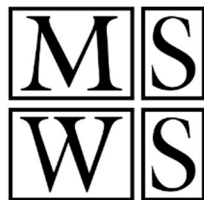


**THE ARC OF THE CENTRAL
CHESAPEAKE REGION, INC.
CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024**

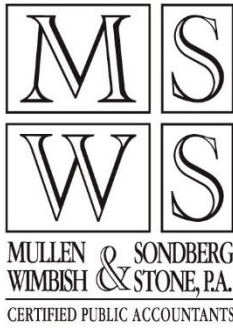


MULLEN SONDBERG WIMBISH & STONE, PA

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.
Linthicum Heights, 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, 2024, 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, 2024, 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 2023 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated January 3, 2024. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2023, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

In accordance with *Government Auditing Standards*, we have also issued our report dated, January 9, 2025, on our consideration of The Arc of the Central Chesapeake Region, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of The Arc of the Central Chesapeake Region, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Arc of the Central Chesapeake Region, Inc.'s internal control over financial reporting and compliance.



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

Annapolis, Maryland
January 9, 2025

The Arc of the Central Chesapeake Region, Inc.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2024

ASSETS		
	2024	2023
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,765,107	\$ 9,806,932
Investments	1,321,107	1,461,786
Due from State of Maryland	2,522,531	2,679,816
Accounts receivable FMS, net of allowance	33,803,156	29,844,998
Accounts receivable, other net of allowance	808,194	177,848
Unconditional promises to give	695,322	153,079
Prepaid expenses	568,770	424,840
Total current assets	43,484,187	44,549,299
PROPERTY AND EQUIPMENT		
Net of accumulated depreciation	37,280,247	28,734,128
OTHER ASSETS		
Investment - Community foundation	25,000	-
Unconditional promises to give, net of discount	526,455	560,289
Security deposits and escrows	460,159	426,493
Right of use assets - operating leases	3,517,677	4,063,314
Right of use assets - finance leases	2,834,962	1,890,296
Total other assets	7,364,253	6,940,392
Total assets	\$ 88,128,687	\$ 80,223,819
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable, trade	\$ 6,845,118	\$ 4,854,704
Line of credit	8,000,000	21,600,000
Due to State of Maryland	9,247,850	9,698,832
Accrued salaries and related expenses	16,410,044	10,636,255
Rep payee funds	99,201	127,845
Finance lease liabilities, current	668,856	460,091
Operating lease liabilities, current	319,743	474,880
Mortgages and notes payable	874,733	360,710
Total current liabilities	42,465,545	48,213,317
LONG-TERM LIABILITIES		
Due to State of Maryland	122,809	307,036
Finance lease liabilities, long-term	2,721,308	1,457,255
Mortgages and notes payable, net of debt issuance costs	18,802,612	13,887,997
Operating lease liabilities, long-term	3,979,386	3,672,411
Participation liability	87,523	86,397
Total long-term liabilities	25,713,638	19,411,096
Total liabilities	68,179,183	67,624,413
NET ASSETS		
Without donor restrictions	18,581,932	11,738,876
With donor restrictions	1,367,572	860,530
Total net assets	19,949,504	12,599,406
Total liabilities and net assets	\$ 88,128,687	\$ 80,223,819

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, 2024

With Summarized Financial Information for the Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total	
			2024	2023
REVENUES, GAINS AND OTHER SUPPORT				
Self Direction Waiver revenue	\$ 276,569,601	\$ -	\$ 276,569,601	\$ 190,854,550
Program service fees	32,242,876	-	32,242,876	27,005,285
Contributions and fundraising	3,642,109	572,485	4,214,594	339,104
Government and private grants	1,437,135	-	1,437,135	588,907
Rental subsidy	758,325	-	758,325	507,468
Investment income, net	613,880	-	613,880	432,434
Contribution to care fees	408,350	-	408,350	397,770
Special events	134,454	-	134,454	161,629
Contributions - nonfinancial assets	68,255	-	68,255	40,004
Gain on disposal of equipment	27,421	-	27,421	46,630
Miscellaneous	25,469	-	25,469	171,322
	<u>315,927,875</u>	<u>572,485</u>	<u>316,500,360</u>	<u>220,545,103</u>
Net assets released from restrictions	65,443	(65,443)	-	-
Total revenues, gains and other support	<u>315,993,318</u>	<u>507,042</u>	<u>316,500,360</u>	<u>220,545,103</u>
Less direct allocations for self directed services	<u>(257,321,256)</u>	<u>-</u>	<u>(257,321,256)</u>	<u>(180,211,769)</u>
Net revenue	58,672,062	507,042	59,179,104	40,333,334
EXPENSES				
Program services				
Arc- facilitated services	31,717,881	-	31,717,881	22,273,414
Self-Directed Services	10,587,918	-	10,587,918	7,938,232
Chesapeake neighbors	3,101,407	-	3,101,407	2,522,733
Total program services	<u>45,407,206</u>	<u>-</u>	<u>45,407,206</u>	<u>32,734,379</u>
Supporting services				
Management and general	5,398,687	-	5,398,687	4,614,211
Fundraising	1,023,113	-	1,023,113	1,176,210
Total supporting services	<u>6,421,800</u>	<u>-</u>	<u>6,421,800</u>	<u>5,790,421</u>
Total expenses	<u>51,829,006</u>	<u>-</u>	<u>51,829,006</u>	<u>38,524,800</u>
Change in net assets	6,843,056	507,042	7,350,098	1,808,534
NET ASSETS AT BEGINNING OF YEAR	<u>11,738,876</u>	<u>860,530</u>	<u>12,599,406</u>	<u>10,790,872</u>
NET ASSETS AT END OF YEAR	<u>\$ 18,581,932</u>	<u>\$ 1,367,572</u>	<u>\$ 19,949,504</u>	<u>\$ 12,599,406</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, 2024
With Summarized Financial Information for the Year Ended June 30, 2023

	Program Services			Supporting Services		Total		
	Arc-Facilitated Services	Self-Directed Services	Chesapeake Neighbors	Total Program Services	Management and General	Fundraising	2024	2023
Salaries	\$ 20,972,630	\$ 3,928,506	\$ 486,564	\$ 25,387,700	\$ 2,009,276	\$ 572,288	\$ 27,969,264	\$ 19,523,297
Fringe benefits	2,500,210	294,862	73,730	2,868,802	394,965	56,209	3,319,976	3,813,179
Payroll taxes	1,542,246	255,976	40,071	1,838,293	168,647	41,993	2,048,933	1,573,045
Total salaries and related expenses	25,015,086	4,479,344	600,365	30,094,795	2,572,888	670,490	33,338,173	24,909,521
Interest	330,413	1,485,689	688,391	2,504,493	157,411	-	2,661,904	1,494,102
Depreciation & amortization	1,114,382	256,572	728,196	2,099,150	210,279	-	2,309,429	1,684,026
Contract services	759,460	836,170	178,555	1,774,185	239,124	120,948	2,134,257	1,424,901
Insurance	849,126	1,060,057	11,481	1,920,664	121,135	-	2,041,799	670,358
Program expenses	1,279,217	3,567	998	1,283,782	112,904	37,068	1,433,754	1,633,342
Small equipment and furniture	376,258	534,802	791	911,851	263,378	13,648	1,188,877	706,441
Legal and accounting	81,682	921,787	27,563	1,031,032	65,929	122	1,097,083	2,492,608
Repairs and maintenance	147,670	265	473,269	621,204	287,434	314	908,952	519,697
Rent	113,912	8,000	-	121,912	737,531	-	859,443	218,351
Bad Debt expense	977	800,000	-	800,977	-	-	800,977	485,927
Food and housekeeping	412,778	83	-	412,861	1,083	42	413,986	223,586
Advertising	179,183	1,276	8,167	188,626	85,663	83,038	357,327	275,083
Utilities	11,851	-	256,359	268,210	72,761	-	340,971	267,092
Staff development	294,673	6,608	1,414	302,695	16,932	16,462	336,089	297,847
Supplies	34,084	95,149	22,519	151,752	151,130	18,305	321,187	263,901
Dues and subscriptions	58,314	36,082	9,708	104,104	170,264	26,544	300,912	196,035
Travel and lodging	208,666	15,261	34,776	258,703	27,747	10,375	296,825	278,861
Miscellaneous	168,425	24,239	29,385	222,049	64,309	122	286,480	117,767
Reimbursements	163,953	11,797	107	175,857	7,376	9,217	192,450	139,523
Conventions	81,602	391	-	81,993	-	16,331	98,324	26,133
Telephone	26,804	10,779	5,883	43,466	33,409	-	76,875	141,567
Taxes and assessments	7,309	-	17,610	24,919	-	87	25,006	52,003
Condo fees	2,056	-	5,870	7,926	-	-	7,926	6,128
Total expenses	\$ 31,717,881	\$ 10,587,918	\$ 3,101,407	\$ 45,407,206	\$ 5,398,687	\$ 1,023,113	\$ 51,829,006	\$ 38,524,800

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, 2024

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 7,350,098	\$ 1,808,534
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,309,429	1,684,026
Amortization of debt issuance costs	15,180	8,792
Amortization of loan discount	2,748	2,206
Unrealized (gain)/loss on investments	48	(16,932)
Gain on disposal of equipment	(27,421)	(46,630)
(Increase) decrease in operating assets:		
Accounts receivable and Due from State of Maryland	(4,431,219)	(29,464,562)
Unconditional promises to give	(508,409)	(35,510)
Prepaid expenses	(143,930)	(133,267)
Security deposits and escrows	(33,666)	(45,816)
Right of use assets - operating leases	545,637	(4,063,314)
Other assets	-	134,000
Increase (decrease) in operating liabilities:		
Accounts payable, trade and due to State of Maryland	1,355,205	4,624,579
Accrued salaries, vacation, and related taxes	5,773,789	3,348,485
Rep payee funds	(28,644)	(28,819)
Operating lease liabilities	151,838	4,147,291
Deferred revenue	-	-
Net cash provided by (used in) operating activities	12,330,683	(18,076,937)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments and reinvested earnings	(91,091)	(35,531)
Sale of investments	206,722	519,968
Purchase of property and equipment	(2,819,027)	(5,013,532)
Proceeds from sale of property and equipment	18,458	99,871
Net cash used in investing activities	(2,684,938)	(4,429,224)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on finance lease	(620,349)	(553,093)
Proceeds from line of credit	-	21,600,000
Payments of line of credit	(13,600,000)	-
Proceeds from mortgages and notes payable	-	1,400,000
Principal payments on mortgages and notes payable	(1,467,221)	(1,837,937)
Net cash provided by (used in) financing activities	(15,687,570)	20,608,970
Net change in cash and cash equivalents	(6,041,825)	(1,897,191)
Cash and cash equivalents at beginning of year	9,806,932	11,704,123
Cash and cash equivalents at end of year	\$ 3,765,107	\$ 9,806,932
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the year for interest	\$ 2,646,724	\$ 1,485,310
Noncash investing and financing activities:		
Acquisition of property and equipment	\$ 9,785,011	\$ 8,288,120
Less: amount financed	(6,965,984)	(3,274,588)
Cash paid for property and equipment	\$ 2,819,027	\$ 5,013,532
Recognition of right of use assets under ASU 2016-02 "Leases"	\$ -	\$ 4,063,314
Recognition of operating lease liability under ASU 2016-02 "Leases"	\$ -	\$ 4,147,291
Right of use assets received in exchange for new finance lease liabilities	\$ 1,031,816	\$ -

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, 2024

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, 2024 and 2023. *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, 2024

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, 2023, 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, 2024

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. Revenue under these services is paid on a reimbursement method, and is reimbursed by DDA approximately 2 to 4 weeks after billing.

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 Arc of the Central Chesapeake Region, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
June 30, 2024

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

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

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.

Fee for service revenue recognized for DDA related programs for the years ending June 30, 2024 and 2023 is as follow:

Service Type	Measurement Period for Performance Obligations	Revenue Recognized June 30, 2024	Revenue Recognized June 30, 2023
Self Directions Waiver	Quarter-hour	\$ 276,569,601	\$ 190,854,550
DDA Services:			
Community Living services	Daily/Quarter-Hour	13,367,682	12,922,629
Day services	Quarter-Hour	171,650	844,429
Community Learning services	Quarter-Hour	5,530,395	2,800,256
Personal Support services	Quarter-Hour	4,987,580	3,501,424
Supported Employment services	Quarter-Hour	818,506	575,020
Supported Living services	Daily/Quarter-Hour	6,604,386	5,408,573
Behavioral Support services	Quarter-Hour	343,707	281,516
Supplemental	Quarter-Hour	226,789	506,756
Shared living	Daily	192,181	164,682
Total DDA services		\$ 32,242,876	\$ 27,005,285
Contribution to care fees	Monthly	\$ 408,350	\$ 397,770
Rental subsidy	Monthly	\$ 758,325	\$ 507,468

The Arc of the Central Chesapeake Region, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
June 30, 2024

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, 2024 and 2023, 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. Management determines the allowance for credit losses based upon prior experience, current economic conditions, and its assessment of the collectability of specific accounts.. Accounts receivable balances are charged against the reserve in the period management determines them to be uncollectible. As of June 30, 2024 and 2023, the balance in the allowance for doubtful accounts was \$1,285,927 and \$485,927, 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, 2024 and 2023 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, 2024

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.

Accounts Receivable and Allowance for Credit Losses

Accounts receivable mainly consist of receivables from the State of Maryland and the federal government for services provided by program activities. The allowance for credit losses is based on the Organization's assessment of the collectability of accounts receivable. The Arc makes ongoing estimates related to the collectability of accounts receivable and records an allowance for estimated losses expected from the inability of program recipients to make required payments. The Center establishes expected credit losses by evaluating historical levels of credit loss, current economic conditions that may affect ability to pay, and credit worthiness of significant balances. Due to the credit worthiness of federal, state and local governments, an allowance for credit losses has not been established for accounts receivable due from funding agencies.

As of June 30, 2024, 2023 and 2022, the balance in accounts receivable was \$37,133,881, \$32,702,662, and \$3,199,559, respectively.

Income Taxes

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, 2024 and 2023 as the Association has not incurred any unrelated business income during these periods.

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.

The Arc of the Central Chesapeake Region, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
June 30, 2024

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

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, 2024 and 2023 were \$357,327 and \$275,083, respectively

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 donated services qualified for recognition at June 30, 2024 and 2023 were \$25,000 and \$-0-, Respectively.

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, 2023, the Organization adopted *ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to trade receivables, loan receivables, held-to-maturity debt securities, and lease receivables. Previously, losses were recorded using the incurred loss model where losses were recognized when it was probable that a loss had occurred using historical loss rates. Under the new standard, all expected losses will be recognized based on expected future forecasts for estimated losses

The Arc of the Central Chesapeake Region, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
June 30, 2024

Note 2 - Availability & Liquidity

	2024	2023
Financial assets at year end:		
Cash and cash equivalents	\$ 3,765,107	\$ 9,806,932
Investments	1,346,107	1,461,786
Due from State of Maryland	2,522,531	2,679,816
Accounts receivable, other	755,295	-
Accounts receivable, clients, net	52,899	177,848
Unconditional promises to give, net of discount	1,221,777	713,368
Total financial assets	9,663,716	14,839,750
Less amounts not available to be used within one year:		
Net assets with donor restrictions	1,367,572	860,530
Rep payee funds	99,201	127,845
Financial assets available to meet general expenditures over the next twelve months	\$ 8,196,943	\$ 13,851,375

The Association's goal is to establish at least 3 months of average recurring operating costs in available liquidity (approximately \$12.9 million at June 30, 2024). 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, 2024

Note 3 - Investments

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

	2024		
	Cost Basis	Fair Market Value	Unrealized Gain
Investments - brokerage account			
Money market funds	\$ 1,321,107	\$ 1,321,107	\$ -
	2023		
	Cost Basis	Fair Market Value	Unrealized Gain
Investments - brokerage account			
Money market funds	\$ 1,255,016	\$ 1,255,016	\$ -
Certificates of deposit	206,770	206,770	-
Total investments	\$ 1,461,786	\$ 1,461,786	\$ -

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, 2024

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, 2024</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	<u>\$ 1,321,107</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,321,107</u>
<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	<u>206,770</u>	<u>-</u>	<u>-</u>	<u>206,770</u>
Total	<u>\$ 1,461,786</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,461,786</u>

Note 5 - Beneficial Interest in Community Foundation of Anne Arundel County

Amounts reported in the consolidated statement of financial position as beneficial interest in Community Foundation of Anne Arundel County (the Foundation) represent the net cumulative transfers by the Organizations to the Foundation, as well as earnings thereon. These amounts totaled \$25,000 at June 30, 2024, respectively. The Foundation holds and invests the funds on behalf of the Organizations. The Foundation has no variance power over the funds. Instead, the income from the fund is distributed to the Organizations annually.

The Arc of the Central Chesapeake Region, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
June 30, 2024

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 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>2024</u>	<u>2023</u>
Receivable in less than one year	\$ 695,322	\$ 153,079
Receivable in one to five years	360,196	373,058
Receivable in more than five years	<u>214,097</u>	<u>241,250</u>
Total unconditional promises to give	1,269,615	767,387
Less: discount to net present value	(47,838)	(54,019)
Less: current portion	<u>(695,322)</u>	<u>(153,079)</u>
Unconditional promises to give, long-term	<u><u>\$ 526,455</u></u>	<u><u>\$ 560,289</u></u>

The Arc of the Central Chesapeake Region, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
June 30, 2024

Note 7 - Property and Equipment

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

	Estimated Useful Lives	2024	2023
Land	-	\$ 8,001,106	\$ 6,811,015
Building and improvements	5-31 years	28,589,712	26,582,134
Leasehold improvements	1-10 years	688,884	523,296
Furniture, fixtures and equipment	5-20 years	2,557,410	2,183,047
Vehicles	2-5 years	664,412	1,789,170
Construction in progress	-	7,119,565	735,675
		47,621,089	38,624,337
Less: accumulated depreciation		(10,340,842)	(9,890,209)
		\$ 37,280,247	\$ 28,734,128

Depreciation and amortization expense was \$2,309,429 and \$1,684,026 for the years ended June 30, 2024 and 2023, respectively.

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, 2024 and 2023, the Association has recorded a participation liability of \$87,523 and \$86,397, respectively and a related mortgage loan discount of \$71,957 and \$74,705, respectively, in connection with these agreements.

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.

The Arc of the Central Chesapeake Region, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
June 30, 2024

Note 8 - Mortgages and Notes Payable (Cont.)

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

	2024	2023
<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.	\$ 252,209	\$ 257,882
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.	2,640,293	2,738,165
<u>Chesapeake Community Development, LLC</u>		
Construction loan of a maximum amount of \$5,338,000 with a bank to finance the construction of the Port street property. Payments of interest only at 5.78% interest are payable monthly through February 17, 2025 at which point the loan converts to a 15 year mortgage. Two additional construction loan agreements were entered into on November 10, 2023, totaling \$2,200,000. No draws have been made on these loans as of June 30, 2024.	4,895,516	-
<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 \$67,494 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.	12,103,870	11,398,204
Howard County Home Investment Program provided \$365,127 of funding for the purchase of a home. The mortgage bears 0% interest and is payable if the home is sold before the 30 year agreement.	365,127	-
Total mortgages and notes payable	19,891,888	14,394,251
Less: debt issuance cost, net of amortization	(142,586)	(70,839)
Less: discount	(71,957)	(74,705)
Less: current maturities	(874,733)	(360,710)
Long-term portion of mortgages and notes payables	\$ 18,802,612	\$ 13,887,997

The Arc of the Central Chesapeake Region, Inc.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
 June 30, 2024

Note 8 - Mortgages and Notes Payable (Cont.)

Mortgage and notes payable at June 30, 2024 and 2023 is shown net of unamortized debt issuance cost of \$142,586 and \$70,839 respectively. Amortization expense on debt issuance costs was \$56,201 and \$6,704, for years ended June 30, 2024 and 2023, 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>	
2025	\$ 874,733
2026	378,005
2027	394,034
2028	412,070
2029	417,490
Thereafter	<u>17,415,556</u>
	<u><u>\$ 19,891,888</u></u>

Interest expense, including amortization of debt issuance costs, for the years ended June 30, 2024 and 2023 was \$2,661,904 and \$1,494,102, respectively.

Note 9 - 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, 2024 and 2023 were \$8,000,000 and \$21,600,000, respectively.

The Arc of the Central Chesapeake Region, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
June 30, 2024

Note 10 - Finance Leases

The Association entered into finance lease agreements for several vehicles and office equipment. The term of the vehicle lease agreements are generally for 60 months. Amortization attributable to finance leases for the years ended June 30, 2024 and 2023 amounted to \$939,802 and \$412,167 respectively, and is included in depreciation and amortization on the statement of functional expenses. At June 30, 2024 and 2023 the value of the right of use asset was \$2,834,962 and \$1,890,296, respectively. The balance of the lease liability was \$3,390,164 and \$1,917,346 at June 30, 2024 and 2023, respectively.

The weighted average remaining lease term on the leases was 39.4 and 44.2 months and the weighted average discount rate of the leases was 7.78% and 7.5% at June 30, 2024 and 2023, respectively.

Future minimum lease payments are as follows for the years ended June 30:

2025	\$	930,333
2026		977,645
2026		830,595
2027		869,011
2027		415,838
Total undiscounted cash flows		4,023,422
Less: present value discount		(633,258)
Total lease liabilities		\$ 3,390,164

The Arc of the Central Chesapeake Region, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
June 30, 2024

Note 11 - 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, 2024 and 2023 amounted to \$3,517,677 and \$4,063,314, respectively. The operating lease liability for the year ended June 30, 2024 and 2023 amounted to \$4,299,129 and \$4,147,291.

The weighted average of the remaining lease term was 108 and 120 months and the weighted average interest rate was 5.8% at June 30, 2024 and 2023 , respectively. The components of lease costs included in rent in the statement of financial position for the year ended June 30, 2024 and 2023 are as follows:

	2024	2023
Operating lease expense	\$ 530,335	\$ 83,977
Donated lease expense	38,100	38,100
Short-term operating lease expense	291,008	96,274
Total	\$ 859,443	\$ 218,351

Future minimum lease payments under these leases are as follows:

Year ending June 30	
2025	\$ 557,984
2026	571,934
2027	586,232
2028	600,888
2029	615,910
Thereafter	2,621,515
Total undiscounted cash flows	5,554,463
Less: present value discount	(1,255,334)
Total lease liabilities	\$ 4,299,129

The Arc of the Central Chesapeake Region, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
June 30, 2024

Note 12 - Contributions of Nonfinancial Assets

Contributions of nonfinancial assets consisted of \$68,255 and \$40,004 for donated services and auction items for the years ended June 30, 2024 and 2023, respectively.

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. Donated nonfinancial assets had no donor restrictions for the years ended June 30, 2024 and 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 \$641,123 and \$469,327 for the years ended June 30, 2024 and 2023, 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.

The Arc of the Central Chesapeake Region, Inc.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont.)
 June 30, 2024

Note 14 - Contingent Liabilities (cont.)

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:

Note 15 - Net Assets With Donor Restrictions

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

	2024	2023
Donated long-term leases (Note 5)	\$ 359,107	\$ 391,662
Capital campaign	875,965	330,980
Professional development	105,000	105,000
Holiday giving	-	22,764
Family fund endowment	27,500	-
Family fund	-	10,124
	\$1,367,572	\$ 860,530

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 9, 2025 the date the financial statements were available to be issued, that required recognition or disclosure.