MIDSTATE ARC, INC.

Financial Statements with
Independent Auditor's Report

June 30, 2023 and 2022

MIDSTATE ARC, INC.

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GUILMARTIN ▪ DIPIRO ▪ SOKOLOWSKI LLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
MidState Arc, Inc.:

Report on the Audit of the Financial Statements

Opinion
We have audited the accompanying financial statements of MidState Arc, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2023 and 2022, and 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 financial statements present fairly, in all material respects, the financial position of MidState Arc, Inc. as of June 30, 2023 and 2022, 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 and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. 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 MidState Arc, Inc. 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 opinions.

Emphasis of Matter
As discussed in Note 1 to the financial statements, MidState Arc, Inc. adopted new accounting guidance, Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, effective July 1, 2022. Our opinion is not modified with respect to this matter.

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 MidState Arc, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are 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 generally accepted auditing standards and *Government 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 judgement made by a reasonable user based on the financial statements.

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In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgement 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 MidState Arc, 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 financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about MidState Arc, 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 audits.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2024 on our consideration of MidState Arc, 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 MidState Arc, 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 MidState Arc, Inc.'s internal control over financial reporting and compliance.

Guilmartin DiPiro + Sokolowski, LLC

Middletown, Connecticut
January 30, 2024

MIDSTATE ARC, INC.

Statements of Financial Position

June 30, 2023 and 2022

	2023	2022
Assets		
Current assets:		
Cash	**$ 3,340,374**	$ 3,314,583
Accounts receivable, net	**417,763**	204,201
Prepaid expenses and other current assets	**187,362**	121,862
Total current assets	**3,945,499**	3,640,646
Property and equipment, net	**3,492,393**	2,791,547
Other assets:		
Security deposits	**24,089**	30,734
Endowment asset	**31,226**	30,603
Operating right-of-use asset, net	**693,128**	-
Total other assets	**748,443**	61,337
Total assets	**$ 8,186,335**	$ 6,493,530
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	**$ 209,542**	$ 433,561
Accrued expenses	**3,178,140**	1,953,614
Current portion of mortgages payable	**64,228**	60,976
Current portion of operating lease liability	**372,225**	-
Due to State	**227,507**	-
Refundable advances	**191,014**	266,999
Total current liabilities	**4,242,656**	2,715,150
Long-term liabilities:		
Mortgages payable, less current portion	**1,130,887**	1,212,758
DDS cash advances	**214,411**	214,411
Operating lease liability, less current portion	**326,239**	-
Total long-term liabilities	**1,671,537**	1,427,169
Total liabilities	**5,914,193**	4,142,319
Net assets:		
Without donor restrictions	**2,239,426**	2,311,658
With donor restrictions	**32,716**	39,553
Total net assets	**2,272,142**	2,351,211
Total liabilities and net assets	**$ 8,186,335**	$ 6,493,530

See accompanying notes to financial statements.

MIDSTATE ARC, INC.

Statements of Activities

For the years ended June 30, 2023 and 2022

	2023	2022
Changes in Net Assets Without Donor Restrictions		
Operating revenues and other support:		
Grants and contracts	**$ 15,891,676**	$ 14,207,071
ARPA funds	**510,486**	367,230
Sales to the public	**17,959**	14,161
Contributions	**20,980**	22,899
Fundraising	**34,175**	34,091
Rental	**98,437**	-
Other	**146,138**	89,509
Net assets released from restrictions	**16,393**	2,063
Total operating revenues and other support	**16,736,244**	14,737,024
Operating expenses:		
Program services:		
Day programs	**4,197,806**	4,055,400
Residential programs	**8,407,862**	7,488,089
Other	**174,289**	152,576
Total program services	**12,779,957**	11,696,065
Supporting services:		
Administrative and general	**4,068,424**	2,991,367
Fundraising	**7,695**	6,316
Total supporting services	**4,076,119**	2,997,683
Total operating expenses	**16,856,076**	14,693,748
Change in net assets without donor restrictions from operations	**(119,832)**	43,276
Non-operating activity:		
Gain on sale of property and equipment	**47,600**	-
Total non-operating activity	**47,600**	-
Change in net assets without donor restrictions	**(72,232)**	43,276
Net assets without donor restrictions, beginning of year	**2,311,658**	2,268,382
Net assets without donor restrictions, end of year	**$ 2,239,426**	$ 2,311,658
Changes in Net Assets With Donor Restrictions		
Contributions	**$ 9,541**	$ 10,003
Investment income	**15**	15
Net assets released from restrictions	**(16,393)**	(2,063)
Change in net assets with donor restrictions	**(6,837)**	7,955
Net assets with donor restrictions, beginning of year	**39,553**	31,598
Net assets with donor restrictions, end of year	**$ 32,716**	$ 39,553
Change in net assets	**$ (79,069)**	$ 51,231
Net assets, beginning of year	**2,351,211**	2,299,980
Net assets, end of year	**$ 2,272,142**	$ 2,351,211

See accompanying notes to financial statements.

MIDSTATE ARC, INC.

Statement of Functional Expenses

For the year ended June 30, 2023
(with comparative totals for 2022)

	Program Services					*Supporting Services*				
	Day Programs	Residential Programs	Other	Occupancy Allowance	Total Program Services	Administrative and General	Fundraising	Total Supporting Services	2023 Total Expenses	2022 Total Expenses
Salaries and wages	$ 2,553,237	$ 4,765,781	$ 61,201	$ 26,270	$ 7,406,489	$ 2,336,452	$ -	$ 2,336,452	$ 9,742,941	$ 8,121,630
Fringe benefits/payroll taxes	720,326	1,349,286	17,325	7,437	2,094,374	661,291	-	661,291	2,755,665	1,404,431
Total salaries and fringe benefits	3,273,563	6,115,067	78,526	33,707	9,500,863	2,997,743	-	2,997,743	12,498,606	9,526,061
Transportation	385,663	147,510	2,580	30	535,783	17,618	30	17,648	553,431	544,926
Consultants and professional fees	129,761	1,212,456	28,696	-	1,370,913	427,992	-	427,992	1,798,905	2,791,531
Supplies	59,511	163,429	13,744	4,199	240,883	224,845	7,665	232,510	473,393	335,296
Depreciation	90,644	117,063	-	-	207,707	2,490	-	2,490	210,197	443,331
Utilities	32,872	125,716	480	60,964	220,032	16,544	-	16,544	236,576	234,022
Repairs and maintenance	18,911	89,267	3	3,472	111,653	480	-	480	112,133	77,416
Interest	12,415	64,969	-	-	77,384	1,441	-	1,441	78,825	81,434
Food supplies	8,780	110,030	-	2,207	121,017	149	-	149	121,166	110,194
Insurance	6,007	20,912	5,890	14,345	47,154	78,835	-	78,835	125,989	103,377
Training and conferences	1,651	39,718	33,764	-	75,133	81,012	-	81,012	156,145	63,676
Occupancy	168,411	187,788	7,736	(129,924)	234,011	165,075	-	165,075	399,086	296,588
Licenses, dues and subscriptions	-	-	-	-	-	36,138	-	36,138	36,138	31,484
Bad debts	-	-	1,282	-	1,282	6,668	-	6,668	7,950	8,591
Equipment	9,617	13,937	1,588	-	25,142	11,394	-	11,394	36,536	39,698
Property taxes	-	-	-	11,000	11,000	-	-	-	11,000	6,123
Total operating expenses	$ 4,197,806	$ 8,407,862	$ 174,289	$ -	$ 12,779,957	$ 4,068,424	$ 7,695	$ 4,076,119	$ 16,856,076	$ 14,693,748

See accompanying notes to financial statements.

MIDSTATE ARC, INC.

Statement of Functional Expenses

For the year ended June 30, 2022

	Program Services					*Supporting Services*			
	Day Programs	Residential Programs	Other	Occupancy Allowance	Total Program Services	Administrative and General	Fundraising	Total Supporting Services	Total Expenses
Salaries and wages	$ 2,214,155	$ 4,039,784	$ 54,389	$ 9,689	$ 6,318,017	$ 1,803,613	$ -	$ 1,803,613	$ 8,121,630
Fringe benefits/payroll taxes	379,214	704,702	9,334	1,663	1,094,913	309,518	-	309,518	1,404,431
Total salaries and fringe benefits	2,593,369	4,744,486	63,723	11,352	7,412,930	2,113,131	-	2,113,131	9,526,061
Transportation	360,196	161,921	11,871	221	534,209	10,684	33	10,717	544,926
Consultants and professional fees	529,213	1,827,901	27,502	-	2,384,616	406,915	-	406,915	2,791,531
Supplies	71,433	112,081	30,938	5,483	219,935	109,078	6,283	115,361	335,296
Depreciation	247,251	188,933	-	-	436,184	7,147	-	7,147	443,331
Utilities	43,345	120,715	480	69,378	233,918	104	-	104	234,022
Repairs and maintenance	10,373	42,157	526	24,261	77,317	99	-	99	77,416
Interest	13,221	67,196	-	-	80,417	1,017	-	1,017	81,434
Food supplies	10,407	96,001	-	582	106,990	3,204	-	3,204	110,194
Insurance	6,299	17,095	5,828	8,112	37,334	66,043	-	66,043	103,377
Training and conferences	1,520	2,295	2,115	-	5,930	57,746	-	57,746	63,676
Occupancy	158,563	95,471	5,960	(125,512)	134,482	162,106	-	162,106	296,588
Licenses, dues and subscriptions	-	-	325	-	325	31,159	-	31,159	31,484
Bad debts	-	-	1,725	-	1,725	6,866	-	6,866	8,591
Equipment	10,210	11,837	1,583	-	23,630	16,068	-	16,068	39,698
Property taxes	-	-	-	6,123	6,123	-	-	-	6,123
Total operating expenses	$ 4,055,400	$ 7,488,089	$ 152,576	$ -	$ 11,696,065	$ 2,991,367	$ 6,316	$ 2,997,683	$ 14,693,748

See accompanying notes to financial statements.

MIDSTATE ARC, INC.

Statements of Cash Flows

For the years ended June 30, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Change in net assets	**$ (79,069)**	$ 51,231
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	**210,197**	443,331
Amortization of right-of-use asset	**348,423**	-
Bad debts	**7,950**	8,591
(Gain) on sale of property and equipment	**(47,600)**	-
(Increase) decrease in accounts receivable	**(221,512)**	552,054
(Increase) in prepaid expenses and other current assets	**(66,124)**	(18,730)
Decrease (increase) in security deposits	**6,645**	(327)
(Decrease) increase in accounts payable	**(224,019)**	225,834
Increase in accrued expenses	**1,224,526**	435,673
Increase in due to State	**227,507**	-
(Decrease) increase in refundable advances	**(75,985)**	220,908
(Decrease) in operating lease obligations	**(343,087)**	-
Net cash provided by operating activities	**967,852**	1,918,565
Cash flows from investing activities:		
Purchase of property and equipment	**(1,046,757)**	(166,669)
Proceeds from the sale of property and equipment	**183,314**	-
Net cash (used in) investing activities	**(863,443)**	(166,669)
Cash flows from financing activities:		
Payments on mortgages payable	**(78,618)**	(74,774)
Net cash (used in) financing activities	**(78,618)**	(74,774)
Net increase in cash	**25,791**	1,677,122
Cash, beginning of year	**3,314,583**	1,637,461
Cash, end of year	**$ 3,340,374**	$ 3,314,583
Supplemental disclosure of cash flow information:		
Interest paid	**$ 78,825**	$ 81,434

See accompanying notes to financial statements.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of organization

MidState Arc, Inc. (the Organization) is a comprehensive full-service agency providing services for children and adults with developmental and cognitive disabilities in the central Connecticut area. Services include housing, group and independent employment opportunities, supportive services for children and adults, school to work transition, community experience, retirement program, out of home and in-home individualized services and residential support, meals-on-wheels, behavioral support, self-advocacy, recreation, respite services, transportation, volunteering, remote supports, employer education, community education, assistance technology, senior supports and advocacy.

Summary of significant accounting policies:

Basis of accounting and presentation

The accounts of the Organization are maintained, and the financial statements are prepared in accordance with accounting principles generally accepted in the United States of America on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities. The Organization reports 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. They are described as follows:

<u>Net assets without donor restrictions</u> - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

<u>Net assets with donor restrictions</u> - Net assets subject to donor (or certain grantor) imposed restrictions. Some donor imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Operating and non-operating activities

The statements of activities present the changes in net assets of the Organization from operating activities and from non-operating activities. Operating revenues and expenses relate primarily to programs and grant activities provided by the Organization.

Non-operating activities consist primarily of gains on the sale of property and equipment.

Recently adopted accounting standards

ASU 2020-07 – *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*

In September 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2020-07, *Not-for-Profit Entities (Topic 958)*: *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The ASU requires not-for-profits to present contributed nonfinancial assets as a separate line item on the statements of activities and provide additional disclosures about contributions of nonfinancial assets; however, the ASU did not change the existing recognition and measurement requirements for contributed nonfinancial assets. Contributions may be disclosed using varying terms such as gifts, donations or gifts in-kind. The ASU was effective for annual periods beginning after June 15, 2021 and the amendments in the ASU were applied by the Organization on a retrospective basis for the year ended June 30, 2022. The adoption of the ASU did not have a material impact on the Organization’s financial statements.

ASU 2016-02 – *Leases (Topic 842)*

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The ASU was amended in some respects by subsequent ASUs (collectively, Accounting Standards Codification 842 (ASC 842)) and supersedes existing lease guidance. The standard establishes a right-of-use (ROU) model that requires lessees to recognize an ROU asset and related lease liability on the statement of financial position for all leases, as well as disclose key quantitative and qualitative information about lease contracts. The standard was effective for annual periods beginning after December 15, 2021 and allows for either an effective date method (modified retrospective transition approach applied to the year of adoption) or a comparative method (modified retrospective transition approach applied to all periods presented), as well as certain transition elections.

The Organization adopted the standard on July 1, 2022, which is also the initial date of application, using the effective date method. Consequently, financial information prior to the adoption date has not been updated and disclosures required under the new standard are not provided for periods prior to July 1, 2022. The Organization also elected certain transition practical expedients, which include the election not to reassess at adoption 1) expired or existing contracts to determine whether they are or contain a lease, 2) the lease classification of any existing leases, or 3) initial direct costs for existing leases. As a result of the implementation of the standard, the Organization recognized ROU assets and lease liabilities of $1,041,551 in its statement of financial position as of July 1, 2022, and no cumulative adjustment was required at the date of adoption. The Organization's policies disclosed in Note 1 reflect the impact of the adoption of the standard. See Note 11 for further disclosure of the Organization's leasing arrangements.

Cash and cash equivalents

The Organization considers all highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash equivalents. The Organization had no cash equivalents as of June 30, 2023 and 2022.

Accounts receivable

The Organization has accounts receivable related to grants and third-party reimbursements. Based on historical experience, grants are considered fully collectable. Management performs an assessment of collectability related to other receivables and will write off receivables from individuals and other sources after all attempts at collection are exhausted. When appropriate, management maintains an allowance for uncollectable accounts, which is based on a review of significant delinquent balances, historical experience, an assessment of economic conditions and a review of subsequent collections. The allowance for uncollectable accounts at June 30, 2023 and 2022 was $35,887. The statements of financial position report accounts receivable net of allowance.

Property and equipment

The Organization follows the practice of capitalizing all property and equipment with a cost exceeding $5,000 or if donated, at fair value on the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets with a range in lives from 3 to 30 years. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are charged to expense as incurred.

The Organization reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. The Organization has determined that there was no impairment of long-lived assets as of June 30, 2023 and 2022.

Refundable advances

The Organization presents refundable advances when grant advances and other revenue exceeds the eligible cost incurred. Grants require the fulfillment of certain conditions as set forth in the instrument of the grant. Failure to fulfill the conditions could result in the return of funds to grantors. Unspent grant funds of $191,014 and $266,999 as of June 30, 2023 and 2022, respectively, are included in the statements of financial position. Amounts are to be used for future programmatic expenses, in accordance with the funding agencies' guidelines.

Revenue and revenue recognition

Contributions

The Organization receives contributions to support operating activities, endowments and capital projects. These contributions can be from individuals, foundations, corporations or trusts. The Organization records contributions receivable, net of allowances for estimated uncollectable amounts, when there is sufficient evidence in the form of verifiable documentation that an unconditional promise was received. Conditional promises to give, that is, those with a measurable performance or other barrier and right of return, are not recognized until the conditions on which they depend are substantially met or explicitly waived by the donor.

The Organization reports gifts of cash and other assets that are received with donor stipulations limiting the use of the donated assets, as support without donor restrictions if all such donor restrictions are met in the year the award is received. Gifts of cash and other assets that are received with donor stipulations limiting the use of the donated assets are reported as net assets with donor restrictions if such donor stipulations are not fully met in the year the award is received. When a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Contributed services are recognized in the financial statements if they enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. General volunteer services do not meet these criteria for recognition. However, many volunteers have donated significant amounts of time in supporting the Organization's mission and fundraising campaign.

Government grant and contracts

The Organization receives grant and contract funding from various federal and state governments, which may be considered exchange transactions or contributions. The funding received is to provide a variety of program services to the public based on certain performance requirements included in the agreement and/or the incurrence of allowable qualifying expenses and other requirements. Grants and contracts considered to be contributions are representative of nonreciprocal transactions and include conditions stipulated by the government agencies and are, therefore, accounted for as conditional contributions. Public support is recognized as revenue when conditions are satisfied, typically when the Organization has incurred expenditures in compliance with specific contract or grant provisions. The Organization recognizes grants and contracts considered to be exchange transactions once the performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided. The revenue recognized would be reported at the amount reflecting the consideration the Organization expects to receive in exchange for the services provided.

For the years ended June 30, 2023 and 2022, the Organization received $564,164 and $502,566, respectively in American Rescue Plan Act (ARPA) Home and Community Based Services (HCBS) funding, which was provided by the State of Connecticut Department of Development Services (DDS). The funding included payments for the following three initiatives: Category 1: Temporary provider stabilization, Category 2: Workforce stability incentives and stability, and Category 3: Infrastructure improvements through technology. The State has established expenditure deadlines, by category, for providers to adhere to before additional payments are made, which are as follows: September 30, 2022 expenditure deadline for category 1, December 31, 2022 expenditure deadline for category 2 and June 30, 2024 expenditure deadline for category 3. DDS will recover any funds not expended by the established deadlines. For the year ended June 30, 2023, the Organization spent and recorded as revenue $510,486 in ARPA HCBS funding and has recorded $189,014

Government grant and contracts, continued

as a refundable advance, which represents the unspent funds as of the end of the fiscal year. For the year ended June 30, 2022, the Organization spent and recorded as revenue, $367,230 in ARPA HCBS funding and has recorded $135,336 as a refundable advance, which represents the unspent funds as of the end of the fiscal year.

The Organization received cost-reimbursable grants of $12,566,734 that have not been recognized at June 30, 2023 because qualifying expenditures have not yet been incurred.

Special events

Special events revenue is comprised of an exchange element based upon the direct benefits donors receive and a contribution element for the difference. The Organization recognizes special events revenue equal to the fair value of direct benefits to the donors when the special event takes place. The Organization recognizes the contribution element of special event revenue immediately, unless there is a right of return if the special event does not take place.

Endowment and spending policy

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a reasonably predictable stream of funding for programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor restricted funds that the Organization must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in accordance with sound investment practices that emphasize long-term investment fundamentals. It is recognized that short-term market fluctuations may cause variations in account performance.

To satisfy its long-term rate of return objectives, the Organization assumes a conservative level of investment risk and holds its investments in certificate of deposit accounts. The Organization has implemented a policy that states normal distributions of earnings shall not occur until the endowment asset balance exceeds $100,000. In establishing this policy, the Organization considered the long-term expected return on its endowment. This is consistent with the Organization’s objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Leases

For the year ended June 30, 2022, leases were accounted for under legacy standards. Rental payments under agreements which meet the criteria of an operating lease were expensed ratably over the lease term. Assets which were acquired by lease-purchase agreements and met the criteria of a capital lease were recorded as assets and obligations at the lesser of 1) an amount equal to the present value, at the beginning of the lease term, of minimum lease payments during the lease term, that portion of the payments representing executory costs to be paid by the lessor, together with any profit thereon, or 2) the fair value of the leased property at the inception of the lease.

As of July 1, 2022, the Organization accounts for leases under ASC 842. Under the new standards, the Organization determines if an arrangement is or contains a lease at inception. Lease assets represent the right to control the use of an identified asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. All leases are accounted for as right-of-use (ROU) assets and lease liabilities in the statements of financial position, with the exception of leases with an initial term of 12 months or less. The lease payments for such short term leases are reported as lease expense on a straight-line basis over the lease term. Management only reassesses its determination of a lease contract if the terms and conditions of the contract are changed.

ROU assets and lease liabilities are recognized at the lease commencement date based on the present value of the lease payments over the lease term. ROU assets also include adjustments related to lease payments made and lease incentives received at or before the commencement date. The Organization uses the implicit rate when it is readily available to discount future lease payments; however, when unavailable, the Organization uses a risk-free rate based on readily available information at lease commencement. Lease terms may include options to extend or terminate the lease when it

Leases, continued

is reasonably certain that the option will be exercised. Operating lease ROU assets and related lease liabilities are separately stated on the statements of financial position. Finance lease ROU assets are included in property and equipment, net and related lease liabilities are included in long-term lease liabilities on the statements of financial position. When lease agreements provide for the separate identification of lease and non-lease components, such components are accounted for separately using stand-alone prices; however, when non-lease components are not separately identifiable, the Organization accounts for the lease and non-lease components as a single lease.

Operating lease expense is recognized on a straight-line basis over the lease term. Finance lease expense includes amortization of the ROU asset on a straight-line basis, and interest on the lease liabilities using the Organization's applied discount rate. See Note 11 for more information on the Organization's leasing arrangements.

Functional allocation of expenses

The costs of providing various program and supporting activities have been summarized on a functional basis in the statements of activities and by nature and function in the statements of functional expenses. The Organization charges direct expenses incurred for a specific function directly to the program or supporting service category. These costs are those that can be specifically identified as being incurred for the activities of that program or supporting service. Other costs incurred that benefit more than one program or supporting service are allocated. Expenses allocated based on square footage include occupancy charges, building operations, technology, depreciation and amortization. Salaries, not directly charged, are allocated on the basis of estimates of time and effort and direct care salaries. Employee benefits are allocated based on the program percentage of salary. Administrative and general expenses are allocated based on salaries. The Organization reevaluates its allocation method each year.

Income taxes

The Organization has received exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Organization has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) of the Internal Revenue Code and qualifies for deductible contributions as provided in Section 170(b)(1)(a)(vi).

The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization's federal Returns of Organization Exempt from Income Tax (Form 990) for June 30, 2023, 2022 and 2021 are subject to examination by the IRS, generally for three years after they were filed.

Concentrations

Financial Instruments

The Organization maintains its cash with high-credit quality financial institutions. At times, such amounts may exceed federal depository insurance limits. To date, the Organization has not experienced losses in any of these accounts. At June 30, 2023, no cash balances exceeded the federally insured limit.

Revenue and Grants Receivable

A substantial portion of the Organization's revenue is derived from grant contracts. Since the contracts are evidenced by signed contracts with government and other agencies, management believes there is nominal credit risk associated with any outstanding grants receivable. For the years ended June 30, 2023 and 2022, approximately 95% and 96%, respectively, of its revenue is from the State of Connecticut Department of Developmental Services (DDS). Approximately 100% and 91% of its accounts receivable is due from DDS, respectively.

Compensated absences

The Organization accrues for the costs of compensated absences to the extent that the employee's right to receive payment relates to service already rendered, the obligation vests or accumulates, payment is probable, and the amount can be reasonably estimated. The Organization's policies related to compensated absences vary by years of service and include a maximum allowable carryover provision.

Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the disclosures and reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences could be material.

NOTE 2 – ACCOUNTS RECEIVABLE/DDS BRIDGE FUNDING ADVANCES

The Organization retains bridge funding advances from DDS to fund the cash flow requirements of the Organization's DDS programs in the amount of $1,087,094 as of June 30, 2023 and 2022. As shown below, these advances are offset against DDS accounts receivable on the accompanying statements of financial position.

	2023	2022
DDS accounts receivable	$ 1,532,515	$ 1,090,200
Less: DDS bridge funding advance	(1,087,094)	(1,087,094)
Net DDS receivable	445,421	3,106
Other receivables	8,229	236,982
Less: allowance for uncollectable accounts	(35,887)	(35,887)
Accounts receivable, net	$ 417,763	$ 204,201

NOTE 3 – ENDOWMENT

The Organization's endowment consists of one individual fund established for a variety of purposes. Its endowment includes only donor restricted endowment funds. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments are classified and reported based on the existence or absence of donor imposed restrictions.

The Board of Directors of the Organization has interpreted the Connecticut Prudent Management of Institutional Funds Act (CTPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. At June 30, 2023 and 2022, there were no such donor stipulations.

As a result of this interpretation, the Organization retains in perpetuity (a) the original value of initial and subsequent gift amounts donated to the endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by CTPMIFA. In accordance with CTPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

1. The duration and preservation of the fund.
2. The purposes of the Organization and the donor restricted endowment fund.
3. General economic conditions.

Endowment, continued

4. The possible effect of inflation and deflation.
5. The expected total return from income and the appreciation of investments.
6. Other resources of the Organization.
7. The investment policies of the Organization.

Endowment net asset composition

The following table represents the composition of the Organization's endowment by net asset class as of June 30, 2023 and 2022:

June 30, 2023	With Donor Restrictions	Total
Original donor restricted gift amount and amounts required to be maintained in perpetuity by donor	$30,811	$30,811
Accumulated investment gains	370	370
	$31,181	$31,181

June 30, 2022	With Donor Restrictions	Total
Original donor restricted gift amount and amounts required to be maintained in perpetuity by donor	$30,043	$30,043
Accumulated investment gains	355	355
	$30,398	$30,398

Changes in endowment net assets

The following table represents the changes in the Organization's endowment net assets for the years ended June 30, 2023 and 2022:

Year ended June 30, 2023	With Donor Restrictions	Total
Endowment net assets, beginning of year	$30,398	$30,398
Investment return, net	15	15
Contributions	768	768
Endowment net assets, end of year	$31,181	$31,181

Year ended June 30, 2022	With Donor Restrictions	Total
Endowment net assets, beginning of year	$29,615	$29,615
Investment return, net	15	15
Contributions	768	768
Endowment net assets, end of year	$30,398	$30,398

Underwater endowments

From time to time, the fair value of assets associated with the individual donor restricted endowment funds may fall below the level that the donor or CTPMIFA requires the Organization to retain as a fund of perpetual duration. The Organization has interpreted CTPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. There were no such deficiencies as of June 30, 2023 and 2022.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30:

	2023	2022
Land	$ 1,052,477	$ 1,108,878
Land improvements	229,700	109,508
Building and building improvements	2,483,489	2,477,963
Furniture and fixtures	94,311	102,121
Construction in process	862,402	15,863
Vehicles	550,300	578,316
	5,272,679	4,392,649
Less: accumulated depreciation	(1,780,286)	(1,601,102)
Property and equipment, net	$ 3,492,393	$ 2,791,547

Construction in process at June 30, 2023 represents $862,402 in costs incurred related to a 74 South Broad and a Bristol project.

Depreciation expense was $210,197 and $443,331 for the years ended June 30, 2023 and 2022, respectively.

NOTE 5 – DUE TO STATE

During the fiscal year ended June 30, 2023, the Organization received minimum wage funding from the State of Connecticut Department of Developmental Services. The Organization did not spend all of the funding within the required timeline and, as a result $227,507 is due back to the State as of June 30, 2023.

NOTE 6 – REFUNDABLE ADVANCES

Refundable advances consist of the following as of June 30:

	2023	2022
ARPA - DDS funding	$189,014	$ 135,336
Other	2,000	131,663
Total refundable advances	$191,014	$266,999

NOTE 7 –DDS CASH ADVANCES

When a facility commences operations, the Organization may receive an operational advance equal to the service revenue for one month based on full capacity. These operational advances are applied against the final reimbursement when a facility ceases their agency relationship with DDS. Total operational advances were $214,411 for both years ended June 30, 2023 and 2022.

NOTE 8 – LONG-TERM DEBT

Mortgages payable

	2023	2022
4.500% mortgage payable to Collinsville Bank in equal monthly installments of $2,481, including principal and interest through February 2031, at which time interest will be calculated at the FHLBB Classic Advance Rate plus 2.750%. The mortgage is collateralized by property in Meriden, Connecticut.	$ 254,666	$ 272,279
6.590% mortgage payable to ION Bank in equal monthly installments of $2,450, including principal and interest through April 2043. Interest is calculated at a variable rate of the FHLBB five-year Classic Advance Rate plus 3.350%. The mortgage is collateralized by property in Watertown, Connecticut.	350,183	362,063
5.500% mortgage payable to ION Bank in equal monthly installments of $1,356, including principal and interest through December 2032, at which time interest will be calculated at the FHLBB Classic Advance Rate plus 3.000%. The mortgage is collateralized by property in Hamden, Connecticut.	122,298	131,346
4.250% mortgage payable to ION Bank in equal monthly installments of $987, including principal and interest through June 2038, at which time interest will be calculated at the FHLBB Classic Advance Rate plus 3.000%. The mortgage is collateralized by property in Meriden, Connecticut.	135,148	140,438
3.500% mortgage payable to Windsor Federal Savings & Loan Association in equal monthly installments of $1,034, including principal and interest through June 2024. The mortgage is collateralized by property in Meriden, Connecticut.	82,291	91,603
5.000% mortgage payable to ION Bank in equal monthly installments of $667, including principal and interest through November 2031, at which time interest will be calculated at the FHLBB Classic Advance Rate plus 3.000%. The mortgage is collateralized by property in Meriden, Connecticut.	54,787	59,880
6.626% mortgage payable to Connecticut Housing Finance Authority in equal monthly installments of $2,843, including principal and interest through September 2030. The mortgage is collateralized by property in Meriden, Connecticut.	195,742	216,125
Total mortgages payable	1,195,115	1,273,734
Less: current portion	(64,228)	(60,976)
Total	$1,130,887	$1,212,758

Future maturities of long-term debt are as follows:

Years Ending June 30,	
2024	$ 64,228
2025	67,661
2026	71,285
2027	75,110
2028	105,090
Thereafter	811,741
Total	$1,195,115

Long-term debt, continued

Interest expense was $78,825 and $81,434 for the years ended June 30, 2023 and 2022, respectively.

NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at June 30 are restricted for the following purpose or period:

	2023	2022
Time and purpose restricted:		
Hall Acres	$ 1,535	$ 900
Byron Road	-	485
Endowment accumulated investment gains	370	355
CRS improvements	-	270
Cooking classes	-	7,500
Subtotal	1,905	9,510
Investment in perpetuity:		
Perpetual in nature, earnings from which are subject to endowment spending policy and appropriations:		
Endowment	30,811	30,043
Total perpetual endowments	30,811	30,043
Total net assets with donor restrictions	$32,716	$39,553

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows, for the years ended June 30:

	2023	2022
Satisfaction of purpose restrictions:		
Byron Road	$ 485	$ -
CRS improvements	1,770	1,465
CUNO equipment	-	598
Cooking classes	14,138	-
Total	$16,393	$2,063

NOTE 10 – LIQUIDITY AND AVAILABILITY

The Organization manages its liquid resources by focusing on collecting receivables timely to maximize cash collections due to the Organization. The Organization prepares budgets and monitors expenses. Financial assets available for general expenditure, that are, without donor restrictions limiting their use, within one year of the statements of financial position date, comprise the following:

	2023	2022
Cash	$3,340,374	$3,314,583
Accounts receivable, net	417,763	204,201
	$3,758,137	$3,518,784

NOTE 11 – LEASES

The Organization maintains the following leasing arrangements:

Real Estate

The Organization has a lease agreement with an unrelated party to rent office space in Meriden, Connecticut for two years through February 2025. The space is used for administrative offices. Monthly rent is $5,753.

The Organization has a lease agreement with an unrelated party to rent an apartment building in Meriden, Connecticut for one year through January 2024. The building is used for office space. Monthly rent is $1,375.

The Organization has a lease agreement with an unrelated party to rent program space in Meriden, Connecticut for one year through April 30, 2023, then on a month-to-month basis. The space is used to operate a day program for DDS. Monthly rent is $3,508.

The Organization has a lease agreement with an unrelated third party in East Hampton, Connecticut for ten years through July 2023. The house is used to operate a CRS program for DDS. Monthly rent is $2,470 and is adjustable by 2% annually.

The Organization has a lease agreement with an unrelated party to rent a house in Naugatuck, Connecticut for ten years through April 2024. The house is used to operate a CRS program for DDS. Monthly rent is $2,853 and is adjustable by 2% annually.

The Organization has a lease agreement with an unrelated party to rent a house in Hamden, Connecticut for ten years through July 2024. The house is used to operate a CRS program for DDS. Monthly rent is $2,926 and is adjustable by 2% annually.

Vehicles and Equipment

The Organization leases vehicles and office equipment and is responsible for the maintenance and insurance costs. Aggregate monthly rent expense on ongoing leases is $17,404. Leases expire from July 2024 to January 2027.

The Organization presents the following balances related to leases on its statement of financial position as of June 30, 2023.

	Operating
ROU assets	$1,041,551
Accumulated amortization	(348,423)
	$ 693,128
Lease liabilities - current	$ 372,225
Lease liabilities - non-current	326,239
	$ 698,464

Leases, continued

Lease costs for the year ended June 30, 2023 consist of the following:

Operating leases:	
Operating lease costs	$370,694
Short-term lease costs	40,515
Total lease costs	$411,209

Cash paid for amounts included in the measurement of lease liabilities and other information for the year ended June 30, 2023 include:

Operating cash flows from operating leases	$ 365,359
ROU assets obtained in exchange for lease obligations:	
Operating leases	$1,041,551

Average lease terms and discount rates at June 30, 2023 were as follows:

	Operating
Weighted average remaining lease term (years)	2.23
Weighted average discount rate	3.11%

Aggregate future lease payments below summarize the remaining future undiscounted cash flows for operating and finance leases as of June 30, 2023:

Years Ending June 30,	Operating
2024	$365,957
2025	247,482
2026	81,092
2027	29,828
2028	-
Thereafter	-
Total lease payments	724,359
Less: amount representing interest	(25,895)
Present value of lease liabilities	$698,464

Leases, continued

Rent expense under FASB 840 (pre-adoption of the new standards) for operating leases totaled $381,707 for the year ended June 30, 2022. The aggregate minimum lease payments under those operating leases as of June 30, 2022, were as follows for fiscal years following the year ended June 30, 2022:

Years Ending June 30,	
2023	$381,785
2024	219,301
2025	141,335
2026	26,791
2027	-
Thereafter	-
Total	$769,212

NOTE 12 – RETIREMENT PLAN

The Organization sponsors a 401(k) profit sharing plan covering all eligible employees. All employees who have attained 21 years of age and completed 12 months of service are eligible to participate in the plan. Eligible employees may contribute up to the maximum amounts allowed under the plan document and current Internal Revenue Service regulations. There was no employer match for the 401(k) contributions in 2023 and 2022.

Annually, the Board of Directors determines the contribution, if any, to the plan. For the years ended June 30, 2023 and 2022, the Organization elected to contribute $821,014 and $200,000, respectively.

NOTE 13 – CONTINGENCIES

Litigation

The Organization is subject to legal proceedings, claims and liabilities which arise in the ordinary course of business. In the opinion of management, the amount of the ultimate liability with respect to those actions will not materially affect the Organization's financial position or cash flows.

NOTE 14 – SUBSEQUENT EVENTS

The Organization has evaluated events and transactions for potential recognition or disclosure through January 30, 2024, which is the date the financial statements were available to be issued.

In October 2023, the Organization received a third round of DDS ARPA funding in the amount of $515,586. The funding is to be used for the same initiatives as the first two rounds of funding the Organization received (refer to page 10). The funds must be expended by June 30, 2024.

Subsequent to June 30, 2023, the Organization obtained a mortgage in the amount of $688,000 for the purchase of a building and improvements made at 74 South Broad Street, Meriden, Connecticut. Construction in progress for improvements made after June 30, 2023 totaled $284,960.