

# **The Arc Baltimore, Inc.**

Financial Report  
June 30, 2024

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## Independent Auditor's Report

Board of Directors  
The Arc Baltimore, Inc.

### Opinion

We have audited the financial statements of The Arc Baltimore, Inc. (Arc), which comprise the statements of financial position as of June 30, 2024 and 2023, the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Arc as of June 30, 2024 and 2023, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Arc and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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 Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Our objectives are to obtain reasonable assurance about whether the 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 GAAS 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 financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 Arc'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Arc'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.

*RSM US LLP*

Baltimore, Maryland  
November 21, 2024

The Arc Baltimore, Inc.

Statements of Financial Position  
June 30, 2024 and 2023

	2024	2023
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 10,382,441	\$ 12,745,517
Cash designated for operating reserves (Note 2)	5,500,000	9,500,000
Accounts receivable, net of allowance for credit losses (Note 1)	2,340,688	1,572,014
Receivables from government agencies	3,651,284	3,152,428
Other receivables	158,696	128,511
Residents' funds (Note 1)	312,920	233,138
Other current assets	273,013	524,429
<b>Total current assets</b>	<b>22,619,042</b>	<b>27,856,037</b>
Property and equipment, net (Note 3)	<b>8,733,971</b>	<b>7,999,727</b>
Other assets:		
Security deposits	65,048	61,548
Letter of credit collateral (Note 10)	450,982	611,842
Escrow funds (Notes 7 and 8)	652,455	619,190
Board-designated investments (Notes 6 and 13)	5,654,759	4,980,771
Right-of-use assets, operating leases (Note 14)	303,252	181,467
<b>Total other assets</b>	<b>7,126,496</b>	<b>6,454,818</b>
<b>Total assets</b>	<b>\$ 38,479,509</b>	<b>\$ 42,310,582</b>

(Continued)

The Arc Baltimore, Inc.

Statements of Financial Position (Continued)  
June 30, 2024 and 2023

	2024	2023
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 3,841,232	\$ 10,660,642
Deferred revenue	42,612	46,062
Residents' funds payable (Note 1)	312,920	233,138
Current portion of operating lease liabilities (Note 14)	125,089	62,236
Current portion of long-term debt (Note 7)	576,396	662,453
<b>Total current liabilities</b>	<b>4,898,249</b>	<b>11,664,531</b>
Long-term liabilities:		
Long-term debt, net of issuance costs (Note 7)	5,521,668	5,373,942
Long-term operating lease liabilities (Note 14)	178,163	119,231
Pension liability (Note 4)	-	122,180
<b>Total long-term liabilities</b>	<b>5,699,831</b>	<b>5,615,353</b>
<b>Total liabilities</b>	<b>10,598,080</b>	<b>17,279,884</b>
Commitments and contingencies (Notes 2, 5, 9 and 10)		
Net assets:		
Without donor restrictions:		
Operating	20,925,319	18,581,993
Board-designated for investment (Note 6 and 13)	5,654,759	4,980,771
Capital reserves	1,000,000	1,000,000
<b>Total net assets without donor restrictions</b>	<b>27,580,078</b>	<b>24,562,764</b>
With donor restrictions (Note 12)	301,351	467,934
<b>Total net assets</b>	<b>27,881,429</b>	<b>25,030,698</b>
<b>Total liabilities and net assets</b>	<b>\$ 38,479,509</b>	<b>\$ 42,310,582</b>

See notes to financial statements.

The Arc Baltimore, Inc.

Statement of Activities

Year Ended June 30, 2024

(With Comparative Totals for June 30, 2023)

	2024			2023 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Support and revenue:				
Government agencies	\$ 41,981,190	\$ -	\$ 41,981,190	\$ 40,177,379
Contracts and other revenue	10,248,850	-	10,248,850	10,173,239
Public support, direct	456,490	-	456,490	447,611
Public support, indirect	21,505	-	21,505	42,211
Net assets released from restrictions	166,583	(166,583)	-	-
<b>Total support and revenue</b>	<b>52,874,618</b>	<b>(166,583)</b>	<b>52,708,035</b>	<b>50,840,440</b>
Expenses (Notes 3, 4, 5 and 7):				
Program services:				
Employment and Day	16,536,449	-	16,536,449	17,614,225
Community Living	24,101,231	-	24,101,231	21,525,293
Family and Children	3,503,058	-	3,503,058	3,503,783
<b>Total program services</b>	<b>44,140,738</b>	<b>-</b>	<b>44,140,738</b>	<b>42,643,301</b>
Supporting services:				
Management and general	6,086,388	-	6,086,388	5,714,856
Fundraising	292,276	-	292,276	290,373
<b>Total supporting services</b>	<b>6,378,664</b>	<b>-</b>	<b>6,378,664</b>	<b>6,005,229</b>
<b>Total operating expenses</b>	<b>50,519,402</b>	<b>-</b>	<b>50,519,402</b>	<b>48,648,530</b>
<b>Change in net assets from operating activities</b>	<b>2,355,216</b>	<b>(166,583)</b>	<b>2,188,633</b>	<b>2,191,910</b>
Nonoperating activities:				
Contributions designated for endowment	30,986	-	30,986	121,261
Investment income, net (Note 6)	641,950	-	641,950	523,624
Gain (loss) on sale of property	(10,838)	-	(10,838)	177,268
<b>Change in net assets</b>	<b>3,017,314</b>	<b>(166,583)</b>	<b>2,850,731</b>	<b>3,014,063</b>
Net assets at beginning of year	24,562,764	467,934	25,030,698	22,016,635
Net assets at end of year	<b>\$ 27,580,078</b>	<b>\$ 301,351</b>	<b>\$ 27,881,429</b>	<b>\$ 25,030,698</b>

See notes to financial statements.

**The Arc Baltimore, Inc.**

**Statement of Activities  
Year Ended June 30, 2023**

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Government agencies	\$ 40,177,379	\$ -	\$ 40,177,379
Contracts and other revenue	10,173,239	-	10,173,239
Public support, direct	447,611	-	447,611
Public support, indirect	42,211	-	42,211
Net assets released from restrictions	10,437	(10,437)	-
<b>Total support and revenue</b>	<b>50,850,877</b>	<b>(10,437)</b>	<b>50,840,440</b>
Expenses (Notes 3, 4, 5 and 7):			
Program services:			
Employment and Day	17,614,225	-	17,614,225
Community Living	21,525,293	-	21,525,293
Family and Children	3,503,783	-	3,503,783
<b>Total program services</b>	<b>42,643,301</b>	<b>-</b>	<b>42,643,301</b>
Supporting services:			
Management and general	5,714,856	-	5,714,856
Fundraising	290,373	-	290,373
<b>Total supporting services</b>	<b>6,005,229</b>	<b>-</b>	<b>6,005,229</b>
<b>Total operating expenses</b>	<b>48,648,530</b>	<b>-</b>	<b>48,648,530</b>
<b>Change in net assets from operating activities</b>	<b>2,202,347</b>	<b>(10,437)</b>	<b>2,191,910</b>
Nonoperating activities:			
Contributions designated for endowment	121,261	-	121,261
Investment income, net (Note 6)	523,624	-	523,624
Gain on sale of property	177,268	-	177,268
<b>Change in net assets</b>	<b>3,024,500</b>	<b>(10,437)</b>	<b>3,014,063</b>
Net assets at beginning of year	21,538,264	478,371	22,016,635
Net assets at end of year	\$ 24,562,764	\$ 467,934	\$ 25,030,698

See notes to financial statements.



The Arc Baltimore, Inc.

Statement of Functional Expenses  
Year Ended June 30, 2024

	Program Services	Supporting Services			Total
		Management and General	Fundraising	Total Supporting Services	
Staff salaries	\$ 26,438,247	\$ 2,976,792	\$ 186,186	\$ 3,162,978	\$ 29,601,225
Contract services	3,162,381	1,154,839	30,835	1,185,674	4,348,055
Fringe benefits (Note 4)	5,137,576	589,116	36,977	626,093	5,763,669
Assistance to individuals	1,628,700	120,852	-	120,852	1,749,552
Depreciation and amortization (Note 3)	859,965	253,304	375	253,679	1,113,644
Supported worker salaries	2,318,734	4,060	-	4,060	2,322,794
Rent and lease expense	680,883	68,022	-	68,022	748,905
Supplies, equipment and materials	871,224	153,367	1,559	154,926	1,026,150
Utilities and telephone	682,921	163,611	692	164,303	847,224
Food	569,368	67	-	67	569,435
Repairs and maintenance	591,867	85,548	-	85,548	677,415
Insurance	779,924	93,977	784	94,761	874,685
Miscellaneous	61,473	9,971	30,731	40,702	102,175
Interest (Note 7)	153,855	104,698	-	104,698	258,553
Training and travel	148,226	189,590	3,717	193,307	341,533
Dues, memberships and licenses	18,269	117,255	420	117,675	135,944
Transportation	37,125	1,319	-	1,319	38,444
<b>Total functional expenses</b>	<b>\$ 44,140,738</b>	<b>\$ 6,086,388</b>	<b>\$ 292,276</b>	<b>\$ 6,378,664</b>	<b>\$ 50,519,402</b>

See notes to financial statements.

The Arc Baltimore, Inc.

Statement of Functional Expenses  
Year Ended June 30, 2023

	Program Services	Supporting Services			Total
		Management and General	Fundraising	Total Supporting Services	
Staff salaries	\$ 24,714,826	\$ 2,717,716	\$ 180,562	\$ 2,898,278	\$ 27,613,104
Contract services	3,003,800	1,099,928	35,480	1,135,408	4,139,208
Fringe benefits (Note 4)	4,965,452	558,031	37,115	595,146	5,560,598
Assistance to individuals	1,843,967	88,171	-	88,171	1,932,138
Depreciation and amortization (Note 3)	936,655	240,668	375	241,043	1,177,698
Supported worker salaries	2,393,051	3,333	-	3,333	2,396,384
Rent and lease expense	712,111	80,244	-	80,244	792,355
Supplies, equipment and materials	1,046,472	147,640	3,759	151,399	1,197,871
Utilities and telephone	779,632	165,971	661	166,632	946,264
Food	581,387	3,168	-	3,168	584,555
Repairs and maintenance	563,053	87,229	-	87,229	650,282
Insurance	663,190	95,195	1,322	96,517	759,707
Miscellaneous	133,120	2,653	29,066	31,719	164,839
Interest (Note 7)	149,137	110,436	-	110,436	259,573
Training and travel	126,281	193,493	1,707	195,200	321,481
Dues, memberships and licenses	16,229	120,749	326	121,075	137,304
Transportation	14,938	231	-	231	15,169
<b>Total functional expenses</b>	<b>\$ 42,643,301</b>	<b>\$ 5,714,856</b>	<b>\$ 290,373</b>	<b>\$ 6,005,229</b>	<b>\$ 48,648,530</b>

See notes to financial statements.

The Arc Baltimore, Inc.

**Statements of Cash Flows**  
**Years Ended June 30, 2024 and 2023**

	2024	2023
Cash flows from operating activities:		
Change in net assets	\$ 2,850,731	\$ 3,014,063
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,113,644	1,177,698
Increase (decrease) in allowance for credit losses	623	(48,816)
Net realized and unrealized gain on investments	(519,321)	(366,670)
Loss (gain) on sale of property and equipment	10,838	(177,268)
Amortization of right-of-use assets	121,785	40,763
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(769,297)	1,163,829
Receivables from governmental agencies	(498,856)	712,854
Other receivables	(30,185)	(71,250)
Other current assets	251,416	(47,069)
Increase (decrease) in:		
Accounts payable and accrued expenses	(6,819,410)	5,059,927
Deferred revenue	(3,450)	(6,800)
Lease liabilities	(121,785)	(40,763)
Pension liabilities	(122,180)	-
<b>Net cash (used in) provided by operating activities</b>	<b>(4,535,447)</b>	<b>10,410,498</b>
Cash flows from investing activities:		
Proceeds from sale of property and equipment	89,334	310,000
Acquisition of property and equipment	(1,032,768)	(1,155,030)
Purchase of investments	(254,588)	(408,360)
Proceeds from sale of investments	99,921	131,151
(Increase) decrease in security deposit	(3,500)	3,126
Decrease (increase) in certificates of deposit	160,860	(2,044)
Increase in bond escrow funds	(33,265)	(23,939)
<b>Net cash used in investing activities</b>	<b>(974,006)</b>	<b>(1,145,096)</b>
Cash flows from financing activities:		
Principal payments on long-term debt	(853,623)	(602,710)
<b>Net cash used in financing activities</b>	<b>(853,623)</b>	<b>(602,710)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(6,363,076)</b>	<b>8,662,692</b>
Cash and cash equivalents:		
Beginning of year	22,245,517	13,582,825
End of year	\$ 15,882,441	\$ 22,245,517

(Continued)

**The Arc Baltimore, Inc.**

**Statements of Cash Flows (Continued)**  
**Years Ended June 30, 2024 and 2023**

	<b>2024</b>	<b>2023</b>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u><b>\$ 258,553</b></u>	<u><b>\$ 259,573</b></u>
Supplemental schedule of noncash investing and financing activities:		
Vehicles and equipment acquired through notes payable	<u><b>\$ 890,896</b></u>	<u><b>\$ 57,575</b></u>
Supplemental cash flow information related to leases is as follows:		
ROU assets obtained in exchange for lease obligations:		
Operating leases	<u><b>\$ 206,722</b></u>	<u><b>\$ 218,145</b></u>

See notes to financial statements.

## The Arc Baltimore, Inc.

### Notes to the Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies

**Nature of activities:** The Arc Baltimore, Inc. (Arc) organizes and operates programs that provide residential, vocational, employment and other social services to individuals with developmental disabilities and their families.

Arc's Employment and Day Program provides on-site job coaching, training and ongoing support to supported workers with jobs at Baltimore companies. These employees are both independently placed, as well as working in supervised crews, working in areas such as janitorial and landscape, hotel housekeeping and other assembling or packing projects. In addition, the four day/employment centers provide people an opportunity for growth through a combination of work, volunteer and leisure opportunities within their respective communities.

Arc's Community Living Program enables adults to live in homes and communities of their own choosing through a continuum of community-based services that maximizes growth and independence. The individuals are contributing and engaged members of their neighborhood.

Arc's Family and Children Program supports children, adults and their families through treatment foster care, respite care, in-home family supports and training, parent training programs, seminars and support groups, recreational and summer camp opportunities, special education advocacy and an information and referral hotline.

For the years ended June 30, 2024 and 2023, approximately 80% and 79%, respectively, of Arc's total support and revenue was received from the State of Maryland.

A summary of Arc's significant accounting policies follows:

**Basis of presentation:** The financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Not-for-Profit Entities topic of the Accounting Standards Codification (Codification or ASC). Arc is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

**Net assets without donor restrictions:** Represent resources that are neither invested in perpetuity, nor purpose or time restricted by donor-imposed stipulations. Arc has designated certain net assets without donor restrictions for future long-term capital investment projects.

**Net assets with donor restrictions:** Represent resources whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of Arc pursuant to these stipulations. Net assets may be restricted for various purposes, such as use in future periods or use for specified purposes.

**Credit risk:** Arc has funds on deposit with a financial institution in excess of federally insured amounts. Arc has not experienced any losses on cash accounts, and management believes it is not exposed to significant credit risk on cash.

**Cash and cash equivalents:** Arc considers money market funds and certificates of deposit, which are highly liquid and mature within three months, to be cash equivalents. Cash designated for operating reserves represents amounts set aside to assist with potential funding shortages and billing delays during full implementation of the statewide new rate system which began on July 1, 2024.

## The Arc Baltimore, Inc.

### Notes to the Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

**Escrow funds:** Escrow funds include amounts for mortgage purposes and for debt service purposes (see Notes 7 and 8). Escrow funds for mortgage purposes represent deposits for taxes, insurance and repairs. The balance in the account related to mortgage escrow funds at June 30, 2024 and 2023, was \$201,935 and \$190,082, respectively.

**Investments in marketable securities:** Investments with a readily determinable fair value are reported at fair value in the statements of financial position. Gains and losses on investments are reported in the statements of activities as part of investment income (see Note 6).

Arc invests in a professionally managed portfolio that contains mutual funds, money market funds and common stock. Such investments are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near-term would materially affect investment balances and the amounts reported in the financial statements.

**Board-designated investments:** Board-designated investments consist of a separate investment account, which is composed of gifts without donor restrictions designated by the board of directors to be held for long-term investment.

**Residents' funds:** Arc acts in an agency capacity regarding the holding of residents' cash funds.

**Accounts receivable:** Accounts receivable consist of amounts due to Arc from agencies and companies related to Arc's programs providing services to developmentally disabled individuals.

Accounts receivable are carried at original invoice amount, less an estimate made for credit losses. The allowance for credit losses was \$31,458 and \$30,835 at June 30, 2024 and 2023, respectively. The allowance for credit loss represents an estimate of credit losses over the lifetime of the receivable. The estimation process is based on historical experience, current conditions, asset-specific characteristics, and reasonable and supportable forecasts about future economic and market conditions. Arc will continue to monitor and evaluate the adequacy of the allowance for credit losses on the receivables on a regular basis and will make adjustments as necessary in response to changes in economic conditions and credit quality indicators. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

**Contract balances:** The timing of revenue recognition may not align with the right to invoice a customer. Arc records accounts receivable when it has the unconditional right to issue an invoice and receive payment, regardless of whether revenue has been recognized. If revenue is recognized in advance of the right to invoice, a contract receivable is recorded. Contract receivables reflected below consist mainly of accounts receivable, receivables from government agencies, and other receivables on the statements of financial position. If payment is received prior to the recognition of revenue, a contract liability is recorded, which is reflected as deferred revenue on the statements of financial position.

Contract balances consist of the following at June 30:

	2024	2023	2022
Contract receivables	\$ 6,082,947	\$ 4,814,996	\$ 6,560,034
Contract liability (deferred revenue)	474,823	7,251,887	2,401,803

**The Arc Baltimore, Inc.**

**Notes to the Financial Statements**

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**Note 1. Nature of Activities and Significant Accounting Policies (Continued)**

**Property and equipment and depreciation:** Property and equipment purchased by Arc is recorded at cost. Donated property and equipment is recorded at its fair value at the date of the gift. Depreciation is calculated over the estimated useful lives of the related assets using the straight-line method as follows:

	<u>Estimated Useful Lives</u>
Buildings and improvements	15-25 years
Leasehold improvements	Shorter of lease term or 2-4 years
Furniture, fixtures and equipment	5-10 years
Vehicles	5 years

Land and buildings purchased with state funds prior to fiscal year 2022 are owned by Arc, subject to the provision that if the property is transferred within 20 years following the purchase, a pro rata share of the state funds must be returned to the granting state agency. It is the intent of management to hold the properties for at least 20 years.

**Valuation of long-lived assets:** Arc reviews the carrying value of long-lived assets and certain identifiable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the estimated fair value of the asset. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

**Debt issuance costs:** In November 2010, Arc incurred debt issuance costs that are being amortized on a straight-line basis over the life of the debt (20 years). In August 2018, Arc incurred additional debt issuance costs with the refinancing that are being amortized on a straight-line basis over the life of the debt (22 years). Amortization expense is \$24,396 for each of the years ended June 30, 2024 and 2023. Accumulated amortization was \$302,192 and \$277,796 at June 30, 2024 and 2023, respectively.

**Use of estimates:** The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

**Fair value of financial instruments:** The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and current maturities of long-term debt approximate fair value because of the short maturity of these instruments. The carrying amount of long-term debt approximates fair value because the interest rates on these instruments fluctuate with market interest rates offered to Arc for debt with similar terms and maturities. Investments are valued at fair value.

**Revenue recognition:** Arc's revenue is primarily derived from conditional grants and third-party reimbursements from various state and local government agencies and from services subcontracted to customers on a fee-for-service basis.

Arc recognizes contract revenue using a five-step process that includes (1) identifying the contract with a customer, (2) identifying the performance obligations in the contract, (3) determining the transaction price, (4) allocating the transaction price to the performance obligations and (5) recognizing revenue when (or as) each performance obligation is satisfied.

## The Arc Baltimore, Inc.

### Notes to the Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Arc has a contract with the State of Maryland (the State) to provide residential services, day services, employment services and personal supports services to individuals with intellectual and developmental disabilities. These revenues are recognized at a point in time as services are provided. The transaction price is based on predetermined rates by the State for each individual supported. Arc's contract revenue with the State Highway Administration and Maryland Transportation Authority for janitorial, landscaping and policing services are recognized at a point in time as services are provided. The transaction price is based on annual or monthly costs as stated in the contract agreements.

Unconditional contributions are recognized as revenue upon receipt, or when unconditional promises to give are received. Contribution revenue is recorded as increases in net assets without donor restrictions, unless the use is limited by time or donor-imposed restrictions. Conditional contributions are recognized when donor-imposed conditions are substantially met. These revenues are subject to right of return if funds are not spent and also have barriers that must be met in order to be entitled to the funds. Accordingly, amounts received, but not yet recognized as revenue, are classified as deferred revenue in the statements of financial position. There were no additional revenues to be earned on various conditional grants as of June 30, 2024 and 2023.

State and local grants are deemed to be earned and reported as revenue when Arc has incurred expenditures in compliance with the specific grant restrictions. Grant expenditures made, pending reimbursement, are recorded as accounts receivable. Grant funds received, but not spent, are recorded as deferred revenue. State and local grant amounts not expended in accordance with specific grant restrictions prior to the expiration of the grant period are refundable and recorded as a payable.

**Functional allocation of expenses:** The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated between the program and supporting services benefited. Salaries and benefits are allocated on the basis of time and effort. Occupancy expenses are allocated based on the square footage occupied related to the respective function. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of Arc.

**Income taxes:** Arc is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). In addition, Arc qualifies for charitable contributions deductions under Section 170(c)(2)(B) and has been determined by the Internal Revenue Service (IRS) not to be a private foundation within the meaning of IRS §509(a). Income, which is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. There was no unrelated business income for 2024 and 2023.

Arc has adopted the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this policy, Arc may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position would be sustained on examination by taxing authorities, based on the technical merits of the position. Management evaluated Arc's tax positions and concluded that it has taken no uncertain tax positions that require adjustment to the financial statements to comply with provisions of this guidance.



**Notes to the Financial Statements**

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**Note 1. Nature of Activities and Significant Accounting Policies (Continued)**

**Leases:** Arc determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when: (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) Arc obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. Arc also considers whether its service arrangements include the right to control the use of an asset.

Arc elected the package of practical expedients under the transition guidance within Topic 842, in which Arc does not reassess: (1) the historical lease classification, (2) whether any existing contracts at transition are or contain leases, or (3) the initial direct costs for any existing leases. Arc has not elected to adopt the hindsight practical expedient and, therefore, will measure the right-of-use (ROU) asset and lease liability using the remaining portion of the lease term upon adoption of ASC 842 on July 1, 2022.

Arc made an accounting policy election available under Topic 842 not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease (or July 1, 2022, for existing leases upon the adoption of Topic 842). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives. To determine the present value of lease payments, Arc made an accounting policy election available to non-public companies to utilize a risk-free borrowing rate, which is aligned with the lease term at the lease commencement date (or remaining term for leases existing upon the adoption of Topic 842).

Future lease payments may include fixed rent escalation clauses or payments that depend on an index (such as the consumer price index), which is initially measured using the index or rate at lease commencement. Subsequent changes of an index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred. Residual value guarantees or payments for terminating the lease are included in the lease payments only when it is probable they will be incurred.

Arc has made an accounting policy election to account for lease and non-lease components in its contracts as a single lease component for its real estate, vehicle and equipment asset classes. The non-lease components typically represent additional services transferred to Arc, such as common area maintenance for real estate, which are variable in nature and recorded in variable lease expense in the period incurred.

**Recently adopted accounting pronouncements:** In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial assets measured at amortized cost. The ASU required financial assets measured at amortized cost (including loans, trade receivables and held-to-maturity debt securities) to be presented at the new amount expected to be collected through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. Arc adopted the ASU effective July 1, 2023, using a modified retrospective approach for its financial assets in the scope of ASC 326, and it did not have a significant impact on Arc's financial position, results of operations, or cash flows.

**Subsequent events:** Subsequent events have been evaluated through November 21, 2024, which is the date the financial statements were available to be issued.

## The Arc Baltimore, Inc.

### Notes to the Financial Statements

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#### Note 2. Liquidity and Availability

The following reflects Arc's financial assets as of June 30, 2024 and 2023, reduced by amounts not available for general use because of contractual or donor-imposed restrictions or internal designations. As part of Arc's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. To help manage unanticipated liquidity needs, Arc has a committed line of credit in the amount of \$1,500,000, which it could draw upon (see Note 9). Arc also has a board-designated endowment of \$5,654,759 and \$4,980,771 as of June 30, 2024 and 2023, respectively. Although Arc does not intend to spend from the endowment other than amounts appropriated for general expenditure as part of its annual approval process, amounts from the endowment could be made available if necessary and approved by the board of directors.

Financial assets available to meet cash needs for general expenditures within one year as of June 30, 2024 and 2023 are as follows:

	2024	2023
Cash and cash equivalents	\$ 15,882,441	\$ 22,245,517
Accounts receivable, net	2,340,688	1,572,014
Receivables from government agencies	3,651,284	3,152,428
Other receivables	158,696	128,511
Residents' funds	312,920	233,138
Certificate of deposit	450,982	611,842
Escrow funds	652,455	619,190
Board-designated investments	5,654,759	4,980,771
	<u>29,104,225</u>	<u>33,543,411</u>
Less:		
Restrictions by donors	(301,351)	(467,934)
Residential funds	(312,920)	(233,138)
Certificate of deposit with bank securing letters of credit	(450,982)	(611,842)
Escrow funds	(652,455)	(619,190)
Deferred revenue	(42,612)	(46,062)
Amounts due to the State of Maryland	(474,823)	(7,251,887)
Board-designated endowment funds, primarily for long-term investing	(5,654,759)	(4,980,771)
Amounts set aside for operating reserves	(5,500,000)	(9,500,000)
Amounts set aside for capital reserves	(1,000,000)	(1,000,000)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 14,714,323</u>	<u>\$ 8,832,587</u>

In the 2014 Maryland General Assembly, legislation was passed for the Developmental Disabilities Administration (DDA) to conduct a comprehensive rate study, which would result in revised rates for Maryland providers. Due to the pandemic, the State approved an extension of the new rate system long-term services and support (LTSS) to begin July 1, 2024, for all providers. Under the new rate system LTSS, services were converted from a daily billing rate to a 15-minute billing rate, several new waiver services were created, and the payment system was altered from prospective to fee-for-service. During 2019, the DDA performed an analysis of the new rates and indicated the administration required an additional appropriation to fully fund the new rates. As of fiscal year 2024, the DDA has been unable to achieve the level of appropriations required to fully fund the new rates; therefore, funding for several services in LTSS is grossly inadequate to cover the required costs to provide these services. Arc has appropriately created operating reserves of \$5,500,000 and \$9,500,000 at June 30, 2024 and 2023, to assist with these funding shortfalls with the DDA during full implementation of the statewide new rate system which began July 1, 2024.

## The Arc Baltimore, Inc.

### Notes to the Financial Statements

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#### Note 3. Property and Equipment

The following is a summary of property and equipment at June 30, 2024 and 2023:

	2024	2023
Land	\$ 1,971,654	\$ 2,065,360
Buildings and improvements	22,525,300	21,964,332
Furniture, fixtures and vehicles	16,184,426	14,918,405
Leasehold improvements	280,221	280,221
Construction in progress	144,124	53,917
	<u>41,105,725</u>	<u>39,282,235</u>
Accumulated depreciation	<u>(32,371,754)</u>	<u>(31,282,508)</u>
	<u>\$ 8,733,971</u>	<u>\$ 7,999,727</u>

Depreciation expense was \$1,089,248 and \$1,153,302 for the years ended June 30, 2024 and 2023, respectively.

#### Note 4. Pension Plans

**Defined contribution plan:** Arc participates in a contributory 403(b) plan, whereby all employees who have completed 90 days of service are eligible to make employee contributions, and employees with one year of service are eligible to receive employer contributions. Eligible employees may elect to make pre-tax contributions to the 403(b) plan subject to the annual maximum amount allowed by the IRC. Arc makes an initial contribution of 2% to 5% of compensation to all eligible employees based on the years of service for each employee. In addition, Arc will match employee contributions as follows:

- a) 100% of the first 1% of employee contributions.
- b) 50% of any employee contribution greater than 1% with a total match not to exceed 3% of an employee's compensation during any 403(b) plan year.

Total expense under the 403(b) plan for the years ended June 30, 2024 and 2023, was \$804,117 and \$761,586, respectively.

**Deferred compensation plan:** In February 2020, Arc established a 457(b) plan, whereby a select group of employees are eligible to participate. Total expense under the 457(b) plan was \$52,088 and \$37,079 for the years ended June 30, 2024 and 2023, respectively. Total plan assets and liabilities were \$96,499 and \$97,880 for the year ended June 30, 2024 and 2023, respectively.

**Noncontributory defined benefit plan:** Arc had a noncontributory defined benefit pension plan (the Pension Plan) for the benefit of substantially all employees that were employed when the Pension Plan was frozen in 2003 as to participation, benefit service and accrued benefits. In February 2020, the board of directors approved to begin the termination process of the Pension Plan. On September 21, 2020, the IRS issued a favorable determination letter to terminate the plan. Arc commenced the termination process on October 15, 2020. Arc distributed all assets from the plan during the years ended June 30, 2024 and 2023. A pension liability of \$122,180 remained for unidentified beneficiaries as of June 30, 2023. There was no remaining pension liability as of June 30, 2024.

**The Arc Baltimore, Inc.**

**Notes to the Financial Statements**

**Note 5. Commitments and Contingencies**

**Litigation:** Arc has certain pending legal proceedings that generally involve staffing and service issues. These proceedings are, in the opinion of management, ordinary routine matters incidental to the normal business conducted by Arc. In the opinion of management, such proceedings are substantially covered by insurance, and the ultimate disposition of such proceedings is not expected to have a material adverse effect on Arc's financial position, activities or cash flows.

**Note 6. Board-Designated Investments**

Board-designated investments as of June 30 consisted of the following:

	2024		2023	
	Cost	Fair Value	Cost	Fair Value
Money market funds	\$ 115,757	\$ 115,756	\$ 101,935	\$ 101,935
Mutual funds	3,395,255	3,587,980	3,215,714	3,176,425
Common stock	1,278,572	1,951,023	1,215,430	1,702,411
	<u>\$ 4,789,584</u>	<u>\$ 5,654,759</u>	<u>\$ 4,533,079</u>	<u>\$ 4,980,771</u>

Codification Topic 958 provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Topic 958 also improves disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds), whether or not the organization is subject to UPMIFA.

Arc is governed subject to its governing documents. The board of directors has determined that the majority of Arc's contributions are subject to the terms of its governing documents. Certain contributions are received subject to other gift instruments or are subject to specific agreements with Arc.

Under the terms of the governing documents, the board of directors has the ability to distribute so much of the corpus of the endowment investments as the board of directors, in its sole discretion, shall determine. As a result of the ability to distribute corpus, all endowment contributions not classified as net assets with donor restrictions are classified as net assets without donor restrictions for financial statement purposes. The endowment account contains no contributions that are classified as restricted.

**Endowment investment and spending policies:** Endowment funds are invested to produce maximum total return consistent with prudent risk limits. The Executive Committee of the board of directors will be the oversight committee for the uses of the endowment fund.

Endowment net assets are included in net assets without donor restrictions. Changes in endowment net assets are as follows for the years ended June 30, 2024 and 2023:

	2024	2023
Endowment net assets, beginning of year	\$ 4,980,771	\$ 4,336,892
Contributions	131,959	251,406
Realized and unrealized gains, net	519,321	366,670
Investment income, net of fees	122,629	156,954
Endowment distribution	(99,921)	(131,151)
Endowment net assets, end of year	<u>\$ 5,654,759</u>	<u>\$ 4,980,771</u>

## The Arc Baltimore, Inc.

### Notes to the Financial Statements

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#### Note 7. Long-Term Obligations

Long-term obligations consisted of the following at June 30:

	2024	2023
Bank loans	\$ 4,795,396	\$ 5,089,750
Various mortgages payable, collateralized by deeds of trust on the respective properties; interest at rates ranging between 1% and 6.5%, payable monthly with various maturity dates through March 2034	704,205	993,570
Various notes payable, collateralized by vehicles; interest at rates ranging between 0% and 7.94%; payable monthly with various maturity dates through July 2028	744,816	123,824
Subtotal	6,244,417	6,207,144
Less debt issuance costs, net of amortization	(146,353)	(170,749)
Long-term debt, net	6,098,064	6,036,395
Less current portion	(576,396)	(662,453)
	<u>\$ 5,521,668</u>	<u>\$ 5,373,942</u>

Certain land, buildings and improvements, and automobiles and trucks are pledged as collateral for long-term debt.

Interest expense relating to long-term debt of \$258,553 and \$259,573 was charged to operations for the years ended June 30, 2024 and 2023, respectively.

**Bank loan:** Arc entered into a bank loan on November 17, 2010, in the amount of \$5,790,000. The bank loan had a variable interest rate based on the one-month London Interbank Offered Rate (LIBOR), plus 205 basis points, multiplied by an adjustable margin rate factor. The additional basis points could increase to as much as 225 basis points depending on the results of the debt service coverage ratio prepared at June 30 and December 31 annually. The bank loan is subjected to other nonfinancial covenants that would not have an effect on the interest rate. Principal and interest payments were scheduled based on a 20-year amortization table. The maturity date of the underlying bonds was November 17, 2030.

On August 1, 2018, Arc refinanced its bank loan. As part of the refinance, certain provisions of the original agreement were amended. The interest rate has been amended to the Medium-Term Fixed Rate of 3.9% with principal payments being amortized based on a 22-year straight-line basis.

Arc entered into a second bank loan on December 21, 2020, in the amount of \$2,200,000. The loan bears interest at a fixed rate of 3.25% and has a maturity date of December 21, 2025.

## The Arc Baltimore, Inc.

### Notes to the Financial Statements

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#### Note 7. Long-Term Obligations (Continued)

Principal maturities for all long-term obligations are due in future years as follows:

	Bank Loans	Mortgages Payable	Notes Payable	Total
Years ending June 30:				
2025	\$ 294,354	\$ 102,330	\$ 179,564	\$ 576,248
2026	1,889,354	102,454	192,865	2,184,673
2027	184,354	96,699	207,235	488,288
2028	184,354	90,276	165,152	439,782
2029	184,354	86,470	-	270,824
Thereafter	2,058,626	225,976	-	2,284,602
	<u>\$ 4,795,396</u>	<u>\$ 704,205</u>	<u>\$ 744,816</u>	<u>\$ 6,244,417</u>

Bond issuance costs associated with the bank loan equal \$448,545 for the years ended June 30, 2024 and 2023, and are being amortized over the life of the transaction. Total accumulated amortization was \$302,192 and \$277,796 as of June 30, 2024 and 2023, respectively. The net issuance costs of \$146,353 and \$170,749 were netted against long-term debt on the statements of financial position at June 30, 2024 and 2023, respectively.

#### Note 8. Escrow Funds

In connection with the bank loans (see Note 7), Arc is required to retain certain loan proceeds in the amount of at least \$405,580 in a separate fund. Arc maintained a balance of \$450,520 and \$429,108 in a separate fund as of June 30, 2024 and 2023, respectively.

#### Note 9. Line of Credit

Arc has a \$1,500,000 revolving line of credit, which bears interest at a fluctuating rate per annum determined by the Bank to be 2% above the Secured Overnight Financing Rate (SOFR) in effect from time to time, and matures on February 15, 2025. As of June 30, 2024 and 2023, there was no outstanding balance.

#### Note 10. Letter of Credit

Arc has available a stand-by letter of credit totaling \$323,148 through October 1, 2026, in accordance with an agreement with the State of Maryland. The letter of credit can be used by the State if Arc fails to pay self-insured unemployment compensation claims. There are no outstanding borrowings at June 30, 2024 and 2023, related to the stand-by letter of credit. The letter of credit was collateralized by a certificate of deposit in the amount of \$450,982 and \$450,934 as of June 30, 2024 and 2023, respectively. Arc additionally had a money market account in the amount of \$160,908 as of June 30, 2023.

## The Arc Baltimore, Inc.

### Notes to the Financial Statements

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#### Note 11. Government Agencies

Revenue is recognized from federal and state grants and reimbursement for services is provided by state agencies based on per diem rates. Subsequent to year-end, regulatory reports are submitted and final determinations are made regarding over or underpayments. As of June 30, 2024 and 2023, Arc had accrued a liability of \$474,823 and \$7,251,887, respectively, for the potential adjustments, which is included in accounts payable and accrued expenses on the statements of financial position.

Receivables from government agencies represent billings, grants and reimbursements (overpayments) associated with various programs.

#### Note 12. Net Assets With Donor Restrictions

Net assets with donor restrictions were \$301,351 and \$467,934 at June 30, 2024 and 2023, respectively. Within these net assets, \$211,890 and \$378,473 is restricted for the purchase of residences as of June 30, 2024 and 2023, respectively. The remaining \$89,461 as of both June 30, 2024 and 2023, are restricted contributions for the purchase of furnishings and the Family Fund. Net assets with donor restrictions released from restrictions for the years ended June 30, 2024 and 2023, were for the following:

	2024	2023
Orems Road House	\$ 166,583	\$ -
Family Fund	-	10,250
Pritchett Bequest—furnishings	-	187
Total	<u>\$ 166,583</u>	<u>\$ 10,437</u>

#### Note 13. Fair Value Measurements

Arc defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and within a fair value hierarchy. The fair value hierarchy gives the highest rank to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest rank to unobservable inputs (Level 3). Inputs are broadly defined as data that market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy are described below:

- Level 1:** Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Listed equities and holdings in mutual funds are types of investments included in Level 1.
- Level 2:** Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly; Level 2 includes the use of models or other valuation methodologies. Investments that are generally included in this category include corporate loans, less liquid, restricted equity securities and certain corporate bonds and over-the-counter derivatives.
- Level 3:** Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation.

**The Arc Baltimore, Inc.**

**Notes to the Financial Statements**

**Note 13. Fair Value Measurements (Continued)**

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Arc's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment. The following section describes the valuation techniques used by Arc:

**Level 1:** Investments in securities traded on a national securities exchange, or reported on the NASDAQ national market, are stated at the last reported sales price on the day of valuation. These financial instruments are classified as Level 1 in the fair value hierarchy.

**Level 2:** Arc has no Level 2 assets or liabilities at June 30, 2024 and 2023.

**Level 3:** Arc has no Level 3 assets or liabilities at June 30, 2024 and 2023.

The following tables present Arc's fair value hierarchy for those assets measured at fair value on a recurring basis as of June 30, 2024 and 2023:

Board-Designated Investments	June 30, 2024			
	Total	Level 1	Level 2	Level 3
Mutual funds:				
International	\$ 1,252,633	\$ 1,252,633	\$ -	\$ -
Growth	660,449	660,449	-	-
Fixed income	1,674,898	1,674,898	-	-
Total mutual funds	3,587,980	3,587,980	-	-
Common stock	1,951,023	1,951,023	-	-
	5,539,003	\$ 5,539,003	\$ -	\$ -
Cash and cash equivalents	115,756			
Total board-designated investments	\$ 5,654,759			

Board-Designated Investments	June 30, 2023			
	Total	Level 1	Level 2	Level 3
Mutual funds:				
International	\$ 1,129,924	\$ 1,129,924	\$ -	\$ -
Growth	553,383	553,383	-	-
Fixed income	1,493,118	1,493,118	-	-
Total mutual funds	3,176,425	3,176,425	-	-
Common stock	1,702,411	1,702,411	-	-
	4,878,836	\$ 4,878,836	\$ -	\$ -
Cash and cash equivalents	101,935			
Total board-designated investments	\$ 4,980,771			



**The Arc Baltimore, Inc.**

**Notes to the Financial Statements**

**Note 14. Leases**

**Operating leases:** Arc leases a portion of its facilities, automobiles and equipment, which are treated as operating leases for financial reporting purposes. Facility lease terms generally expire through March 2025, with options to renew for additional periods. Under the terms of the facility leases, Arc is responsible for the payment of real estate taxes and other operating expenses. Additionally, Arc leases certain automobiles and equipment with minimum lease terms of one year with options to renew. Rent expense charged to operations amounted to \$620,780 and \$642,089 for facilities and \$128,125 and \$150,266 for equipment and automobiles for the years ended June 30, 2024 and 2023, respectively.

Operating lease ROU assets and lease liabilities as of June 30, 2024 and 2023, consisted of the following:

	2024	2023
Assets:		
Operating lease assets	\$ 303,252	\$ 181,467
Liabilities:		
Operating lease liabilities	\$ 303,252	\$ 181,467

The components of lease expense for the years ended June 30, 2024 and 2023, are as follows:

	2024	2023
Operating lease cost	\$ 121,785	\$ 40,763
Short-term lease cost	627,120	751,592
Total lease cost	\$ 748,905	\$ 792,355

The lease term and discount rate for operating leases are as follows at June 30, 2024 and 2023:

	2024	2023
Weighted-average remaining lease term for operating leases	2.96 years	3.33 years
Weighted-average discount rate for operating leases	4.17%	3.28%

Future undiscounted cash flows and reconciliation to the operating lease liabilities recognized on the statement of financial position as of June 30, 2024, is as follows:

Years ending June 30:		
2025		\$ 145,085
2026		91,798
2027		51,091
2028		25,536
2029		8,512
Total minimum obligations		322,022
Less imputed interest		(18,770)
Present value of lease liabilities		\$ 303,252

## Independent Auditor's Report on the Supplementary Information

Board of Directors  
The Arc Baltimore, Inc.

We have audited the financial statements of The Arc Baltimore, Inc. (Arc) as of and for the year ended June 30, 2024, and have issued our report thereon, dated November 21, 2024, which contains an unmodified opinion on those financial statements. See pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information, except for the budget information on page 29 marked unaudited, has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. The budgeted information on page 29 marked unaudited has not been subjected to auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it. In our opinion, except for the budget information on page 29 marked unaudited, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*RSM US LLP*

Baltimore, Maryland  
November 21, 2024

The Arc Baltimore, Inc.

**Supplemental Schedule of Revenue and Expenses**  
**Year Ended June 30, 2024**  
**(With Comparative Totals for 2023)**

	Program Services			
	Employment and Day	Community Living	Family and Children	Total Program Services
Support and revenue:				
Government agencies	\$ 10,504,993	\$ 27,160,881	\$ 4,085,970	\$ 41,751,844
Contracts and other revenue	7,501,187	1,139,452	-	8,640,639
Public support, direct	5,600	23,900	41,663	71,163
Public support, indirect	-	-	21,505	21,505
<b>Total support and revenue</b>	<b>18,011,780</b>	<b>28,324,233</b>	<b>4,149,138</b>	<b>50,485,151</b>
Expenses:				
Staff salaries	8,961,313	15,993,745	1,483,189	26,438,247
Supported worker salaries	2,318,734	-	-	2,318,734
Fringe benefits	1,975,726	2,870,675	291,175	5,137,576
Supplies, equipment and materials	648,499	217,477	5,248	871,224
Contracted services	1,051,591	2,081,164	29,626	3,162,381
Assistance to individuals	6,028	11,304	1,611,368	1,628,700
Depreciation and amortization	435,562	420,817	3,586	859,965
Transportation	29,911	1,978	5,236	37,125
Food	3,851	565,517	-	569,368
Dues, memberships and licenses	5,791	6,609	5,869	18,269
Interest	50,150	101,325	2,380	153,855
Insurance	481,334	289,981	8,609	779,924
Utilities and telephone	255,328	411,956	15,637	682,921
Rent and lease expense	60,274	617,619	2,990	680,883
Repairs and maintenance	150,691	435,624	5,552	591,867
Training and travel	59,042	66,302	22,882	148,226
Administration and support	1,646,065	2,283,521	333,526	4,263,112
Miscellaneous	42,624	9,138	9,711	61,473
<b>Total expenses</b>	<b>18,182,514</b>	<b>26,384,752</b>	<b>3,836,584</b>	<b>48,403,850</b>
<b>Change in net assets from operating activities</b>	<b>\$ (170,734)</b>	<b>\$ 1,939,481</b>	<b>\$ 312,554</b>	<b>\$ 2,081,301</b>

<b>Support and Administration</b>	<b>2024 Totals</b>	<b>2023 Totals</b>
\$ 229,346	\$ 41,981,190	\$ 40,177,379
1,608,211	10,248,850	10,173,239
385,327	456,490	447,611
-	21,505	42,211
<b>2,222,884</b>	<b>52,708,035</b>	<b>50,840,440</b>
3,162,978	29,601,225	27,613,104
4,060	2,322,794	2,396,384
626,093	5,763,669	5,560,598
154,926	1,026,150	1,197,871
1,185,674	4,348,055	4,139,208
120,852	1,749,552	1,932,138
253,679	1,113,644	1,177,698
1,319	38,444	15,169
67	569,435	584,555
117,675	135,944	137,304
104,698	258,553	259,573
94,761	874,685	759,707
164,303	847,224	946,264
68,022	748,905	792,355
85,548	677,415	650,282
193,307	341,533	321,481
(4,263,112)	-	-
40,702	102,175	164,839
<b>2,115,552</b>	<b>50,519,402</b>	<b>48,648,530</b>
<b>\$ 107,332</b>	<b>\$ 2,188,633</b>	<b>\$ 2,191,910</b>

The Arc Baltimore, Inc.

**Supplemental Schedule of Revenue and Expenses  
Year Ended June 30, 2023**

	Program Services			
	Employment and Day	Community Living	Family and Children	Total Program Services
Support and revenue:				
Government agencies	\$ 10,537,883	\$ 25,184,765	\$ 3,841,079	\$ 39,563,727
Contracts and other revenue	7,966,217	1,180,713	156	9,147,086
Public support, direct	24,066	5,325	44,334	73,725
Public support, indirect	-	-	42,211	42,211
<b>Total support and revenue</b>	<b>18,528,166</b>	<b>26,370,803</b>	<b>3,927,780</b>	<b>48,826,749</b>
Expenses:				
Staff salaries	9,208,746	14,220,646	1,285,434	24,714,826
Supported worker salaries	2,393,051	-	-	2,393,051
Fringe benefits	2,110,066	2,593,286	262,100	4,965,452
Supplies, equipment and materials	823,118	219,107	4,247	1,046,472
Contracted services	1,358,856	1,607,260	37,684	3,003,800
Assistance to individuals	8,031	13,024	1,822,912	1,843,967
Depreciation and amortization	496,012	436,037	4,606	936,655
Transportation	7,606	1,084	6,248	14,938
Food	11,118	570,228	41	581,387
Dues, memberships and licenses	6,803	4,112	5,314	16,229
Interest	38,079	107,100	3,958	149,137
Insurance	424,493	229,251	9,446	663,190
Utilities and telephone	320,348	440,109	19,175	779,632
Rent and lease expense	62,237	643,462	6,412	712,111
Repairs and maintenance	177,993	376,546	8,514	563,053
Training and travel	53,393	54,486	18,402	126,281
Administration and support	1,683,427	2,052,542	319,788	4,055,757
Miscellaneous	114,275	9,555	9,290	133,120
<b>Total expenses</b>	<b>19,297,652</b>	<b>23,577,835</b>	<b>3,823,571</b>	<b>46,699,058</b>
<b>Change in net assets from operating activities</b>	<b>\$ (769,486)</b>	<b>\$ 2,792,968</b>	<b>\$ 104,209</b>	<b>\$ 2,127,691</b>

Support and Administration	Totals
\$ 613,652	\$ 40,177,379
1,026,153	10,173,239
373,886	447,611
-	42,211
<u>2,013,691</u>	<u>50,840,440</u>

2,898,278	27,613,104
3,333	2,396,384
595,146	5,560,598
151,399	1,197,871
1,135,408	4,139,208
88,171	1,932,138
241,043	1,177,698
231	15,169
3,168	584,555
121,075	137,304
110,436	259,573
96,517	759,707
166,632	946,264
80,244	792,355
87,229	650,282
195,200	321,481
(4,055,757)	-
31,719	164,839
<u>1,949,472</u>	<u>48,648,530</u>

<u>\$ 64,219</u>	<u>\$ 2,191,910</u>
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The Arc Baltimore, Inc.

**Schedule of Foster Care and Treatment  
Foster Care Revenue and Expenses  
Year Ended June 30, 2024**

	Treatment Foster Care	
	Actual	Budget (Unaudited)
<b>Revenue:</b>		
Fee for service	\$ 1,229,686	\$ 1,337,100
	<u>1,229,686</u>	<u>1,337,100</u>
<b>Allowable expenses:</b>		
Administrative and support services	91,296	141,800
Assistance	515,749	576,200
Contracted services	6,342	8,500
Depreciation	1,992	2,000
Dues, memberships and licenses	5,851	11,100
Equipment rental and lease repairs	1,661	4,000
Food	-	200
Fringe benefits	67,107	85,300
Insurance	4,361	5,000
Miscellaneous	9,661	11,000
Repairs and maintenance	3,506	5,200
Salary	337,890	405,500
Supplies	2,829	1,200
Travel and transportation	7,460	13,000
Utility	8,897	10,900
<b>Total allowable expenses</b>	<u>1,064,602</u>	<u>1,280,900</u>
<b>Excess of revenue over allowable expenses</b>	<u>165,084</u>	<u>56,200</u>
<b>Excess of revenue over expenses</b>	<u>\$ 165,084</u>	<u>\$ 56,200</u>
Child care months	<u>276</u>	
Actual cost of care per month	<u>\$ 3,857</u>	
Contracted monthly fees	<u>\$ 4,448</u>	Treatment rate
<b>Conversion of revenue from accrual basis to cash basis:</b>		
Fee for service revenue—accrual basis	\$ 1,229,686	
Fee for service receivable, beginning balance	143,195	
Fee for service receivable, ending balance	(136,765)	
Fee for service revenue—cash basis	<u>\$ 1,236,116</u>	