



**ARCA**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2011 AND 2010**

**MOSS ADAMS** LLP

Certified Public Accountants | Business Consultants

*Acumen. Agility. Answers.*

# **TABLE OF CONTENTS**

## **ARCA**

<b>REPORT OF INDEPENDENT AUDITORS.....</b>	<b>1</b>
<b>FINANCIAL STATEMENTS</b>	
Consolidated Statements of Financial Position.....	2
Consolidated Statements of Activities.....	4
Consolidated Statements of Cash Flows.....	8
Consolidated Statements of Functional Expenses .....	10
Notes to Consolidated Financial Statements.....	12

## Report of Independent Auditors

Board of Directors  
ARCA  
Albuquerque, New Mexico

We have audited the accompanying consolidated statement of financial position of ARCA a non-profit organization, as of June 30, 2011, and the related consolidated statements of activities, cash flows and functional expenses for the year then ended. These consolidated financial statements are the responsibility of ARCA's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The consolidated financial statements of ARCA as of and for the year ended June 30, 2010 were audited by other auditors. Those auditors expressed an unqualified opinion on those consolidated financial statements in their report dated October 4, 2010, except for Note 17, as to which the date was October 27, 2010.

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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ARCA as of June 30, 2011, and the changes in its consolidated net assets and its consolidated cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

*Moss Adams LLP*

Albuquerque, New Mexico  
October 7, 2011

**ARCA**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2011 and 2010**

	2011	2010
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 2,264,876	1,943,046
Investments	1,490,583	1,160,391
Accounts receivable	2,002,542	2,085,042
Unconditional promises to give, net of allowance	104,933	139,590
Inventory	9,525	-
Prepaid expenses	318,288	317,311
<b>Total current assets</b>	<u>6,190,747</u>	<u>5,645,380</u>
 PROPERTY AND EQUIPMENT, net	 <u>6,883,692</u>	 <u>7,091,769</u>
Other Assets		
Restricted deposits and funded reserves		
Cash held in trust for persons served	1,222,632	1,171,066
Unconditional promises to give - non-current, net of discount	94,846	41,723
Permanently restricted endowment	689,536	576,053
Accrued interest and other assets	2,969	2,277
<b>Total other assets</b>	<u>2,009,983</u>	<u>1,791,119</u>
 <b>Total assets</b>	 <u><u>\$ 15,084,422</u></u>	 <u><u>14,528,268</u></u>

*See Notes to Consolidated Financial Statements.*

**ARCA**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)**  
**June 30, 2011 and 2010**

	2011	2010
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Accounts payable	\$ 462,902	494,841
Accrued liabilities:		
Salaries and payroll taxes	902,124	859,835
Compensated absences	848,368	941,152
Mortgage interest	9,854	8,679
Deferred revenue	101,155	28,148
Current portion of long-term debt	279,416	266,064
<b>Total current liabilities</b>	<b>2,603,819</b>	<b>2,598,719</b>
Long-term Liabilities		
Long-term debt	2,525,642	2,809,972
Cash held in trust for persons served	1,222,632	1,171,066
Other long-term liabilities	3,699	3,600
<b>Total long-term liabilities</b>	<b>3,751,973</b>	<b>3,984,638</b>
<b>Total liabilities</b>	<b>6,355,792</b>	<b>6,583,357</b>
COMMITMENTS AND CONTINGENCIES		
<b>NET ASSETS</b>		
Unrestricted:		
Undesignated	5,773,370	5,057,134
Board designated	1,944,576	1,963,993
<b>Total unrestricted</b>	<b>7,717,946</b>	<b>7,021,127</b>
Temporarily restricted	259,234	254,810
Permanently restricted	751,450	668,974
<b>Total net assets</b>	<b>8,728,630</b>	<b>7,944,911</b>
Total liabilities and net assets	<b>\$ 15,084,422</b>	<b>14,528,268</b>

*See Notes to Consolidated Financial Statements.*

**ARCA**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**June 30, 2011**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>PUBLIC SUPPORT AND REVENUE:</b>				
Public Support				
Government funding:				
NM Department of Health and Human Services	\$ 770,653	-	-	770,653
NM Children, Youth and Families Department	883,964	-	-	883,964
U.S. Department of Transportation	302,551	-	-	302,551
Private contracts	172,979	-	-	172,979
Contributions	253,163	285,441	82,476	621,080
Grants	116,508	-	-	116,508
<b>Total public support</b>	<b>2,499,818</b>	<b>285,441</b>	<b>82,476</b>	<b>2,867,735</b>
Revenue				
Medicaid waiver	15,018,236	-	-	15,018,236
Medicaid ICF/MR	7,001,607	-	-	7,001,607
Fees and rent	1,440,624	-	-	1,440,624
Investment returns:				
Endowment fund	113,482	-	-	113,482
Other investments	219,962	-	-	219,962
	23,793,911	-	-	23,793,911
Interest income from cash and cash equivalents	2,377	-	-	2,377
Other	48,897	-	-	48,897
Contracts and sales	18,354	-	-	18,354
<b>Total revenue</b>	<b>23,863,539</b>	<b>-</b>	<b>-</b>	<b>23,863,539</b>
Net Assets Released from Restrictions:				
Project and time restrictions	281,017	(281,017)	-	-
<b>Total net assets released from restrictions</b>	<b>281,017</b>	<b>(281,017)</b>	<b>-</b>	<b>-</b>
<b>Total public support and revenue</b>	<b>26,644,374</b>	<b>4,424</b>	<b>82,476</b>	<b>26,731,274</b>

See Notes to Consolidated Financial Statements.

**ARCA**  
**CONSOLIDATED STATEMENT OF ACTIVITIES (CONTINUED)**  
**June 30, 2011**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Expenses				
Program services:				
Community services	\$ 16,166,659	-	-	16,166,659
InterCare	6,508,585	-	-	6,508,585
ARCA Organics	98,845	-	-	98,845
<b>Total program services</b>	<u>22,774,089</u>	<u>-</u>	<u>-</u>	<u>22,774,089</u>
Supporting services:				
Management and general	2,998,384	-	-	2,998,384
Fundraising	175,082	-	-	175,082
<b>Total supporting services</b>	<u>3,173,466</u>	<u>-</u>	<u>-</u>	<u>3,173,466</u>
<b>Total expenses</b>	<u>25,947,555</u>	<u>-</u>	<u>-</u>	<u>25,947,555</u>
<b>Change in net assets</b>	696,819	4,424	82,476	783,719
<b>Net assets, beginning of year</b>	<u>7,021,127</u>	<u>254,810</u>	<u>668,974</u>	<u>7,944,911</u>
<b>Net assets, end of year</b>	<u>\$ 7,717,946</u>	<u>259,234</u>	<u>751,450</u>	<u>8,728,630</u>

*See Notes to Consolidated Financial Statements.*

**ARCA**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**June 30, 2010**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>PUBLIC SUPPORT AND REVENUE:</b>				
Public Support				
Government funding:				
NM Department of Health and Human Services	\$ 725,031	-	-	725,031
NM Children, Youth and Families Department	809,579	-	-	809,579
U.S. Department of Housing and Urban Development	27,787	-	-	27,787
Private contracts	48,682	-	-	48,682
Contributions	262,081	268,598	(7,181)	523,498
Grants	381,699	-	-	381,699
<b>Total public support</b>	<b>2,254,859</b>	<b>268,598</b>	<b>(7,181)</b>	<b>2,516,276</b>
Revenue				
Medicaid waiver	15,573,110	-	-	15,573,110
Medicaid ICF/MR	6,960,662	-	-	6,960,662
Fees and rent	1,314,966	-	-	1,314,966
Investment returns:				
Endowment fund	58,833	-	-	58,833
Other investments	131,220	-	-	131,220
	24,038,791	-	-	24,038,791
Interest income from cash and cash equivalents	9,426	-	-	9,426
Other	145,987	-	-	145,987
Contracts and sales	26,728	-	-	26,728
<b>Total revenue</b>	<b>24,220,932</b>	<b>-</b>	<b>-</b>	<b>24,220,932</b>
Net Assets Released from Restrictions:				
Project and time restrictions	135,054	(135,054)	-	-
<b>Total net assets released from restrictions</b>	<b>135,054</b>	<b>(135,054)</b>	<b>-</b>	<b>-</b>
<b>Total public support and revenue</b>	<b>26,610,845</b>	<b>133,544</b>	<b>(7,181)</b>	<b>26,737,208</b>

*See Notes to Consolidated Financial Statements.*

**ARCA**  
**CONSOLIDATED STATEMENT OF ACTIVITIES (CONTINUED)**  
**June 30, 2010**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Expenses				
Program services:				
Community services	\$ 16,337,233	-	-	16,337,233
InterCare	6,598,183	-	-	6,598,183
ARCA Organics	48,423	-	-	48,423
<b>Total program services</b>	<u>22,983,839</u>	<u>-</u>	<u>-</u>	<u>22,983,839</u>
Supporting services:				
Management and general	2,947,205	-	-	2,947,205
Fundraising	228,380	-	-	228,380
<b>Total supporting services</b>	<u>3,175,585</u>	<u>-</u>	<u>-</u>	<u>3,175,585</u>
<b>Total expenses</b>	<u>26,159,424</u>	<u>-</u>	<u>-</u>	<u>26,159,424</u>
<b>Change in net assets</b>	451,421	133,544	(7,181)	577,784
<b>Net assets, beginning of year</b>	<u>6,569,706</u>	<u>121,266</u>	<u>676,155</u>	<u>7,367,127</u>
<b>Net assets, end of year</b>	<u>\$ 7,021,127</u>	<u>254,810</u>	<u>668,974</u>	<u>7,944,911</u>

*See Notes to Consolidated Financial Statements.*

**ARCA**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**June 30, 2011 and 2010**

	2011	2010
Cash Flows from Operating Activities		
Cash received from the state of New Mexico	\$ 23,584,537	24,037,336
Cash received from contributors	1,030,046	692,802
Cash received from other sources	1,704,964	1,556,859
Cash paid to suppliers and employees	(25,525,193)	(25,278,536)
Investment income	44,262	42,443
Interest paid	127,155	(121,359)
<b>Net cash provided by operating activities</b>	<b>965,771</b>	<b>929,545</b>
Cash Flows from Investing Activities		
Proceeds from sale of investments	132,982	48,852
Purchase of investments	(285,097)	(142,139)
Purchase of property and equipment	(355,570)	(555,119)
Proceeds from sale of property and equipment	40,629	209,272
<b>Net cash used by investing activities</b>	<b>(467,056)</b>	<b>(439,134)</b>
Cash Flows from Financing Activities		
Restricted contributions	94,093	22,233
Mortgage repayments	(270,978)	(328,174)
<b>Net cash used by financing activities</b>	<b>(176,885)</b>	<b>(305,941)</b>
<b>Net increase in cash and cash equivalents</b>	<b>321,830</b>	<b>184,470</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>1,943,046</b>	<b>1,758,576</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 2,264,876</b>	<b>1,943,046</b>

*See Notes to Consolidated Financial Statements.*

**ARCA**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**  
**June 30, 2011 and 2010**

	2011	2010
<b>Reconciliation of change in net assets to net cash provided by operating activities -</b>		
Change in net assets	<u>\$ 783,719</u>	<u>577,784</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	607,248	623,846
Unrealized gain on investments	(153,119)	(200,071)
Realized (gain) loss on investments	(138,442)	43,035
Gain on sale of assets	(40,629)	(121,829)
Donated property and equipment	(43,600)	(38,532)
Restricted contributions	(82,476)	-
(Increase) decrease in:		
Accounts receivable	27,885	82,802
Unconditional promises to give	24,531	(2,635)
Prepaid expenses	(978)	(63,293)
Cash held in trust for persons served	(51,565)	(36,229)
Reserve for replacements	(1,600)	22,903
Accrued interest and other assets	73,010	690
Increase (decrease) in:		
Accounts payable	(36,858)	75,827
Accrued liabilities and deferred revenue	(49,321)	(73,132)
Cash held in trust for persons served and other long-term liabilities	<u>47,966</u>	<u>38,379</u>
Total adjustments	<u>182,052</u>	<u>351,761</u>
<b>Net cash provided by operating activities</b>	<u><b>\$ 965,771</b></u>	<u><b>929,545</b></u>

Non-cash investing and financing activities consist of financing the cost of acquiring two buildings through mortgages payable totaling approximately \$362,000 for the year ended June 30, 2010 and donated assets totaling \$43,600 and \$15,900 for the years ended June 30, 2011 and 2010, respectively.

*See Notes to Consolidated Financial Statements.*

**ARCA**  
**CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES**  
**June 30, 2011**

	Program Services				Supporting Services			
	Community Services	InterCare	ARCA Organics	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total
Salaries, taxes and benefits	\$ 10,868,830	5,166,254	37,046	16,072,130	2,153,109	115,697	2,268,806	18,340,936
Expenses for persons served	3,433,642	698,890	-	4,132,532	8,571	-	8,571	4,141,103
Facilities	1,015,384	462,366	35,053	1,512,803	183,259	-	183,259	1,696,062
Transportation	693,947	152,262	13,617	859,826	10,801	-	10,801	870,627
Contractual services	41,444	6,841	3,486	51,771	434,499	-	434,499	486,270
Office expenses	99,134	16,280	5,984	121,398	180,456	940	181,396	302,794
Public relations	14,278	5,692	3,659	23,629	27,689	58,445	86,134	109,763
<b>Total expenses</b>	<b>\$ 16,166,659</b>	<b>6,508,585</b>	<b>98,845</b>	<b>22,774,089</b>	<b>2,998,384</b>	<b>175,082</b>	<b>3,173,466</b>	<b>25,947,555</b>

*See Notes to Consolidated Financial Statements.*

**ARCA**  
**CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES**  
**June 30, 2010**

	Program Services				Supporting Services			
	Community Services	InterCare	ARCA Organics	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total
Salaries, taxes and benefits	\$ 10,942,956	5,135,402	17,060	16,095,418	2,077,049	131,319	2,208,368	18,303,786
Expenses for persons served	3,616,336	728,506	-	4,344,842	(591)	-	(591)	4,344,251
Facilities	1,029,867	549,421	15,230	1,594,518	179,030	-	179,030	1,773,548
Transportation	636,435	153,057	7,572	797,064	12,031	-	12,031	809,095
Contractual services	45,569	3,877	2,060	51,506	434,847	-	434,847	486,353
Office expenses	52,374	21,719	4,540	78,633	203,230	-	203,230	281,863
Public relations	13,696	6,201	1,961	21,858	41,609	97,061	138,670	160,528
<b>Total expenses</b>	<b>\$ 16,337,233</b>	<b>6,598,183</b>	<b>48,423</b>	<b>22,983,839</b>	<b>2,947,205</b>	<b>228,380</b>	<b>3,175,585</b>	<b>26,159,424</b>

*See Notes to Consolidated Financial Statements.*

**ARCA**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

**NOTE 1. NATURE OF ORGANIZATION**

ARCA is a not-for-profit corporation that was originally founded in 1957 by a group of parents desiring community-based opportunities for their family members with developmental disabilities. ARCA is dedicated to providing premier services to approximately 500 individuals with developmental disabilities in the Albuquerque area and provides services to approximately 50 individuals statewide as part of New Mexico's Prader Willi Project. ARCA's primary program activities are divided into three divisions: InterCare, Community Services and ARCA Organics. InterCare provides 24-hour residential services along with employment services at their La Paloma Greenhouses. Community Services provides various community living options, family living services and employment and other community inclusion opportunities. ARCA Organics provides employment services through the production of organic products.

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

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

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

• **Basis of Presentation**

The accompanying consolidated financial statements referred to as "ARCA" present the consolidated financial position, changes in net assets and cash flows of ARCA and ARCA Foundation. All significant inter-company accounts and transactions have been eliminated.

ARCA follows the accounting and reporting standards required by FASB ASC 958, *Not for Profit Entities*. FASB ASC 958 requires ARCA to report information regarding its financial position and activities according to three classes of net assets:

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

**ARCA**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Temporarily Restricted Net Assets** – These assets result from (1) contributions and other inflows of assets whose use by ARCA is limited by donor imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of ARCA pursuant to those stipulations; (b) other assets enhancements and diminishments subject to the same kinds of stipulations; and (c) imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of ARCA pursuant to those stipulations.

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

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

- **Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

- **Financial Instruments**

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

**ARCA**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

- **Accounts Receivable**

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

- **Investments**

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

- **Income Taxes**

All entities of ARCA are non-profit corporations and qualify as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code and are classified as other than a private foundation. As such, their normal activities do not result in any income tax liability. However, income from certain activities not directly related to ARCA's tax exempt purpose is subject to taxation as unrelated business income. There was no unrelated business income for the periods ended June 30, 2011 and 2010.

In 2006, the Financial Accounting Standards Board (FASB) issued authoritative guidance relating to the accounting for the uncertainty in income taxes. This pronouncement was amended in 2009 to include non-profit entities, which was effective for ARCA for the year ended June 30, 2010. The guidance clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements in accordance with GAAP. The guidance also requires the evaluation of tax positions taken or expected to be taken in the course of preparing ARCA's information returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current year. In addition, guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition was also provided. As of June 30, 2011, ARCA performed a review of its material tax positions in accordance with recognition and measurement standards established by GAAP. As a result of this review, ARCA qualified as a tax exempt organization under Section 501(c)(3) of the IRC and had no unrecorded income derived from unrelated business activities and did not identify any entity level tax positions that would not meet the more-likely-than-not threshold.

**ARCA**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

ARCA files informational tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, ARCA is subject to examination by federal, state, local and foreign jurisdictions, where applicable. As of June 30, 2011, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the year ended June 20, 2007 and forward.

ARCA would recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. There was no such interest or penalties recorded for the years ended June 30, 2011 and 2010.

• **Property and Equipment**

ARCA has a board adopted capitalization policy. Property and equipment over \$5,000 are capitalized at cost or, if donated, at fair market value at the date of donation. Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the assets. The estimated useful lives for buildings are 30 years, furnishings are 5 years, building improvements and leasehold improvements range from 5 to 20 years, furnishings and equipment ranges from 3 to 10 years and vehicles have estimated useful lives of 5 years.

• **Impairment of Long-lived Assets and Long-lived Assets to be Disposed of**

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

• **Inventory**

Inventory is valued at lower of cost or market.

• **Revenue Recognition**

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

**ARCA**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

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

• **Promises to Give**

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

• **Endowment Fund**

During the year ended December 31, 2008, FASB issued ASC 958-205, formerly FASB Staff Position 117-1, *Endowments of Not-for-Profit Organizations – Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act and Enhanced Disclosures for All Endowment Funds*, which includes the following financial statement disclosure requirements for ARCA for the years ended June 30, 2011 and 2010.

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

**Interpretation of Relevant Law** – ARCA has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, ARCA classifies as permanent restricted net assets: (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund is classified as temporarily restricted net assets until those amounts are

**ARCA**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

appropriated for expenditure by ARCA in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, ARCA considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effects of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of ARCA, and (7) ARCA investment policies.

• **La Paloma and ARCA Organics Greenhouses**

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

• **Deferred Revenue**

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

• **Donated Services and Materials**

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

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

**ARCA**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

• **Fair Value of Financial Instruments**

Effective January 1, 2008, ARCA adopted ASC 820-10, formerly SFAS No. 157, *Fair Value Measurements*, which provides a framework for measuring fair value under GAAP and expands disclosures about fair value measurement. ASC 820-10 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 820-10 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. ASC 820-10 also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels. The three levels defined by the ASC 820-10 hierarchy are as follows:

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

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

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

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2011 and 2010.

Pooled Trust-Units held in pooled separate accounts are valued using the net asset value (NAV) of the fund. The NAV is based on the fair value of the underlying assets owned by the fund, minus its liabilities, and then dividend by the number of units outstanding. The net asset value of the pooled separate account is calculated based on a compilation of primarily observable market

**ARCA**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

information. The number of units of the fund that are outstanding on the calculation date is derived from observable purchase and with level 2 of the valuation hierarchy. ARCA invests in the following pooled investment fund:

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

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

**Trading Securities** - Valued at the closing price reported on the major market on which the individual securities are traded.

**Fixed Income Securities** - Valued at the closing price reported on the major market on which the individual securities are traded.

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

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

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

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

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

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

**ARCA**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

• **Functional Allocation of Expense**

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

• **Advertising and Marketing**

Advertising costs included in marketing, general and administrative, are expensed when the advertising first takes place. Advertising expense was \$23,038 and \$24,153 for years 2011 and 2010, respectively.

**NOTE 3. INVESTMENTS**

Assets itemized below were measured at fair value during the year ended June 30, 2011 using the market approach for Level 1 and Level 2 inputs.

	Quoted Prices in Active Market for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Investment in community funds:			
Pooled trust	\$ -	689,536	689,536
Trading securities:			
Equities – U.S. diversified	33,907	-	33,907
Equities – multi-strategy equity funds	725,897	-	725,897
Total stocks	759,804	-	759,804
Fixed income securities:			
Foreign obligations	3,874	-	3,874
Pooled fixed income funds	527,196	-	527,196
Total fixed income securities	531,070	-	531,070
Mutual funds:			
Open ended investments	99,699	-	99,699
Total fair value investments	1,390,573	689,536	2,080,109
Certificates of deposit	100,010	-	100,010
Total investments	\$ 1,490,583	689,536	2,180,119

**ARCA**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

**NOTE 3. INVESTMENTS (CONTINUED)**

Assets itemized below were measured at fair value during the year ended June 30, 2010 using the market approach for Level 1 and Level 2 inputs.

	Quoted Prices in Active Market for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Fixed income securities	\$ 607,330	-	607,330
Investment in community foundation	-	576,053	576,053
Equity funds	553,061	-	553,061
Total investments	<u>\$ 1,160,391</u>	<u>576,053</u>	<u>1,736,444</u>

Investments at June 30, 2011 are shown on the statement of financial position as follows:

	2011	2010
Investments	\$ 1,490,583	1,160,391
Permanently restricted endowment	689,536	576,053
	<u>\$ 2,180,119</u>	<u>1,736,444</u>

The following schedule summarizes the investment return in the statement of activities:

	2011	2010
Interest and dividend income	\$ 44,864	43,474
Expenses	(2,980)	(10,457)
Net realized and unrealized gains (losses)	291,560	157,036
	<u>\$ 333,444</u>	<u>190,053</u>

**ARCA**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

**NOTE 4. ACCOUNTS RECEIVABLE**

Accounts receivable were as follows at June 30:

	<b>2011</b>	2010
New Mexico Department of Health and Human Services:		
Medicaid waiver	<b>\$ 1,142,274</b>	1,243,310
Medicaid ICF/MR	<b>584,064</b>	577,226
General fund	<b>56,794</b>	22,124
New Mexico Children, Youth and Families Department:		
Family-based services	<b>100,006</b>	25,947
Value options	-	51,489
Other	<b>119,404</b>	164,946
	<b><u>\$ 2,002,542</u></b>	<u>2,085,042</u>

At June 30, 2011 and 2010, approximately \$11,438 and \$2,200, respectively, of accounts receivable were outstanding over 90 days.

**NOTE 5. UNCONDITIONAL PROMISES TO GIVE**

Unconditional promises to give are recorded as receivables and revenue when received. ARCA distinguishes between contributions received for each net asset category in accordance with donor-imposed restrictions. Pledges are recorded after being discounted to the anticipated net present value of the future cash flows. The discount rate used was the Daily T-bill rate on the date of the promise for pledges received during the years ended June 30, 2011 and June 30, 2010 and the Wall Street Journal Prime Rate in effect at June 30 of the year of the promise for pledges received in fiscal years prior to June 30, 2010. Management believes the promises to give are fully collectible and, as a result, no allowance has been recorded.

**ARCA**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

**NOTE 5. UNCONDITIONAL PROMISES TO GIVE (CONTINUED)**

Pledges are expected to be realized in the following periods:

	2011	2010
In one year or less	\$ 104,933	184,590
Between one year and five years	<u>98,450</u>	<u>43,836</u>
	<b>203,383</b>	228,426
Less allowance for uncollectible pledges	-	45,000
Less discount ranging from .59% to 8.25%	<u>3,604</u>	<u>2,113</u>
	<u><b>\$ 199,779</b></u>	<u>181,313</u>

**NOTE 6. RESTRICTED DEPOSITS**

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

**NOTE 7. PROPERTY AND EQUIPMENT**

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

	2011	2010
Buildings	\$ 7,614,818	7,614,818
Vehicles	2,573,981	2,431,480
Building improvements	1,272,929	1,233,846
Furnishings and equipment	573,868	520,060
Other	<u>15,351</u>	<u>15,351</u>
	<b>12,050,947</b>	11,815,555
Less accumulated depreciation and amortization	<u>7,188,452</u>	<u>6,711,983</u>
	<b>4,862,495</b>	5,103,572
Land	<u>2,021,197</u>	<u>1,988,197</u>
	<u><b>\$ 6,883,692</b></u>	<u>7,091,769</u>

**ARCA**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

**NOTE 8. SHORT-TERM AND LONG-TERM DEBT**

In November 2009, ARCA extended the maturity date to November 19, 2011, and modified the terms of their \$1,500,000 revolving line of credit with a bank to help finance its short-term capital needs. This line is collateralized by all chattel paper, accounts receivable and general intangibles, and interest is payable monthly on outstanding balances at an interest rate of the Wall Street Journal Prime Rate plus 1%. At June 30, 2011, the line's effective rate of interest was 3.25%. In December 2010, ARCA obtained another line of credit from a different bank with a \$1,160,000 revolving line of credit. This line is collateralized by real property, and interest is payable monthly on outstanding balances at an interest rate of the BOKF National Prime Rate plus .25%. There were no borrowings during the year ended June 30, 2011 and June 30, 2010 or between June 30, 2011 and the date of the independent auditors' report.

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

	<b>2011</b>	2010
Several mortgages payable to a mortgage company due in monthly installments ranging from \$266 to \$1,360, including interest at 4.50% - 6.85%, with final payments due between January 2013 and July 2025	<b>\$ 1,829,938</b>	1,949,722
Several mortgages payable to a bank, due in monthly installments ranging from \$1,506 to \$4,720, including interest at 2.75% - 6.85%, with final payments due between April 2013 and July 2021	<b>867,905</b>	1,126,314
One mortgage payable to a bank, due in monthly installment of \$3,814, including interest at 4.86%, with final payment due December 2013	<b>107,215</b>	-
	<b>2,805,058</b>	3,076,036
Less current portion	<b>279,416</b>	266,064
	<b><u>\$ 2,525,642</u></b>	<b><u>2,809,972</u></b>

**ARCA**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

**NOTE 8. SHORT-TERM AND LONG-TERM DEBT (CONTINUED)**

Future minimum principal payments, after giving effect to the above refinancing, are as follows:

Year ending June 30:

2012	\$ 279,416
2013	270,003
2014	178,496
2015	187,790
2016	199,212
2017 and thereafter	<u>1,690,141</u>
	<u>\$ 2,805,058</u>

**NOTE 9. LEASES**

ARCA leases buildings used to provide care to individuals under operating lease agreements expiring in various months during 2012. Monthly rent payments for both buildings are approximately \$1,600. Total minimum future lease payments are \$25,600 for 2012. Rental expense under operating leases was approximately \$39,600 for the years ended June 30, 2011 and 2010. ARCA also leases various other items under month-to-month lease agreements.

**NOTE 10. COMMITMENTS AND CONTINGENCIES**

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

ARCA receives a significant portion of its revenues from Medicaid waiver and Medicaid ICF/MR and is, therefore, subject to possible cutbacks due to changes in funding priorities. During the years ended June 30, 2011 and 2010, ARCA received approximately 85% percent of its gross public support and revenues from Medicaid waiver and Medicaid ICF/MR.

**ARCA**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

**NOTE 11. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS**

Temporarily restricted net assets consist of donations restricted for the following purposes or periods:

	<b>2011</b>	2010
Donor restricted gifts and time restrictions	<u><b>\$ 259,234</b></u>	<u>254,810</u>

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

Endowment fund composition by type of fund as of June 30, 2011 is as follows:

	Unrestricted	Permanently Restricted	Total Net Endowment Funds
Donor-restricted endowment funds	<u>\$ 15,052</u>	<u>674,484</u>	<u>689,536</u>

**ARCA**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

**NOTE 11. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS**  
**(CONTINUED)**

Changes in endowment net assets as of June 30, 2011 are as follows:

	Unrestricted	Permanently Restricted	Total Endowment Net Assets
Endowment net assets, beginning of year	\$ (29,338)	668,974	639,636
Investment return:			
Investment income	72,146	-	72,146
Net appreciation (realized and unrealized)	41,337	-	41,337
Total investment return	113,482	-	113,483
Contributions	-	80,046	80,046
Amounts appropriated for expenditure	(51,411)	-	(51,411)
Other changes:			
Adjust pledges to fair value	(17,682)	2,430	(15,252)
Endowment net assets, end of year	<u>\$ 15,052</u>	<u>751,450</u>	<u>766,502</u>

A reconciliation of endowment net assets to endowment funds as of June 30, 2011 is as follows:

	Unrestricted	Permanently Restricted	Total Net Endowment Funds
Endowment net assets, end of year	\$ 15,052	751,450	766,502
Endowment promises to give, end of year	-	(76,966)	(76,966)
Endowment net assets excluding promises to give	<u>\$ 15,052</u>	<u>674,484</u>	<u>689,536</u>

**ARCA**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

**NOTE 11. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS**  
**(CONTINUED)**

Endowment fund composition by type of fund as of June 30, 2010 is as follows:

	Unrestricted	Permanently Restricted	Total Net Endowment Funds
Donor-restricted endowment funds	\$ (29,338)	605,391	<u>576,053</u>

Changes in endowment net assets as of June 30, 2010 are as follows:

	Unrestricted	Permanently Restricted	Total Endowment Net Assets
Endowment net assets, beginning of year	\$ (71,976)	676,155	<u>604,179</u>
Investment return:			
Investment income	3,567	-	3,567
Net appreciation (realized and unrealized)	<u>55,266</u>	-	<u>55,266</u>
Total investment return	58,833	-	58,833
Contributions	9,948	22,630	32,578
Amounts appropriated for expenditure	(55,954)	-	(55,954)
Other changes:			
Adjust pledges to fair value	<u>29,811</u>	<u>(29,811)</u>	-
Endowment net assets, end of year	<u>\$ (29,338)</u>	<u>668,974</u>	<u>639,636</u>

A reconciliation of endowment net assets to endowment funds as of June 30, 2010 is as follows:

	Unrestricted	Permanently Restricted	Total Net Endowment Funds
Endowment net assets, end of year	\$ (29,338)	668,974	639,636
Endowment promises to give, end of year	<u>-</u>	<u>(63,583)</u>	<u>(63,583)</u>
Endowment net assets excluding promises to give	<u>\$ (29,338)</u>	<u>605,391</u>	<u>576,053</u>

**ARCA**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

**NOTE 12. DESIGNATION OF UNRESTRICTED NET ASSETS**

It is the policy of the Board of Directors of ARCA to review its plans for future estimated cash shortfalls and to designate appropriate sums of unrestricted net assets to assure adequate cash reserves to provide necessary working capital. The total amount of designated net assets was \$1,944,576 and \$1,963,993 at June 30, 2011 and 2010, respectively.

**NOTE 13. PENSION PLAN**

ARCA has a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code available to employees, regardless of age. There is no service requirement for employee pre-tax deferrals. There is a three month service requirement to be eligible for an employer matching contribution. Employees are allowed to defer up to the maximum allowed by the Internal Revenue Code. For the years ended June 30, 2011 and June 30, 2010, ARCA matched the employees' contributions up to four percent of the employees' gross salary. Total contributions to this plan were approximately \$284,000 and \$257,000 for the years ended June 30, 2011 and 2010, respectively.

**NOTE 14. COMPENSATED ABSENCES**

Full-time and part-time regular employees earn from 15 to 25 days of Paid Time Off (PTO) each year. For the year ended June 30, 2009, leave could accumulate up to a maximum of 520 hours for employees who worked 40 hours per week, or pro-rated for part-time employees. On June 24, 2009, ARCA's Board of Directors adopted a new compensated absences policy. Effective July 1, 2009, regular employees may accumulate a maximum of 320 hours of PTO for employees who work 40 hours per week or pro-rated for part-time employees. Because employees had up to 520 hours at June 30, 2009 and the new policy allows a maximum of only 320 hours, there is a Grandfather Clause in effect allowing employees to use up leave balances in excess of 420 hours by July 1, 2010 and in excess of 320 hours by July 1, 2011. On July 1, 2011, the Grandfather Clause was no longer be in effect and the maximum was capped at 320 hours. Leave in excess of the maximum hours will no longer be paid out to employees annually, but instead will be transferred into a Long Term PTO (LTPTO) bank which can only be used for designated Family Medical Leave. An employee's LTPTO will be capped at five weeks of leave (200 hours) for full-time and pro-rated for part-time employees. Annually, on July 1, unused excess LTPTO beyond the cap will be forfeited by the employee. Employees who resign or are terminated shall be paid for all unused PTO up to 320 hours at their current rate of pay. Unused accrued LTPTO will not be payable upon separation.

**ARCA**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

**NOTE 14. COMPENSATED ABSENCES (CONTINUED)**

ARCA accrues the cost incurred for PTO as obligations of unrestricted net assets. At June 30, 2011 and 2010, ARCA had accrued approximately \$848,000 and \$941,000, respectively.

**NOTE 15. RELATED PARTIES**

ARCA had no related party activity during the years ended June 30, 2011 and 2010, and as of June 30, 2011 and 2010, had no assets or liabilities associated with related parties.

**NOTE 16. DONATED SERVICES, MATERIALS, PROPERTY AND EQUIPMENT**

During the years ended June 30, 2011 and 2010, ARCA received the following non-cash contributions of services and materials:

	<b>2011</b>	2010
Professional services	\$ 27,500	26,025
Land	33,000	-
Loan fees	-	22,542
Vehicles	10,600	15,990
Furniture, equipment and clothing	6,002	14,678
Event auction items	5,642	12,360
Marketing and advertising	9,083	10,785
Rent	<u>6,000</u>	<u>2,500</u>
	<u>\$ 97,827</u>	<u>104,880</u>

ARCA receives in-kind services from a network of advertising agencies that advertise using various media throughout the state of New Mexico. Management believes they derive minimal benefit from advertising that takes place outside of the Albuquerque area. The value of the advertising within the Albuquerque area donated during the fiscal years ended June 30, 2011 and 2010 was approximately \$366,000 and \$450,000, respectively. ARCA would not have purchased this advertising had it not been donated to them, and therefore did not record the revenue and related expense for the donated services, in accordance with ASC 958-605, *Accounting for Contributions Received and Contributions Made*.

**ARCA**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

**NOTE 16. DONATED SERVICES, MATERIALS, PROPERTY AND EQUIPMENT**  
**(CONTINUED)**

Additionally, ARCA receives donated services for the Community Service and InterCare programs. Activities include assisting with the wellness initiative, camp and tax preparation for individuals served by ARCA. Activities also include various duties at the ARCA Organics farm. The volunteers do not have specialized skills to perform these activities nor were assets enhanced by these activities; therefore, the revenue and the related expense are not recorded in the statement of activities. Fair value of these services for the years ended June 30, 2011 and 2010 was approximately \$44,000 and \$42,000, respectively.

**NOTE 17. MANAGEMENT'S REVIEW OF SUBSEQUENT EVENTS**

Management has evaluated subsequent events through October 7, 2011 to determine whether such events should be recorded or disclosed in the financial statements or notes for the year ended June 30, 2011. This date represents the date the financial statements were issued. No such events were identified by management.