12,882</u>	<u>13,796</u>
	<u>\$ 667,642</u>	<u>\$ 641,753</u>

**NOTE 5 - PROPERTY AND EQUIPMENT**

Property and equipment are summarized as follows:

	<u>2015</u>	<u>2014</u>
Land	\$ 674,589	\$ 541,608
Buildings	4,101,769	3,516,923
Equipment, furniture and fixtures	891,629	880,871
Vehicles	<u>931,942</u>	<u>698,263</u>
	6,599,929	5,637,665
Less accumulated depreciation	<u>3,489,100</u>	<u>3,356,754</u>
	<u>\$ 3,110,829</u>	<u>\$ 2,280,911</u>

Depreciation expense was \$299,027 and \$210,799 for the years ended September 30, 2015 and 2014, respectively.

**THE ARC GATEWAY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015 AND 2014**

**NOTE 6 - BORROWINGS UNDER LINE OF CREDIT**

ARC has a line of credit with a financial institution for \$250,000. The line of credit is secured by accounts maintained at the financial institution and accrues interest at prime, which is a variable rate of interest. The line has no stated maturity date and any amounts outstanding are due on demand. As of September 30, 2015, outstanding borrowings under the line of credit were \$100,000 and the interest rate was 3.25%. There were no amounts outstanding as of September 30, 2014.

**NOTE 7 - REFUNDABLE ADVANCES**

Refundable advances represent grant monies received for which performance has not yet occurred and contributions received for special events that have not yet taken place. These amounts are potential refunds should ARC default on the contractual arrangements. Refundable advances are summarized as follows:

	<u>2015</u>	<u>2014</u>
Program for Adult Learning and Support	\$ 103,682	\$ 486,332
Wreaths of Joy	60,000	45,500
Other	<u>1,365</u>	<u>6,771</u>
	<u>\$ 165,047</u>	<u>\$ 538,603</u>

**NOTE 8 - CAPITAL LEASE OBLIGATION**

ARC leases certain office equipment under an agreement that is classified as a capital lease. The cost of equipment under the capital lease was \$41,778 and is included in the consolidated statements of financial position as property and equipment at September 30, 2015 and 2014. Accumulated amortization of the leased equipment at September 30, 2015 and 2014 was \$23,675 and \$15,319, respectively. Amortization of assets under capital lease is included in depreciation expense.

**THE ARC GATEWAY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015 AND 2014**

**NOTE 8 - CAPITAL LEASE OBLIGATION (Continued)**

The future minimum lease payments required under the capital lease and the present value of the net minimum lease payments as of September 30, 2015, are as follows:

Year Ending <u>September 30,</u>	
2016	\$ 9,576
2017	9,576
2018	<u>400</u>
Total minimum lease payments	19,552
Less amount representing interest	<u>1,230</u>
 Present value of minimum lease payments	 <u><u>\$ 18,322</u></u>

**NOTE 9 - LONG-TERM DEBT**

Long-term debt is summarized as follows:

	<u>2015</u>	<u>2014</u>
Notes payable to banks, aggregate monthly payments of \$6,309 including interest ranging from 1.79% to 3.69%, maturities through July 2020, secured by vehicles	\$ 156,828	\$ 83,472
Note payable to U.S Small Business Administration, monthly payments of \$345 including interest at 2.625%, matures in August 2019, secured by real estate	<u>14,984</u>	<u>-</u>
	<u><u>\$ 171,812</u></u>	<u><u>\$ 83,472</u></u>

**THE ARC GATEWAY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015 AND 2014**

**NOTE 9 - LONG-TERM DEBT (Continued)**

Maturities of long-term debt are as follows:

2016	\$ 70,478
2017	56,497
2018	28,485
2019	10,618
2020	<u>5,734</u>
Total	<u>\$ 171,812</u>

**NOTE 10 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS**

Temporarily restricted net assets at September 30, 2015 and 2014 include contributions that are restricted by a trust agreement for the relief of human suffering, but cannot be used for certain administrative expenses, and various other contributions restricted for specific program uses. Temporarily restricted net assets also include contributions that are restricted by the donor for dental and medical needs of clients of ARC, but can be used for general operations of ARC if deemed necessary. Annual distributions of these funds for dental and medical needs of clients of ARC are limited to 6% of the account's value. These restrictions may be met by the passage of time and actions of ARC. Temporarily restricted net assets are available for the following purposes:

	<u>2015</u>	<u>2014</u>
ARC mission - relief of human suffering - restricted to non-administrative expenses	\$ 28,983	\$ 28,983
ARC mission - client dental and medical needs - restricted to 6% annual distributions	29,520	28,288
Group home startup	9,781	20,000
Physical security of facilities	12,308	12,308
Other	<u>36,711</u>	<u>27,724</u>
	<u>\$ 117,303</u>	<u>\$ 117,303</u>

Permanently restricted net assets at September 30, 2015 and 2014 consist of endowment funds with donor imposed restrictions and contributions restricted within the Trust. These restrictions require the principal donation be kept intact permanently and maintained in separate deposit accounts. Income generated from ARC's endowment funds is restricted by the donor for specific purposes. Income generated from the Trust's assets is transferred to ARC each year and is unrestricted. As discussed in Note 1, \$25,000 was released from the Trust's permanently restricted net assets and contributed to ARC in August 2015.

**THE ARC GATEWAY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015 AND 2014**

**NOTE 10 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS (Continued)**

The following is a summary of permanently restricted net assets, categorized by the purpose for which earnings are expendable:

	<u>2015</u>	<u>2014</u>
Repair, maintenance, furnishing and operation of Pollak Training Center	\$ 18,500	\$ 18,500
Scholarships	20,000	20,000
Escambia County Association for Retarded Citizens Trust - ARC mission	<u>248,155</u>	<u>272,055</u>
	<u>\$ 286,655</u>	<u>\$ 310,555</u>

Changes in endowment net assets for the year ended September 30, 2015 were as follows:

	<u>ARC</u>	<u>Trust</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 38,500	\$ 272,055	\$ 310,555
Contributions	-	1,100	1,100
Investment income	606	1,806	2,412
Released from restriction	-	(25,000)	(25,000)
Amounts appropriated for expenditure	<u>(606)</u>	<u>(1,806)</u>	<u>(2,412)</u>
Endowment net assets, end of year	<u>\$ 38,500</u>	<u>\$ 248,155</u>	<u>\$ 286,655</u>

Changes in endowment net assets for the year ended September 30, 2014 were as follows:

	<u>ARC</u>	<u>Trust</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 38,500	\$ 270,905	\$ 309,405
Contributions	-	1,150	1,150
Investment income	425	2,116	2,541
Amounts appropriated for expenditure	<u>(425)</u>	<u>(2,116)</u>	<u>(2,541)</u>
Endowment net assets, end of year	<u>\$ 38,500</u>	<u>\$ 272,055</u>	<u>\$ 310,555</u>

**THE ARC GATEWAY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015 AND 2014**

**NOTE 10 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS (Continued)**

All restricted monies received by ARC shall be deposited only in federally insured financial institutions or in United States government obligations guaranteed by the full faith and credit of the United States government. ARC invests the endowments in certificates of deposit. The Trust shall invest assets solely in interest-bearing savings accounts or interest-bearing bonds, either and all of which shall be insured investments secured by the full faith and credit of the United States government or an agency thereof. The Trust invests its funds in certificates of deposit. The Foundation has no endowments or similar restrictions on investments.

**NOTE 11 - COMMITMENTS AND CONTINGENCIES**

*Medicaid Funding:*

ARC receives Medicaid funding which is subject to review by various regulatory agencies to determine program compliance. Subsequent to such review, ARC is potentially liable for repayment of claims and reimbursements made pursuant to the program which are found to be in violation of policy. Management has not been notified of any significant pending claims.

*Contingencies:*

ARC receives a substantial amount of its support from the Agency for Persons with Disabilities. A significant reduction in the level of this support, if this were to occur, may have an adverse effect on ARC's programs.

Grants require the fulfillment of certain conditions as set forth in the grant agreement. Failure to fulfill the conditions could result in the return of funds to grantors. Although that is a possibility, ARC's Board of Directors deems the contingency remote, since by acceptance of the grants and their terms, it has structured the objectives of ARC to meet the provisions of the grants.

In October 1994, ARC received a Community Development Block Grant (CDBG) for \$300,000 which funded a new building for ARC's Infant-Toddler Program. The grant restricts the use of the building to educational training and therapy of infants and toddlers, unless an alternate purpose is approved by CDBG administrators. During 2003, approval was received to utilize the building for alternative needs. Should the building be used for an unapproved purpose, grant funds must be returned to the grantor. To date, ARC has used the building for approved purposes.

**THE ARC GATEWAY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015 AND 2014**

**NOTE 11 - COMMITMENTS AND CONTINGENCIES (Continued)**

*Uninsured Cash Balances:*

ARC's cash balances held at financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to certain limits. At September 30, 2015, ARC's uninsured cash balance at financial institutions totaled approximately \$180,000.

*Concentration of Credit Risk - Revenue Sources:*

ARC receives revenue from various sources. Primary revenue providers and their approximate percentage of funding are as follows:

	<u>2015</u>	<u>2014</u>
Medicaid	35%	47%
Federal and State agencies	29%	3%
Other contracts and grants	13%	19%

Amounts due from Medicaid comprised 40% and 42% of total accounts receivable as of September 30, 2015 and 2014, respectively.

**NOTE 12 - RELATED PARTY TRANSACTIONS**

Various members of ARC's Board of Directors hold key positions with vendors used by ARC. Total expenditures to these vendors were \$623,333 and \$163,683 for the years ended September 30, 2015 and 2014, respectively.

**NOTE 13 - ALLOCATION OF FUNCTIONAL EXPENSES**

Direct costs associated with the various ARC programs have been summarized on a functional basis in the consolidated statements of activities. ARC general and administrative expenses have been allocated among the programs benefited based on a proportionate share of direct expenses.

Unallocated general and administrative expenses for the years ended September 30, 2015 and 2014 amounted to \$372,412 and \$365,375, respectively, and were offset by support and revenue included in contributions, special events, membership dues, and interest income.

## **SUPPLEMENTARY INFORMATION**



**THE ARC GATEWAY, INC.**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
**SEPTEMBER 30, 2015**  
**(With Comparative Totals for 2014)**

**ASSETS**

	ARC	PRC, Inc.	Trust	Foundation	Intercompany Transactions Eliminations	2015 Consolidated Total	2014 Consolidated Total
Cash and cash equivalents	\$ 229,622	\$ 44,852	\$ 18,154	\$ 212,896	\$ -	\$ 505,524	\$ 648,606
Investments	80,064	-	232,646	331,154	-	643,864	713,542
Accounts receivable, net	667,506	-	-	136	-	667,642	641,753
Accounts receivable-intercompany	541,128	615,247	-	27,538	(1,183,913)	-	-
Inventories	109,434	-	-	-	-	109,434	107,354
Prepaid expenses and other assets	60,172	30	-	1,100	-	61,302	51,760
Property and equipment, net	1,220,618	1,890,211	-	-	-	3,110,829	2,280,911
<b>Total Assets</b>	<b>\$ 2,908,544</b>	<b>\$ 2,550,340</b>	<b>\$ 250,800</b>	<b>\$ 572,824</b>	<b>\$ (1,183,913)</b>	<b>\$ 5,098,595</b>	<b>\$ 4,443,926</b>

**LIABILITIES AND NET ASSETS**

<b>Liabilities:</b>							
Borrowings under line of credit	\$ 100,000	\$ -	\$ -	\$ -	\$ -	\$ 100,000	\$ -
Accounts payable	277,604	-	-	-	-	277,604	100,366
Accounts payable-intercompany	642,785	513,498	2,645	24,985	(1,183,913)	-	-
Accrued expenses	246,659	-	-	-	-	246,659	217,322
Refundable advances	105,047	-	-	60,000	-	165,047	538,603
Capital lease obligation	18,322	-	-	-	-	18,322	27,123
Long-term debt	171,812	-	-	-	-	171,812	83,472
Total liabilities	1,562,229	513,498	2,645	84,985	(1,183,913)	979,444	966,886
<b>Commitments and Contingencies</b>	--	--	--	--	--	--	--
<b>Net Assets:</b>							
Unrestricted	1,221,132	2,036,842	-	457,219	-	3,715,193	3,049,182
Temporarily restricted	86,683	-	-	30,620	-	117,303	117,303
Permanently restricted	38,500	-	248,155	-	-	286,655	310,555
Total net assets	1,346,315	2,036,842	248,155	487,839	-	4,119,151	3,477,040
<b>Total Liabilities and Net Assets</b>	<b>\$ 2,908,544</b>	<b>\$ 2,550,340</b>	<b>\$ 250,800</b>	<b>\$ 572,824</b>	<b>\$ (1,183,913)</b>	<b>\$ 5,098,595</b>	<b>\$ 4,443,926</b>

**THE ARC GATEWAY, INC.**  
**CONSOLIDATING STATEMENT OF ACTIVITIES**  
**YEAR ENDED SEPTEMBER 30, 2015**  
**(With Comparative Totals for 2014)**

	ARC	PRC, Inc.	Trust	Foundation	Intercompany Transactions Eliminations	2015 Consolidated Total	2014 Consolidated Total
<b>Revenue and Support:</b>							
Medicaid -							
Developmental Disabilities Individual							
Budgeting waivers	\$ 2,965,426	\$ -	\$ -	\$ -	\$ -	\$ 2,965,426	\$ 2,795,208
Omnibus Budget Reconciliation Act (OBRA)	197,443	-	-	-	-	197,443	166,317
Federal and state grants	2,627,789	-	-	-	-	2,627,789	279,205
Department of Transportation contracts	657,589	-	-	-	-	657,589	636,349
Noncontract funding	247,170	-	-	-	-	247,170	232,440
Other contracts and financial assistance	254,141	-	-	-	-	254,141	253,123
Private insurance	406,288	-	-	-	-	406,288	274,643
Program income	102,023	-	-	-	-	102,023	99,691
Sales to public	631,638	-	-	-	-	631,638	627,486
United Way	98,045	-	-	-	-	98,045	113,407
Public support contributions	402,575	-	1,100	120,261	(161,648)	362,288	401,122
Special events	15,369	-	-	377,466	-	392,835	372,015
Membership revenue	20,795	-	-	-	-	20,795	20,539
Investment income, including unrealized							
gains and losses	1,033	67	2,550	(3,982)	-	(332)	9,017
Interest-intercompany	2,550	-	-	-	(2,550)	-	-
Miscellaneous	71,163	-	-	1,245	-	72,408	72,041
Contributions-intercompany	125,000	-	-	-	(125,000)	-	-
Staff reimbursement-intercompany	86,064	-	-	-	(86,064)	-	-
Repairs and maintenance-intercompany	47,409	-	-	-	(47,409)	-	-
Rent-intercompany	-	239,602	-	-	(239,602)	-	-
<b>Total Revenue and Support</b>	<b>8,959,510</b>	<b>239,669</b>	<b>3,650</b>	<b>494,990</b>	<b>(662,273)</b>	<b>9,035,546</b>	<b>6,352,603</b>
<b>Expenses:</b>							
Salaries	4,036,257	-	-	-	-	4,036,257	3,699,562
Employee benefits	453,480	-	-	-	-	453,480	400,536
Payroll taxes and workers compensation	409,137	-	-	-	-	409,137	376,702
Staff reimbursement-intercompany	-	-	-	83,664	(83,664)	-	-
Professional fees	1,639,288	3,000	-	5,000	-	1,647,288	292,855
Supplies and small equipment	334,950	-	-	4,215	-	339,165	166,560
Postage and freight	15,421	-	-	571	-	15,992	16,163
Interest	5,207	-	-	-	-	5,207	9,169
Interest distribution-intercompany	-	-	2,550	-	(2,550)	-	-

**THE ARC GATEWAY, INC.**  
**CONSOLIDATING STATEMENT OF ACTIVITIES**  
**YEAR ENDED SEPTEMBER 30, 2015**  
**(With Comparative Totals for 2014)**  
**(Continued)**

	ARC	PRC, Inc.	Trust	Foundation	Intercompany Transactions Eliminations	2015 Consolidated Total	2014 Consolidated Total
<b>Expenses (Continued):</b>							
Occupancy	\$ 548,047	\$ 170,151	\$ -	\$ -	\$ (287,011)	\$ 431,187	\$ 346,436
Telephone	76,354	-	-	588	-	76,942	67,803
Equipment maintenance and rental	52,155	-	-	2,611	-	54,766	54,790
Printing and publication	48,374	-	-	126	-	48,500	32,879
Travel	35,611	-	-	2,400	(2,400)	35,611	39,309
Vehicle expense	319,946	-	-	-	-	319,946	280,924
Special events	11,555	-	-	92,520	(50,600)	53,475	53,310
Costs of direct benefits to donors	-	-	-	71,676	-	71,676	52,501
Client assistance	3,638	-	-	-	-	3,638	2,413
Dues and memberships	12,640	-	-	1,045	-	13,685	4,089
Assessments	38,960	-	-	-	-	38,960	59,977
Miscellaneous	27,225	19	-	12,252	-	39,496	93,700
Contributions-intercompany	-	-	25,000	211,048	(236,048)	-	-
Depreciation	205,248	93,779	-	-	-	299,027	210,799
<b>Total Expenses</b>	<b>8,273,493</b>	<b>266,949</b>	<b>27,550</b>	<b>487,716</b>	<b>(662,273)</b>	<b>8,393,435</b>	<b>6,260,477</b>
<b>Change in Net Assets</b>	<b>686,017</b>	<b>(27,280)</b>	<b>(23,900)</b>	<b>7,274</b>	<b>-</b>	<b>642,111</b>	<b>92,126</b>
<b>Net Assets, Beginning of Year</b>	<b>660,298</b>	<b>2,064,122</b>	<b>272,055</b>	<b>480,565</b>	<b>-</b>	<b>3,477,040</b>	<b>3,384,914</b>
<b>Net Assets, End of Year</b>	<b>\$ 1,346,315</b>	<b>\$ 2,036,842</b>	<b>\$ 248,155</b>	<b>\$ 487,839</b>	<b>\$ -</b>	<b>\$ 4,119,151</b>	<b>\$ 3,477,040</b>

**THE ARC GATEWAY, INC.**  
**CONSOLIDATING SCHEDULE OF FUNCTIONAL EXPENSES**  
**YEAR ENDED SEPTEMBER 30, 2015**  
**(With Comparative Totals for 2014)**

	<b>PROGRAM SERVICES</b>					
	Pollak Training Center	Pollak Industries	Community Based Employment	Employment Services	Pearl Nelson Child Development Center	Group Homes
Salaries	\$ 531,614	\$ 355,890	\$ 590,443	\$ 62,427	\$ 467,726	\$ 776,062
Employee benefits	89,174	37,987	49,484	12,599	37,884	121,141
Payroll taxes and workers compensation	52,022	34,313	60,202	6,391	47,707	79,053
Staff reimbursement - intercompany	-	-	-	-	-	-
Professional fees	14,599	7,301	10,777	1,559	230,737	20,894
Supplies and small equipment	21,135	6,576	30,550	904	12,673	91,783
Postage and freight	2,725	1,359	36	61	922	170
Interest	184	129	55	92	183	1,654
Interest distribution - intercompany	-	-	-	-	-	-
Occupancy	132,324	83,518	29,432	10,623	73,331	146,469
Telephone	5,980	3,913	4,108	3,586	9,981	16,140
Equipment maintenance and rental	5,108	5,913	8,018	1,026	6,155	3,787
Printing and publication	21,243	211	-	-	75	115
Travel	-	88	1,095	3,993	13,033	357
Vehicle expense	21,891	9,206	37,771	-	-	46,414
Special events	900	776	448	-	394	108
Costs of direct benefits to donors	-	-	-	-	-	-
Client assistance	-	10	-	30	-	500
Dues and memberships	1,444	-	-	-	500	329
Assessments	-	-	38,960	-	-	-
Miscellaneous	4,185	3,859	-	49	1,995	1,988
Contributions - intercompany	-	-	-	-	-	-
Depreciation	19,177	10,570	6,483	966	17,019	31,411
Total Direct Expenses	<u>923,705</u>	<u>561,619</u>	<u>867,862</u>	<u>104,306</u>	<u>920,315</u>	<u>1,338,375</u>
Allocation of intercompany expenses from consolidation	15,670	9,850	13,359	1,605	14,162	20,597
Total Direct Expenses, net	<u>939,375</u>	<u>571,469</u>	<u>881,221</u>	<u>105,911</u>	<u>934,477</u>	<u>1,358,972</u>
Allocation of general and administration expenses	65,491	41,186	55,855	6,712	59,221	86,123
Total Expenses	<u>\$ 1,004,866</u>	<u>\$ 612,655</u>	<u>\$ 937,076</u>	<u>\$ 112,623</u>	<u>\$ 993,698</u>	<u>\$ 1,445,095</u>

**THE ARC GATEWAY, INC.**  
**CONSOLIDATING SCHEDULE OF FUNCTIONAL EXPENSES**  
**YEAR ENDED SEPTEMBER 30, 2015**  
**(With Comparative Totals for 2014)**  
**(Continued)**

**PROGRAM SERVICES**

	Supported Living	Senior Adult Program	Transportation	Program for Adult Learning and Support	Program Services Total
Salaries	\$ 93,637	\$ 100,946	\$ 223,680	\$ 253,066	\$ 3,455,491
Employee benefits	18,715	12,627	16,761	16,169	412,541
Payroll taxes and workers compensation	9,887	9,901	22,695	27,280	349,451
Staff reimbursement - intercompany	-	-	-	-	-
Professional fees	2,362	1,770	7,142	1,284,273	1,581,414
Supplies and small equipment	464	3,282	3,968	147,351	318,686
Postage and freight	56	-	1	742	6,072
Interest	92	-	1,920	-	4,309
Interest distribution - intercompany	-	-	-	-	-
Occupancy	11,510	11,800	6,190	9,135	514,332
Telephone	4,951	805	10,669	5,121	65,254
Equipment maintenance and rental	784	32	1,185	399	32,407
Printing and publication	-	-	551	2,838	25,033
Travel	8,927	99	26	3,454	31,072
Vehicle expense	-	-	167,335	35,142	317,759
Special events	-	200	-	-	2,826
Costs of direct benefits to donors	-	-	-	-	-
Client assistance	-	-	-	-	540
Dues and memberships	-	65	-	65	2,403
Assessments	-	-	-	-	38,960
Miscellaneous	59	-	156	50	12,341
Contributions - intercompany	-	-	-	-	-
Depreciation	959	-	42,874	49,262	178,721
Total Direct Expenses	<u>152,403</u>	<u>141,527</u>	<u>505,153</u>	<u>1,834,347</u>	<u>7,349,612</u>
Allocation of intercompany expenses from consolidation	2,346	2,178	7,775	28,232	115,774
Total Direct Expenses, net	<u>154,749</u>	<u>143,705</u>	<u>512,928</u>	<u>1,862,579</u>	<u>7,465,386</u>
Allocation of general and administration expenses	9,807	9,107	32,506	65,972	431,980
Total Expenses	<u>\$ 164,556</u>	<u>\$ 152,812</u>	<u>\$ 545,434</u>	<u>\$ 1,928,551</u>	<u>\$ 7,897,366</u>

**THE ARC GATEWAY, INC.**  
**CONSOLIDATING SCHEDULE OF FUNCTIONAL EXPENSES**  
**YEAR ENDED SEPTEMBER 30, 2015**  
**(With Comparative Totals for 2014)**  
**(Continued)**

**SUPPORTING SERVICES**

	Fund Raising	General & Administrative			Total Supporting Services	ARC Subtotal
	Dove Shops	General	Maintenance	General & Administrative Total		
Salaries	\$ 52,918	\$ 505,336	\$ 22,512	\$ 527,848	\$ 580,766	\$ 4,036,257
Employee benefits	112	34,663	6,164	40,827	40,939	453,480
Payroll taxes and workers compensation	5,674	51,821	2,191	54,012	59,686	409,137
Staff reimbursement - intercompany	-	-	-	-	-	-
Professional fees	1,417	55,750	707	56,457	57,874	1,639,288
Supplies and small equipment	2,541	12,396	1,327	13,723	16,264	334,950
Postage and freight	5,155	4,194	-	4,194	9,349	15,421
Interest	-	806	92	898	898	5,207
Interest distribution - intercompany	-	-	-	-	-	-
Occupancy	8,930	17,418	7,367	24,785	33,715	548,047
Telephone	617	7,959	2,524	10,483	11,100	76,354
Equipment maintenance and rental	631	18,480	637	19,117	19,748	52,155
Printing and publication	18,076	5,265	-	5,265	23,341	48,374
Travel	3,163	1,376	-	1,376	4,539	35,611
Vehicle expense	-	106	2,081	2,187	2,187	319,946
Special events	19	8,710	-	8,710	8,729	11,555
Costs of direct benefits to donors	-	-	-	-	-	-
Client assistance	-	3,098	-	3,098	3,098	3,638
Dues and memberships	45	10,192	-	10,192	10,237	12,640
Assessments	-	-	-	-	-	38,960
Miscellaneous	4,781	10,103	-	10,103	14,884	27,225
Contributions - intercompany	-	-	-	-	-	-
Depreciation	1,685	24,223	619	24,842	26,527	205,248
Total Direct Expenses	<u>105,764</u>	<u>771,896</u>	<u>46,221</u>	<u>818,117</u>	<u>923,881</u>	<u>8,273,493</u>
Allocation of intercompany expenses from consolidation	3,453	-	715	715	4,168	119,942
Total Direct Expenses, net	<u>109,217</u>	<u>771,896</u>	<u>46,936</u>	<u>818,832</u>	<u>928,049</u>	<u>8,393,435</u>
Allocation of general and administration expenses	14,440	(449,406)	2,986	(446,420)	(431,980)	-
Total Expenses	<u>\$ 123,657</u>	<u>\$ 322,490</u>	<u>\$ 49,922</u>	<u>\$ 372,412</u>	<u>\$ 496,069</u>	<u>\$ 8,393,435</u>

**THE ARC GATEWAY, INC.**  
**CONSOLIDATING SCHEDULE OF FUNCTIONAL EXPENSES**  
**YEAR ENDED SEPTEMBER 30, 2015**  
**(With Comparative Totals for 2014**  
**(Continued)**

	ARC	PRC, Inc.	Trust	Foundation	Eliminations	2015 Consolidated Total	2014 Consolidated Total
Salaries	\$ 4,036,257	\$ -	\$ -	\$ -	\$ -	\$ 4,036,257	\$ 3,699,562
Employee benefits	453,480	-	-	-	-	453,480	400,536
Payroll taxes and workers compensation	409,137	-	-	-	-	409,137	376,702
Staff reimbursement - intercompany	-	-	-	83,664	(83,664)	-	-
Professional fees	1,639,288	3,000	-	5,000	-	1,647,288	292,855
Supplies and small equipment	334,950	-	-	4,215	-	339,165	166,560
Postage and freight	15,421	-	-	571	-	15,992	16,163
Interest	5,207	-	-	-	-	5,207	9,169
Interest distribution - intercompany	-	-	2,550	-	(2,550)	-	-
Occupancy	548,047	170,151	-	-	(287,011)	431,187	346,436
Telephone	76,354	-	-	588	-	76,942	67,803
Equipment maintenance and rental	52,155	-	-	2,611	-	54,766	54,790
Printing and publication	48,374	-	-	126	-	48,500	32,879
Travel	35,611	-	-	2,400	(2,400)	35,611	39,309
Vehicle expense	319,946	-	-	-	-	319,946	280,924
Special events	11,555	-	-	92,520	(50,600)	53,475	53,310
Costs of direct benefits to donors	-	-	-	71,676	-	71,676	52,501
Client assistance	3,638	-	-	-	-	3,638	2,413
Dues and memberships	12,640	-	-	1,045	-	13,685	4,089
Assessments	38,960	-	-	-	-	38,960	59,977
Miscellaneous	27,225	19	-	12,252	-	39,496	93,700
Contributions - intercompany	-	-	25,000	211,048	(236,048)	-	-
Depreciation	205,248	93,779	-	-	-	299,027	210,799
Total Direct Expenses	<u>8,273,493</u>	<u>266,949</u>	<u>27,550</u>	<u>487,716</u>	<u>(662,273)</u>	<u>8,393,435</u>	<u>6,260,477</u>
Allocation of intercompany expenses from consolidation	<u>119,942</u>	<u>(266,949)</u>	<u>(27,550)</u>	<u>(487,716)</u>	<u>662,273</u>	<u>-</u>	<u>-</u>
Total Direct Expenses, net	<u>8,393,435</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,393,435</u>	<u>6,260,477</u>
Allocation of general and administration expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenses	<u>\$ 8,393,435</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,393,435</u>	<u>\$ 6,260,477</u>

**THE ARC GATEWAY, INC**  
**SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE**  
**YEAR ENDED SEPTEMBER 30, 2015**

<u>State Grantor/Pass-through Grantor, Project Title</u>	<u>CSFA Number</u>	<u>Contract / Grant Number</u>	<u>Expenditures</u>
<b><u>State of Florida,</u></b>			
<b><u>Agency for Persons with Disabilities</u></b>			
Program for Adult Learning and Support	67.036	WCX21	\$ 2,049,317
<b><u>State of Florida,</u></b>			
<b><u>Florida Housing Finance Corporation</u></b>			
<b>Passed Through Escambia County, Department of Community and Environment</b>			
State Housing Initiatives Partnership (SHIP)	52.901	RFA 2013-005	<u>109,860</u>
Total Expenditures of State Financial Assistance			<u><u>\$ 2,159,177</u></u>

Note: This schedule is presented on the accrual basis of accounting in accordance with generally accepted accounting principles.



**OTHER REPORTS AND SCHEDULE**

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
The Arc Gateway, Inc.  
Pensacola, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of The Arc Gateway, Inc. (a nonprofit organization) (the "Organization"), which comprise the consolidated statement of financial position as of September 30, 2015, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated January 27, 2016.

**Internal Control Over Financial Reporting**

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

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

Board of Directors  
The Arc Gateway, Inc.

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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



Pensacola, Florida  
January 27, 2016

**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR  
EACH MAJOR STATE PROJECT AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY CHAPTER 10.650,  
RULES OF THE AUDITOR GENERAL**

To the Board of Directors  
The Arc Gateway, Inc.  
Pensacola, Florida

**Report on Compliance for Each Major State Project**

We have audited The Arc Gateway, Inc.’s (the “Organization’s”) compliance with the types of compliance requirements described in the *Department of Financial Services’ State Projects Compliance Supplement* that could have a direct and material effect on the Organization’s major state project for the year ended September 30, 2015. The Organization’s major state project is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

**Management’s Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state project.

**Auditor’s Responsibility**

Our responsibility is to express an opinion on compliance for the Organization’s major state project based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.650, Rules of the Auditor General. Those standards and Chapter 10.650, Rules of the Auditor General, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state project occurred. An audit includes examining, on a test basis, evidence about the Organization’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major state project. However, our audit does not provide a legal determination of the Organization’s compliance.

### **Opinion on Each Major State Project**

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major state project for the year ended September 30, 2015.

### **Report on Internal Control Over Compliance**

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on the major state project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major state project and to test and report on internal control over compliance in accordance with Chapter 10.650, Rules of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Chapter 10.650, Rules of the Auditor General. Accordingly, this report is not suitable for any other purpose.



Pensacola, Florida  
January 27, 2016

**THE ARC GATEWAY, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED SEPTEMBER 30, 2015**

**A. SUMMARY OF AUDIT RESULTS**

1. The independent auditor's report expresses an unmodified opinion on the consolidated financial statements of The Arc Gateway, Inc.
2. No significant deficiencies in internal control relating to the audit of the consolidated financial statements are reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the consolidated financial statements of The Arc Gateway, Inc., which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major state project are reported in the Independent Auditor's Report on Compliance for Each Major State Project and on Internal Control Over Compliance Required by Chapter 10.650, Rules of the Auditor General.
5. The auditor's report on compliance for the major state project for The Arc Gateway, Inc. expresses an unmodified opinion.
6. There are no audit findings relative to the major state project for The Arc Gateway, Inc. which are required to be reported in accordance with Chapter 10.656, Rules of the Auditor General.
7. The project tested as major was:  
  
Program for Adult Learning and Support (CSFA No. 67.036).
8. The threshold for distinguishing Type A and B programs was \$300,000 for the major state project.

**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

There were no findings related to the consolidated financial statements which are required to be reported in accordance with *Government Auditing Standards*.

**C. FINDINGS AND QUESTIONED COSTS - MAJOR STATE PROJECT**

There were no findings and questioned costs relating to the major state project which are required to be reported in accordance with Chapter 10.650, Rules of the Auditor General.

**THE ARC GATEWAY, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED SEPTEMBER 30, 2015**  
**(Continued)**

**D. OTHER ISSUES**

No management letter is required because there were no findings required to be reported in the management letter.

No Summary Schedule of Prior Audit Findings is required because there were no prior audit findings related to state projects.

No Corrective Action Plan is required because there were no findings required to be reported under the Florida Single Audit Act.