THE ARC GREATER TWIN CITIES

Saint Paul, Minnesota

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2015 and 2014

THE ARC GREATER TWIN CITIES

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BAKER TILLY

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INDEPENDENT AUDITORS' REPORT

To The Board of Directors
The Arc Greater Twin Cities
Saint Paul, Minnesota

We have audited the accompanying financial statements of The Arc Greater Twin Cities (the "Organization"), which comprise the statements of financial position as of December 31, 2015 2014, and the related statements of activities, functional expenses and cash flows for the years 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 financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
April 27, 2016

THE ARC GREATER TWIN CITIES

STATEMENTS OF FINANCIAL POSITION
As of December 31, 2015 and 2014

ASSETS

	2015	2014
CURRENT ASSETS		
Cash and cash equivalents	$ 140,027	$ 168,711
Receivables		
Accounts receivable, net	145,556	157,757
Contributions receivable, net	22,886	23,095
Grants receivable	17,910	23,244
Interest receivable	16,588	19,641
Inventory	150,145	147,185
Prepaid expenses	317,513	492,447
Total Current Assets	810,625	1,032,080
OTHER ASSETS		
Contributions receivable, long-term	-	5,315
Deposits and other assets	53,406	53,406
Investments	3,792,145	3,998,563
Cash value of long-term non-cash gifts	19,099	19,099
Equipment and improvements		
Thrift business leasehold improvements and equipment	2,178,525	2,118,439
Office equipment and furniture	687,456	711,507
Less: Accumulated depreciation	(2,399,833)	(2,305,530)
Total Equipment and Improvements	466,148	524,416
Total Other Assets	4,330,798	4,600,799
TOTAL ASSETS	$ 5,141,423	$ 5,632,879

LIABILITIES AND NET ASSETS

	2015	2014
CURRENT LIABILITIES		
Accounts payable	$ 144,159	$ 19,454
Line of credit payable	95,808	-
Accrued expenses	269,501	575,779
Deferred revenue	125,680	105,089
Total Current Liabilities	635,148	700,322
OTHER LIABILITIES		
Deferred rent	46,465	7,197
Total Liabilities	681,613	707,519
NET ASSETS		
Unrestricted		
Designated	3,520,562	3,826,729
Undesignated (deficit)	20,715	139,200
Total unrestricted	3,541,277	3,965,929
Temporarily restricted	918,533	959,431
Total Net Assets	4,459,810	4,925,360
TOTAL LIABILITIES AND NET ASSETS	$ 5,141,423	$ 5,632,879

See accompanying notes to financial statements.

THE ARC GREATER TWIN CITIES

STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2015 and 2014

	2015			2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE						
Revenue						
Membership dues	$ 15,920	$ -	$ 15,920	$ 21,010	$ -	$ 21,010
Program service fees	48,752		48,752	64,172	-	64,172
Support service fees	9,993	-	9,993	93,913	-	93,913
Investment income, net of fees	(12,925)	-	(12,925)	260,419	-	260,419
	61,740	-	61,740	439,514	-	439,514
Support						
Contributions, net of event expenses of $143,600 and $125,660, respectively	1,086,110	15,000	1,101,110	887,403	10,000	897,403
Capital campaign	2,269	4,205	6,474	3,000	6,261	9,261
Grants	425,132	221,000	646,132	279,928	96,927	376,855
United Way	337,172	-	337,172	397,309	-	397,309
Autos for Arc						
Revenues	24,622	-	24,622	30,341	-	30,341
Expenses	(3,511)	-	(3,511)	(2,561)	-	(2,561)
Value Village Thrift Stores						
Retail sales, net amounts recognized as donated goods of $1,212,878 and $1,587,938, respectively	8,134,580	-	8,134,580	7,276,723	-	7,276,723
Donated goods received	1,212,878	-	1,212,878	1,587,938	-	1,587,938
Cost of goods sold	(224,736)	-	(224,736)	(206,268)	-	(206,268)
Cost of retail sales	(8,146,450)	-	(8,146,450)	(7,271,450)	-	(7,271,450)
Total Support	2,848,066	240,205	3,088,271	2,982,363	113,188	3,095,551
Net assets released from restrictions						
Contributions	184,176	(184,176)	-	429,622	(429,622)	-
Grants	96,927	(96,927)	-	108,697	(108,697)	-
Total satisfaction of restrictions	281,103	(281,103)	-	538,319	(538,319)	-
Total Support and Revenue	3,190,909	(40,898)	3,150,011	3,960,196	(425,131)	3,535,065
EXPENSES						
Program Services						
Programs	2,109,437	-	2,109,437	2,331,247	-	2,331,247
Public awareness	267,861	-	267,861	256,264	-	256,264
Membership	66,938	-	66,938	93,657	-	93,657
Volunteer	106,300	-	106,300	114,174	-	114,174
Total Program Services	2,550,536		2,550,536	2,795,342		2,795,342
Support Services						
Management and general	321,047	-	321,047	326,747	-	326,747
Fundraising	601,412	-	601,412	575,103	-	575,103
Capital campaign	177	-	177	18,867	-	18,867
Total Support Services	922,636	-	922,636	920,717	-	920,717
Total Expenses before full support payment	3,473,172	-	3,473,172	3,716,059	-	3,716,059
Unallocated support payment to state and national associations	142,389	-	142,389	150,354	-	150,354
Total Expenses	3,615,561	-	3,615,561	3,866,413	-	3,866,413
CHANGE IN NET ASSETS	(424,652)	(40,898)	(465,550)	93,783	(425,131)	(331,348)
NET ASSETS - Beginning of year	3,965,929	959,431	4,925,360	3,872,146	1,384,562	5,256,708
NET ASSETS - END OF YEAR	$ 3,541,277	$ 918,533	$ 4,459,810	$ 3,965,929	$ 959,431	$ 4,925,360

THE ARC GREATER TWIN CITIES

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2015

	Program Services					Supporting Services						
	Programs	Public Awareness	Membership	Volunteer	Total Program Services	Management and General	Fundraising	Capital Campaign	Total Supporting Services	Subtotal	Cost of Retail Sales	Total Expenses
Salaries	$ 994,029	$ 105,352	$ 27,130	$ 53,815	$ 1,180,326	$ 140,539	$ 298,360	$ -	$ 438,899	$ 1,619,225	$ 4,185,472	$ 5,804,697
Payroll taxes	153,047	16,600	4,275	8,479	182,401	22,144	47,000	-	69,144	251,545	360,713	612,258
Employee benefits	309,857	33,593	8,651	17,160	369,261	55,197	95,115	-	150,312	519,573	458,627	978,200
Total Salaries and Related Expenses	1,456,933	155,545	40,056	79,454	1,731,988	217,880	440,475	-	658,355	2,390,343	5,004,812	7,395,155
Professional fees and contract services	163,081	21,497	1,470	6,447	192,495	55,204	20,226	-	75,430	267,925	122,525	390,450
Supplies and equipment	30,336	1,306	8,799	536	40,977	2,534	3,803	-	6,337	47,314	122,857	170,171
Occupancy	185,956	17,848	2,875	7,888	214,567	12,895	45,842	-	58,737	273,304	2,019,648	2,292,952
Insurance	8,127	831	117	367	9,442	11,651	2,134	-	13,785	23,227	46,018	69,245
Telephone	49,484	4,902	657	2,303	57,346	4,080	12,484	-	16,564	73,910	2,321	76,231
Postage and shipping	2,327	11,460	1,383	64	15,234	271	8,307	2	8,580	23,814	11,873	35,687
Printing and publications	4,179	35,072	1,903	42	41,196	68	15,537	-	15,605	56,801	31,259	88,060
Advertising	699	80	1	3	783	5	19	-	24	807	176,327	177,134
Equipment and maintenance	134,065	13,683	1,919	6,047	155,714	9,886	36,145	-	46,031	201,745	246,831	448,576
Travel and transportation	16,501	935	701	502	18,639	891	2,289	-	3,180	21,819	11,852	33,671
Conferences and meetings	11,542	20	3	9	11,574	76	1,569	-	1,645	13,219	32	13,251
Staff recruitment and recognition	6,256	772	233	486	7,747	1,340	1,561	175	3,076	10,823	24,410	35,233
Staff development	6,951	289	38	642	7,920	2,012	2,390	-	4,402	12,322	3,164	15,486
Financial charges and other fees	13,037	1,145	161	506	14,849	827	2,991	-	3,818	18,667	224,172	242,839
Miscellaneous	4,264	871	6,397	295	11,827	268	1,519	-	1,787	13,614	3,513	17,127
	636,805	110,711	26,657	26,137	800,310	102,008	156,816	177	259,001	1,059,311	3,046,802	4,106,113
Total expenses before depreciation and full support payment	2,093,738	266,256	66,713	105,591	2,532,298	319,888	597,291	177	917,356	3,449,654	8,051,614	11,501,268
Depreciation	15,699	1,605	225	709	18,238	1,159	4,121	-	5,280	23,518	94,836	118,354
Total Expenses Before Full Support Obligations	$ 2,109,437	$ 267,861	$ 66,938	$ 106,300	$ 2,550,536	$ 321,047	$ 601,412	$ 177	$ 922,636	$ 3,473,172	$ 8,146,450	$ 11,619,622

See accompanying notes to financial statements.

THE ARC GREATER TWIN CITIES

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2014

	Program Services					Supporting Services						
	Programs	Public Awareness	Membership	Volunteer	Total Program Services	Management and General	Fundraising	Capital Campaign	Total Supporting Services	Subtotal	Cost of Retail Sales	Total Expenses
Salaries	1,119,970	98,554	42,794	56,596	$ 1,317,914	148,872	287,563	6,790	$ 443,225	$ 1,761,139	$ 3,811,857	$ 5,572,996
Payroll taxes	181,196	16,572	7,196	9,517	214,481	25,034	48,355	1,142	74,531	289,012	275,679	564,691
Employee benefits	363,257	33,535	14,562	19,258	430,612	59,922	97,848	2,311	160,081	590,693	406,250	996,943
Total Salaries and Related Expenses	1,664,423	148,661	64,552	85,371	1,963,007	233,828	433,766	10,243	677,837	2,640,844	4,493,786	7,134,630
Professional fees and contract services	97,278	28,163	1,760	4,252	131,453	30,621	14,407	5,960	50,988	182,441	52,241	234,682
Supplies and equipment	25,099	931	8,463	661	35,154	2,122	3,815	514	6,451	41,605	155,397	197,002
Occupancy	202,098	11,444	4,690	8,327	226,559	14,893	36,512	781	52,186	278,745	1,638,943	1,917,688
Insurance	10,850	660	253	480	12,243	11,883	2,106	45	14,034	26,277	48,048	74,325
Telephone	58,113	3,482	1,236	2,545	65,376	5,650	10,646	220	16,516	81,892	(859)	81,033
Postage and shipping	2,947	14,302	2,202	219	19,670	113	7,986	55	8,154	27,824	17,677	45,501
Printing and publications	7,380	31,757	2,003	262	41,402	1,059	16,684	25	17,768	59,170	23,445	82,615
Advertising	266	8	3	81	358	11	26	1	38	396	224,200	224,596
Equipment and maintenance	174,370	10,843	4,015	7,952	197,180	13,647	33,772	715	48,134	245,314	272,190	517,504
Travel and transportation	18,892	973	994	622	21,481	1,008	2,021	71	3,100	24,581	15,109	39,690
Conferences and meetings	7,657	49	19	81	7,806	(248)	156	3	(89)	7,717	1,005	8,722
Staff recruitment and recognition	15,325	952	813	981	18,071	2,367	4,261	63	6,691	24,762	44,631	69,393
Staff development	12,991	509	195	881	14,576	4,512	2,320	35	6,867	21,443	3,406	24,849
Financial charges and other fees	10,916	664	257	483	12,320	912	2,293	45	3,250	15,570	213,700	229,270
Miscellaneous	207	1,501	1,678	(17)	3,369	2,592	(24)	(2)	2,566	5,935	1,119	7,054
	644,389	106,238	28,581	27,810	807,018	91,142	136,981	8,531	236,654	1,043,672	2,710,252	3,753,924
Total expenses before depreciation and full support payment	2,308,812	254,899	93,133	113,181	2,770,025	324,970	570,747	18,774	914,491	3,684,516	7,204,038	10,888,554
Depreciation	22,435	1,365	524	993	25,317	1,777	4,356	93	6,226	31,543	67,412	98,955
Total Expenses Before Full Support Obligations	$ 2,331,247	$ 256,264	$ 93,657	$ 114,174	$ 2,795,342	$ 326,747	$ 575,103	$ 18,867	$ 920,717	$ 3,716,059	$ 7,271,450	$ 10,987,509

THE ARC GREATER TWIN CITIES

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	(465,550)	$ (331,348)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	118,354	98,955
Realized and unrealized (gains) losses on investments	172,754	(100,670)
Donation of stock	(38,767)	(77,697)
(Increase) in contributed inventory	(2,960)	(28,149)
Changes in assets and liabilities:		
Receivables	26,112	259,170
Prepaid expenses	174,934	38,244
Deposits and other assets	-	2,247
Accounts payable	124,705	(15,569)
Accrued expenses	(306,278)	(156,517)
Deferred revenue	20,591	12,848
Deferred rent	39,268	(17,397)
Net cash flows from operating activities	(136,837)	(315,883)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of equipment and improvements	(60,086)	(231,205)
Purchases of investments	(272,508)	(654,251)
Proceeds from sales or maturities of investments	344,939	635,510
Net cash flows from investing activities	12,345	(249,946)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bank line of credit	324,500	-
Repayments on bank line of credit	(228,692)	-
Net cash flows from financing activities	95,808	-
Net Change in Cash and Cash Equivalents	(28,684)	(565,829)
CASH AND CASH EQUIVALENTS - Beginning of year	168,711	734,540
CASH AND CASH EQUIVALENTS - END OF YEAR	140,027	$ 168,711

NONCASH INVESTING AND FINANCING ACTIVITY		
Property, plant and equipment acquired through accrued expenses	-	$ 72,905

NOTE 1 - ORGANIZATION AND PROGRAM DESCRIPTIONS

The Arc Greater Twin Cities (herein after referred to as “the Organization”) is a nonprofit corporation committed to pursuing lasting community change that supports people with intellectual and developmental disabilities in creating a good life. The Arc Greater Twin Cities was created by the merger of Arc Hennepin-Carver, Inc. and Arc Great Rivers, which took effect January 1, 2006.

The Organization is one of the first Arc chapters in the nation, founded in 1946. Its membership is comprised of parents, people with disabilities, professionals and concerning persons, who by working together promote opportunities for people with disabilities to lead productive and fulfilling lives.

Programs and services span all stages of life, from birth through the senior years, and include advocacy, family education, community inclusion programs, transition programs, public awareness, networks of family support, access to health care, housing, and employment and multicultural outreach.

The Organization is dependent upon the Greater Twin Cities United Way, contributions and bequests from the general public, and operation of its Value Village thrift stores. The Organization operates Value Village thrift stores as a funding source for program services, selling donated goods primarily to residents of the Minneapolis/St. Paul metropolitan area. Any major reduction in the level of support from these sources, if it were to occur, would likely have a significant effect on the Organization's programs and activities.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The more significant accounting policies are summarized below:

General - These financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the Organization as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of transactions into three classes of net assets - unrestricted, temporarily restricted or permanently restricted, as follows:

Unrestricted Net Assets - Resources over which the Board of Directors has discretionary control. Designated amounts represent those net assets which the Board has set aside for a particular purpose.

Temporarily Restricted Net Assets - Those resources subject to donor imposed restrictions which will be satisfied by actions of the Organization and/or the passage of time.

Permanently Restricted Net Assets - Resources subject to donor imposed restrictions, which stipulate that they are maintained permanently by the Organization. The Organization has no permanently restricted net assets.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents - The Organization considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents. Cash equivalents are stated at cost, which approximates market value. Cash consists of cash on hand and in deposit and checking accounts. Cash in excess of FDIC and similar insurance coverage is subject to the usual banking risks of funds in excess of those limits.

Accounts Receivable - Receivables are reported at the amount the Organization expects to collect on balances outstanding at year-end. Accounts are considered delinquent when they become 30 days past due. The Organization has not had difficulty in collections on accounts receivable and no bad debt was experienced during 2015 and 2014. Management of the Organization periodically evaluates uncollected accounts receivable based on an aging and balances due. The allowance method is used for providing for bad debts. No allowance was considered necessary for accounts receivable at December 31, 2015 and 2014.

Contributions and Grants Receivable - Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets only if the restrictions expire during the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Contributions and grants receivable, including unconditional promises to give, are recorded as made. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in subsequent years are recorded at their net realizable value based on the net present value of the amounts expected to be collected. Management of the Organization periodically evaluates uncollected contributions and grants receivable based on an aging and balances due. The allowance method is used for providing for bad debts. Allowance for contributions and grants receivable was $6,750 and $11,050 as of December 31, 2015 and 2014, respectively.

Government grants and contract revenue are recognized when earned. Revenue is earned when eligible expenditures, as defined in each grant or contract, are made. Expenditures under government contracts are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these contracts, the Organization will record such disallowance at the time the final assessment is made.

Value Village Thrift Stores Revenue - Revenue, recognized by Value Village Thrift Stores, is derived mainly through the sale of contributed inventories.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory - The Organization has inventories of donated and purchased goods to be sold within their Value Village Stores. Donated merchandise inventory and materials are recorded at fair value at the point of such items being offered for sale. Prior to being offered for sale, donated items are not valued due to significant uncertainties concerning their fair value. Purchased merchandise inventory is priced at cost. The donated inventory balance is valued based on the percentage of retail sales greater than retail expenses multiplied by inventory turnover.

Inventories at December 31, 2015 and 2014 are as follows:

	2015	2014
Donated inventory	$ 138,339	$ 138,339
Inventory for resale	11,806	8,846
Total	$ 150,145	$ 147,185

Property and Equipment - Property and equipment are presented at original cost or donated (appraised) value. Additions and improvements are capitalized. The Organization capitalizes additions in excess of $1,000.

If the assets are sold, retired or otherwise disposed of in the ordinary course of business, the cost and related accumulated depreciation are removed from the books. Any gains or losses on property and equipment retirements are reflected currently in operations. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, ranging from three to ten years.

Deferred Revenue - Deferred revenue represents prepayments on sponsorship revenue.

Donated Services - Many individuals have donated time and services to advance the Organization's programs and objectives. The value of these services has not been recorded in the financial statements because they do not meet the definition of recognition under accounting principles, generally accepted in the United States of America.

Government Grants - Funds provided by government agencies are recognized as revenue as they are earned in accordance with the agreement. Any funding received before it is earned is recorded as a refundable advance. Expenses incurred before cash is received are recorded as receivables.

Investment and Investment Income Recognition - The Organization’s investments are presented in the financial statements at fair value in accordance with accounting principles generally accepted in the United States of America and are designated by the Board for endowment and future program activities. Changes in fair value are recorded as unrealized gains (losses). Realized gains (losses) are recorded upon the sale of the investments. Investment gains pertaining to certain restricted net assets are recorded as temporarily restricted in accordance with the applicable gift instruments. Interest income is recognized under the accrual basis and dividend income is recognized on the ex-dividend date.

Investments are exposed to various risks such as interest rate, market and credit risks. It is reasonably possible that changes in values of investments will occur in the near term and that such changes could materially affect the amounts reported.

Advertising Expenses - Advertising expenses approximated $177,000 and $188,000 for the years ended December 31, 2015 and 2014, respectively. Advertising costs are expensed when incurred.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of Long-Lived Assets - The Organization reviews long-lived assets, including equipment, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. To date, there have been no such losses.

Income Taxes - The Internal Revenue Service has determined that the Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. It is also exempt from state income tax. However, any unrelated business income may be subject to taxation.

The Organization follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the Organization for uncertain tax positions as of December 31, 2015 and 2014.

Presentation of Taxes Collected From Customers - Sales taxes are imposed on most of the Organization's sales to nonexempt customers. The Organization collects the taxes from customers and remits the entire amounts to the governmental authorities. The Organization's accounting policy is to exclude the taxes collected and remitted from revenues and expenses.

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 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.

Functional Allocation of Expenses - The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated to store expenses and among the programs and supporting services benefited based on the time spent on the specific activity. Salaries and related expenses are allocated based on job descriptions and management estimates. Expenses, other than salaries and related expenses not directly identifiable to store expenses, program or support service, are allocated based on management estimates.

Reclassifications **-** Certain amounts appearing in the 2014 financial statements have been reclassified to conform to the 2015 presentation. The reclassifications have no effect on reported amounts of total net assets or change in total net assets.

Subsequent Events - The Organization has evaluated subsequent events through April 27, 2016 which is the date that the financial statements were approved and available to be issued.

NOTE 3 - FAIR VALUE MEASUREMENTS AND INVESTMENTS

Fair Value Hierarchy - Fair value is defined under generally accepted accounting principles as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the assets or liability in an orderly transaction between market participants at the measurement date. Under this guidance, a three-level hierarchy is used for fair value measurements which are based on the transparency of information, such as the pricing source, used in the valuation of an asset or liability as of the measurement date.

Financial instruments measured and reported at fair value are classified and disclosed in one of the following three categories.

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 1 assets include investments in mutual funds, equities, corporate bonds, U.S. Treasury notes, U.S. Agency Bonds, and money market funds for which quoted prices are readily available.

Level 2 - Inputs are other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes 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, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data.

Level 2 assets include investments in municipal bonds for which quoted prices are not readily available. The fair values are estimated using Level 2 inputs based on multiple sources of information, which may include market data and/or quoted market prices from either markets that are not active or are for the same or similar assets in active markets.

Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

There have been no changes in the techniques and inputs used as of December 31, 2015 and 2014.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset.

While the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

NOTE 3 - FAIR VALUE MEASUREMENTS AND INVESTMENTS (Continued)

The following table presents information about the Organization's assets measured at fair value on a recurring basis as of December 31, 2015 based upon the three-tier hierarchy:

	Level 1	Level 2	Level 3	Total
ASSETS				
Investments				
Mutual funds	$ 1,831,509	$ -	$ -	$ 1,831,509
Equities	38,494	-	-	38,494
Corporate bonds	25,335	-	-	25,335
U.S. Treasury notes	333,662	-	-	333,662
U.S. Agency bonds	300,803	-	-	300,803
Money market funds	115,040	-	-	115,040
Municipal bonds	-	1,147,302	-	1,147,302
	$ 2,644,843	$ 1,147,302	$ -	$ 3,792,145

The following table presents information about the Organization's assets measured at fair value on a recurring basis as of December 31, 2014 based upon the three-tier hierarchy:

	Level 1	Level 2	Level 3	Total
ASSETS				
Investments				
Mutual funds	$ 1,876,999	$ -	$ -	$ 1,876,999
Equities	15,229	-	-	15,229
Corporate bonds	55,343	-	-	55,343
U.S. Treasury notes	442,291	-	-	442,291
U.S. Agency bonds	204,036	-	-	204,036
Money market funds	187,004	-	-	187,004
Municipal bonds	-	1,217,661	-	1,217,661
	$ 2,780,902	$ 1,217,661	$ -	$ 3,998,563

Investment income for the years ended December 31, 2015 and 2014 was as follows:

	2015	2014
Investments Income - Investments		
Interest and dividends	$ 185,827	$ 169,121
Realized and unrealized gains (losses), net	(172,754)	100,670
Investment fees	(26,303)	(31,449)
Total Investment Income - Investments	$ (13,230)	$ 238,342
Investments Income - UST Trust	-	16,862
Interest and dividends - other	304	5,215
Total Investment Income	$ (12,925)	$ 260,419

NOTE 4 - CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of commitments from corporations, individuals, foundations and estates. The Organization's contributions receivable consist of unconditional promises to give as follows at December 31:

	2015	2014
Amounts due in:		
Less than one year	$ 29,636	$ 34,145
One to five years	-	5,520
Subtotal	29,636	39,665
Less: Present value discount	-	(205)
Less: Allowance on contributions receivable	(6,750)	(11,050)
Total	$ 22,886	$ 28,410
Statement of Financial Position Classification:		
Current contributions receivable	$ 22,886	$ 23,095
Non-current contributions receivable	-	5,315
Total	$ 22,886	$ 28,410

Promises due in one to five years were discounted at an interest rate of 4.0% for the year ended December 31, 2014. Promises due in less than one year were not discounted.

NOTE 5 - GRANTS RECEIVABLE

Grants receivable of $17,910 and $23,244 were unrestricted as of December 31, 2015 and 2014, respectively. The grant receivable is expected to be collected in less than one year.

NOTE 6 - OPERATING LEASES

The Organization leases facilities and equipment under various operating leases expiring through 2027. Certain leases require the payment of real estate taxes and common area expenses and have renewal options. Rent expense for the years ended December 31, 2015 and 2014 was $1,651,118 and $1,360,132, respectively.

The Organization holds multiple lease agreements for equipment. Rent expense on this equipment was $156,759 and $255,764 in 2015 and 2014, respectively.

Future minimum payments under operating leases are as follows:

2016	$ 1,173,569
2017	1,183,970
2018	1,029,615
2019	859,518
2020	851,589
Thereafter	3,516,260
Total	$ 8,614,521

NOTE 7 - RETIREMENT PLAN

The Organization has a 401(k) plan which covers employees who are over the age of 21 and work at least 1,000 hours annually. Contributions to the plan were 7% of compensation from January 1, 2014 through September 30, 2014, and 5% for the remainder of 2014 and all of 2015. The plan has a graduated six-year vesting requirement. Total contributions to the plan were approximately $199,000 and $220,000 for the years ended December 31, 2015 and 2014, respectively.

NOTE 8 - TEMPORARILY RESTRICTED AND DESIGNATED NET ASSETS

At December 31, 2015 and 2014, the Board of Directors has designated amounts of the Organization's unrestricted net assets as follows:

	2015	2014
Future programs and reserve	$ 1,651,799	$ 1,796,568
Endowment	1,779,159	1,981,078
Value Village	89,604	89,604
Total	$ 3,520,562	$ 3,867,250

Temporarily restricted net assets at December 31, 2015 and 2014 are as follows:

	2015	2014
Annual campaign	$ 15,000	$ 10,000
Capital campaign	488,593	658,564
Comcast Foundation	14,000	-
Curtis L. Carlson Family Foundation	15,000	20,000
Community Development Block Grant program	40,350	40,350
Fred C. & Katharine B. Andersen Foundation	15,000	15,000
F.R. Bigelow Foundation	17,500	-
Hardenbergh Foundation	5,000	-
Katharine B. Andersen Fund of the Saint Paul Foundation	25,000	-
MAP for Nonprofits	45,000	-
Mental Health Research fund	141,340	141,340
Residential loan program	12,250	12,250
Richard M. Schulze Family Foundation	12,000	-
Saint Paul Foundation	17,500	-
Thrivent Financial for Lutherans Foundation	20,000	20,000
Wells Fargo Foundation	25,000	-
G&K Foundation	-	5,000
The Arc Minnesota	5,000	-
Greater Twin Cities United Way	5,000	10,000
Minneapolis Area Association of Realtors	-	3,000
MNSure	-	23,927
Total	$ 918,533	$ 959,431

NOTE 9 - DESIGNATED NET ASSETS

The Board of Directors of the Organization has designated funds for future use as follows:

Future Programs and Reserve Fund - The purpose of this fund is to provide funding for future program development and implementation and act as the operating reserve. Currently, the Board of Directors has not earmarked any portion of the fund for a specific program or determined that any portion of the fund will remain in perpetuity. As such the entire fund balance is classified as unrestricted. The Board of Directors has approved an investment policy with the objectives of preserving purchasing power and generating income while investing in low risk, liquid investments such as cash and highly rated bonds. Investment earnings are included in the operating budget and may be appropriated for use in unrestricted activities. Investment earnings of $118,440 and $40,521 were appropriated in 2015 and 2014, respectively.

Endowment Fund - The purpose of this fund is to ensure financial stability by providing a steady stream of investment income which is available for restricted and unrestricted purposes. This fund is classified as unrestricted; however it is the intent of the Board that the principal and a portion of the capital appreciation will not be spent. The Board of Directors has approved an investment policy with the objectives of achieving long-term returns, preserving purchasing power and producing consistent investment income. Bequests to the Organization are designated to this fund by Board policy, unless restricted by the donor or the estate. Other funding or spending is determined through the annual operating surplus or deficit calculation performed by the Organization. The Organization determines the surplus or deficit allocation based on a calculation of the preliminary unrestricted change in net assets, less investment earnings, less half of the thrift store earnings in excess of budget. The Organization has had a recent practice of not withdrawing the deficit allocation amounts from the endowment account. As such, the recorded investment balance is higher than the designated net asset balance.

Value Village - The purpose of this fund is to provide financing for future Value Village expansion or renovations. Funding is provided for internally should the results of operations of Value Village and Autos for Arc meet certain thresholds. There were no contributions made to this fund for the years ended December 31, 2015 and 2014.

NOTE 9 - DESIGNATED NET ASSETS (Continued)

Changes in board designated net assets for the years ended December 31, 2015 and 2014 is as follows:

	Endowment	Future Programs and Reserve	Value Village	Total
Balance, December 31, 2013	$ 1,895,137	$ 1,716,447	$ 89,604	$ 3,701,188
Investment activity				
Realized and unrealized gains	76,094	24,576	-	100,670
Interest and dividend income	107,133	61,988	-	169,121
Investment fees	(25,006)	(6,443)	-	(31,449)
Net investment activity	158,221	80,121	-	238,342
Appropriation of earnings		(40,521)		
Deficit allocation	(72,280)	-	-	(72,280)
Balance, December 31, 2014	1,981,078	1,756,047	89,604	3,826,729
Investment activity				
Realized and unrealized gains (loss)	(157,712)	(15,042)	-	(172,754)
Interest and dividend income	149,441	36,386	-	185,827
Investment fees	(19,151)	(7,152)	-	(26,303)
Net investment activity	(27,422)	14,192	-	(13,230)
Contributions	88,891		-	88,891
Appropriation of earnings	-	(118,440)	-	(118,440)
Deficit allocation	(263,388)		-	(263,388)
Balance, December 31, 2015	$ 1,779,159	$ 1,651,799	$ 89,604	$ 3,520,562

NOTE 10 - AFFILIATED ORGANIZATION

During 2015 and 2014, the Organization paid $167,170 and $155,600, respectively, to The Arc Minnesota for Fair Share Affiliation Fees, memberships, and training.

NOTE 11 - LINE OF CREDIT

At December 31, 2015 and 2014, the Organization had a line of credit financing agreement (LOC) with Bremer Bank. The amount available under the LOC is $250,000 with interest payable at a rate of 0.250 percentage points over the Index, which is equivalent to a rate of 3.75% at December 31, 2015. The LOC is secured by the Organization's deposit account at Bremer Bank. As of December 31, 2015 and 2014, the amount collateralizing the LOC was $348,587 and $350,454, respectively. There is $95,808 outstanding on the LOC at December 21, 2015. The Organization did not draw on the LOC during 2014.