

**THE ARC OF THE CENTRAL
CHESAPEAKE REGION, INC.
CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020**

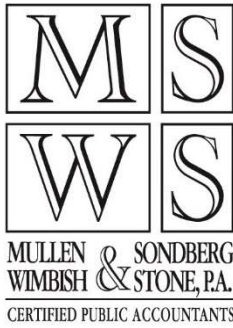


MULLEN SONDBERG WIMBISH & STONE, PA

CERTIFIED PUBLIC ACCOUNTANTS

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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, 2020, 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, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance 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 2019 consolidated financial statements, and we express an unmodified audit opinion on those audited consolidated financial statements in our report dated December 3, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, 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
November 3, 2020

The Arc of the Central Chesapeake Region, Inc.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2020

	ASSETS	
	2020	2019
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,137,867	\$ 6,549,320
Investments	1,904,214	2,164,782
Due from State of Maryland	2,073,995	1,218,507
Accounts receivable, other	201,817	710,527
Accounts receivable, clients, net of allowance for doubtful accounts	50,329	277,885
Unconditional promises to give	38,100	15,075
Prepaid expenses	126,052	139,780
Total current assets	8,532,374	11,075,876
PROPERTY AND EQUIPMENT		
Net of accumulated depreciation	18,284,107	18,017,632
OTHER ASSETS		
Unconditional promises to give, net of discount	448,518	-
Security deposits and escrows	276,106	286,227
Total other assets	724,624	286,227
Total assets	\$ 27,541,105	\$ 29,379,735

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.)
June 30, 2020

LIABILITIES AND NET ASSETS

	2020	2019
CURRENT LIABILITIES		
Accounts payable, trade	\$ 1,345,295	\$ 1,402,904
Due to State of Maryland	2,188,236	8,128,898
Accrued vacation	294,386	244,627
Accrued salaries and related taxes	2,739,432	1,794,504
Rep Payee Funds	189,175	323,609
Deferred revenue	21,000	-
Capital lease obligations	243,576	213,995
Mortgages and notes payable	291,825	259,370
Total current liabilities	7,312,925	12,367,907
LONG-TERM LIABILITIES		
Capital lease obligations	469,262	388,061
Mortgages and notes payable, net of debt issuance cost	11,171,615	9,891,215
Participation liability	64,844	56,500
Total long-term liabilities	11,705,721	10,335,776
Total liabilities	19,018,646	22,703,683
NET ASSETS		
Without donor restrictions	7,965,360	6,660,977
With donor restrictions	557,099	15,075
Total net assets	8,522,459	6,676,052
Total liabilities and net assets	\$ 27,541,105	\$ 29,379,735

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, 2020

With Summarized Financial Information for the Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total	
			2020	2019
REVENUES, GAINS AND OTHER SUPPORT				
Self Direction Waiver revenue	\$ 48,763,680	\$ -	\$ 48,763,680	\$ 38,151,418
Less: Self Direction Waiver expenses	(44,236,611)	-	(44,236,611)	(35,021,378)
Net Self Direction Waiver	4,527,069	-	4,527,069	3,130,040
Program service fees	14,778,904	-	14,778,904	13,606,092
Paycheck Protection Program grant	2,469,300	-	2,469,300	-
Donated goods, services and rent	33,025	471,543	504,568	12,994
Client fees	385,756	-	385,756	404,823
Other grants	337,162	-	337,162	218,489
Rental subsidy	282,631	-	282,631	166,028
Investment income, net	196,703	-	196,703	251,167
Contributions	93,151	70,481	163,632	2,220,101
Special events	50,067	-	50,067	62,868
Miscellaneous income	8,578	-	8,578	-
Loss on disposal of equipment	(8,314)	-	(8,314)	-
	<u>23,154,032</u>	<u>542,024</u>	<u>23,696,056</u>	<u>20,072,602</u>
Net assets released from restrictions	-	-	-	-
Total revenues, gains and other support	<u>23,154,032</u>	<u>542,024</u>	<u>23,696,056</u>	<u>20,072,602</u>
EXPENSES				
Program services				
Community Living	9,722,220	-	9,722,220	9,342,308
FMS	3,135,678	-	3,135,678	2,416,587
Community Supports	2,565,777	-	2,565,777	2,234,246
Day Services & Workforce Development	1,709,734	-	1,709,734	1,674,814
Individual & Family Support Services	1,090,288	-	1,090,288	1,021,452
Total program services	<u>18,223,697</u>	<u>-</u>	<u>18,223,697</u>	<u>16,689,407</u>
Supporting services				
Management and general	3,455,221	-	3,455,221	3,250,312
Fundraising	170,731	-	170,731	65,986
Total supporting services	<u>3,625,952</u>	<u>-</u>	<u>3,625,952</u>	<u>3,316,298</u>
Total expenses	<u>21,849,649</u>	<u>-</u>	<u>21,849,649</u>	<u>20,005,705</u>
Change in net assets	1,304,383	542,024	1,846,407	66,897
NET ASSETS AT BEGINNING OF YEAR	<u>6,660,977</u>	<u>15,075</u>	<u>6,676,052</u>	<u>6,609,155</u>
NET ASSETS AT END OF YEAR	<u>\$ 7,965,360</u>	<u>\$ 557,099</u>	<u>\$ 8,522,459</u>	<u>\$ 6,676,052</u>

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, 2020
With Summarized Financial Information for the Year Ended June 30, 2019

	Program Services					Supporting Services			Total	
	Community Living	FMS	Community Supports	Day Services & Workforce Development	Individual & Family Support Services	Total Program Services	Management and General	Fundraising	2020	2019
Salaries	\$ 5,976,124	\$ 1,176,956	\$ 1,485,558	\$ 994,103	\$ 372,502	\$ 10,005,243	\$ 1,659,646	\$ 43,871	\$ 11,708,760	\$ 10,833,195
Fringe benefits	874,684	408,924	222,637	182,910	70,474	1,759,629	213,937	10,447	1,984,013	1,494,783
Payroll taxes	437,939	85,712	104,904	78,190	29,090	735,835	109,158	3,637	848,630	892,931
Total salaries and related expenses	7,288,747	1,671,592	1,813,099	1,255,203	472,066	12,500,707	1,982,741	57,955	14,541,403	13,220,909
Contract services	284,333	949,093	57,774	30,517	16,936	1,338,653	353,117	69,361	1,761,131	1,856,106
Depreciation	519,435	131,452	149,096	97,002	213,934	1,110,919	62,020	-	1,172,939	893,082
Program expenses	433,364	100	215,014	12,039	150,231	810,748	18,918	-	829,666	704,906
Interest	271,568	67,721	68,227	47,940	52,478	507,934	34,880	-	542,814	405,567
Repairs and maintenance	86,667	22,927	21,569	15,177	6,670	153,010	317,671	-	470,681	525,057
Dues and subscriptions	112,835	67,453	28,035	19,699	7,425	235,447	67,793	32,993	336,233	162,677
Insurance	135,849	29,951	30,175	34,412	45,648	276,035	41,245	386	317,666	375,759
Food and housekeeping	231,831	947	39,703	3,569	97	276,147	23,301	29	299,477	298,418
Advertising	116,027	28,861	28,905	21,071	7,656	202,520	61,172	5,812	269,504	34,302
Travel and lodging	31,435	10,884	35,375	134,249	2,505	214,448	51,870	672	266,990	232,893
Supplies	16,186	72,739	92	4,875	4,698	98,590	142,579	1,210	242,379	227,886
Utilities	89,311	22,631	17,946	12,610	4,753	147,251	52,073	-	199,324	193,810
Miscellaneous	38,981	40,915	19,871	14,266	6,042	120,075	66,325	272	186,672	191,048
Rent	-	-	33,758	-	94,062	127,820	19,776	-	147,596	191,296
Telephone	36,156	12,543	7,138	6,272	1,297	63,406	12,368	476	76,250	66,410
Small equipment and furniture	27,480	122	-	-	-	27,602	32,616	-	60,218	31,413
Legal and accounting	-	3,507	-	-	-	3,507	53,939	-	57,446	183,782
Staff development	-	1,209	-	354	-	1,563	44,088	1,565	47,216	147,749
Conventions	-	110	-	479	-	589	8,686	-	9,275	18,314
Taxes and assessments	-	921	-	-	-	921	5,184	-	6,105	10,871
Condo fees	1,968	-	-	-	3,790	5,758	35	-	5,793	5,675
Reimbursements	47	-	-	-	-	47	2,824	-	2,871	1,916
Donated services	-	-	-	-	-	-	-	-	-	25,859
Total expenses	\$ 9,722,220	\$ 3,135,678	\$ 2,565,777	\$ 1,709,734	\$ 1,090,288	\$ 18,223,697	\$ 3,455,221	\$ 170,731	\$ 21,849,649	\$ 20,005,705

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, 2020

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,846,407	\$ 66,897
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	1,172,939	893,082
Amortization of debt issuance costs	11,294	4,285
Amortization of loan discount	1,958	13,260
Unrealized gain on investments	(319)	(30,033)
Loss on disposal of equipment	8,314	-
(Increase) decrease in operating assets:		
Accounts receivable and Due from State of Maryland	(119,222)	(1,370,872)
Unconditional promises to give	(471,543)	16,584
Prepaid expenses	13,728	(64,954)
Security deposits and escrows	10,121	(38,075)
Increase (decrease) in operating liabilities:		
Accounts payable, trade and due to State of Maryland	(5,998,271)	(959,423)
Accrued salaries, vacation, and related taxes	994,687	329,790
Rep Payee Funds	(134,434)	182,224
Deferred revenue	21,000	-
Net cash used by operating activities	<u>(2,643,341)</u>	<u>(957,235)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments and reinvested earnings	(949,290)	(27,995)
Proceeds from sale of investments	1,210,177	25,158
Purchase of property and equipment	(649,218)	(2,185,042)
Proceeds from sale of property and equipment	427,087	34,320
Net cash provided (used) by investing activities	<u>38,756</u>	<u>(2,153,559)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on capital lease	(251,455)	(184,303)
Proceeds from mortgages and notes payable	967,840	-
Principal payments on mortgages and notes payable	(523,253)	(893,300)
Net cash provided (used) by financing activities	<u>193,132</u>	<u>(1,077,603)</u>
Net change in cash and cash equivalents	(2,411,453)	(4,188,397)
Cash and cash equivalents at beginning of year	<u>6,549,320</u>	<u>10,737,717</u>
Cash and cash equivalents at end of year	<u>\$ 4,137,867</u>	<u>\$ 6,549,320</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the year for interest	<u>\$ 531,520</u>	<u>\$ 401,282</u>
Noncash investing and financing activities:		
Acquisition of property and equipment	\$ 1,915,693	\$ 5,406,701
Less amount financed	(1,266,475)	(3,221,659)
Cash paid for property and equipment	<u>\$ 649,218</u>	<u>\$ 2,185,042</u>

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

The Arc of the Central Chesapeake Region, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2020

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) 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, 2020 and 2019. *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 intercompany 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, 2020

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, whereby the donor has stipulated the funds be maintained in perpetuity.

Summarized Comparative Information

The consolidated financial statements include certain prior year summarized comparative information. 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, 2019, from which the summarized information was derived.

Revenue Recognition – Contributions

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. 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, 2020

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, 2020 and 2019, the balance in the allowance for doubtful accounts was \$3,118.

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 support without donor restrictions, 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, 2020

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

Allocation of Functional Expenses

Accounting principles generally accepted in the United States of America require all not-for-profit 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 square footage for items such as occupancy and depreciation and estimates of time and effort for 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, 2020 and 2019 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, 2017 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, 2020 and 2019 were \$269,504 and \$34,302, respectively.

The Arc of the Central Chesapeake Region, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
June 30, 2020

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

Donated Services, Materials and Rent

Donated services are recognized as a contribution if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by period with those skills, and would otherwise be purchased by the Association. There were no donated services that qualified for recognition during the years ended June 30, 2020 and 2019.

Donated materials and rent are included in the accompanying consolidated statements at their estimated fair market values at the date of receipt. Donated rent for the years ended June 30, 2020 and 2019 were \$504,568 and \$12,994, respectively.

Reclassifications

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

New Accounting Pronouncements

On July 1, 2019, the Association adopted *ASU 2018-08, "Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made."* This standard provides additional guidance to be used to determine whether a contribution is conditional and when a transaction should be accounted for as a contributions versus an exchange. *ASU 2018-08* has been applied retrospectively to all periods presented. The adoption of *ASU 2018-08* did not have any impact on the Association's financial position, result of operations or cash flows.

The Arc of the Central Chesapeake Region, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
June 30, 2020

Note 2 - Availability & Liquidity

	2020	2019
Financial assets at year end:		
Cash and cash equivalents	\$ 4,137,867	\$ 6,549,320
Investments	1,904,214	2,164,782
Due from State of Maryland	2,073,995	1,218,507
Accounts receivable, other	201,817	710,527
Accounts receivable, clients, net	50,329	277,885
Unconditional promises to give	486,618	15,075
Total financial assets	8,854,840	10,936,096
Less amounts not available to be used within one year:		
Net assets with donor restrictions	557,099	15,075
Rep Payee Funds	189,175	323,609
Financial assets available to meet general expenditures over the next twelve months	\$ 8,108,566	\$ 10,597,412

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, 2020). 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. The Association follows an investment policy to manage its risk allocations within the investment account.

The Association has two lines of credit totaling \$3.6 million, which are available to draw upon in the event of an unanticipated liquidity need. The Association may also choose to use the available equity in real estate after all other options have been exhausted.

Note 3 - Concentration of Cash Balances

At June 30, 2020 and 2019, 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, 2020 and 2019 were \$2,900,00 and \$1,500,000, respectively.

The Arc of the Central Chesapeake Region, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
June 30, 2020

Note 4 - Investments

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

	2020		
	Cost Basis	Fair Market Value	Unrealized Gain/(Loss)
Investments - brokerage account			
Money market funds	\$ 1,346,055	\$ 1,346,055	\$ -
Certificates of deposit	465,542	465,542	-
Equities	27,047	92,617	65,570
	<u>\$ 1,838,644</u>	<u>\$ 1,904,214</u>	<u>\$ 65,570</u>

	2019		
	Cost Basis	Fair Market Value	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
	<u>\$ 2,099,531</u>	<u>\$ 2,164,782</u>	<u>\$ 65,251</u>

The Arc of the Central Chesapeake Region, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
June 30, 2020

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, 2020

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, 2020</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 1,346,055	\$ -	\$ -	\$ 1,346,055
Certificates of deposit	465,542	-	-	465,542
Equity securities	92,617	-	-	92,617
Total	\$ 1,904,214	\$ -	\$ -	\$ 1,904,214

<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

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%. On November 20, 2019, the lease was renewed for an additional three years, with two renewal terms of three years each with annual rent of \$1 and a discount rate of 1.59%.

The Association also has a lease with the Anne Arundel County for their regional office building. This lease was renewed beginning March 1, 2020 with a 20 year term at annual rent of \$1 and a discount rate of 1.53%.

These leases provide the Association with the free use of facilities and are recognized as unconditional promises to give. Unconditional promises to give are reflected at present value of estimated future cash flows, 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, 2020

Note 6 - Unconditional Promises to Give (Cont.)

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

	<u>2020</u>	<u>2019</u>
Receivable in less than one year	\$ 38,100	\$ 15,075
Receivable in one to five years	152,400	-
Receivable in more than five years	<u>355,550</u>	<u>-</u>
Total unconditional promises to give	546,050	15,075
Less discount to net present value	(59,432)	-
Less current portion	<u>(38,100)</u>	<u>(15,075)</u>
Unconditional promises to give, long-term	<u>\$ 448,518</u>	<u>\$ -</u>

Note 7 - Property and Equipment

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

	Estimated Useful Lives	<u>2020</u>	<u>2019</u>
Land	-	\$ 4,433,886	\$ 4,036,506
Building and improvements	5-31 years	16,613,799	16,128,808
Leasehold improvements	1-10 years	725,549	631,757
Furniture, fixtures and equipment	5-20 years	1,472,898	1,528,281
Vehicles	2-5 years	<u>1,692,280</u>	<u>1,558,277</u>
		24,938,412	23,883,629
Less accumulated depreciation		<u>(6,654,305)</u>	<u>(5,865,997)</u>
		<u>\$ 18,284,107</u>	<u>\$ 18,017,632</u>

Depreciation was \$1,172,939 and \$893,082 for the years ended June 30, 2020 and 2019, respectively.

The Arc of the Central Chesapeake Region, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
June 30, 2020

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, 2020 and 2019, the Association has recorded a participation liability of \$64,844 and \$56,500, respectively and a related mortgage loan discount of \$37,573 and \$28,693, 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, 2020

Note 8 - Mortgages and Notes Payable (Cont.)

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

	2020	2019
<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 \$4,089 include principal and interest ranging between 2.00% - 5.00%. The mortgages are for 30 years and mature between May 2021 and July 2047. The mortgages are secured by residential properties.	\$ 325,664	\$ 357,581
Mortgages and notes payable to various financial institutions. The loans were obtained to acquire residential properties. Aggregate monthly payments of \$15,803 include principal and interest ranging between 0.00% - 5.00%. The mortgages are for 30 years and mature between November 2021 and August 2049. The mortgages are secured by residential properties.	2,892,318	1,796,600
<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 \$45,528 include principal and interest ranging between 0.00% - 6.96%. The mortgages are for 30 years and mature between March 2038 and February 2050. The mortgages are secured by residential properties.	8,373,995	8,086,477
Total mortgages and notes payable	11,591,977	10,240,658
Less debt issuance cost, net of amortization	(90,964)	(61,380)
Less discount	(37,573)	(28,693)
Less current maturities	(291,825)	(259,370)
Long-term portion of mortgages and notes payables	\$ 11,171,615	\$ 9,891,215

Mortgage and notes payable at June 30, 2020 and 2019 is shown net of unamortized debt issuance cost of \$90,964 and \$61,380, respectively. Amortization expense on debt issuance costs was \$11,294 and \$4,285, for years ended June 30, 2020 and 2019, respectively, and is included in interest expense.

The Arc of the Central Chesapeake Region, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
June 30, 2020

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>	
2021	\$ 291,825
2022	293,932
2023	291,435
2024	296,793
2025	309,258
Thereafter	<u>10,108,734</u>
	<u>\$ 11,591,977</u>

Interest expense for the years ended June 30, 2020 and 2019 was \$542,814 and \$405,567, respectively.

Note 9 - Line of Credit

In May 2018, the Association obtained a line of credit with a bank, secured by the Association's accounts receivables, with a maximum borrowing potential of \$2,000,000. The line bears interest at the bank's prime lending rate. In September 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 were no amounts outstanding as of June 30, 2020 and 2019 on the Association's lines of credit.

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, 2020 and 2019, there were \$294,386 and \$244,627, respectively, of vacation benefits due to employees.

Note 11 - Capital Lease Obligations

The Association entered into capital lease agreements for three copiers and 54 vehicles. The term of the copier and vehicle lease agreements are for 60 months. At June 30, 2020 and 2019 the aggregate monthly payments for the copiers were \$2,014. At June 30, 2020 and 2019 the aggregate monthly payments for the vehicles were \$24,375 and \$25,036, respectively. Depreciation attributable to capital leases for the years ended June 30, 2020 and 2019 amounted to \$179,930 and \$153,197, respectively.

The Arc of the Central Chesapeake Region, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
June 30, 2020

Note 11 - Capital Lease Obligations (Cont.)

Future minimum lease payments are as follows:

	<u>Year Ending June 30</u>
	2021 \$ 300,531
	2022 247,134
	2023 159,278
	2024 99,291
	2025 46,466
	852,700
Less amounts representing interest	(139,862)
Present value of future minimum lease payments (including current portion of \$243,576)	\$ 712,838

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 annual rent of \$1. The leases mature in fiscal years 2028 and 2039.

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

	<u>Year Ending June 30</u>
	2021 \$ 2
	2022 2
	2023 2
	2024 2
	2025 2
	Thereafter 17
Future minimum lease payment	\$ 27

Rent expense for the years ended June 30, 2020 and 2019 was \$147,596 and \$191,296, respectively.

The Arc of the Central Chesapeake Region, Inc.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
 June 30, 2020

Note 13 - Retirement Plan

The Association maintains a tax deferred 403(b) retirement plan. Employees are eligible to participate in the plan starting on the day they are hired. In July 2018 the Association increased the maximum employer contribution from 1% to 4% of an eligible employee’s compensation. The Association contributed \$249,061 and \$220,420 for the years ended June 30, 2020 and 2019, respectively.

Note 14 - Net Assets With Donor Restrictions

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

	2020	2019
Donated long-term leases (Note 6)	\$ 486,618	\$ 15,075
Capital campaign	70,481	-
	\$ 557,099	\$ 15,075

Note 15 - Contingent Liabilities

The Association 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 Association 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 Association 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 received grants from Anne Arundel County for leasehold improvements to seven properties in the form of loans with Anne Arundel Community Development Services, Inc. The grant agreements total \$332,422 and 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.

The Arc of the Central Chesapeake Region, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
June 30, 2020

Note 15 - Contingent Liabilities (Cont.)

Additionally, during 1991 and 1993, the Association received grants totaling \$19,355 for improvements at a Linthicum Home. These grant agreements specify that the Association must repay a portion of the grants without interest or penalty if the Linthicum Home is sold or transferred within thirty years of the grant.

The Association receives a substantial portion of its revenue from government fees and 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 16 - Significant Funding Source/Contingency

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.

In March 2020, the Association experienced disruption of its daily operations due to the global COVID-19 (coronavirus) pandemic. While the Association expects this matter could potentially negatively impact its results of operations, cash flows and financial position, the related impact cannot be reasonably estimated at this time. In response to COVID-19, the State of Maryland provided assistance to help reduce the impact on its service providers. The State of Maryland received additional funding through Centers for Medicare & Medicaid Services (CMS) through Appendix K.

Note 17 - Paycheck Protection Program Grant

In April 2020, the Association received \$2,469,300 under the United States Small Business Administration's (SBA) Paycheck Protection Program (PPP). The PPP funding is legally structured as a forgivable loan by the SBA. In order to achieve forgiveness of the loan, the Association must spend the funding for specific purposes and also must generally maintain its full-time equivalent level of staffing over a defined time period.

The Association has accounted for the PPP funding as a conditional grant in the financial statements. As of June 30, 2020, management believes the Association has met the substantial conditions required for the forgiveness of the loan. As such, the Association has recorded other grant revenue totaling \$2,469,300 for the year ending June 30, 2020. The Association's PPP funding is subject to a formal forgiveness application as well as a required audit by the SBA. Until forgiveness has been legally achieved and required audits have been completed, there exists a contingent liability to refund any amounts received in excess of allowable costs. Management of the Association is of the opinion that no significant liability will result from audit adjustments, if any.

The Arc of the Central Chesapeake Region, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
June 30, 2020

Note 18 - Subsequent Events

The Association has evaluated the impact of significant subsequent events. There have been no subsequent events through November 3, 2020, the date the financial statements were available to be issued, that required recognition or disclosure.