

**THE ARC OF THE CENTRAL  
CHESAPEAKE REGION, INC.  
CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
JUNE 30, 2016**



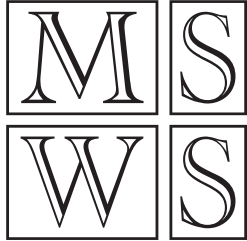
**MULLEN SONDBERG WIMBISH & STONE, PA**  

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**CERTIFIED PUBLIC ACCOUNTANTS**

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MULLEN & SONDBERG  
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CERTIFIED PUBLIC ACCOUNTANTS

2553 Housley Road • Suite 200 • Annapolis, Maryland 21401

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
The Arc of the Central Chesapeake Region, Inc.  
Annapolis, Maryland

We have audited the accompanying consolidated financial statements of The Arc of the Central Chesapeake Region, Inc. (a non-profit Organization), which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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

Management is responsible for the preparation and fair presentation of these 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

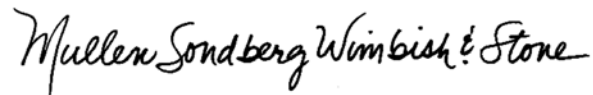
The Arc of the Central Chesapeake Region, Inc.

## **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Arc of the Central Chesapeake Region, Inc., as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Report on Summarized Comparative Information**

We have previously audited The Arc of the Central Chesapeake Region, Inc.'s 2015 consolidated financial statements, and our report dated November 18, 2015, expressed an unmodified opinion on those audited consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.



MULLEN, SONDBERG, WIMBISH & STONE, P.A.

Annapolis, Maryland  
December 8, 2016

The Arc of the Central Chesapeake Region, Inc.  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
June 30, 2016

ASSETS		2016	2015
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$	5,837,777	\$ 3,501,395
Investments		2,105,297	2,090,985
Due from State of Maryland		490,911	121,238
Accounts receivable, other		121,695	103,793
Accounts receivable, clients, net of allowance for doubtful accounts		9,869	876
Unconditional promises to give		28,050	38,100
Prepaid expenses		163,787	164,096
Total current assets		8,757,386	6,020,483
UNCONDITIONAL PROMISES TO GIVE, long-term		13,983	41,237
<b>PROPERTY AND EQUIPMENT</b>			
Net of accumulated depreciation		8,603,134	8,027,893
<b>OTHER ASSETS</b>			
Deferred refinancing fees, net of accumulated amortization		46,631	50,514
Security deposits and escrows		174,438	169,822
Total other assets		221,069	220,336
Total assets	\$	17,595,572	\$ 14,309,949

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

The Arc of the Central Chesapeake Region, Inc.  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Cont.)  
June 30, 2016

LIABILITIES AND NET ASSETS

	2016	2015
<b>CURRENT LIABILITIES</b>		
Accounts payable, trade	\$ 712,425	\$ 568,752
Due to State of Maryland	4,347,346	2,423,602
Accrued vacation	209,141	213,634
Accrued salaries and related taxes	878,340	446,464
Client funds	87,875	103,593
Deferred revenue	75,211	70,649
Capital lease obligations	89,615	35,966
Mortgages and notes payable	192,334	196,816
Total current liabilities	6,592,287	4,059,476
<b>LONG-TERM LIABILITIES</b>		
Capital lease obligations	187,842	48,226
Mortgages and notes payable	5,544,859	5,737,179
Participation liability	99,338	69,413
Total long-term liabilities	5,832,039	5,854,818
Total liabilities	12,424,326	9,914,294
<b>NET ASSETS</b>		
Unrestricted	142,537	18,521
Unrestricted - Board designated	2,140,000	2,000,000
Unrestricted - investment in plant	2,489,146	1,940,293
Temporarily restricted	399,563	436,841
Total net assets	5,171,246	4,395,655
Total liabilities and net assets	\$ 17,595,572	\$ 14,309,949

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

The Arc of the Central Chesapeake Region, Inc.  
CONSOLIDATED STATEMENT OF ACTIVITIES  
Year Ended June 30, 2016

With Summarized Financial Information for the Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Total	
			2016	2015
<b>REVENUES, GAINS AND OTHER SUPPORT</b>				
New Directions Waiver revenue	\$ 17,748,139	\$ -	\$ 17,748,139	\$ 13,636,082
Less: New Directions Waiver expenses	(16,942,225)	-	(16,942,225)	(12,969,647)
Net New Directions Waiver	805,914	-	805,914	666,435
State of Maryland - DHMH fees and DHR grants	14,434,243	-	14,434,243	14,289,944
Program fees	532,713	-	532,713	490,837
Rental subsidy	337,647	-	337,647	401,445
Other grants	329,341	-	329,341	337,895
Donated goods and services	316,424	-	316,424	335,134
Contributions	74,768	-	74,768	69,924
Insurance proceeds	61,455	-	61,455	-
Special events - net of direct expenses	40,989	-	40,989	34,920
United Way funding	12,892	26	12,918	17,843
Investment income	12,377	-	12,377	15,764
Gain(Loss) on disposal of equipment	(34,886)	-	(34,886)	214,471
	16,923,877	26	16,923,903	16,874,612
Net assets released from restrictions	37,304	(37,304)	-	-
Total revenues, gains and other support	16,961,181	(37,278)	16,923,903	16,874,612
<b>EXPENSES</b>				
Program services				
Residential	7,464,692	-	7,464,692	7,385,280
CSLA/ Personal Support	2,708,800	-	2,708,800	3,212,529
Individual Support Services	1,782,714	-	1,782,714	1,862,636
Day/ Employment	1,690,193	-	1,690,193	1,492,917
Other programs	376,011	-	376,011	460,055
Family Support Services	208,499	-	208,499	201,111
Total program services	14,230,909	-	14,230,909	14,614,528
Supporting services				
Management and general	1,830,023	-	1,830,023	1,815,678
Fundraising	87,380	-	87,380	86,599
Total supporting services	1,917,403	-	1,917,403	1,902,277
Total expenses	16,148,312	-	16,148,312	16,516,805
Change in net assets	812,869	(37,278)	775,591	357,807
NET ASSETS AT BEGINNING OF YEAR	3,958,814	436,841	4,395,655	4,037,848
NET ASSETS AT END OF YEAR	\$ 4,771,683	\$ 399,563	\$ 5,171,246	\$ 4,395,655

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

The Arc of the Central Chesapeake Region, Inc.  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
Year Ended June 30, 2016

With Summarized Financial Information for the Year Ended June 30, 2015

	Program Services						Supporting Services		Total		
	Residential	CSLA/ Personal Support	Individual Support Services	Day/ Employment	Family Support Services	Other Programs	Total Program Services	Management and General	Fundraising	2016	2015
Salaries	\$ 4,604,883	\$ 1,638,044	\$ 1,220,447	\$ 1,276,919	\$ 155,878	\$ 120,880	\$ 9,017,051	\$ 1,044,675	\$ 59,429	\$ 10,121,155	\$ 10,201,011
Fringe benefits	647,092	156,949	154,316	138,017	22,826	25,625	1,144,827	122,802	7,287	1,274,916	1,486,054
Payroll taxes	350,643	116,133	112,951	81,952	13,957	3,767	679,404	70,041	4,154	753,599	668,236
Total salaries and related expenses	5,602,619	1,911,127	1,487,714	1,496,889	192,661	150,273	10,841,282	1,237,518	70,870	12,149,670	12,355,301
Rent	199,682	164,126	54,629	-	104	-	418,541	47,807	-	466,348	576,961
Depreciation and amortization	410,037	46,747	18,186	11,562	1,368	-	487,900	55,063	-	542,963	503,826
Repairs and maintenance	236,898	50,107	27,277	1,770	2,098	891	319,041	77,992	-	397,033	464,259
Donated services	189,854	126,570	-	-	-	-	316,424	-	-	316,424	335,134
Contract services	28,580	213,576	31,778	2,999	-	1,550	278,483	-	-	278,483	296,978
Travel / lodging	42,488	29,577	31,484	155,798	425	2,892	262,664	9,142	404	272,210	293,486
Interest	168,460	330	-	-	-	53,035	221,825	21,010	-	242,835	159,894
Food and housekeeping	195,657	36,600	7,561	-	-	-	239,818	541	-	240,359	223,787
Utilities	194,408	24,463	6,899	166	199	-	226,135	10,330	-	236,465	293,217
Supplies	36,983	17,171	8,647	1,016	1,182	-	64,999	117,036	1,360	183,395	164,428
Insurance	58,011	28,886	14,443	1,562	1,952	-	104,854	69,396	-	174,250	142,340
Reimbursements	1,200	24,935	26,714	-	6,349	92,192	151,390	-	-	151,390	139,070
Family care	-	-	46,500	-	-	43,200	89,700	-	-	89,700	89,700
Telephone	33,163	10,829	5,449	622	744	-	50,807	28,752	-	79,559	86,217
Legal and accounting	2,919	1,529	727	42	90	-	5,307	69,337	-	74,644	103,083
Dues and subscriptions	10,932	4,721	2,352	271	316	-	18,592	46,527	8,404	73,523	62,097
Staff development	8,203	4,189	2,061	5,735	271	29,736	50,195	10,918	1,297	62,410	57,783
Miscellaneous	12,732	6,492	3,668	11,459	390	1,090	35,831	11,416	50	47,297	46,110
Conventions	8,517	4,273	2,152	248	294	42	15,526	10,323	1,621	27,470	38,685
Small equipment/furniture	9,968	874	130	-	-	1,110	12,082	-	-	12,082	17,679
Taxes and assessments	9,798	521	332	-	-	-	10,651	308	-	10,959	8,224
Advertising	1,508	740	384	54	55	-	2,741	3,880	3,374	9,995	19,364
Condo fees	2,033	-	3,180	-	-	-	5,213	-	-	5,213	9,389
Capital Campaign	-	-	-	-	-	-	-	2,676	-	2,676	25,021
Medical and dental	42	418	447	-	1	-	908	51	-	959	4,198
Equipment rental and lease	-	-	-	-	-	-	-	-	-	-	574
Total expenses	\$ 7,464,692	\$ 2,708,800	\$ 1,782,714	\$ 1,690,193	\$ 208,499	\$ 376,011	\$ 14,230,909	\$ 1,830,023	\$ 87,380	\$ 16,148,312	\$ 16,516,805

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



The Arc of the Central Chesapeake Region, Inc.  
CONSOLIDATED STATEMENT OF CASH FLOWS  
Year Ended June 30, 2016

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 775,591	\$ 357,807
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	542,963	500,167
Loan discount, net	-	(19,223)
Unrealized gain on investments	(3,709)	(8,020)
(Gain)/loss on disposal of equipment	34,886	(214,471)
Donated investments	(2,865)	(5,583)
Capital grants	(85,857)	(35,847)
(Increase) decrease in operating assets:		
Accounts receivable	(396,568)	19,529
Unconditional promises to give	37,304	35,257
Prepaid expenses	309	19,344
Security deposits and escrows	(4,616)	(37,995)
Increase (decrease) in operating liabilities:		
Accounts payable, trade	2,067,417	952,766
Accrued salaries, vacation, and related taxes	427,383	(59,387)
Client funds	(15,718)	(23,516)
Deferred revenue	4,562	35,222
Net cash provided by operating activities	<u>3,381,082</u>	<u>1,516,050</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of investments and reinvested earnings	(2,393,786)	(2,382,523)
Proceeds from sale of investments	2,386,048	2,376,048
Purchase of property and equipment	(778,338)	(440,959)
Proceeds from sale of equipment	11,188	435,007
Net cash used by investing activities	<u>(774,888)</u>	<u>(12,427)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal payments on capital lease	(80,676)	(54,709)
Principal payments on mortgages and notes payable	(189,136)	(337,821)
Net cash used by financing activities	<u>(269,812)</u>	<u>(392,530)</u>
Net change in cash and cash equivalents	2,336,382	1,111,093
Cash and cash equivalents at beginning of year	3,501,395	2,390,302
Cash and cash equivalents at end of year	<u>\$ 5,837,777</u>	<u>\$ 3,501,395</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Cash paid during the year for interest	<u>\$ 242,835</u>	<u>\$ 179,117</u>
Noncash investing and financing activities:		
Acquisition of property and equipment	\$ 1,160,395	\$ 2,135,084
Less amount financed	(296,200)	(1,658,278)
Less capital grants	(85,857)	(35,847)
Cash paid for property and equipment	<u>\$ 778,338</u>	<u>\$ 440,959</u>

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

The Arc of the Central Chesapeake Region, Inc.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2016

Note 1 - Summary of Significant Accounting Policies

Nature and Association

The Arc of the Central Chesapeake Region, Inc. (The Association) is a non-profit association formed in 1961 whose purpose is to promote the general welfare of developmentally disabled individuals. The Association identifies critical needs and gaps in services and initiates programs to fill these needs. It stimulates other agencies to develop needed services and programs, and provides information and community education regarding developmental disabilities. On July 1, 1998 The Arc of the Central Chesapeake Region, Inc., a Maryland non-stock corporation, merged with Alternative Living, Inc. The Arc of the Central Chesapeake Region, Inc. is the surviving corporation.

Consolidation of Related Entity

The Arc of the Central Chesapeake Region, Inc. has adopted the provisions of the Financial Accounting Standards Board (FASB) established Accounting Standards Codification (ASC) 958-810, *Consolidations*. The Arc of the Central Chesapeake Region, Inc. has included its related entity, Chesapeake Neighbors, LLC, in its financial statements for the years ended June 30, 2016 and 2015. FASB ASC 958-810 states that a not-for-profit organization should consolidate another not-for-profit organization if the reporting not-for-profit organization has both control of the other not-for-profit organization, as evidenced by either majority ownership or a majority voting interest in the Board of the other not-for-profit organization, and an economic interest in the other not-for-profit organization.

Chesapeake Neighbors, LLC was formed in 2008 and obtained tax-exempt status during fiscal year 2010 to provide housing to developmentally disabled citizens. Chesapeake Neighbors, LLC is a wholly owned, limited liability company subsidiary and qualifies as a related entity of The Arc of the Central Chesapeake Region, Inc. under FASB ASC 958-810 and, accordingly, the accompanying financial statements present the financial information of both entities.

The Association is also required to comply with FASB ASC 850 *Related Party Disclosures*. Under this standard, all material related party transactions have been eliminated in the consolidating process and substantive disclosure of these amounts is not required.

Basis of Accounting

The Association prepares its financial statements in accordance with accounting principles generally accepted in the United States of America. This basis of accounting involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

The Arc of the Central Chesapeake Region, Inc.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)  
June 30, 2016

Note 1 - Summary of Significant Accounting Policies (Cont.)

Basis of Presentation

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor-imposed restriction. 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 (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Unexpended grant awards are classified as refundable advances until expended for the purposes of the grants since they are considered conditional promises to give.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents represent deposits in checking and savings accounts and certificates of deposit with maturities of ninety days or less, except those that are part of an investment portfolio.

Investments

Investments in marketable equity securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position.

Accounts Receivable

Accounts receivable consist of amounts due from the State of Maryland, amounts due from clients for rent and medical supplies, and amounts due from customers for goods and services mainly provided by program activities. The allowance for doubtful accounts is determined by management based on their periodic review of individual account balances. Accounts receivable balances are charged against the reserve in the period management determines them to be uncollectible. As of June 30, 2016 and 2015, the balance in the allowance for doubtful accounts was \$4,710 and \$4,710, respectively.

The Arc of the Central Chesapeake Region, Inc.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)  
June 30, 2016

Note 1 - Summary of Significant Accounting Policies (Cont.)

Unconditional Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded at 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. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Property and Equipment

Property and equipment acquisitions in excess of \$500 are capitalized and recorded at cost. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. Gifts of long-lived assets such as land, buildings or equipment are recorded at their fair values and reported as unrestricted support, unless explicit donor stipulations specify how the donated assets must be used.

Use of Estimates

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

Allocation of Functional Expenses

Accounting principles generally accepted in the United States of America require all voluntary health and welfare organizations to present their expenses on a functional basis, separating program services from management and general and fundraising expenses. Functional expenses are either charged directly to program services as incurred or allocated based on usage for items such as occupancy, depreciation and administrative salaries.

Income Tax Status

The Arc of the Central Chesapeake Region, Inc. and its wholly owned one member subsidiary, Chesapeake Neighbors, LLC are exempt under Section 501(c)(3) of the Internal Revenue Code and are classified as other than a private foundation. The Associations are exempt from both federal and State income taxes but would be subject to taxes on any "unrelated business income". There is no provision for income taxes at June 30, 2016 and 2015 as the Associations have not incurred any unrelated business income during these periods.

The Arc of the Central Chesapeake Region, Inc.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)  
June 30, 2016

Note 1 - Summary of Significant Accounting Policies (Cont.)

Income Tax Position

The Association follows the guidance of ASC 740-10, “*Accounting for Uncertainty in Income Taxes*” which clarifies the accounting for the recognition and measurement of the benefits of individual tax positions in the financial statements, including those of non-profit organizations. Tax positions must meet a recognition threshold of more-likely-than-not in order for the benefit of those tax positions to be recognized in the Association’s financial statements

The Association analyzes tax positions taken, including those related to the requirements set forth in IRS Sec. 501(c) to qualify as a tax exempt organization, activities performed by volunteers and Board members, the reporting of unrelated business income, and its status as a tax-exempt organization under Maryland State statute. The Association does not know of any tax benefits arising from uncertain tax positions and there was no effect on the Association’s financial position or changes in net assets as a result of analyzing its tax positions. Fiscal years ending on or after June 30, 2013 remain subject to examination by federal and State authorities.

Advertising

The Association's policy is to expense advertising costs when incurred. Total advertising costs incurred for employee recruitment for the years ended June 30, 2016 and 2015 were \$9,995 and \$19,364, respectively.

Donated Services, Materials and Rent

Donated services and materials are included in the accompanying statements at their estimated fair market values at the date of receipt. Donated professional services, materials and rent for the years ended June 30, 2016 and 2015 were \$316,424 and \$335,134, respectively.

Reclassifications

Certain reclassifications of prior year balances have been made to conform to current year presentation.

Note 2 - Concentration of Cash Balances

At June 30, 2016 and 2015, and at various times during the year, the Association maintained cash-in-bank balances in excess of the federally insured limit of \$250,000. Amounts in excess of insured limits at June 30, 2016 and 2015 were \$5,683,976 and \$3,360,873, respectively.

The Arc of the Central Chesapeake Region, Inc.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)  
June 30, 2016

Note 3 - Investments

Investments are stated at fair market value. A summary of the investments are as follows for years ending June 30:

	2016		
	Cost Basis	FMV	Unrealized Gain/(Loss)
Investments - brokerage account			
Cash	\$ 2,456	\$ 2,456	\$ -
Money market funds	116,995	116,995	-
Equities	27,047	51,384	24,337
Certificates of deposit	1,196,257	1,196,387	130
Total investments - brokerage account	1,342,755	1,367,222	24,467
Investments - bank			
Certificates of deposit	738,075	738,075	-
Total investments	<u>\$ 2,080,830</u>	<u>\$ 2,105,297</u>	<u>\$ 24,467</u>
	2015		
	Cost Basis	FMV	Unrealized Gain/(Loss)
Investments - brokerage account			
Cash	\$ 2,426	\$ 2,426	\$ -
Money market funds	116,225	116,225	-
Equities	24,182	44,940	20,758
Certificates of deposit	1,190,048	1,190,261	213
Total investments - brokerage account	1,332,881	1,353,852	20,971
Investments - bank			
Certificates of deposit	737,133	737,133	-
Total investments	<u>\$ 2,070,014</u>	<u>\$ 2,090,985</u>	<u>\$ 20,971</u>

The Arc of the Central Chesapeake Region, Inc.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)  
 June 30, 2016

Note 3 - Investments (Cont.)

Investment income presented on the consolidated statement of activities was composed of the following for the years ended June 30:

	2016	2015
Interest and dividends	\$ 8,668	\$ 7,744
Unrealized gain on investments	3,709	8,020
	\$ 12,377	\$ 15,764

Note 4 - Fair Value Measurement

ASC 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820-10 are as follows:

- Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Association has the ability to access at the measurement date.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3: Inputs that are unobservable and supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the Association. The Association considers observable data to be that market data, which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Association's perceived risk of that instrument.

Investments whose values are based on quoted market prices in active markets, and are, therefore classified with Level 1, includes cash and money market funds held in brokerage accounts, active listed mutual funds, equity securities, and certificates of deposit held in a brokerage account.

The Arc of the Central Chesapeake Region, Inc.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)  
June 30, 2016

Note 4 - Fair Value Measurement (Cont.)

The table below presents the balances of assets measured at fair value on a recurring basis by level within the hierarchy as of:

<u>June 30, 2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash equivalents	\$ 2,456	\$ -	\$ -	\$ 2,456
Money market funds	116,995	-	-	116,995
Equity securities				
Consumer sector	49,511	-	-	49,511
Financial sector	1,868	-	-	1,868
Energy	5	-	-	5
Certificates of deposit	1,934,462	-	-	1,934,462
 Total	 <u>\$ 2,105,297</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 2,105,297</u>
 <u>June 30, 2015</u>	 <u>Level 1</u>	 <u>Level 2</u>	 <u>Level 3</u>	 <u>Total</u>
Cash equivalents	\$ 2,426	\$ -	\$ -	\$ 2,426
Money market funds	116,225	-	-	116,225
Equity securities				
Consumer sector	41,706	-	-	41,706
Financial sector	2,370	-	-	2,370
Energy	864	-	-	864
Certificates of deposit	1,927,394	-	-	1,927,394
 Total	 <u>\$ 2,090,985</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 2,090,985</u>

Note 5 - Unconditional Promises to Give

The Association has a lease agreement with the State of Maryland Department of Health and Mental Hygiene for a residential home. The lease commenced on December 25, 2007 and has a term of five years with annual rent of \$1. This lease was renewed April 15, 2013 for five years with a discount rate of .95%. The Association also has a lease with the Anne Arundel County Department of Education for their administrative office building. The lease commenced on January 1, 1997 and has a term of twenty years with annual rent of \$1. These leases provide the Association with the free use of facilities and are recognized as unconditional promises to give. Unconditional promises to give are reflected at present value of estimated future cash flows using a discount rate of .95% and 8%, respectively, based on the date of the original promise to give.



The Arc of the Central Chesapeake Region, Inc.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)  
June 30, 2016

Note 5 - Unconditional Promises to Give (Cont.)

Unconditional promises to give are as follows for years ending June 30:

	<u>2016</u>	<u>2015</u>
Receivable in less than one year	\$ 28,050	\$ 38,100
Receivable in one to five years	<u>14,250</u>	<u>42,300</u>
Total unconditional promises to give	42,300	80,400
Less discount to net present value	<u>(267)</u>	<u>(1,063)</u>
	42,033	79,337
Less current portion	<u>(28,050)</u>	<u>(38,100)</u>
Unconditional promises to give, long-term	<u><u>\$ 13,983</u></u>	<u><u>\$ 41,237</u></u>

Note 6 - Property and Equipment

A summary of property and equipment by major classification are as follows at June 30:

	<u>Estimated Useful Lives</u>	<u>2016</u>	<u>2015</u>
Land	--	\$ 2,164,603	\$ 2,164,603
Building and improvements	5-31 years	8,407,340	7,608,485
Leasehold improvements	1-10 years	581,106	662,644
Furniture, fixtures and equipment	5-20 years	623,495	596,904
Vehicles	2-5 years	<u>921,740</u>	<u>924,992</u>
		12,698,284	11,957,628
Less accumulated depreciation		<u>(4,095,150)</u>	<u>(3,929,735)</u>
		<u><u>\$ 8,603,134</u></u>	<u><u>\$ 8,027,893</u></u>

Depreciation and amortization expenses were \$542,963 and \$503,826 for the years ended June 30, 2016 and 2015, respectively.

The Arc of the Central Chesapeake Region, Inc.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)  
June 30, 2016

Note 6 - Property and Equipment (Cont.)

Building improvements funded by Anne Arundel County grants possess liens of either three or thirty years. The amount of building improvements covered by these liens at June 30, 2016 and 2015 were \$332,422 and are included in temporarily restricted net assets.

Note 7 - Deferred Financing Fees

Deferred financing fees are settlement fees that were a result of refinancing the mortgages of properties owned by the Association. These fees are being amortized ratably over the lives of the related mortgages. Amortization expense was \$3,885 and \$5,493, for years ended June 30, 2016 and 2015, respectively.

Note 8 - Mortgages and Notes Payable

The Maryland Department of Housing and Community Development (DHCD) has provided financing under the Maryland Group Home Acquisition Program (GHAP) enabling the Association to purchase residences, which it utilizes as group homes or alternative living units for its clients. All GHAP mortgages contain provisions which specify that if a GHAP mortgage is prepaid, defaulted on, refinanced, or if the property is sold, the State of Maryland is entitled to receive 50% of the net appreciation on the property securing that particular GHAP mortgage. At June 30, 2016 and 2015, the Association has recorded a participation liability of \$99,338 and \$69,413, respectively and a related mortgage loan discount of \$35,654 and \$27,988, respectively, in connection with these agreements.

DHCD has also provided financing with proceeds of tax-exempt revenue bonds for residences under the Special Housing Opportunities Program (SHOP). SHOP loans may be prepaid or assumed with prior permission from DHCD. SHOP loans are required to be used as a group home and meet the income restrictions for residents who occupy them, if the residents no longer meet the income restrictions, then DHCD may increase the agreed upon interest rate. Any increase in the interest rate may not exceed the prevailing conventional interest rate determined in the sole discretion of DHCD. Loans are subject to a prepayment penalty equal to the unamortized cost of issuing the bonds.

The Association entered into a thirty year loan with Arundel Community Development Services, Inc. (ACDS). If during the term of the loan, the property is sold, transferred, exchanged or otherwise disposed, the ACDS is entitled to receive 50% of the net proceeds in accordance with the Equity Participation Agreement. The associated participation liability is included above.

During fiscal year 2014, two properties were purchased from The Arc of the Central Chesapeake Region, Inc. by its related entity Chesapeake Neighbors, LLC. The related loans with banks were paid off by The Arc of the Central Chesapeake Region, Inc. and Chesapeake Neighbors, LLC obtained a SHOP and GHAP loan for each property. Additional details on these loans are on the following page.



The Arc of the Central Chesapeake Region, Inc.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)  
June 30, 2016

Note 8 - Mortgages and Notes Payable (Cont.)

Scheduled maturities of the above mortgages and notes payable are as follows:

<u>Year Ending June 30</u>	
2017	\$ 192,334
2018	210,272
2019	213,833
2020	221,552
2021	229,120
Thereafter	<u>5,607,144</u>
	<u><u>\$ 6,674,255</u></u>

Interest expense for the years ended June 30, 2016 and 2015 was \$242,835 and \$159,894, respectively.

Note 9 - Line of Credit

The Association has available a \$400,000 line of credit with a bank. Amounts drawn on the line of credit are payable on demand and bear interest at the banks' prime rate plus 1%, although never less than 5.25%. The line of credit is secured by the general assets of the Association and expired on December 31, 2015. There were no amounts outstanding at June 30, 2016 and 2015.

In March 2016, the Association obtained a line of credit, secured by the Association's accounts receivables, with a bank with a maximum borrowing potential of \$800,000. The line bears interest at the bank's prime lending rate and expires in March 2018. There was no amount outstanding as of June 30, 2016.

Note 10 - Compensated Absences

Employees of the Association are entitled to paid vacation depending on length of service and job classification. As of June 30, 2016 and 2015, there were \$209,141 and \$213,634, respectively, of vacation benefits due employees.

The Arc of the Central Chesapeake Region, Inc.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)  
June 30, 2016

Note 11 - Capital Lease Obligations

The Association entered into capital lease agreements for three copiers and six vehicles. The term of the copier and vehicle lease agreements are for 60 months. At June 30, 2016 and 2015 the aggregate monthly payments for the copiers were \$2,014 and \$1,844, respectively. At June 30, 2016 and 2015 the aggregate monthly payments for the vehicles were \$6,224 and \$4,491, respectively. Depreciation attributable to capital expenses for the years ended June 30, 2016 and 2015 amounted to \$78,958 and \$39,053, respectively.

Future minimum lease payments are as follows:

	Year Ending June 30	
	2017	\$ 112,014
	2018	97,074
	2019	97,734
	2020	91,661
	2021	41,542
	Thereafter	3,029
		443,054
Less amounts representing interest		(61,741)
Present value of future minimum lease payments (including current portion of \$89,615)		\$ 381,313

Note 12 - Operating Leases

The Association leases residential homes that are utilized as alternative living units and group homes for its clients. Some of the homes are leased on a month-to-month basis, and some homes have leases, with rent ranging from \$1 to \$2,200 per month. Leases mature on February 2017.

The following is a schedule of future minimum lease payments due on operating leases:

	Year Ending June 30	
	2017	\$ 17,601

Rent expense for the years ended June 30, 2016 and 2015 was \$756,748 and \$867,361, respectively.

The Arc of the Central Chesapeake Region, Inc.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)  
 June 30, 2016

Note 13 - Retirement Plan

Under Internal Revenue Code Section 403(b), all employees are entitled to contribute to a tax deferred annuity plan of their choice by salary reduction. Tax deferred annuity plans are available to employees of Section 501(c)(3) Associations and are limited to 25 percent of their annual salary or \$18,000. The Arc of the Central Chesapeake Region, Inc. contributes up to 1% of salaries to this plan and contributed \$42,680 and \$39,599 for the years ended June 30, 2016 and 2015, respectively.

Note 14 - Special Events Revenue

The direct costs of special events have been netted with special events revenue. Special events revenue and direct costs consisted of the following for years ending June 30:

	2016	2015
Revenues	\$ 71,929	\$ 76,485
Direct expenses	(30,940)	(41,565)
Total net revenues	\$ 40,989	\$ 34,920

Note 15 - Anne Arundel County Grants

The Association received grants from Anne Arundel County for leasehold improvements to six properties in the form of loans with Anne Arundel Community Development Services, Inc. The grant agreements specify that the Association must repay the grants without interest or penalty if the properties are sold, transferred or conveyed prior to their maturity ranging from March 9, 2030 to November 1, 2031. Upon maturity of the loans, the Association is released from their principal obligation.

During 1991, the Association received a grant of \$15,864 from Anne Arundel County for the purpose of removing architectural barriers at the Linthicum Home to improve handicap access. In 1993, the Association received a grant of \$3,491 from Anne Arundel County to finance repairs and improvements at the Linthicum Home which provided for the addition of a cement patio. These grant agreements specify that the Association must repay the grants without interest or penalty if the Linthicum Home is sold or transferred within thirty years according to the following schedule:

Sale or Transfer Occurs Within:	Repay:
26 years of grant date	100% of grant
27 years of grant date	80% of grant
28 years of grant date	60% of grant
29 years of grant date	40% of grant
30 years of grant date	20% of grant

The Arc of the Central Chesapeake Region, Inc.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)  
 June 30, 2016

Note 16 - Unrestricted Net Assets – Board Designated

The Governing Board set aside funds to be used for the following purposes for the years ending June 30:

	2016	2015
Mortgage / payroll reserves	\$ 1,640,000	\$ 1,640,000
Renovation of headquarters	500,000	197,000
Renovation of homes	-	163,000
	\$ 2,140,000	\$ 2,000,000

Note 17 - Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes for years ending June 30:

	2016	2015
Leasehold improvements (Note 6)	\$ 332,422	\$ 332,422
Donated long-term leases (Note 5)	42,033	79,337
Memorial fund	25,108	25,082
	\$ 399,563	\$ 436,841

The Lola M. Bell Memorial Fund was established for direct aid to persons with developmental disabilities. Interest earned on the fund may be expended as direct aid in the year the interest is earned. If the interest is not expended in the year earned, it is added to the principal of the fund. The donated long-term leases are described in detail in Note 5 of the financial statements. Temporarily restricted leasehold improvement grants from Anne Arundel County are described in detail in Note 6 of the financial statements.

Note 18 - Contingent Liabilities

The Association receives a substantial portion of its revenue from government grants, which are subject to audits by the government. Until such audits have been completed and final settlement reached, there exists a contingent liability to refund any amounts received in excess of allowable costs. Management of the Association is of the opinion that no significant liability will result from audit adjustments, if any.

The Arc of the Central Chesapeake Region, Inc.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)  
June 30, 2016

Note 19 - Significant Funding Source

The Association receives a majority of its total revenue from the State of Maryland. The Association is highly dependent upon government funding to continue its operations.

Note 20 - Subsequent Events

The Association has evaluated the impact of significant subsequent events through December 8, 2016, the date the financial statements were available to be issued.

In August 2016, the Association sold one home.

In August 2016, the Association purchased a home and acquired a new mortgage for \$512,000. The mortgage bears an interest rate of 5.35%, requires interest only payments for the first 9 months and interest and principal payment of \$2,861 for 359 months, and matures in May 2047.

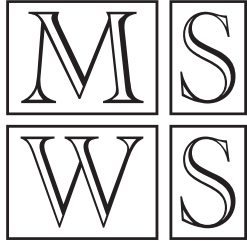
In August 2016, the Association purchased a vehicle and acquired a new lease for \$48,312. The lease bears an interest rate of 5.95%, requires interest and principal payments of \$933 for the 60 months, and matures in July 2021.

In September 2016, the Association purchased two vehicles and acquired two new leases for \$27,772 each. Both leases bear an interest rate of 5.95%, require interest and principal payments of \$537 for the 60 months, and mature in August 2021.

In October 2016, the Association purchased a home and acquired a new mortgage for \$420,000. The mortgage bears an interest rate of 5.35%, requires interest only payments for the first 6 months and interest and principal payment of \$2,363 for 353 months, and matures in November 2046.



**SUPPLEMENTARY INFORMATION**



MULLEN & SONDBERG  
WIMBISH & STONE, P.A.  
CERTIFIED PUBLIC ACCOUNTANTS

2553 Housley Road • Suite 200 • Annapolis, Maryland 21401

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INDEPENDENT AUDITOR'S REPORT  
ON SUPPLEMENTARY INFORMATION

To the Board of Directors of  
The Arc of the Central Chesapeake Region, Inc.  
Annapolis, Maryland

We have audited the consolidated financial statements of The Arc of the Central Chesapeake Region, Inc. as of and for the year ended June 30, 2016, and have issued our report thereon dated December 8, 2016, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information contained in pages 24-29 is presented for the purposes of additional analysis and is not a required part of consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

MULLEN, SONDBERG, WIMBISH & STONE, P.A.

Annapolis, Maryland  
December 8, 2016

The Arc of the Central Chesapeake Region, Inc.  
CONSOLIDATING STATEMENT OF FINANCIAL POSITION  
June 30, 2016

	ASSETS			
	The Arc of the Central Chesapeake Region, Inc.	Chesapeake Neighbors, LLC	Elimination	Consolidated
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 5,831,736	\$ 6,041	\$ -	\$ 5,837,777
Investments	2,105,297	-	-	2,105,297
Due from State of Maryland	490,911	-	-	490,911
Accounts receivable, other	102,195	19,500	-	121,695
Accounts receivable, clients, net of allowance for doubtful accounts	9,869	-	-	9,869
Due from LLC	1,381,572	-	(1,381,572)	-
Unconditional promises to give	28,050	-	-	28,050
Prepaid expenses	163,787	-	-	163,787
Total current assets	10,113,417	25,541	(1,381,572)	8,757,386
<b>UNCONDITIONAL PROMISES TO GIVE, long term</b>				
	13,983	-	-	13,983
<b>PROPERTY AND EQUIPMENT</b>				
Net of accumulated depreciation	3,915,896	4,687,238	-	8,603,134
<b>OTHER ASSETS</b>				
Deferred refinancing fees, net of accumulated amortization	20,955	25,676	-	46,631
Security deposits and escrows	42,857	131,581	-	174,438
Total other assets	63,812	157,257	-	221,069
Total assets	\$ 14,107,108	\$ 4,870,036	\$ (1,381,572)	\$ 17,595,572

The Arc of the Central Chesapeake Region, Inc.  
CONSOLIDATING STATEMENT OF FINANCIAL POSITION (Cont.)  
June 30, 2016

LIABILITIES AND NET ASSETS

	The Arc of the Central Chesapeake Region, Inc.	Chesapeake Neighbors, LLC	Elimination	Consolidated
<b>CURRENT LIABILITIES</b>				
Accounts payable, trade	\$ 712,425	\$ -	\$ -	\$ 712,425
Due to State of Maryland	4,347,346	-	-	4,347,346
Due to Arc	-	1,381,572	(1,381,572)	-
Accrued vacation	209,141	-	-	209,141
Accrued salaries and related taxes	878,340	-	-	878,340
Client funds	87,875	-	-	87,875
Deferred revenue	48,287	26,924	-	75,211
Capital lease obligations	89,615	-	-	89,615
Mortgages and notes payable	91,768	100,566	-	192,334
Total current liabilities	<u>6,464,797</u>	<u>1,509,062</u>	<u>(1,381,572)</u>	<u>6,592,287</u>
<b>LONG-TERM LIABILITIES</b>				
Capital lease obligations	187,842	-	-	187,842
Mortgages and notes payable	2,114,753	3,430,106	-	5,544,859
Participation liability	65,236	34,102	-	99,338
Total long-term liabilities	<u>2,367,831</u>	<u>3,464,208</u>	<u>-</u>	<u>5,832,039</u>
Total liabilities	<u>8,832,628</u>	<u>4,973,270</u>	<u>(1,381,572)</u>	<u>12,424,326</u>
<b>NET ASSETS</b>				
Unrestricted	1,368,235	(1,225,698)	-	142,537
Unrestricted - Board designated	2,140,000	-	-	2,140,000
Unrestricted - investment in plant	1,366,682	1,122,464	-	2,489,146
Temporarily restricted	399,563	-	-	399,563
Total net assets	<u>5,274,480</u>	<u>(103,234)</u>	<u>-</u>	<u>5,171,246</u>
Total liabilities and net assets	<u>\$ 14,107,108</u>	<u>\$ 4,870,036</u>	<u>\$ (1,381,572)</u>	<u>\$ 17,595,572</u>

The Arc of the Central Chesapeake Region, Inc.  
**CONSOLIDATING STATEMENT OF ACTIVITIES**  
June 30, 2016

	The Arc of the Central Chesapeake Region, Inc.	Chesapeake Neighbors, LLC	Elimination	Consolidated
<b>REVENUES, GAINS AND OTHER SUPPORT</b>				
New Directions Waiver revenue	\$ 17,748,139	\$ -	\$ -	\$ 17,748,139
Less: New Directions Waiver expenses	(16,942,225)	-	-	(16,942,225)
Net New Directions Waiver	805,914	-	-	805,914
State of Maryland - DHMH fees and DHR grants	14,434,243	-	-	14,434,243
Program fees	532,713	-	-	532,713
Rental subsidy	337,647	290,400	(290,400)	337,647
Other grants	244,605	84,736	-	329,341
Donated goods and services	316,424	-	-	316,424
Contributions	74,768	-	-	74,768
Insurance proceeds	61,455	-	-	61,455
Special events - net of direct expenses	40,989	-	-	40,989
United Way funding	12,918	-	-	12,918
Investment income	12,081	296	-	12,377
Loss on disposal of equipment	(34,886)	-	-	(34,886)
Total revenues, gains and other support	<u>16,838,871</u>	<u>375,432</u>	<u>(290,400)</u>	<u>16,923,903</u>
<b>EXPENSES</b>				
Program services				
Residential	7,377,372	377,720	(290,400)	7,464,692
CSLA/ Personal Support	2,708,800	-	-	2,708,800
Individual Support Services	1,782,714	-	-	1,782,714
Day/ Employment	1,690,193	-	-	1,690,193
Other programs	376,011	-	-	376,011
Family Support Services	208,499	-	-	208,499
Total program services	<u>14,143,589</u>	<u>377,720</u>	<u>(290,400)</u>	<u>14,230,909</u>
Supporting services				
Management and general	1,830,023	-	-	1,830,023
Fundraising	87,380	-	-	87,380
Total supporting services	<u>1,917,403</u>	<u>-</u>	<u>-</u>	<u>1,917,403</u>
Total expenses	<u>16,060,992</u>	<u>377,720</u>	<u>(290,400)</u>	<u>16,148,312</u>
Change in net assets	777,879	(2,288)	-	775,591
NET ASSETS AT BEGINNING OF YEAR	<u>4,496,601</u>	<u>(100,946)</u>	<u>-</u>	<u>4,395,655</u>
NET ASSETS AT END OF YEAR	<u>\$ 5,274,480</u>	<u>\$ (103,234)</u>	<u>\$ -</u>	<u>\$ 5,171,246</u>

The Arc of the Central Chesapeake Region, Inc.  
CONSOLIDATING STATEMENT OF FINANCIAL POSITION  
June 30, 2015

ASSETS

	The Arc of the Central Chesapeake Region, Inc.	Chesapeake Neighbors, LLC	Elimination	Consolidated
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 3,494,940	\$ 6,455	\$ -	\$ 3,501,395
Investments	2,090,985	-	-	2,090,985
Due from State of Maryland	121,238	-	-	121,238
Accounts receivable, other	103,793	-	-	103,793
Accounts receivable, clients, net of allowance for doubtful accounts	876	-	-	876
Due from LLC	1,045,036	-	(1,045,036)	-
Unconditional promises to give	38,100	-	-	38,100
Prepaid expenses	164,096	-	-	164,096
Total current assets	<u>7,059,064</u>	<u>6,455</u>	<u>(1,045,036)</u>	<u>6,020,483</u>
UNCONDITIONAL PROMISES TO GIVE, long-term	<u>41,237</u>	<u>-</u>	<u>-</u>	<u>41,237</u>
<b>PROPERTY AND EQUIPMENT</b>				
Net of accumulated depreciation	<u>3,535,260</u>	<u>4,492,633</u>	<u>-</u>	<u>8,027,893</u>
<b>OTHER ASSETS</b>				
Deferred refinancing fees, net of accumulated amortization	23,838	26,676	-	50,514
Security deposits and escrows	65,264	104,558	-	169,822
Total other assets	<u>89,102</u>	<u>131,234</u>	<u>-</u>	<u>220,336</u>
Total assets	<u>\$ 10,724,663</u>	<u>\$ 4,630,322</u>	<u>\$(1,045,036)</u>	<u>\$ 14,309,949</u>

The Arc of the Central Chesapeake Region, Inc.  
CONSOLIDATING STATEMENT OF FINANCIAL POSITION (Cont.)  
June 30, 2015

LIABILITIES AND NET ASSETS

	The Arc of the Central Chesapeake Region, Inc.	Chesapeake Neighbors, LLC	Elimination	Consolidated
<b>CURRENT LIABILITIES</b>				
Accounts payable, trade	\$ 568,752	\$ -	\$ -	\$ 568,752
Due to State of Maryland	2,423,602	-	-	2,423,602
Due to Arc	-	1,045,036	(1,045,036)	-
Accrued vacation	213,634	-	-	213,634
Accrued salaries and related taxes	446,464	-	-	446,464
Client funds	103,593	-	-	103,593
Deferred revenue	43,725	26,924	-	70,649
Capital lease obligations	35,966	-	-	35,966
Mortgages and notes payable	99,489	97,327	-	196,816
Total current liabilities	<u>3,935,225</u>	<u>1,169,287</u>	<u>(1,045,036)</u>	<u>4,059,476</u>
<b>LONG-TERM LIABILITIES</b>				
Capital lease obligations	48,226	-	-	48,226
Mortgages and notes payable	2,204,496	3,532,683	-	5,737,179
Participation liability	40,115	29,298	-	69,413
Total long-term liabilities	<u>2,292,837</u>	<u>3,561,981</u>	<u>-</u>	<u>5,854,818</u>
Total liabilities	<u>6,228,062</u>	<u>4,731,268</u>	<u>(1,045,036)</u>	<u>9,914,294</u>
<b>NET ASSETS</b>				
Unrestricted	952,792	(934,271)	-	18,521
Unrestricted - Board designated	2,000,000	-	-	2,000,000
Unrestricted - investment in plant	1,106,968	833,325	-	1,940,293
Temporarily restricted	436,841	-	-	436,841
Total net assets	<u>4,496,601</u>	<u>(100,946)</u>	<u>-</u>	<u>4,395,655</u>
Total liabilities and net assets	<u>\$ 10,724,663</u>	<u>\$ 4,630,322</u>	<u>\$(1,045,036)</u>	<u>\$ 14,309,949</u>

The Arc of the Central Chesapeake Region, Inc.  
**CONSOLIDATING STATEMENT OF ACTIVITIES**  
June 30, 2015

	The Arc of the Central Chesapeake Region, Inc.	Chesapeake Neighbors, LLC	Elimination	Consolidated
<b>REVENUES, GAINS AND OTHER SUPPORT</b>				
New Directions Waiver revenue	\$ 13,636,082	\$ -	\$ -	\$ 13,636,082
Less: New Directions Waiver expenses	(12,969,647)	-	-	(12,969,647)
Net New Directions Waiver	666,435	-	-	666,435
State of Maryland - DHMH fees and DHR grants	14,289,944	-	-	14,289,944
Program fees	490,837	-	-	490,837
Rental subsidy	401,445	290,400	(290,400)	401,445
Other grants	313,835	24,060	-	337,895
Donated goods and services	335,134	-	-	335,134
Gain on disposal of equipment	214,471	-	-	214,471
Contributions	69,924	-	-	69,924
Special events - net of direct expenses	34,920	-	-	34,920
United Way funding	17,843	-	-	17,843
Investment income	15,457	307	-	15,764
Total revenues, gains and other support	<u>16,850,245</u>	<u>314,767</u>	<u>(290,400)</u>	<u>16,874,612</u>
<b>EXPENSES</b>				
Program services				
Residential	7,352,183	323,497	(290,400)	7,385,280
Community Supported Living Arrangement	3,212,529	-	-	3,212,529
Individual Support Services	1,862,636	-	-	1,862,636
Day/ Employment	1,492,917	-	-	1,492,917
Other programs	460,055	-	-	460,055
Family Support Services	201,111	-	-	201,111
Total program services	<u>14,581,431</u>	<u>323,497</u>	<u>(290,400)</u>	<u>14,614,528</u>
Supporting services				
Management and general	1,815,678	-	-	1,815,678
Fundraising	86,599	-	-	86,599
Total supporting services	<u>1,902,277</u>	<u>-</u>	<u>-</u>	<u>1,902,277</u>
Total expenses	<u>16,483,708</u>	<u>323,497</u>	<u>(290,400)</u>	<u>16,516,805</u>
Change in net assets	366,537	(8,730)	-	357,807
NET ASSETS AT BEGINNING OF YEAR	<u>4,130,064</u>	<u>(92,216)</u>	<u>-</u>	<u>4,037,848</u>
NET ASSETS AT END OF YEAR	<u>\$ 4,496,601</u>	<u>\$ (100,946)</u>	<u>\$ -</u>	<u>\$ 4,395,655</u>