

THE ARC GATEWAY, INC.
PENSACOLA, FLORIDA
CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

THE ARC GATEWAY, INC.
PENSACOLA, FLORIDA
CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

CONTENTS

	PAGE
Audited Financial Statements:	
Independent Auditor's Report	1
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7
Supplementary Information:	
Consolidating Financial Statements	21
Consolidating Schedule of Functional Expenses	24
Schedule of Expenditures of State Financial Assistance	28
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 <i>Government Auditing Standards</i>	29
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	31
Schedule of Findings and Questioned Costs	33

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, 2016 and 2015, 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, 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.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating financial statements are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies, and are not a required part of the consolidated financial statements. The schedule of expenditures of state financial assistance, as required by Chapter 10.650, Rules of the Auditor General, and the consolidating schedule of functional expenses 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 audits 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2017, 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 30, 2017

THE ARC GATEWAY, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2016 AND 2015

ASSETS

	2016	2015
Cash and cash equivalents	\$ 776,854	\$ 505,524
Investments	685,341	643,864
Accounts receivable, net	684,751	667,642
Inventories	119,763	109,434
Prepaid expenses and other assets	62,911	61,302
Property and equipment, net	3,526,337	3,110,829
Total Assets	\$ 5,855,957	\$ 5,098,595

LIABILITIES AND NET ASSETS

Liabilities:

Borrowings under line of credit	\$ -	\$ 100,000
Accounts payable	168,746	277,604
Accrued expenses	306,298	246,659
Refundable advances	433,272	165,047
Capital lease obligation	47,750	18,322
Long-term debt	115,250	171,812
Total liabilities	1,071,316	979,444

Commitments and Contingencies

--

Net Assets:

Unrestricted	4,378,015	3,715,193
Temporarily restricted	118,871	117,303
Permanently restricted	287,755	286,655
Total net assets	4,784,641	4,119,151

Total Liabilities and Net Assets

	\$ 5,855,957	\$ 5,098,595
--	---------------------	---------------------

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

THE ARC GATEWAY, INC.
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2016	2015
Changes in Unrestricted Net Assets:		
Revenue, Support and Reclassifications:		
Medicaid -		
Developmental Disabilities Individual Budgeting waivers	\$ 3,020,880	\$ 2,965,426
Omnibus Budget Reconciliation Act (OBRA)	190,394	197,443
Federal and state grants	2,141,519	2,627,789
Department of Transportation contracts	678,115	657,589
Noncontract funding	241,179	247,170
Other contracts and financial assistance	220,710	254,141
Private insurance	483,490	406,288
Program income	93,498	102,023
Sales to public (net of direct costs of \$276,138 in 2016 and \$288,044 in 2015)	627,588	631,638
United Way	97,491	98,045
Public support contributions	288,067	345,455
Special events	420,608	392,835
Membership revenue	19,469	20,795
Investment income, including unrealized gains and losses	35,119	(332)
Miscellaneous	38,074	72,408
Net assets released from restrictions	23,401	40,733
	8,619,602	9,059,446
Total revenue, support and reclassifications		
Expenses:		
Program Services -		
Pollak Training Center	969,585	1,004,866
Pollak Industries	665,386	612,655
Community Based Employment	914,652	937,076
Employment Services	115,163	112,623
Pearl Nelson Child Development Center	1,081,425	993,698
Group Homes	1,517,049	1,445,095
Supported Living	123,763	164,556
Senior Adult Program	189,865	152,812
Transportation	517,804	545,434
Program for Adult Learning and Support	1,447,674	1,928,551
	7,542,366	7,897,366
Total program services		

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

THE ARC GATEWAY, INC.
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED SEPTEMBER 30, 2016 AND 2015
(Continued)

	2016	2015
Changes in Unrestricted Net Assets (Continued):		
Expenses (Continued):		
Supporting Services -		
Fund raising	\$ 99,140	\$ 123,657
General and administrative -		
General	269,613	322,490
Maintenance	45,661	49,922
Total supporting services	414,414	496,069
Total expenses	7,956,780	8,393,435
Change in unrestricted net assets	662,822	666,011
Changes in Temporarily Restricted Net Assets:		
Public support contributions	24,969	15,733
Net assets released from restriction	(23,401)	(15,733)
Change in temporarily restricted net assets	1,568	-
Change in Permanently Restricted Net Assets:		
Public support contributions	1,100	1,100
Net assets released from restriction	-	(25,000)
Change in permanently restricted net assets	1,100	(23,900)
Change in Net Assets	665,490	642,111
Net Assets, Beginning of Year	4,119,151	3,477,040
Net Assets, End of Year	\$ 4,784,641	\$ 4,119,151

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, 2016 AND 2015

	2016	2015
Cash Flows From Operating Activities:		
Change in net assets	\$ 665,490	\$ 642,111
Adjustments to reconcile change in net assets to net cash provided by operating activities -		
Depreciation	412,596	299,027
Donation of property and equipment	(7,000)	(10,775)
Unrealized (gain) loss on investments	(8,286)	12,700
Loss on termination of capital lease	15,693	-
Contributions restricted for long-term purposes	(1,100)	(1,100)
Changes in operating assets and liabilities -		
Accounts receivable	(17,109)	(25,889)
Inventories	(10,329)	(2,080)
Prepaid expenses and other assets	(1,609)	(9,542)
Accounts payable	(108,858)	79,968
Accrued expenses	59,639	29,337
Refundable advances	268,225	(373,556)
Net cash provided by operating activities	1,267,352	640,201
Cash Flows From Investing Activities:		
Purchase of property and equipment	(768,778)	(898,412)
Purchase of investments, including reinvested earnings	(139,429)	(59,387)
Proceeds from sale and maturities of investments	106,238	116,365
Net cash used in investing activities	(801,969)	(841,434)
Cash Flows From Financing Activities:		
Net change in line of credit	(100,000)	100,000
Proceeds from long-term debt	-	18,000
Principal payments of long-term debt	(99,845)	(52,148)
Proceeds from capital lease incentive	16,758	-
Principal payments on capital lease obligation	(12,066)	(8,801)
Contributions to permanent endowments	1,100	1,100
Net cash provided by (used in) financing activities	(194,053)	58,151
Net Increase (Decrease) in Cash and Cash Equivalents	271,330	(143,082)
Cash and Cash Equivalents, Beginning of Year	505,524	648,606
Cash and Cash Equivalents, End of Year	\$ 776,854	\$ 505,524
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	\$ 8,291	\$ 5,207
Supplemental Disclosure of Noncash Investing and Financing Activities:		
Assumption of debt for the purchase of vehicles	\$ 43,283	\$ 122,488
Purchase of property in accounts payable	\$ -	\$ 97,270
Capital lease obligation incurred for office equipment	\$ 41,494	\$ -

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, 2016 AND 2015

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 investment 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, 2016 AND 2015

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. Pledges receivable were insignificant at September 30, 2016 and 2015.

THE ARC GATEWAY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In-Kind Donations:

Significant services, materials, vehicles and facilities are donated to ARC by various individuals and organizations. Donated services, materials, vehicles and occupancy of \$124,767 and \$123,901 for the years ended September 30, 2016 and 2015, 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 realized 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, 2016 AND 2015

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 30, 2017, which is the date the consolidated financial statements were available to be issued.

THE ARC GATEWAY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

NOTE 2 - INVESTMENTS

Investments are summarized as follows:

	<u>Cost</u>	<u>Carrying Amount</u>
September 30, 2016 -		
Unrestricted:		
Certificates of deposit	\$ 13,498	\$ 13,498
Exchange traded funds	351,563	359,850
	<u>365,061</u>	<u>373,348</u>
Temporarily restricted:		
Certificate of deposit	28,639	28,639
Permanently restricted:		
Certificates of deposit	<u>283,354</u>	<u>283,354</u>
Total investments	<u>\$ 677,054</u>	<u>\$ 685,341</u>
 September 30, 2015 -		
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>

THE ARC GATEWAY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

NOTE 2 - INVESTMENTS (Continued)

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

	2016	2015
Unrestricted:		
Interest, dividends, and realized gain (loss)	\$ 26,833	\$ 12,368
Unrealized gain (loss)	8,286	(12,700)
Total investment return	\$ 35,119	\$ (332)

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, 2016 AND 2015

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	\$ 121,115	\$ -	\$ -	\$ 121,115
U.S. Mid Cap	18,629	-	-	18,629
U.S. Small Cap	14,781	-	-	14,781
Non-U.S. Developing				
Market Equity	30,570	-	-	30,570
Investment Grade Intermediate				
Maturity Fixed Income	125,904	-	-	125,904
Investment Grade Short				
Maturity Fixed Income	17,599	-	-	17,599
Non-Investment Grade				
Fixed Income	31,252	-	-	31,252
	<u>359,850</u>	<u>-</u>	<u>-</u>	<u>359,850</u>
Total, September 30, 2016	<u>\$ 359,850</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 359,850</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>

THE ARC GATEWAY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable are summarized as follows:

	<u>2016</u>	<u>2015</u>
Funding agencies	\$ 459,781	\$ 395,426
Private insurance, net of allowance for contractual adjustments of \$262,885 in 2016 and \$266,432 in 2015	121,257	165,940
Trade, net of allowance for uncollectible accounts of \$17,086 in 2016 and 2015	90,255	93,394
Other	<u>13,458</u>	<u>12,882</u>
	<u>\$ 684,751</u>	<u>\$ 667,642</u>

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows:

	<u>2016</u>	<u>2015</u>
Land	\$ 674,589	\$ 674,589
Buildings	4,579,703	4,101,769
Equipment, furniture and fixtures	929,541	891,629
Vehicles	<u>1,213,860</u>	<u>931,942</u>
	7,397,693	6,599,929
Less accumulated depreciation	<u>3,871,356</u>	<u>3,489,100</u>
	<u>\$ 3,526,337</u>	<u>\$ 3,110,829</u>

Depreciation expense was \$412,596 and \$299,027 for the years ended September 30, 2016 and 2015, respectively.

THE ARC GATEWAY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

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 (3.5% at September 30, 2016). The line has no stated maturity date and any amounts outstanding are due on demand. As of September 30, 2016, there were no outstanding borrowings under the line of credit. As of September 30, 2015, outstanding borrowings under the line of credit were \$100,000 and the interest rate was 3.25%.

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:

	2016	2015
Program for Adult Learning and Support	\$ 392,039	\$ 103,682
Wreaths of Joy	39,000	60,000
Other	2,233	1,365
	\$ 433,272	\$ 165,047

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 \$24,736 and \$41,778 at September 30, 2016 and 2015, respectively, and is included in the consolidated statements of financial position as property and equipment. Accumulated amortization of the leased equipment at September 30, 2016 and 2015 was \$3,141 and \$23,675, respectively. Amortization of assets under capital lease is included in depreciation expense.

THE ARC GATEWAY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

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, 2016, are as follows:

Year Ending <u>September 30,</u>	
2017	\$ 17,414
2018	10,520
2019	8,550
2020	8,550
2021	<u>5,700</u>
Total minimum lease payments	50,734
Less amount representing interest	<u>2,984</u>
Present value of minimum lease payments	<u><u>\$ 47,750</u></u>

NOTE 9 - LONG-TERM DEBT

Long-term debt is summarized as follows:

	<u>2016</u>	<u>2015</u>
Notes payable to banks, aggregate monthly payments of \$5,243 including interest ranging from 1.79% to 3.85%, maturities through July 2020, secured by vehicles	\$ 115,250	\$ 156,828
Note payable to U.S Small Business Administration, monthly payments of \$345 including interest at 2.625%, secured by real estate	<u>-</u>	<u>14,984</u>
	<u><u>\$ 115,250</u></u>	<u><u>\$ 171,812</u></u>

THE ARC GATEWAY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

NOTE 9 - LONG-TERM DEBT (Continued)

Maturities of long-term debt are as follows:

2017	\$	58,459
2018		39,456
2019		11,076
2020		<u>6,259</u>
Total	<u>\$</u>	<u>115,250</u>

NOTE 10 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets at September 30, 2016 and 2015 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>2016</u>	<u>2015</u>
ARC mission - relief of human suffering - restricted to non-administrative expenses	\$ 28,639	\$ 28,983
ARC mission - client dental and medical needs - restricted to 6% annual distributions	30,400	29,520
Group home startup	-	9,781
Physical security of facilities	12,308	12,308
Other	<u>47,524</u>	<u>36,711</u>
	<u>\$ 118,871</u>	<u>\$ 117,303</u>

Permanently restricted net assets at September 30, 2016 and 2015 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, 2016 AND 2015

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>2016</u>	<u>2015</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>249,255</u>	<u>248,155</u>
	<u>\$ 287,755</u>	<u>\$ 286,655</u>

Changes in endowment net assets for the year ended September 30, 2016 were as follows:

	<u>ARC</u>	<u>Trust</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 38,500	\$ 248,155	\$ 286,655
Contributions	-	1,100	1,100
Investment income	2,155	1,353	3,508
Amounts appropriated for expenditure	<u>(2,155)</u>	<u>(1,353)</u>	<u>(3,508)</u>
Endowment net assets, end of year	<u>\$ 38,500</u>	<u>\$ 249,255</u>	<u>\$ 287,755</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>

THE ARC GATEWAY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

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 agreements. 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 indefinitely 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. Certain vehicles and other buildings acquired or renovated with grantor funds have limitations imposed on their use for specified periods of time. Should the vehicles and buildings be used for an unapproved purpose, grant funds must be returned to the grantor. To date, ARC has used the vehicles and buildings for approved purposes.

THE ARC GATEWAY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

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, 2016, ARC's uninsured cash balance at financial institutions totaled approximately \$343,000.

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>2016</u>	<u>2015</u>
Medicaid	37%	35%
Federal and State agencies	25%	29%
Other contracts and grants	13%	13%

Amounts due from Medicaid comprised 41% and 40% of total accounts receivable as of September 30, 2016 and 2015, 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 \$89,643 and \$623,333 for the years ended September 30, 2016 and 2015, 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, 2016 and 2015 amounted to \$315,274 and \$372,412, 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, 2016
(With Comparative Totals for 2015)

ASSETS

	ARC	PRC, Inc.	Trust	Foundation	Intercompany Transactions Eliminations	2016 Consolidated Total	2015 Consolidated Total
Cash and cash equivalents	\$ 447,872	\$ 48,752	\$ 9,255	\$ 270,975	\$ -	\$ 776,854	\$ 505,524
Investments	80,637	-	244,855	359,849	-	685,341	643,864
Accounts receivable, net	684,751	-	-	-	-	684,751	667,642
Accounts receivable-intercompany	652,617	906,580	-	15,895	(1,575,092)	-	-
Inventories	119,763	-	-	-	-	119,763	109,434
Prepaid expenses and other assets	62,781	30	-	100	-	62,911	61,302
Property and equipment, net	1,850,333	1,676,004	-	-	-	3,526,337	3,110,829
Total Assets	\$ 3,898,754	\$ 2,631,366	\$ 254,110	\$ 646,819	\$ (1,575,092)	\$ 5,855,957	\$ 5,098,595

LIABILITIES AND NET ASSETS

Liabilities:							
Borrowings under line of credit	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 100,000
Accounts payable	168,746	-	-	-	-	168,746	277,604
Accounts payable-intercompany	922,475	592,185	4,855	55,577	(1,575,092)	-	-
Accrued expenses	306,298	-	-	-	-	306,298	246,659
Refundable advances	394,272	-	-	39,000	-	433,272	165,047
Capital lease obligation	47,750	-	-	-	-	47,750	18,322
Long-term debt	115,250	-	-	-	-	115,250	171,812
Total liabilities	1,954,791	592,185	4,855	94,577	(1,575,092)	1,071,316	979,444
Commitments and Contingencies	--	--	--	--	--	--	--
Net Assets:							
Unrestricted	1,817,092	2,039,181	-	521,742	-	4,378,015	3,715,193
Temporarily restricted	88,371	-	-	30,500	-	118,871	117,303
Permanently restricted	38,500	-	249,255	-	-	287,755	286,655
Total net assets	1,943,963	2,039,181	249,255	552,242	-	4,784,641	4,119,151
Total Liabilities and Net Assets	\$ 3,898,754	\$ 2,631,366	\$ 254,110	\$ 646,819	\$ (1,575,092)	\$ 5,855,957	\$ 5,098,595

THE ARC GATEWAY, INC.
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2016
(With Comparative Totals for 2015)

	ARC	PRC, Inc.	Trust	Foundation	Intercompany Transactions Eliminations	2016 Consolidated Total	2015 Consolidated Total
Revenue and Support:							
Medicaid -							
Developmental Disabilities Individual							
Budgeting waivers	\$ 3,020,880	\$ -	\$ -	\$ -	\$ -	\$ 3,020,880	\$ 2,965,426
Omnibus Budget Reconciliation Act (OBRA)	190,394	-	-	-	-	190,394	197,443
Federal and state grants	2,141,519	-	-	-	-	2,141,519	2,627,789
Department of Transportation contracts	678,115	-	-	-	-	678,115	657,589
Noncontract funding	241,179	-	-	-	-	241,179	247,170
Other contracts and financial assistance	220,710	-	-	-	-	220,710	254,141
Private insurance	483,490	-	-	-	-	483,490	406,288
Program income	93,498	-	-	-	-	93,498	102,023
Sales to public	627,588	-	-	-	-	627,588	631,638
United Way	97,491	-	-	-	-	97,491	98,045
Public support contributions	327,556	-	1,100	105,004	(119,524)	314,136	362,288
Special events	11,979	-	-	408,629	-	420,608	392,835
Membership revenue	19,469	-	-	-	-	19,469	20,795
Investment income, including unrealized							
gains and losses	2,795	-	2,210	30,114	-	35,119	(332)
Interest-intercompany	2,210	-	-	-	(2,210)	-	-
Miscellaneous	41,247	-	-	(3,173)	-	38,074	72,408
Contributions-intercompany	125,000	-	-	-	(125,000)	-	-
Staff reimbursement-intercompany	79,954	-	-	-	(79,954)	-	-
Repairs and maintenance-intercompany	45,645	-	-	-	(45,645)	-	-
Rent-intercompany	-	251,091	-	-	(251,091)	-	-
Total Revenue and Support	8,450,719	251,091	3,310	540,574	(623,424)	8,622,270	9,035,546
Expenses:							
Salaries	4,542,518	-	-	-	-	4,542,518	4,036,257
Employee benefits	582,258	-	-	-	-	582,258	453,480
Payroll taxes and workers compensation	407,605	-	-	-	-	407,605	409,137
Staff reimbursement-intercompany	-	-	-	77,554	(77,554)	-	-
Professional fees	583,902	3,250	-	4,800	-	591,952	1,647,288
Supplies and small equipment	253,916	-	-	4,006	-	257,922	339,165
Postage and freight	15,633	-	-	544	-	16,177	15,992
Interest	8,291	-	-	-	-	8,291	5,207
Interest distribution-intercompany	-	-	2,210	-	(2,210)	-	-

THE ARC GATEWAY, INC.
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2016
(With Comparative Totals for 2015)
(Continued)

	ARC	PRC, Inc.	Trust	Foundation	Intercompany Transactions Eliminations	2016 Consolidated Total	2015 Consolidated Total
Expenses (Continued):							
Occupancy	\$ 534,757	\$ 134,449	\$ -	\$ -	\$ (296,736)	\$ 372,470	\$ 431,187
Telephone	83,308	-	-	964	-	84,272	76,942
Equipment maintenance and rental	46,358	-	-	395	-	46,753	54,766
Printing and publication	43,993	-	-	-	-	43,993	48,500
Travel	38,061	-	-	2,406	(2,400)	38,067	35,611
Vehicle expense	300,518	-	-	-	-	300,518	319,946
Special events	9,924	-	-	129,414	(67,900)	71,438	53,475
Costs of direct benefits to donors	-	-	-	71,207	-	71,207	71,676
Client assistance	3,939	-	-	-	-	3,939	3,638
Dues and memberships	6,825	-	-	360	-	7,185	13,685
Assessments	64,387	-	-	-	-	64,387	38,960
Miscellaneous	25,115	220	-	7,897	-	33,232	39,496
Contributions-intercompany	-	-	-	176,624	(176,624)	-	-
Depreciation	301,763	110,833	-	-	-	412,596	299,027
Total Expenses	7,853,071	248,752	2,210	476,171	(623,424)	7,956,780	8,393,435
Change in Net Assets	597,648	2,339	1,100	64,403	-	665,490	642,111
Net Assets, Beginning of Year	1,346,315	2,036,842	248,155	487,839	-	4,119,151	3,477,040
Net Assets, End of Year	\$ 1,943,963	\$ 2,039,181	\$ 249,255	\$ 552,242	\$ -	\$ 4,784,641	\$ 4,119,151

THE ARC GATEWAY, INC.
CONSOLIDATING SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2016
(With Comparative Totals for 2015)

	PROGRAM SERVICES					
	Pollak Training Center	Pollak Industries	Community Based Employment	Employment Services	Pearl Nelson Child Development Center	Group Homes
Salaries	\$ 539,957	\$ 398,328	\$ 576,569	\$ 70,992	\$ 472,536	\$ 818,831
Employee benefits	90,006	42,429	45,485	13,997	47,016	151,518
Payroll taxes and workers compensation	47,869	34,251	52,293	6,340	42,189	70,146
Staff reimbursement - intercompany	-	-	-	-	-	-
Professional fees	12,865	6,683	8,852	1,609	300,335	18,442
Supplies and small equipment	20,581	6,139	39,948	266	16,018	108,086
Postage and freight	5,138	3,174	47	64	685	187
Interest	222	155	539	111	222	2,336
Interest distribution - intercompany	-	-	-	-	-	-
Occupancy	121,545	81,660	30,033	4,642	73,152	124,679
Telephone	6,243	4,523	4,834	3,639	12,554	19,387
Equipment maintenance and rental	3,378	5,967	7,132	505	5,550	4,743
Printing and publication	11,090	646	60	51	740	245
Travel	15	-	2,251	3,949	13,115	2,592
Vehicle expense	14,620	9,985	29,131	71	-	40,436
Special events	1,578	718	430	-	452	214
Costs of direct benefits to donors	-	-	-	-	-	-
Client assistance	-	367	-	62	-	1,305
Dues and memberships	1,695	-	-	-	500	280
Assessments	-	-	40,687	-	-	-
Miscellaneous	4,320	3,385	483	103	3,017	336
Contributions - intercompany	-	-	-	-	-	-
Depreciation	11,892	12,457	10,076	434	15,936	43,569
Total Direct Expenses	<u>893,014</u>	<u>610,867</u>	<u>848,850</u>	<u>106,835</u>	<u>1,004,017</u>	<u>1,407,332</u>
Allocation of intercompany expenses from consolidation	12,923	9,203	11,107	1,405	13,066	18,519
Total Direct Expenses, net	<u>905,937</u>	<u>620,070</u>	<u>859,957</u>	<u>108,240</u>	<u>1,017,083</u>	<u>1,425,851</u>
Allocation of general and administration expenses	63,648	45,316	54,695	6,923	64,342	91,198
Total Expenses	<u>\$ 969,585</u>	<u>\$ 665,386</u>	<u>\$ 914,652</u>	<u>\$ 115,163</u>	<u>\$ 1,081,425</u>	<u>\$ 1,517,049</u>

THE ARC GATEWAY, INC.
CONSOLIDATING SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2016
(With Comparative Totals for 2015)
(Continued)

PROGRAM SERVICES

	Supported Living	Senior Adult Program	Transportation	Program for Adult Learning and Support	Program Services Total
Salaries	\$ 70,601	\$ 120,331	\$ 202,288	\$ 687,292	\$ 3,957,725
Employee benefits	16,649	13,619	27,590	75,820	524,129
Payroll taxes and workers compensation	6,889	10,419	18,587	67,226	356,209
Staff reimbursement - intercompany	-	-	-	-	-
Professional fees	1,672	2,263	6,142	178,432	537,295
Supplies and small equipment	1,062	1,346	3,127	46,449	243,022
Postage and freight	49	-	-	818	10,162
Interest	111	-	2,517	-	6,213
Interest distribution - intercompany	-	-	-	-	-
Occupancy	4,611	26,720	5,818	36,621	509,481
Telephone	4,794	693	9,117	7,104	72,888
Equipment maintenance and rental	573	7	657	1,408	29,920
Printing and publication	-	37	38	12,003	24,910
Travel	6,766	-	8	5,526	34,222
Vehicle expense	30	-	139,145	64,816	298,234
Special events	-	450	-	-	3,842
Costs of direct benefits to donors	-	-	-	-	-
Client assistance	345	-	-	-	2,079
Dues and memberships	-	65	-	1,070	3,610
Assessments	-	-	-	-	40,687
Miscellaneous	226	-	527	236	12,633
Contributions - intercompany	-	-	-	-	-
Depreciation	434	183	64,795	118,485	278,261
Total Direct Expenses	<u>114,812</u>	<u>176,133</u>	<u>480,356</u>	<u>1,303,306</u>	<u>6,945,522</u>
Allocation of intercompany expenses from consolidation	1,511	2,318	6,320	24,368	100,740
Total Direct Expenses, net	<u>116,323</u>	<u>178,451</u>	<u>486,676</u>	<u>1,327,674</u>	<u>7,046,262</u>
Allocation of general and administration expenses	7,440	11,414	31,128	120,000	496,104
Total Expenses	<u>\$ 123,763</u>	<u>\$ 189,865</u>	<u>\$ 517,804</u>	<u>\$ 1,447,674</u>	<u>\$ 7,542,366</u>

THE ARC GATEWAY, INC.
CONSOLIDATING SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2016
(With Comparative Totals for 2015)
(Continued)

SUPPORTING SERVICES

	Fund Raising	General & Administrative			Total Supporting Services	ARC Subtotal
	Dove Shop/Beads	General	Maintenance	General & Administrative Total		
Salaries	\$ 52,076	\$ 510,265	\$ 22,452	\$ 532,717	\$ 584,793	\$ 4,542,518
Employee benefits	92	51,406	6,631	58,037	58,129	582,258
Payroll taxes and workers compensation	4,814	44,662	1,920	46,582	51,396	407,605
Staff reimbursement - intercompany	-	-	-	-	-	-
Professional fees	921	45,248	438	45,686	46,607	583,902
Supplies and small equipment	928	9,045	921	9,966	10,894	253,916
Postage and freight	3,730	1,741	-	1,741	5,471	15,633
Interest	-	1,967	111	2,078	2,078	8,291
Interest distribution - intercompany	-	-	-	-	-	-
Occupancy	2,078	18,525	4,673	23,198	25,276	534,757
Telephone	-	8,572	1,848	10,420	10,420	83,308
Equipment maintenance and rental	580	15,278	580	15,858	16,438	46,358
Printing and publication	13,324	5,759	-	5,759	19,083	43,993
Travel	1,375	2,464	-	2,464	3,839	38,061
Vehicle expense	-	-	2,284	2,284	2,284	300,518
Special events	-	6,082	-	6,082	6,082	9,924
Costs of direct benefits to donors	-	-	-	-	-	-
Client assistance	-	1,860	-	1,860	1,860	3,939
Dues and memberships	45	3,170	-	3,170	3,215	6,825
Assessments	-	23,700	-	23,700	23,700	64,387
Miscellaneous	4,892	7,590	-	7,590	12,482	25,115
Contributions - intercompany	-	-	-	-	-	-
Depreciation	-	23,013	489	23,502	23,502	301,763
Total Direct Expenses	<u>84,855</u>	<u>780,347</u>	<u>42,347</u>	<u>822,694</u>	<u>907,549</u>	<u>7,853,071</u>
Allocation of intercompany expenses from consolidation	2,409	-	560	560	2,969	103,709
Total Direct Expenses, net	<u>87,264</u>	<u>780,347</u>	<u>42,907</u>	<u>823,254</u>	<u>910,518</u>	<u>7,956,780</u>
Allocation of general and administration expenses	11,876	(510,734)	2,754	(507,980)	(496,104)	-
Total Expenses	<u>\$ 99,140</u>	<u>\$ 269,613</u>	<u>\$ 45,661</u>	<u>\$ 315,274</u>	<u>\$ 414,414</u>	<u>\$ 7,956,780</u>

THE ARC GATEWAY, INC.
CONSOLIDATING SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2016
(With Comparative Totals for 2015
(Continued)

	ARC	PRC, Inc.	Trust	Foundation	Eliminations	2016 Consolidated Total	2015 Consolidated Total
Salaries	\$ 4,542,518	\$ -	\$ -	\$ -	\$ -	\$ 4,542,518	\$ 4,036,257
Employee benefits	582,258	-	-	-	-	582,258	453,480
Payroll taxes and workers compensation	407,605	-	-	-	-	407,605	409,137
Staff reimbursement - intercompany	-	-	-	77,554	(77,554)	-	-
Professional fees	583,902	3,250	-	4,800	-	591,952	1,647,288
Supplies and small equipment	253,916	-	-	4,006	-	257,922	339,165
Postage and freight	15,633	-	-	544	-	16,177	15,992
Interest	8,291	-	-	-	-	8,291	5,207
Interest distribution - intercompany	-	-	2,210	-	(2,210)	-	-
Occupancy	534,757	134,449	-	-	(296,736)	372,470	431,187
Telephone	83,308	-	-	964	-	84,272	76,942
Equipment maintenance and rental	46,358	-	-	395	-	46,753	54,766
Printing and publication	43,993	-	-	-	-	43,993	48,500
Travel	38,061	-	-	2,406	(2,400)	38,067	35,611
Vehicle expense	300,518	-	-	-	-	300,518	319,946
Special events	9,924	-	-	129,414	(67,900)	71,438	53,475
Costs of direct benefits to donors	-	-	-	71,207	-	71,207	71,676
Client assistance	3,939	-	-	-	-	3,939	3,638
Dues and memberships	6,825	-	-	360	-	7,185	13,685
Assessments	64,387	-	-	-	-	64,387	38,960
Miscellaneous	25,115	220	-	7,897	-	33,232	39,496
Contributions - intercompany	-	-	-	176,624	(176,624)	-	-
Depreciation	301,763	110,833	-	-	-	412,596	299,027
Total Direct Expenses	<u>7,853,071</u>	<u>248,752</u>	<u>2,210</u>	<u>476,171</u>	<u>(623,424)</u>	<u>7,956,780</u>	<u>8,393,435</u>
Allocation of intercompany expenses from consolidation	<u>103,709</u>	<u>(248,752)</u>	<u>(2,210)</u>	<u>(476,171)</u>	<u>623,424</u>	<u>-</u>	<u>-</u>
Total Direct Expenses, net	<u>7,956,780</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,956,780</u>	<u>8,393,435</u>
Allocation of general and administration expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenses	<u>\$ 7,956,780</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,956,780</u>	<u>\$ 8,393,435</u>

THE ARC GATEWAY, INC
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
YEAR ENDED SEPTEMBER 30, 2016

State Grantor/Pass-through Grantor, Project Title	CSFA Number	Contract / Grant Number	Expenditures
<u>State of Florida,</u>			
<u>Agency for Persons with Disabilities</u>			
Program for Adult Learning and Support	67.036	WCX21	\$ 1,544,975
<u>State of Florida,</u>			
<u>Florida Housing Finance Corporation</u>			
Passed Through Escambia County, Department of Community and Environment			
State Housing Initiatives Partnership (SHIP)	40.901	RFA 2013-005	<u>179,479</u>
Total Expenditures of State Financial Assistance			<u><u>\$ 1,724,454</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, 2016, 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 30, 2017.

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 30, 2017

**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, 2016. 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, 2016.

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 30, 2017

THE ARC GATEWAY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2016

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, 2016
(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.