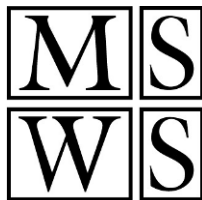


**THE ARC OF THE CENTRAL
CHESAPEAKE REGION, INC.
CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019**

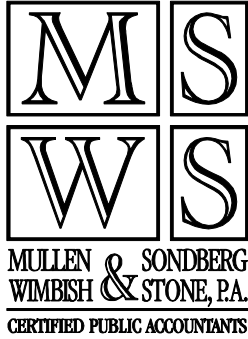


MULLEN SONDBERG WIMBISH & STONE, PA

CERTIFIED PUBLIC ACCOUNTANTS

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2553 Housley Road • Suite 200 • Annapolis, Maryland 21401

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of The Arc of the Central Chesapeake Region, Inc. (a non-profit Organization), which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

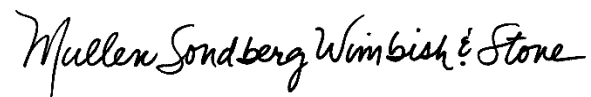
To the Board of Directors of
The Arc of the Central Chesapeake Region, Inc.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Arc of the Central Chesapeake Region, Inc., as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited The Arc of the Central Chesapeake Region, Inc.'s 2018 consolidated financial statements, and our report dated December 31, 2018, expressed an unmodified opinion on those audited consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.



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

Annapolis, Maryland
December 3, 2019

The Arc of the Central Chesapeake Region, Inc.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As of June 30, 2019

ASSETS		2019	2018
CURRENT ASSETS			
Cash and cash equivalents	\$	6,549,320	\$ 10,737,717
Investments		2,164,782	2,131,912
Due from State of Maryland		1,218,507	777,589
Accounts receivable, other		710,527	58,458
Accounts receivable, clients, net of allowance for doubtful accounts		277,885	-
Unconditional promises to give		15,075	18,000
Prepaid expenses		139,780	74,826
Total current assets		11,075,876	13,798,502
PROPERTY AND EQUIPMENT			
Net of accumulated depreciation		18,017,632	13,538,333
OTHER ASSETS			
Unconditional promises to give, net of discount		-	13,659
Security deposits and escrows		286,227	248,152
Total other assets		286,227	261,811
Total assets		\$ 29,379,735	\$ 27,598,646

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

The Arc of the Central Chesapeake Region, Inc.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Cont.)
As of June 30, 2019

LIABILITIES AND NET ASSETS

	2019	2018
CURRENT LIABILITIES		
Accounts payable, trade	\$ 1,402,904	\$ 1,890,590
Due to State of Maryland	8,128,898	8,600,635
Accrued vacation	244,627	288,480
Accrued salaries and related taxes	1,794,504	1,420,861
Client funds	323,609	141,385
Capital lease obligations	213,995	156,720
Mortgages and notes payable	259,370	236,569
Total current liabilities	12,367,907	12,735,240
LONG-TERM LIABILITIES		
Capital lease obligations	388,061	435,708
Mortgages and notes payable, net of debt issuance cost	9,891,215	7,745,021
Participation liability	56,500	73,522
Total long-term liabilities	10,335,776	8,254,251
Total liabilities	22,703,683	20,989,491
NET ASSETS		
Without donor restrictions	6,328,555	6,219,916
With donor restrictions	347,497	389,239
Total net assets	6,676,052	6,609,155
Total liabilities and net assets	\$ 29,379,735	\$ 27,598,646

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

The Arc of the Central Chesapeake Region, Inc.
CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended June 30, 2019

With Summarized Financial Information for the Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total	
			2019	2018
REVENUES, GAINS AND OTHER SUPPORT				
New Directions Waiver revenue	\$ 38,151,418	\$ -	\$ 38,151,418	\$ 31,230,391
Less: New Directions Waiver expenses	(35,021,378)	-	(35,021,378)	(28,713,712)
Net New Directions Waiver	3,130,040	-	3,130,040	2,516,679
State of Maryland - MDH grants	13,606,092	-	13,606,092	13,440,151
Contributions	2,220,101	-	2,220,101	667,375
Program fees	404,823	-	404,823	465,593
Rental subsidy	166,028	-	166,028	336,702
Other grants	218,489	-	218,489	315,348
Gain on disposal of equipment	-	-	-	157,829
Investment income, net	251,167	-	251,167	80,011
Donated goods, services and rent	12,994	-	12,994	69,127
Miscellaneous Income	-	-	-	50,770
Special events	62,868	-	62,868	73,068
	20,072,602	-	20,072,602	18,172,653
Net assets released from restrictions	41,742	(41,742)	-	-
Total revenues, gains and other support	20,114,344	(41,742)	20,072,602	18,172,653
EXPENSES				
Program services				
Residential	9,342,308	-	9,342,308	8,166,412
FMS & Other Programs	2,416,587	-	2,416,587	1,196,761
Personal Support	2,234,246	-	2,234,246	1,600,996
Day/ Supported Employment	1,674,814	-	1,674,814	1,587,413
Individual & Family Support Services	1,021,452	-	1,021,452	1,904,384
Total program services	16,689,407	-	16,689,407	14,455,966
Supporting services				
Management and general	2,721,714	-	2,721,714	2,445,921
Fundraising	594,584	-	594,584	477,408
Total supporting services	3,316,298	-	3,316,298	2,923,329
Total expenses	20,005,705	-	20,005,705	17,379,295
Change in net assets	108,639	(41,742)	66,897	793,358
NET ASSETS AT BEGINNING OF YEAR	6,219,916	389,239	6,609,155	5,815,797
NET ASSETS AT END OF YEAR	\$ 6,328,555	\$ 347,497	\$ 6,676,052	\$ 6,609,155

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

The Arc of the Central Chesapeake Region, Inc.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2019
With Summarized Financial Information for the Year Ended June 30, 2018

	Program Services					Supporting Services			Total	
	Residential	Personal Support	Individual & Family Support Services	Day/ Supported Employment	FMS & Other Programs	Total Program Services	Management and General	Fundraising	2019	2018
Salaries	\$ 4,906,187	\$ 1,423,814	\$ 554,942	\$ 1,094,544	\$ 950,576	\$ 8,930,063	\$ 1,672,259	\$ 230,873	\$ 10,833,195	\$ 10,014,622
Fringe benefits	686,378	164,443	94,525	132,429	126,806	1,204,581	253,064	37,138	1,494,783	1,383,174
Payroll taxes	360,671	111,160	39,421	84,786	218,874	814,912	64,502	13,517	892,931	718,357
Total salaries and related expenses	5,953,236	1,699,417	688,888	1,311,759	1,296,256	10,949,556	1,989,825	281,528	13,220,909	12,116,153
Advertising	-	-	-	725	-	725	29,786	3,791	34,302	33,003
Capital Campaign	-	-	-	-	-	-	-	-	-	17,144
Condo fees	1,968	-	3,707	-	-	5,675	-	-	5,675	5,907
Contract services	798,050	50,889	62,360	85,687	645,497	1,642,483	94,179	119,444	1,856,106	1,034,519
Conventions	180	-	-	845	1,010	2,035	13,923	2,356	18,314	29,777
Depreciation	613,258	122,078	45,936	41,733	9,131	832,136	53,448	7,498	893,082	675,566
Donated services	-	-	-	-	-	-	20,100	5,759	25,859	100,747
Dues and subscriptions	77,124	21,965	8,561	16,059	7,186	130,895	26,013	5,769	162,677	77,249
Food and housekeeping	179,738	42,412	3,168	5,238	1,005	231,561	60,225	6,632	298,418	324,000
Insurance	106,648	31,105	12,123	22,764	161,878	334,518	36,168	5,073	375,759	319,250
Interest	348,388	16,005	6,132	-	1,766	372,291	33,276	-	405,567	284,475
Legal and accounting	74,431	20,835	8,121	15,115	37,897	156,399	24,015	3,368	183,782	168,790
Medical and dental	-	-	-	-	-	-	-	-	-	7,044
Miscellaneous	59,586	4,905	419	783	10,193	75,886	-	115,162	191,048	140,362
Program Expenses	412,571	113,691	155,584	11,973	11,087	704,906	-	-	704,906	365,943
Reimbursements	996	-	920	-	-	1,916	-	-	1,916	38,312
Rent	75,258	72,046	24,885	-	-	172,189	19,107	-	191,296	308,592
Repairs and maintenance	241,956	-	-	12,110	159,806	413,872	108,188	2,997	525,057	265,289
Small equipment and furniture	26,207	84	-	1,567	1,042	28,900	2,233	280	31,413	14,336
Staff development	10,800	3,331	1,298	12,284	590	28,303	117,930	1,516	147,749	77,276
Supplies	109,064	1,471	1,531	15,355	52,863	180,284	26,125	21,477	227,886	241,412
Taxes and assessments	10,239	-	-	213	32	10,484	340	47	10,871	71,444
Telephone	30,815	8,867	3,404	6,206	5,658	54,950	10,077	1,383	66,410	62,872
Travel and lodging	65,154	17,197	(9,174)	114,398	13,070	200,645	21,744	10,504	232,893	379,941
Utilities	146,641	7,948	3,589	-	620	158,798	35,012	-	193,810	219,892
Total expenses reported in the statement of activities	\$ 9,342,308	\$ 2,234,246	\$ 1,021,452	\$ 1,674,814	\$ 2,416,587	\$ 16,689,407	\$ 2,721,714	\$ 594,584	\$ 20,005,705	\$ 17,379,295

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

The Arc of the Central Chesapeake Region, Inc.
CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended June 30, 2019

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 66,897	\$ 793,358
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	893,083	675,566
Amortization of debt issuance costs	4,285	16,763
Amortization of loan discount	13,260	(1,700)
Unrealized gain on investments	(30,033)	(11,708)
Gain on disposal of equipment	-	(157,829)
(Increase) decrease in operating assets:		
Accounts receivable	(1,370,872)	(717,023)
Unconditional promises to give	16,584	30,516
Prepaid expenses	(64,954)	230,771
Security deposits and escrows	(38,075)	(36,170)
Increase (decrease) in operating liabilities:		
Accounts payable, trade	(959,423)	3,335,478
Accrued salaries, vacation, and related taxes	329,790	409,112
Client funds	182,224	48,269
Deferred revenue	-	(85,280)
Net cash (used)/provided by operating activities	(957,234)	4,530,123
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments and reinvested earnings	(27,995)	(1,313,782)
Proceeds from sale of investments	25,158	1,306,923
Purchase of property and equipment	(5,406,702)	(2,982,830)
Proceeds from sale of property and equipment	34,320	204,725
Net cash used by investing activities	(5,375,219)	(2,784,964)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on capital lease pn;ogatopms	9,628	(91,004)
Payments of debt issuance costs	-	(28,611)
Proceeds from mortgages	3,027,728	-
Principal payments on mortgages and notes payable	(893,300)	(483,535)
Net cash provided/(used) by financing activities	2,144,056	(603,150)
Net change in cash and cash equivalents	(4,188,397)	1,142,009
Cash and cash equivalents at beginning of year	10,737,717	9,595,708
Cash and cash equivalents at end of year	\$ 6,549,320	\$ 10,737,717
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the year for interest	\$ 21,574	\$ 83,984
Noncash investing and financing activities:		
Acquisition of property and equipment	\$ 5,406,702	\$ 5,217,247
Less amount financed	-	(2,234,417)
Less capital grants	-	-
Cash paid for property and equipment	\$ 5,406,702	\$ 2,982,830

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

The Arc of the Central Chesapeake Region, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2019

Note 1 - Summary of Significant Accounting Policies

Nature and Association

The Arc of the Central Chesapeake Region, Inc. (The Association) is a non-profit association formed in 1961 whose purpose is to promote respect, create opportunity, facilitate services and advocate for the rights of all people with intellectual and developmental disabilities. The Association identifies critical needs and gaps in services and initiates programs to fill these needs. It stimulates other agencies to develop needed services and programs, and provides information and community education regarding developmental disabilities. On July 1, 1998 The Arc of the Central Chesapeake Region, Inc., a Maryland non-stock corporation, merged with Alternative Living, Inc. The Arc of the Central Chesapeake Region, Inc. is the surviving corporation. The Association serves Anne Arundel County and Maryland's Eastern Shore.

Consolidation of Related Entity

The Arc of the Central Chesapeake Region, Inc. has adopted the provisions of the Financial Accounting Standards Board (FASB) established Accounting Standards Codification (ASC) 958-810, *Consolidations*. The Arc of the Central Chesapeake Region, Inc. has included its related entity, Chesapeake Neighbors, LLC, in its financial statements for the years ended June 30, 2019 and 2018. FASB ASC 958-810 states that a not-for-profit organization should consolidate another not-for-profit organization if the reporting not-for-profit organization has both control of the other not-for-profit organization, as evidenced by either majority ownership or a majority voting interest in the Board of the other not-for-profit organization, and an economic interest in the other not-for-profit organization.

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

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

Basis of Accounting

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

The Arc of the Central Chesapeake Region, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
June 30, 2019

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

Basis of Presentation

The consolidated financial statements of the Association have been prepared in accordance with U.S. generally accepted accounting principles, which require the Association to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Association. These net assets may be used at the discretion of the Association's management and the Board of Directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Association or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Summarizes Comparative Information

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Association's consolidated financial statements for the year ended June 30, 2018, from which the summarized information was derived.

Revenue Recognition

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restriction. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Cash and Cash Equivalents

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

The Arc of the Central Chesapeake Region, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
June 30, 2019

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

Investments

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

Accounts Receivable

Accounts receivable consist of amounts due from the State of Maryland, amounts due from clients for rent and medical supplies, and amounts due from customers for goods and services mainly provided by program activities. The allowance for doubtful accounts is determined by management based on their periodic review of individual account balances. Accounts receivable balances are charged against the reserve in the period management determines them to be uncollectible. As of June 30, 2019 and 2018, the balance in the allowance for doubtful accounts was \$-0- and is netted against amounts due from clients.

Unconditional Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Property and Equipment

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

Use of Estimates

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

The Arc of the Central Chesapeake Region, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
June 30, 2019

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

Allocation of Functional Expenses

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

Income Tax Status

The Arc of the Central Chesapeake Region, Inc. and its wholly owned one member subsidiary, Chesapeake Neighbors, LLC are exempt under Section 501(c)(3) of the Internal Revenue Code and are classified as other than a private foundation. The Associations are exempt from both federal and State income taxes but would be subject to taxes on any "unrelated business income". There is no provision for income taxes at June 30, 2019 and 2018 as the Associations have not incurred any unrelated business income during these periods.

Income Tax Position

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

The Association analyzes tax positions taken, including those related to the requirements set forth in IRS Sec. 501(c) to qualify as a tax exempt organization, activities performed by volunteers and Board members, the reporting of unrelated business income, and its status as a tax-exempt organization under Maryland State statute. The Association does not know of any tax benefits arising from uncertain tax positions and there was no effect on the Association's financial position or changes in net assets as a result of analyzing its tax positions. Fiscal years ending on or after June 30, 2016 remain subject to examination by federal and state authorities.

Advertising

The Association's policy is to expense advertising costs when incurred. Total advertising costs incurred for employee recruitment for the years ended June 30, 2019 and 2018 were \$34,302 and \$33,004, respectively.

The Arc of the Central Chesapeake Region, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
June 30, 2019

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

Donated Services, Materials and Rent

Donated services and materials are included in the accompanying consolidated statements at their estimated fair market values at the date of receipt. Donated professional services, materials and rent for the years ended June 30, 2019 and 2018 were \$12,994 and \$69,127, respectively.

Reclassifications

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

New Accounting Pronouncement

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) - *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017. Accordingly, The Association has adjusted the presentation of these financial statements and applied ASU 2016-14 retrospectively to all periods presented. As a result of the implementation of ASU 2016-14, net assets have been reclassified in the accompanying financial statements as follows as of June 30, 2018:

<u>Net Asset Classification</u>	<u>Prior to ASU 2016 -14</u>	<u>After Adoption ASU 2016-14</u>
Unrestricted	\$ 1,329,123	\$ -
Unrestricted - investment in plant	4,890,793	-
Temporarily restricted	389,239	-
Net assets without donor restrictions	-	6,219,916
Net assets with donor restrictions	-	389,239
	<u>\$ 6,609,155</u>	<u>\$ 6,609,155</u>

The Arc of the Central Chesapeake Region, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
June 30, 2019

Note 2 - Availability & Liquidity

	2019	2018
Financial assets at year end:		
Cash and cash equivalents	\$ 6,549,320	\$ 10,737,717
Investments	2,164,782	2,131,912
Due from State of Maryland	1,218,507	777,589
Accounts receivable, other	710,527	58,458
Accounts receivable, client, net of allowance for doubtful accounts	277,885	(8,194)
Unconditional promises to give	15,075	31,659
Total financial assets	10,936,096	13,729,141
Less amounts not available to be used within one year:		
Unconditional promises to give, non-current	-	31,659
Net asset with donor restriction	347,497	389,239
Total amounts not available to be used within one year:	347,497	420,898
Financial assets available to meet general expenditures over the next twelve months:	\$ 10,588,599	\$ 13,308,243

The Association's goal is to establish at least 3 months of average recurring operating costs in available liquidity (approximately \$5 million at June 30, 2019). Monthly average recurring operating costs are calculated by dividing total operating expenses for the year by 12 months. In addition to calculating the actual operating reserve at year end, the target minimum reserve will be calculated each year after approval of the annual budget.

The Association invests excess cash in an investment account to be used for operations. See The Arc CCR's separate investment policy regarding risk allocations within the investment account.

The Association has a line of credit in the amount of \$3.6 million, which is unsecured and available to draw upon in the event of an unanticipated liquidity need. The Association may choose to use the available equity after all other options have been exhausted.

Note 3 - Concentration of Cash Balances

At June 30, 2019 and 2018, and at various times during the year, the Association maintained cash-in-bank balances in excess of the federally insured limit of \$250,000, per financial institution. Amounts in excess of insured limits at June 30, 2019 and 2018 were \$1,500,00 and \$5,700,000, respectively.

The Arc of the Central Chesapeake Region, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
June 30, 2019

Note 4 - Investments

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

	2019		
	Cost Basis	FMV	Unrealized Gain/(Loss)
Investments - brokerage account			
Money market funds	\$ 1,343,111	\$ 1,343,111	\$ -
Certificates of deposit	729,373	729,373	-
Equities	27,047	92,298	65,251
Total investments	<u>\$ 2,099,531</u>	<u>\$ 2,164,782</u>	<u>\$ 65,251</u>
	2018		
	Cost Basis	FMV	Unrealized Gain/(Loss)
Investments - brokerage account			
Money market funds	\$ 884,781	\$ 884,781	\$ -
Certificates of deposit	735,537	735,537	-
Equities	27,047	62,146	35,099
Total investments - brokerage account	1,647,365	1,682,464	35,099
Investments - financial institution			
Certificates of deposit	450,002	449,448	(554)
Total investments	<u>\$ 2,097,367</u>	<u>\$ 2,131,912</u>	<u>\$ 34,545</u>

The Arc of the Central Chesapeake Region, Inc.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
 June 30, 2019

Note 4 - Investments (Cont.)

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

	2019	2018
Interest and dividends	\$ 221,134	\$ 68,303
Unrealized and realized gain (loss) on investments	30,033	11,708
	\$ 251,167	\$ 80,011

Note 5 - Fair Value Measurement

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

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

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

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

The Arc of the Central Chesapeake Region, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
June 30, 2019

Note 5 - Fair Value Measurement (Cont.)

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

<u>June 30, 2019</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 1,343,111	\$ -	\$ -	\$ 1,343,111
Certificates of deposit	729,373	-	-	729,373
Equity securities	92,298	-	-	92,298
Total	\$ 2,164,782	\$ -	\$ -	\$ 2,164,782
<u>June 30, 2018</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$ 1,184,985	\$ -	\$ -	\$ 1,184,985
Money market funds	884,781	-	-	884,781
Equity securities	62,146	-	-	62,146
Total	\$ 2,131,912	\$ -	\$ -	\$ 2,131,912

Note 6 - Unconditional Promises to Give

The Association has a lease agreement with the State of Maryland Department of Health for a residential home. The lease commenced on December 25, 2007 and has a term of five years with annual rent of \$1. This lease was renewed in March 2017 for three years with a discount rate of .95%. The Association also has a lease with the Anne Arundel County Department of Education for their administrative office building. This lease provides the Association with the free use of facilities and is recognized as unconditional promise to give. Unconditional promises to give are reflected at present value of estimated future cash flows, based on the date of the original promise to give.

The Arc of the Central Chesapeake Region, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
June 30, 2019

Note 6 - Unconditional Promises to Give (Cont.)

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

	2019	2018
Receivable in less than one year	\$ 15,075	\$ 18,000
Receivable in one to five years	-	17,175
Total unconditional promises to give	15,075	35,175
Less discount to net present value	-	(3,516)
Less current portion	(15,075)	(18,000)
Unconditional promises to give, long-term	\$ -	\$ 13,659

Note 7 - Property and Equipment

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

	Estimated Useful Lives	2019	2018
Land	-	\$ 4,036,506	\$ 3,049,155
Building and improvements	5-31 years	16,419,114	12,480,846
Leasehold improvements	1-10 years	631,757	628,907
Furniture, fixtures and equipment	5-20 years	1,237,975	999,079
Vehicles	2-5 years	1,558,277	1,433,011
		23,883,629	18,590,998
Less accumulated depreciation		(5,865,997)	(5,052,665)
		\$ 18,017,632	\$ 13,538,333

Depreciation was \$893,083 and \$675,566 for the years ended June 30, 2019 and 2018, respectively.

Building improvements funded by Anne Arundel County grants possess liens of thirty years. The amount of building improvements covered by these liens at June 30, 2019 and 2018 were \$332,422 and are included in net assets with donor restrictions.

The Arc of the Central Chesapeake Region, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
June 30, 2019

Note 8 - Mortgages and Notes Payable

The Maryland Department of Housing and Community Development (DHCD) has provided financing under the Maryland Group Home Acquisition Program (GHAP) enabling the Association to purchase residences, which it utilizes as group homes or alternative living units for its clients. All GHAP mortgages contain provisions which specify that if a GHAP mortgage is prepaid, defaulted on, refinanced, or if the property is sold, the State of Maryland is entitled to receive 50% of the net appreciation on the property securing that particular GHAP mortgage. At June 30, 2019 and 2018, the Association has recorded a participation liability of \$56,500 and \$73,522, respectively and a related mortgage loan discount of \$28,693 and \$41,953, respectively, in connection with these agreements.

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

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

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

The Arc of the Central Chesapeake Region, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
June 30, 2019

Note 8 - Mortgages and Notes Payable (Cont.)

Mortgages and notes payable consisted of the following at June 30:

	2019	2018
<u>The Arc of the Central Chesapeake Region, Inc.</u>		
Mortgages and notes payable to the Maryland Department of Housing and Community Development. The loans were obtained to acquire residential properties. Aggregate monthly payments of \$4,572 include principal and interest ranging between 1.50% - 5.00%. The mortgages are for 30 years and mature between May 2021 and July 2047. The mortgages are secured by residential properties.	\$ 357,581	\$ 388,538
Mortgages and notes payable to various financial institutions. The loans were obtained to acquire residential properties. Aggregate monthly payments of \$15,877 include principal and interest ranging between 0.00% - 6.25%. The mortgages are for 30 years and mature between November 2021 and October 2037. The mortgages are secured by residential properties.	1,796,600	1,986,753
<u>Chesapeake Neighbors, LLC</u>		
Mortgages and notes payable for all Chesapeake Neighbors, LLC properties. The loans were obtained to acquire residential properties. Aggregate monthly payments of \$25,170 include principal and interest ranging between 0.00% - 6.96%. The mortgages are for 30 years and mature between April 2018 and July 2047. The mortgages are secured by residential properties.	8,086,477	5,713,917
Total Mortgages and notes payable	10,240,658	8,089,208
Less debt issuance cost, net of amortization	(61,380)	(65,665)
Less discount	(28,693)	(41,953)
Less current maturities	(259,370)	(236,569)
Long-term portion of Mortgages and notes payables	\$ 9,891,215	\$ 7,745,021

Mortgage and notes payable at June 30, 2019 and 2018 is shown net of unamortized debt issuance cost of \$61,380 and \$65,665, respectively. Amortization expense on debt issuance costs was \$4,284 and \$6,655, for years ended June 30, 2019 and 2018, respectively

The Arc of the Central Chesapeake Region, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
June 30, 2019

Note 8 - Mortgages and Notes Payable (Cont.)

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

<u>Year Ending June 30</u>	
2020	\$ 259,370
2021	287,670
2022	287,107
2023	285,289
2024	291,849
Thereafter	<u>8,829,373</u>
	<u><u>\$ 10,240,658</u></u>

Interest expense for the years ended June 30, 2019 and 2018 was \$405,568 and \$261,307, respectively.

Note 9 - Line of Credit

In May 2018, the Association obtained a line of credit, secured by the Association's accounts receivables, with a bank with a maximum borrowing potential of \$2,000,000. The line bears interest at the bank's prime lending rate. In September 26, 2019, the Association obtained a line of credit, with a bank with a maximum borrowing potential of \$1,600,000. The line bears interest at the bank's prime lending rate. There was no amount outstanding as of June 30, 2019 and 2018.

Note 10 - Compensated Absences

Employees of the Association are entitled to paid vacation depending on their length of service and job classification. As of June 30, 2019 and 2018, there were \$244,627 and \$288,480, respectively, of vacation benefits due to employees.

Note 11 - Capital Lease Obligations

The Association entered into capital lease agreements for three copiers and 32 vehicles. The term of the copier and vehicle lease agreements are for 60 months. At June 30, 2019 and 2018 the aggregate monthly payments for the copiers were \$2,014. At June 30, 2019 and 2018 the aggregate monthly payments for the vehicles were \$25,036 and \$14,077, respectively. Depreciation attributable to capital expenses for the years ended June 30, 2019 and 2018 amounted to \$153,197 and \$97,450, respectively.

The Arc of the Central Chesapeake Region, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
June 30, 2019

Note 11 - Capital Lease Obligations (Cont.)

Future minimum lease payments are as follows:

	Year Ending June 30	
	2020	\$ 246,737
	2021	203,705
	2022	148,774
	2023	63,104
	2024	4,422
		666,742
Less amounts representing interest		(64,686)
Present value of future minimum lease payments (including current portion of \$213,995)		\$ 602,056

Note 12 - Operating Leases

The Association leases residential homes that are utilized as alternative living units and group homes for its clients. Some of the homes are leased on a month-to-month basis, and some homes have leases, with rent of \$1. Leases mature on February 2020.

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

	Year Ending June 30	
	2020	\$ 1
	2021	1
Future minimum lease payment		\$ 2

Rent expense for the years ended June 30, 2019 and 2018 was \$1,639,524 and \$616,742, respectively.

Note 13 - Retirement Plan

The Association maintains a tax deferred 403(b) retirement plan which. All employees are eligible to participate in the plan after being employed for one year. In July 2018 the Association increased the maximum an employer contributes from 1% to 4% of an eligible employee's compensation to this plan and contributed \$220,420 and \$47,441 for the years ended June 30, 2019 and 2018, respectively.

The Arc of the Central Chesapeake Region, Inc.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
 June 30, 2019

Note 14 - Anne Arundel County Grants

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

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

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

Note 15 - Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purposes for years ending June 30:

	2019	2018
Leasehold improvements (Note 7 & 15)	\$ 332,422	\$ 332,422
Donated long-term leases (Note 6)	15,075	31,659
Memorial fund	-	25,158
	\$ 347,497	\$ 389,239

The Lola M. Bell Memorial Fund was established for direct aid to persons with developmental disabilities. Interest earned on the fund may be expended as direct aid in the year the interest is earned. If the interest is not expended in the year earned, it is added to the principal of the fund. The donated long-term leases are described in detail in Note 5 of the financial statements. Donor restricted leasehold improvement grants from Anne Arundel County are described in detail in Note 7 and 15 of the financial statements.

The Arc of the Central Chesapeake Region, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
June 30, 2019

Note 16 - Contingent Liabilities

The Organization was awarded multiple capital project grants from the State of Maryland totaling \$975,000, which were recognized in fiscal year 2019 and used to build the administrative building on Donald Avenue. As long as the Organization owns the property, it may not sell, lease, exchange, give away, or otherwise transfer or dispose of any interest in the real or personal property acquired with grant funds unless the Board of Public Works gives prior written consent. The Organization may be required to repay the State the percentage of the proceeds allocable to the grant that was used to acquire the property as determined by the Board of Public Works in its sole discretion. The terms of the grant agreement are set to expire with the maturity of the State's general obligation bonds that were issued to provide funding for these grants in 2034.

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

Note 17 - Significant Funding Source

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

Note 18 - Subsequent Events

The Association has evaluated the impact of significant subsequent events. Except as disclosed below, there have been no subsequent events through December 31, 2019, the date the financial statements were available to be issued, that required recognition or disclosure.

In September 26, 2019, the Association entered into a line of credit agreement with Fulton Bank with a maximum borrowing potential of \$1.6 million.

In September 26, 2019, the Association entered into a promissory note with Fulton Bank for \$2.2 million. The note matures in September 26, 2029 and has an interest rate of 3.42%.