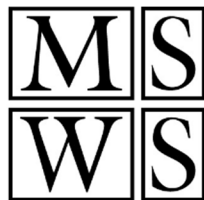


**THE ARC OF THE CENTRAL
CHESAPEAKE REGION, INC.
CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023**

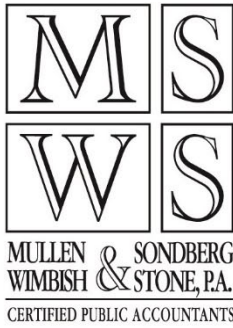


MULLEN SONDBERG WIMBISH & STONE, PA

CERTIFIED PUBLIC ACCOUNTANTS

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888 Bestgate Road • Suite 310 • Annapolis, Maryland 21401

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying consolidated financial statements of The Arc of the Central Chesapeake Region, Inc. (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2023, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Arc of the Central Chesapeake Region, Inc. as of June 30, 2023, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of The Arc of the Central Chesapeake Region, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Arc of the Central Chesapeake Region, Inc.'s ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with Generally Accepted Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with Generally Accepted Auditing Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Arc of the Central Chesapeake Region, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Arc of the Central Chesapeake Region, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

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

Report on Summarized Comparative Information

We have previously audited The Arc of the Central Chesapeake Region, Inc.'s 2022 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated September 22, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, 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
January 3, 2024

The Arc of the Central Chesapeake Region, Inc.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2023

ASSETS		
	2023	2022
CURRENT ASSETS		
Cash and cash equivalents	\$ 9,806,932	\$ 11,704,123
Investments	1,461,786	1,929,408
Due from State of Maryland	2,641,275	2,741,650
Accounts receivable FMS, net of allowance for doubtful accounts	29,844,998	-
Accounts receivable, other net of allowance for doubtful accounts	177,848	457,909
Unconditional promises to give	153,079	143,410
Prepaid expenses	424,840	291,573
Total current assets	44,510,758	17,268,073
PROPERTY AND EQUIPMENT		
Net of accumulated depreciation	30,624,424	23,956,175
OTHER ASSETS		
Unconditional promises to give, net of discount	560,289	534,448
Security deposits and escrows	426,493	380,677
Right of use assets - operating leases	4,063,314	-
Other assets	-	134,000
Total other assets	5,050,096	1,049,125
Total assets	\$ 80,185,278	\$ 42,273,373
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable, trade	\$ 4,854,704	\$ 3,540,289
Line of credit	21,600,000	-
Due to State of Maryland	9,660,291	6,674,285
Accrued salaries and related expenses	10,636,255	6,963,612
Rep Payee Funds	127,845	156,664
Lease liability - financed leases	460,091	-
Lease liability - operating leases	474,880	-
Capital lease	-	326,147
Mortgages and notes payable	360,710	327,142
Total current liabilities	48,174,776	17,988,139
LONG-TERM LIABILITIES		
Due to State of Maryland	307,036	307,036
Lease liability - financed leases	1,457,255	-
Mortgages and notes payable, net of debt issuance costs	13,887,997	12,331,551
Capital lease	-	803,064
Lease liability - operating leases	3,672,411	-
Participation liability	86,397	52,711
Total long-term liabilities	19,411,096	13,494,362
Total liabilities	67,585,872	31,482,501
NET ASSETS		
Without donor restrictions	11,738,876	9,950,527
With donor restrictions	860,530	840,345
Total net assets	12,599,406	10,790,872
Total liabilities and net assets	\$ 80,185,278	\$ 42,273,373

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, 2023

With Summarized Financial Information for the Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total	
			2023	2022
REVENUES, GAINS AND OTHER SUPPORT				
Self Direction Waiver revenue	\$ 190,854,550	\$ -	\$ 190,854,550	\$ 118,353,264
Program service fees	26,840,603	-	26,840,603	20,849,424
Government and private grants	753,589	-	753,589	664,357
Contributions and fundraising	286,776	52,328	339,104	485,227
Rental subsidy	507,468	-	507,468	396,766
Contribution to care fees	397,770	-	397,770	409,270
Investment income, net	432,434	-	432,434	226,222
Special events	161,629	-	161,629	162,789
Miscellaneous	171,322	-	171,322	26,701
Gain/(loss) on disposal of equipment	46,630	-	46,630	(96,155)
	<u>220,492,775</u>	<u>52,328</u>	<u>220,545,103</u>	<u>141,496,600</u>
Net assets released from restrictions	<u>32,143</u>	<u>(32,143)</u>	<u>-</u>	<u>-</u>
Total revenues, gains and other support	<u>220,524,918</u>	<u>20,185</u>	<u>220,545,103</u>	<u>141,496,600</u>
Less direct allocations for self directed services	<u>(180,211,769)</u>	<u>-</u>	<u>(180,211,769)</u>	<u>(109,359,363)</u>
Net revenue	40,313,149	20,185	40,333,334	32,137,237
EXPENSES				
Program services				
Arc- facilitated services	22,273,414	-	22,273,414	17,408,990
Self-Directed Services	7,938,232	-	7,938,232	6,025,862
Chesapeake neighbors	<u>2,522,733</u>	<u>-</u>	<u>2,522,733</u>	<u>2,492,763</u>
Total program services	<u>32,734,379</u>	<u>-</u>	<u>32,734,379</u>	<u>25,927,615</u>
Supporting services				
Management and general	4,614,211	-	4,614,211	4,525,462
Fundraising	<u>1,176,210</u>	<u>-</u>	<u>1,176,210</u>	<u>995,652</u>
Total supporting services	<u>5,790,421</u>	<u>-</u>	<u>5,790,421</u>	<u>5,521,114</u>
Total expenses	<u>38,524,800</u>	<u>-</u>	<u>38,524,800</u>	<u>31,448,729</u>
Change in net assets	1,788,349	20,185	1,808,534	688,508
NET ASSETS AT BEGINNING OF YEAR	<u>9,950,527</u>	<u>840,345</u>	<u>10,790,872</u>	<u>10,102,364</u>
NET ASSETS AT END OF YEAR	<u>\$ 11,738,876</u>	<u>\$ 860,530</u>	<u>\$ 12,599,406</u>	<u>\$ 10,790,872</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, 2023
With Summarized Financial Information for the Year Ended June 30, 2022

	Program Services			Supporting Services			Total	
	Arc-Facilitated Services	Self-Directed Services	Chesapeake Neighbors	Total Program Services	Management and General	Fundraising	2023	2022
Salaries	\$14,731,341	\$2,381,529	\$380,511	\$ 17,493,381	\$1,579,902	\$450,014	\$ 19,523,297	\$15,004,910
Fringe benefits	2,825,441	541,580	76,444	3,443,465	316,392	53,322	3,813,179	3,524,138
Payroll taxes	1,171,203	184,818	33,622	1,389,643	149,581	33,821	1,573,045	1,217,786
Total salaries and related expenses	18,727,985	3,107,927	490,577	22,326,489	2,045,875	537,157	24,909,521	19,746,834
Contract services	141,374	2,811,723	105,015	3,058,112	541,990	154,445	3,754,547	3,380,202
Depreciation & amortization	689,571	9,454	636,906	1,335,931	324,667	10,000	1,670,598	1,275,123
Program expenses	1,170,234	156,475	9,697	1,336,406	95,618	221,449	1,653,473	872,103
Interest	322,975	629,335	460,456	1,412,766	74,633	-	1,487,399	627,312
Small equipment and furniture	112,014	313,306	6,419	431,739	264,208	10,494	706,441	352,986
Insurance	171,962	142,391	91,903	406,256	254,102	10,000	670,358	792,998
Repairs and maintenance	71,661	-	349,973	421,634	97,805	258	519,697	1,285,805
Bad Debt expense	-	485,927	-	485,927	-	-	485,927	-
Staff development	119,587	19,207	46,015	184,809	100,604	12,434	297,847	291,471
Travel and lodging	165,600	21,933	25,670	213,203	61,155	4,503	278,861	168,324
Advertising	11,615	7,380	7,924	26,919	151,690	96,474	275,083	690,119
Utilities	6,265	-	200,416	206,681	60,411	-	267,092	263,212
Supplies	90,262	60,954	15,561	166,777	57,863	39,261	263,901	297,459
Food and housekeeping	114,256	25,116	8,783	148,155	66,574	8,857	223,586	49,733
Rent	133,751	12,000	500	146,251	72,100	-	218,351	135,300
Dues and subscriptions	5,228	21,221	3,748	30,197	124,041	41,797	196,035	170,453
Legal and accounting	-	27,315	27,569	54,884	107,928	150	162,962	762,207
Telephone	78,125	33,448	8,661	120,234	19,896	1,437	141,567	102,566
Reimbursements	116,942	7,399	88	124,429	9,711	5,383	139,523	54,861
Miscellaneous	16,415	45,721	2,403	64,539	35,124	18,104	117,767	87,645
Taxes and assessments	379	-	24,349	24,728	27,275	-	52,003	19,768
Conventions	1,185	-	-	1,185	20,941	4,007	26,133	16,245
Condo fees	6,028	-	100	6,128	-	-	6,128	6,003
Total expenses	\$ 22,273,414	\$ 7,938,232	\$ 2,522,733	\$ 32,734,379	\$ 4,614,211	\$ 1,176,210	\$ 38,524,800	\$ 31,448,729

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, 2023

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,808,534	\$ 688,508
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,684,026	1,275,123
Amortization of debt issuance costs	8,792	6,711
Amortization of loan discount	2,206	(5,647)
Unrealized (gain)/loss on investments	(16,932)	16,937
(Gain)/loss on disposal of equipment	(46,630)	96,155
(Increase) decrease in operating assets:		
Accounts receivable and Due from State of Maryland	(28,565,237)	2,256,500
Unconditional promises to give	(35,510)	(222,404)
Prepaid expenses	(133,267)	(19,079)
Security deposits and escrows	(45,816)	(83,277)
Other assets	134,000	(1,467)
Increase (decrease) in operating liabilities:		
Accounts payable, trade and due to State of Maryland	3,725,254	4,325,653
Accrued salaries, vacation, and related taxes	3,348,485	2,906,992
Rep Payee Funds	(28,819)	48,595
Deferred revenue	-	-
Net cash provided by operating activities	(18,160,914)	11,289,300
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments and reinvested earnings	(35,531)	(3,787)
Sale of investments	519,968	-
Purchase of property and equipment	(5,013,532)	(4,624,853)
Proceeds from sale of property and equipment	90,846	99,871
Net cash used in investing activities	(4,438,249)	(4,528,769)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on capital lease	(460,091)	(365,828)
Proceeds from lines of credit	21,600,000	-
Proceeds from mortgages and notes payable	1,400,000	1,532,000
Principal payments on mortgages and notes payable	(1,837,937)	(323,888)
Net cash provided by (used in) financing activities	20,701,972	842,284
Net change in cash and cash equivalents	(1,897,191)	7,602,815
Cash and cash equivalents at beginning of year	11,704,123	4,101,308
Cash and cash equivalents at end of year	\$ 9,806,932	\$ 11,704,123
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the year for interest	\$ 1,485,310	\$ 620,601
Noncash investing and financing activities:		
Acquisition of property and equipment	\$ 8,288,120	\$ 3,155,042
Less: amount financed	(3,274,588)	(474,377)
Cash paid for property and equipment	\$ 5,013,532	\$ 2,680,665
Recognition of right of uses asset under ASU 2016-02 "Leases"	\$ 4,173,774	\$ -
Recognition of operating lease liability asset under ASU 2016-02 "Leases"	\$ 4,236,886	\$ -

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, 2023

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 mission is to support people with intellectual and developmental disabilities to live the lives they choose by creating opportunities, promoting respect and equity, and providing access to services. 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.

The association is also one of the State of Maryland Fiscal Management Service (FMS) providers tasked with administrating the self-directed funding for individuals with developmental disabilities and their families. Under the FMS program the Association administered a total annual budget of approximately \$109 million for 1746 individuals during the year ended June 30, 2022.

Consolidation of Related Entities

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, 2023 and 2022. *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 2007 and obtained tax-exempt status during fiscal year 2010 to provide housing to people who are housing insecure and lack access to quality, affordable housing, including people with disabilities. Chesapeake Community Development, LLC was formed in 2021 whose primary purpose is to support community development efforts towards The Arc of the Central Chesapeake Region, Inc. and Chesapeake Neighbors, LLC. Chesapeake Neighbors, LLC and Chesapeake Community Development, LLC are wholly owned, limited liability company subsidiaries and qualify as related entities 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 all 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.

The Arc of the Central Chesapeake Region, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
June 30, 2023

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

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.

Basis of Presentation

The Association reports information regarding its consolidated 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, 2022, from which the summarized information was derived.

Revenue Recognition – Contributions and Grants

Contributions received are recorded as support with donor restrictions or support without 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.

The Arc of the Central Chesapeake Region, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
June 30, 2023

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

Revenue Recognition – Contributions and Grants (Cont.)

Grants are reported as revenue based on the terms and conditions of each specific grant agreement with the grantor. Grants that are earned based on the expenditure of specific expenses are recorded as revenue when the expenses are incurred and the Association has an unconditional right to the grant funds. Unexpended grant awards under these arrangements are classified as deferred revenue in the statement of financial position until they are earned. Grants that are received with grantor restrictions or stipulations regarding the use of the grant funds are classified as grants with donor restrictions. When a grantor restriction expires, that is, when the restriction is met, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor-restricted grants whose restrictions are met in the same year are reported as support without donor restrictions. Unexpended grant awards are classified as refundable advances until expended for the purposes of the grants since they are considered conditional promises to give. If funds are received prior to satisfying the condition, they are recorded as deferred revenue.

Revenue Recognition – Program Service Fees and Client Fees

The Association offers a robust portfolio of services to people with intellectual and developmental disabilities. These services are funded primarily by the Maryland Department of Health, Developmental Disabilities Administration (DDA). Program service revenue for DDA is reported at the amount that reflects the consideration to which the Association expects to be entitled in exchange for providing services. DDA revenue is recognized at the point in time at which performance obligations are satisfied. The point in time at which performance obligations are satisfied is based on the provision of services on a daily or quarter-hour basis, as prescribed by DDA program regulations. Revenue is recorded based on daily or quarter-hour reimbursement rates established and approved by DDA.

The Association receives advance payments from DDA on a quarterly basis, which are subsequently reconciled to actual amounts earned. Any amounts due to or from DDA upon reconciliation are adjusted by an increase or decrease in future quarterly advances. During the year ending June 30, 2021, DDA converted the personal supports and supported living programs from the advance payment method to a reimbursement method. During the year ending June 30, 2022, the Association also converted the residential, day, community learning, and supported employment programs to the reimbursement method. As such, revenue under these programs is now reimbursed by DDA approximately 2 to 4 weeks after billing.

Behavioral support services are billed to DDA on a monthly basis based on the number of hours served at reimbursement rates established and approved by DDA. There is generally a lag in reimbursement from DDA, as it can take approximately two months to receive payment.

The Arc of the Central Chesapeake Region, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
June 30, 2023

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

Revenue Recognition – Program Service Fees and Client Fees (Cont.)

The Association acts as the fiscal agent for individuals receiving self-directed funding under Self-Directed Services. The Association is paid an administrative fee to handle the accounting, payroll and accounts payable processing, Medicaid billing, and other related services on behalf of participants. The total Self-Directed Services revenue is netted with these expenses on the Statement of Activities.

The Association also receives monthly payments of section 8 revenue through the Housing Commission of Anne Arundel County and the Housing Authority of the City of Annapolis. Revenue is recognized on a monthly basis based on the number of eligible consumers at rates established and approved by the U.S. Department of Housing and Urban Development (HUD).

The Association collects fees for room and board and contribution to care from people served in a licensed group home in the Association’s Living Options & Services. Fee revenue is recognized at the point in time at which performance obligations are satisfied. The point in time at which performance obligations are satisfied is based on the provision of services on a monthly basis. The monthly reimbursement rate is determined for each person based on rates set by the State of Maryland.

Program service revenue recognized for DDA related programs for the years ending June 30, 2023 and 2022 is as follow:

Service Type	Mesurement Period for Performance Obligations	Revenue Recognized June 30, 2023	Revenue Recognized June 30, 2022
Self Directions Waiver	Hourly/Annual	\$ 190,854,550	\$ 118,353,264
DDA Services:			
Community Living services	Daily/Quarter-Hour	12,922,629	11,644,306
Day services	Daily/Quarter-Hour	840,429	1,359,477
Community Learning services	Daily/Quarter-Hour	2,800,256	174,460
Personal Support services	Quarter-Hour	3,526,521	2,657,653
Supported Employment services	Daily/Quarter-Hour	553,923	649,927
Supported Living services	Daily/Quarter-Hour	5,408,573	3,890,116
Behavioral Support services	Quarter-Hour	281,516	165,825
Supplemental Respite services	Quarter hour - hour Daily	506,756 -	253,896 53,764
Total DDA services		\$ 26,840,603	\$ 20,849,424
Contribution to care fees	Monthly	\$ 397,770	\$ 409,270
Rental subsidy	Monthly	\$ 507,468	\$ 396,766

The Arc of the Central Chesapeake Region, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
June 30, 2023

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

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.

At June 30, 2023 and 2022, 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.

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, 2023 and 2022, the balance in the allowance for doubtful accounts was \$485,927 and \$3,118, respectively.

Unconditional Promises to Give

Unconditional promises to give are recognized as revenue in the period received. Unconditional promises to give receivable in a future period are discounted to their net present value at the time the revenue is recorded. Provisions are made for uncollectible accounts based on anticipated collection losses. Estimated losses are generally determined from historical collection experience and a review of outstanding unconditional promises to give. Unconditional promises to give are written off by management when, in their determination, all appropriate collection efforts have been taken. There was no allowance for uncollectible promises to give at June 30, 2023 and 2022 as management has deemed all balances to be collectible.

Property and Equipment

Property and equipment acquisitions in excess of \$5,000 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.

The Arc of the Central Chesapeake Region, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
June 30, 2023

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

Use of Estimates

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

Allocation of Functional Expenses

Accounting principles generally accepted in the United States of America require all 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 subsidiaries, Chesapeake Neighbors, LLC and Chesapeake Community Development, 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, 2023 and 2022 as the Association has 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.

Advertising

The Association's policy is to expense advertising costs when incurred. The Association's advertising costs directly support the recruitment of Direct Support Professionals, who provide services and supports to people with intellectual and developmental disabilities. Total advertising costs incurred for employee recruitment for the years ended June 30, 2023 and 2022 were \$275,083 and \$690,119, respectively.

The Arc of the Central Chesapeake Region, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
June 30, 2023

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

Contributions of Nonfinancial Assets

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, 2023 and 2022.

Donated materials and rent are included in the accompanying consolidated statements at their estimated fair market values at the date of receipt.

Reclassifications

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

New Accounting Pronouncement

On July 1, 2022, the Organization adopted *ASU 2016-02, "Leases" (Topic 842)* along with various practical expedients allowed by the Organization under the standard, which requires lessees to recognize leases on the statement of financial position and disclose key information about leasing arrangements. The new standard establishes a right-of-use model that requires a lessee to recognize a right of use asset and lease liability on the statement of financial position for all leases with a term longer than 12 months. Leases will be classified as financing or operating. Financing leases are expensed through interest and amortization expense and operating leases are expensed through rent expense in the statement of activities.

The Organization adopted *ASU 2016-02* using a modified retrospective approach – Effective Date Method. The Effective Date Method does not reassess at adoption (i) expired or existing contracts as to whether they are or contain a lease, (ii) the lease classification of any existing leases, or (iii) initial indirect cost for existing leases. The Organization also elected the practical expedient that allows lessees to choose to not separate lease and non-lease components by class of underlying assets and are applying this expedient to all relevant asset classes. *ASU 2016-02* has been applied to the financial statements of the Organization as of July 1, 2022, and no changes have been made to the financial statements for the year ending June 30, 2022.

The Arc of the Central Chesapeake Region, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
June 30, 2023

Note 2 - Availability & Liquidity

	2023	2022
Financial assets at year end:		
Cash and cash equivalents	\$ 9,806,932	\$ 11,704,123
Investments	1,461,786	1,929,408
Due from State of Maryland	1,741,950	2,741,650
Accounts receivable, other	29,844,998	154,640
Accounts receivable, clients, net	177,848	303,269
Unconditional promises to give, net of discount	713,368	677,858
Total financial assets	43,746,882	17,510,948
Less amounts not available to be used within one year:		
Net assets with donor restrictions	1,018,176	840,345
Rep Payee Funds	127,845	156,664
Financial assets available to meet general expenditures over the next twelve months	\$42,600,861	\$ 16,513,939

The Association's goal is to establish at least 3 months of average recurring operating costs in available liquidity (approximately \$7.9 million at June 30, 2023). 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 \$10.1 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.

The Arc of the Central Chesapeake Region, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
June 30, 2023

Note 3 - Investments

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

	2023		
	Cost Basis	Fair Market Value	Unrealized Gain
Investments - brokerage account			
Money market funds	\$ 1,255,016	\$ 1,255,016	\$ -
Certificates of deposit	206,887	206,887	-
Equities	-	-	-
Total investments	<u>\$ 1,461,903</u>	<u>\$ 1,461,903</u>	<u>\$ -</u>
	2022		
	Cost Basis	Fair Market Value	Unrealized Gain
Investments - brokerage account			
Money market funds	\$ 1,350,958	\$ 1,350,958	\$ -
Certificates of deposit	468,328	468,328	-
Equities	27,047	110,122	83,075
Total investments	<u>\$ 1,846,333</u>	<u>\$ 1,929,408</u>	<u>\$ 83,075</u>

Note 4 - Fair Value Measurement

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

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

The Arc of the Central Chesapeake Region, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
June 30, 2023

Note 4 - Fair Value Measurement (Cont.)

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 money market funds held in brokerage accounts, equities, and certificates of deposit held in a brokerage account.

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, 2023</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 1,255,016	\$ -	\$ -	\$ 1,255,016
Certificates of deposit	206,887	-	-	206,887
Total	<u>\$ 1,461,903</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,461,903</u>
<u>June 30, 2022</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 1,350,958	\$ -	\$ -	\$ 1,350,958
Certificates of deposit	468,328	-	-	468,328
Equity securities	110,122	-	-	110,122
Total	<u>\$ 1,929,408</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,929,408</u>

The Arc of the Central Chesapeake Region, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
June 30, 2023

Note 5 - 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 in Annapolis. 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, with the Association assuming responsibility for all capital improvements and ongoing maintenance, 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.

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

	<u>2023</u>	<u>2022</u>
Receivable in less than one year	\$ 153,079	\$ 143,410
Receivable in one to five years	373,058	311,782
Receivable in more than five years	<u>241,250</u>	<u>279,350</u>
Total unconditional promises to give	767,387	734,542
Less: discount to net present value	(54,019)	(56,684)
Less: current portion	<u>(153,079)</u>	<u>(143,410)</u>
Unconditional promises to give, long-term	<u><u>\$ 560,289</u></u>	<u><u>\$ 534,448</u></u>

The Arc of the Central Chesapeake Region, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
June 30, 2023

Note 6 - Property and Equipment

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

	Estimated Useful Lives	2023	2022
Land	-	\$ 6,811,015	\$ 6,099,687
Building and improvements	5-31 years	26,582,134	21,668,252
Leasehold improvements	1-10 years	523,296	592,752
Furniture, fixtures and equipment	5-20 years	2,183,047	1,554,768
Vehicles	2-5 years	1,789,170	2,376,027
Right of use asset- financed lease	5 years	1,890,296	-
Construction in progress	-	735,675	242,910
		40,514,633	32,534,396
Less: accumulated depreciation		(9,890,209)	(8,578,221)
		<u>\$ 30,624,424</u>	<u>\$ 23,956,175</u>

Depreciation was \$1,684,026 and \$1,275,123 for the years ended June 30, 2023 and 2022, respectively.

Note 7 - 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, 2023 and 2022, the Association has recorded a participation liability of \$86,397 and \$52,711, respectively and a related mortgage loan discount of \$74,705 and \$43,108, 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 Arc of the Central Chesapeake Region, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
June 30, 2023

Note 7 - Mortgages and Notes Payable (Cont.)

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.

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

	2023	2022
<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 \$2,335 include principal and interest ranging between 4.75% - 5.00%. The mortgages are for 30 years and mature between September 2023 and July 2047. The mortgages are secured by residential properties.	\$ 257,882	\$ 268,508
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 September 2029 and August 2049. The mortgages are secured by residential properties.	2,738,165	2,721,929
<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 \$71,479 include principal and interest ranging between 0.00% - 6.96%. The mortgages are for 30 years and mature between March 2038 and October 2053. The mortgages are secured by residential properties.	11,398,204	9,788,906
Total mortgages and notes payable	14,394,251	12,779,343
Less: debt issuance cost, net of amortization	(70,839)	(77,542)
Less: discount	(74,705)	(43,108)
Less: current maturities	(360,710)	(327,142)
Long-term portion of mortgages and notes payables	\$ 13,887,997	\$ 12,331,551

The Arc of the Central Chesapeake Region, Inc.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
 June 30, 2023

Note 7 - Mortgages and Notes Payable (Cont.)

Mortgage and notes payable at June 30, 2023 and 2022 is shown net of unamortized debt issuance cost of \$57,410 and \$37,542 respectively. Amortization expense on debt issuance costs was \$6,704 and \$6,711, for years ended June 30, 2023 and 2022, respectively, and is included in interest expense.

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

<u>Year Ending June 30</u>	
2024	\$ 356,567
2025	378,005
2026	394,034
2027	412,070
2028	417,490
Thereafter	<u>12,436,085</u>
	<u><u>\$ 14,394,251</u></u>

Interest expense, including amortization of debt issuance costs, for the years ended June 30, 2023 and 2022 was \$1,494,102 and \$627,312, respectively.

Note 8 - Line of Credit

In 2023, the Organization obtained a line of credit with a bank, secured by the Association's accounts receivables, with a maximum borrowing potential of \$23,000,000. 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. Outstanding draws on the lines of credit at June 30, 2023 were \$21,600,000 and \$-0-, respectively.

Note 9 - Compensated Absences

The Organization changed its vacation policy during the year ended June 30, 2023 where vacation does not get paid out upon termination of employment, therefore no accrual for compensated absences was reported at June 30, 2023. At June 30, 2022, there were \$324,158, of vacation benefits due to employees.

The Arc of the Central Chesapeake Region, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
June 30, 2023

Note 10 - Finance lease obligations

The Association entered into capital lease agreements for 79 vehicles. The term of the vehicle lease agreements are for 60 months. At June 30, 2023 and 2022 the aggregate monthly payments for the vehicles were \$55,679 and \$37,516, respectively. Interest rates on the capital leases range from 5.90% to 9.3%. Amortization attributable to finance leases for the years ended June 30, 2023 and 2022 amounted to \$412,167 and \$328,664 respectively, and is included in depreciation and amortization on the statement of functional expenses.

The weighted average remaining lease term on the leases was 44.2 months and the weighted average interest rate of the leases was 7.5% at June 30, 2023,

Future minimum lease payments are as follows:

Year Ending June 30	
2024	\$ 460,091
2025	438,179
2026	432,969
2027	414,142
2028	355,779
	2,101,160
Less: amounts representing interest	(294,274)
Present value of future minimum lease payments (including current portion of \$326,147)	\$ 1,806,886

Note 11 - Lease liability – 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 2025 through 2039. The Organization also entered into a ten year lease for office space during the year ended June 30, 2023. The lease increases on the anniversary of the signing of the lease.

The Organization has recognized an operating right of use asset in exchange for an operating lease liability, initially measured at the present value of the lease payments in the consolidated statement of financial position. The Organization used the risk free rate of return (discount rate) at the adoption date of *ASU 2016-02* to calculate present value of the lease payments. The present value of the operating lease right of use asset for the year ended June 30, 2023 amounted to \$4,063,314. The operating lease liability for the year ended June 30, 2023 amounted to \$4,147,291.

The Arc of the Central Chesapeake Region, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
June 30, 2023

Note 11 – Lease liability – operating lease

The weighted average of the remaining lease term was 120 months and the weighted average interest rate at June 30, 2023 was 5.8%. The components of lease costs included in rent in the statement of financial position for the year ended June 30, 2023 is as follows:

Operating lease costs	\$ 83,977
Donated lease expense	38,100
Short term operating lease costs	<u>96,274</u>
Total lease costs	<u><u>\$ 218,351</u></u>

Future minimum lease payments under these leases are as follows:

<u>Year Ending June 30</u>	
2023	\$ 474,881
2024	557,985
2025	571,935
2026	585,041
2027	599,667
Thereafter	<u>3,332,108</u>
Future minimum lease payment	<u><u>\$6,121,617</u></u>

Note 12 - Contributions of Nonfinancial Assets

Contributions of nonfinancial assets consisted of the following for the years ended June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Auction Items	\$ 40,004	\$ 10,382
Vehicles	<u>-</u>	<u>2,603</u>
	<u><u>\$ 40,004</u></u>	<u><u>\$ 12,985</u></u>

The Association's general practice is to utilize donated items to support the Association's overall purpose. Donated vehicles are generally monetized, depending upon current market conditions. In fiscal year 2022, the donated vehicles were monetized and donated auction items were utilized for the Association's overall purpose. Donated nonfinancial assets had no donor restrictions for the years ended June 30, 2023 and 2022.

The Arc of the Central Chesapeake Region, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
June 30, 2023

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 \$469,327 and \$413,113 for the years ended June 30, 2023 and 2022, respectively, and is included in fringe benefits in the statement of functional expenses.

Note 14 - 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.

Additionally, during 1993, the Association received a grant 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. The components of lease expense for the year ended June 30, 2023 included in rent expense in the statement of functional expense is as follows:

The Arc of the Central Chesapeake Region, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
June 30, 2023

Note 15 - Net Assets With Donor Restrictions

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

	2023	2022
Donated long-term leases (Note 6)	\$ 391,662	\$ 423,805
Capital campaign	330,980	278,652
Professional development	105,000	105,000
Holiday giving	22,764	22,764
Family fund	10,124	10,124
	\$ 860,530	\$ 840,345

Note 16 - 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 17 - Subsequent Events

The Association has evaluated the impact of significant subsequent events and there have been no subsequent events through January 3, 2024 the date the financial statements were available to be issued, that required recognition or disclosure.