MIDSTATE ARC, INC.

Financial Statements with
Independent Auditor's Report

June 30, 2024 and 2023

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, 2024 and 2023, 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, 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 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) 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, effective July 1, 2023. 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.

505 MAIN STREET, MIDDLETOWN, CONNECTICUT 06457
TEL 860.347.5689 FAX 860.346.1172 EMAIL OFFICE@GDSCPAS.COM

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 December 20, 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
December 20, 2024

MIDSTATE ARC, INC.

Statements of Financial Position

June 30, 2024 and 2023

	2024	2023
Assets		
Current assets:		
Cash	$ **3,515,882**	$ 3,340,374
Accounts receivable, net	**719,103**	417,763
Prepaid expenses and other current assets	**93,135**	187,362
Total current assets	**4,328,120**	3,945,499
Property and equipment, net	**3,917,806**	3,492,393
Other assets:		
Security deposits	**22,612**	24,089
Endowment asset	**32,867**	31,226
Operating right-of-use asset, net	**580,118**	693,128
Total other assets	**635,597**	748,443
Total assets	$ **8,881,523**	$ 8,186,335
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	$ **305,205**	$ 209,542
Accrued expenses	**2,637,247**	3,178,140
Current portion of mortgages payable	**81,887**	64,228
Current portion of operating lease liability	**318,249**	372,225
Due to State	**227,507**	227,507
Refundable advances	**403,329**	191,014
Total current liabilities	**3,973,424**	4,242,656
Long-term liabilities:		
Mortgages payable, less current portion	**1,716,510**	1,130,887
DDS cash advances	**214,411**	214,411
Operating lease liability, less current portion	**264,666**	326,239
Total long-term liabilities	**2,195,587**	1,671,537
Total liabilities	**6,169,011**	5,914,193
Net assets:		
Without donor restrictions	**2,674,396**	2,239,426
With donor restrictions	**38,116**	32,716
Total net assets	**2,712,512**	2,272,142
Total liabilities and net assets	$ **8,881,523**	$ 8,186,335

See accompanying notes to financial statements.

MIDSTATE ARC, INC.

Statements of Activities

For the years ended June 30, 2024 and 2023

	2024	2023
Changes in Net Assets Without Donor Restrictions		
Operating revenues and other support:		
Department of Developmental Services	**$ 16,133,353**	$ 15,362,922
Department of Developmental Services - ARPA	**701,573**	510,486
Department of Social Services	**470,474**	472,025
Grants and contracts	**65,571**	56,729
Sales to the public	**218,353**	17,959
Contributions	**13,669**	20,980
Fundraising	**39,081**	34,175
Rental	**99,612**	98,437
Other	**109,041**	146,138
Net assets released from restrictions	**7,609**	16,393
Total operating revenues and other support	**17,858,336**	16,736,244
Operating expenses:		
Program services:		
Day programs	**4,315,156**	4,197,806
Residential programs	**9,138,495**	8,407,862
Other	**282,788**	174,289
Total program services	**13,736,439**	12,779,957
Supporting services:		
Administrative and general	**4,277,282**	4,068,424
Fundraising	**10,131**	7,695
Total supporting services	**4,287,413**	4,076,119
Total operating expenses	**18,023,852**	16,856,076
Change in net assets without donor restrictions from operations	**(165,516)**	(119,832)
Non-operating activity:		
Grant funds received for provider stabilization	**429,446**	-
Gain on sale of property and equipment	**171,040**	47,600
Total non-operating activity	**600,486**	47,600
Change in net assets without donor restrictions	**434,970**	(72,232)
Net assets without donor restrictions, beginning of year	**2,239,426**	2,311,658
Net assets without donor restrictions, end of year	**$ 2,674,396**	$ 2,239,426
Changes in Net Assets With Donor Restrictions		
Contributions	**$ 12,993**	$ 9,541
Investment income	**16**	15
Net assets released from restrictions	**(7,609)**	(16,393)
Change in net assets with donor restrictions	**5,400**	(6,837)
Net assets with donor restrictions, beginning of year	**32,716**	39,553
Net assets with donor restrictions, end of year	**$ 38,116**	$ 32,716
Change in net assets	**$ 440,370**	$ (79,069)
Net assets, beginning of year	**2,272,142**	2,351,211
Net assets, end of year	**$ 2,712,512**	$ 2,272,142

See accompanying notes to financial statements.

MIDSTATE ARC, INC.

Statement of Functional Expenses

For the year ended June 30, 2024
(with comparative totals for 2023)

	Program Services					*Supporting Services*				
	Day Programs	Residential Programs	Other	Occupancy Allowance	Total Program Services	Administrative and General	Fundraising	Total Supporting Services	2024 Total Expenses	2023 Total Expenses
Salaries and wages	$ 2,722,648	$ 5,845,293	$ 69,798	$ 26,656	$ 8,664,395	$ 2,345,666	$ -	$ 2,345,666	$ 11,010,061	$ 9,742,941
Fringe benefits/payroll taxes	708,448	1,526,439	18,227	6,961	2,260,075	612,521	-	612,521	2,872,596	2,755,665
Total salaries and fringe benefits	3,431,096	7,371,732	88,025	33,617	10,924,470	2,958,187	-	2,958,187	13,882,657	12,498,606
Transportation	466,876	264,413	28,637	-	759,926	28,295	5	28,300	788,226	553,431
Consultants and professional fees	72,029	614,728	62,081	-	748,838	571,379	-	571,379	1,320,217	1,798,905
Supplies	76,508	210,049	16,843	2,638	306,038	165,255	10,126	175,381	481,419	473,393
Depreciation	34,300	67,121	-	-	101,421	36,302	-	36,302	137,723	210,197
Utilities	25,620	120,169	480	46,727	192,996	21,406	-	21,406	214,402	236,576
Repairs and maintenance	50,618	84,302	125	28,163	163,208	22,945	-	22,945	186,153	112,133
Interest	11,639	65,433	-	-	77,072	25,746	-	25,746	102,818	78,825
Food supplies	14,172	126,824	-	-	140,996	2,225	-	2,225	143,221	121,166
Insurance	7,029	24,568	4,526	10,323	46,446	106,402	-	106,402	152,848	125,989
Training and conferences	3,637	4,673	73,585	-	81,895	121,407	-	121,407	203,302	156,145
Occupancy	114,950	172,997	4,960	(121,468)	171,439	141,007	-	141,007	312,446	399,086
Licenses, dues and subscriptions	-	-	-	-	-	43,994	-	43,994	43,994	36,138
Credit losses	-	-	1,750	-	1,750	11,070	-	11,070	12,820	7,950
Equipment	6,682	11,486	1,776	-	19,944	15,851	-	15,851	35,795	36,536
Property taxes	-	-	-	-	-	5,811	-	5,811	5,811	11,000
Total operating expenses	$ 4,315,156	$ 9,138,495	$ 282,788	$ -	$ 13,736,439	$ 4,277,282	$ 10,131	$ 4,287,413	$ 18,023,852	$ 16,856,076

MIDSTATE ARC, INC.

Statement of Functional Expenses

For the year ended June 30, 2023

	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	$ 2,553,237	$ 4,765,781	$ 61,201	$ 26,270	$ 7,406,489	$ 2,336,452	$ -	$ 2,336,452	$ 9,742,941
Fringe benefits/payroll taxes	720,326	1,349,286	17,325	7,437	2,094,374	661,291	-	661,291	2,755,665
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
Transportation	385,663	147,510	2,580	30	535,783	17,618	30	17,648	553,431
Consultants and professional fees	129,761	1,212,456	28,696	-	1,370,913	427,992	-	427,992	1,798,905
Supplies	59,511	163,429	13,744	4,199	240,883	224,845	7,665	232,510	473,393
Depreciation	90,644	117,063	-	-	207,707	2,490	-	2,490	210,197
Utilities	32,872	125,716	480	60,964	220,032	16,544	-	16,544	236,576
Repairs and maintenance	18,911	89,267	3	3,472	111,653	480	-	480	112,133
Interest	12,415	64,969	-	-	77,384	1,441	-	1,441	78,825
Food supplies	8,780	110,030	-	2,207	121,017	149	-	149	121,166
Insurance	6,007	20,912	5,890	14,345	47,154	78,835	-	78,835	125,989
Training and conferences	1,651	39,718	33,764	-	75,133	81,012	-	81,012	156,145
Occupancy	168,411	187,788	7,736	(129,924)	234,011	165,075	-	165,075	399,086
Licenses, dues and subscriptions	-	-	-	-	-	36,138	-	36,138	36,138
Credit losses	-	-	1,282	-	1,282	6,668	-	6,668	7,950
Equipment	9,617	13,937	1,588	-	25,142	11,394	-	11,394	36,536
Property taxes	-	-	-	11,000	11,000	-	-	-	11,000
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

See accompanying notes to financial statements.

MIDSTATE ARC, INC.

Statements of Cash Flows

For the years ended June 30, 2024 and 2023

	2024	2023
Cash flows from operating activities:		
Change in net assets	**$ 440,370**	$ (79,069)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	**137,723**	210,197
Amortization of right-of-use asset	**113,010**	348,423
Credit losses	**12,820**	7,950
(Gain) on sale of property and equipment	**(171,040)**	(47,600)
(Increase) in accounts receivable	**(314,160)**	(221,512)
Decrease (increase) in prepaid expenses and other current assets	**92,586**	(66,124)
Decrease in security deposits	**1,477**	6,645
Increase (decrease) in accounts payable	**95,663**	(224,019)
(Decrease) increase in accrued expenses	**(540,893)**	1,224,526
Increase in due to State	**-**	227,507
Increase (decrease) in refundable advances	**212,315**	(75,985)
(Decrease) in operating lease obligations	**(115,549)**	(343,087)
Net cash (used in) provided by operating activities	**(35,678)**	967,852
Cash flows from investing activities:		
Purchase of property and equipment	**(563,136)**	(1,046,757)
Proceeds from the sale of property and equipment	**171,040**	183,314
Net cash (used in) investing activities	**(392,096)**	(863,443)
Cash flows from financing activities:		
Payments on mortgages payable	**(84,718)**	(78,618)
Proceeds from mortgages payable	**688,000**	-
Net cash provided by (used in) financing activities	**603,282**	(78,618)
Net increase in cash	**175,508**	25,791
Cash, beginning of year	**3,340,374**	3,314,583
Cash, end of year	**$ 3,515,882**	$ 3,340,374
Supplemental disclosure of cash flow information:		
Interest paid	**$ 102,818**	$ 78,825

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, assistive technology, senior supports and advocacy.

In January 2024, MidState Arc, Inc. became the sole member of Living Without Limits, LLC. The primary purpose of Living Without Limits, LLC is to provide assistive technology services to individuals with disabilities so that they can lead more independent and fulfilling lives.

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 the following two classes of net assets:

<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 vehicles and ARPA one time provider stabilization based on prior year losses during the pandemic.

Recently adopted accounting standards

ASU 2016-13 – *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-13. This standard replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The ASU was amended in some respects by subsequent ASUs (collectively, Accounting Standards Codification 326 (ASC 326)). CECL requires an estimate of credit losses for the remaining estimated life of most financial assets measured at amortized cost using historical experience, current conditions, and reasonable and supportable forecasts. Applicable financial assets will be presented at the net amount expected to be collected using an allowance for credit losses. The standard is effective for fiscal years beginning after December 15, 2022 and requires a modified retrospective approach with a cumulative effect adjustment to beginning net assets, as applicable, made as of the date of adoption.

ASU 2016-13 – *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, continued

The Organization adopted the standard on July 1, 2023, noting it primarily impacts the Organization's receivables for DSS Room and Board as well as the Living Without Limits program. 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, 2023. The adoption of the standard did not have a material impact on the Organization and therefore, no cumulative effect adjustment was required as of the date of adoption. The Organization's allowance policies disclosed in Note 1 were enhanced as a result of the adoption of the standard. See Note 2 for further disclosure related to the Organization's receivable balances.

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, 2024 and 2023.

DDS and other accounts receivable

The Organization has accounts receivable related to cost reimbursement grants from third parties and government agencies, primarily the State of Connecticut Department of Developmental Services (DDS). Based on historical experience, management has concluded grants are considered fully collectable and any realization of uncollectable accounts at year end will be immaterial. Accordingly, there is no allowance for uncollectable accounts as of June 30, 2024 and 2023.

DSS and Living Without Limits, LLC accounts receivable and allowance for credit losses

The Organization has accounts receivable from third-party reimbursements, primarily for monthly room and board services paid through the residents' State of Connecticut Department of Social Services (DSS) funding and from services rendered for Living Without Limits, LLC. For the year ended June 30, 2023, the Organization utilized an incurred loss model under previously applicable GAAP for estimating uncollectable amounts, which included an assessment of collectability based on a review of significant delinquent balances, historical experience, and a review of subsequent collections. When appropriate, management determined an allowance for uncollectable accounts and wrote off receivables after all attempts at collection were exhausted. The allowance for credit losses at June 30, 2023 was $35,887.

As of July 1, 2023, the Organization accounts for uncollectable balances under the new CECL model. The Organization estimates an allowance for expected credit losses calculated on a pooled basis where similar risk characteristics exist. Receivables are evaluated individually when they do not share similar risk characteristics which could exist in circumstances where amounts are considered at risk or uncollectable. At each reporting period, the allowance is updated to reflect any changes in credit risk since the related receivable was initially recorded. The allowance estimate is derived from a review of the Organization's historical losses based on the aging of receivables and is adjusted for management's assessment of current conditions, reasonable and supportable forecasts regarding future events, and any other factors deemed relevant by the Organization.

For the year ended June 30, 2024, the allowance for credit losses is based on historical loss rates applied to aging categories. Management has determined that its analysis of current conditions and forecast factors does not have a material impact on the allowance estimate. The allowance for credit losses at June 30, 2024 was $35,887.

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.

Property and equipment, continued

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, 2024 and 2023.

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 $403,329 and $191,014 as of June 30, 2024 and 2023, 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 (in-kind) services and nonfinancial assets are recorded as contributions at their estimated fair values at the date of donation. 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 activities. It is the Organization's policy to consume and use donated goods and other assets in accordance with donor wishes. The Organization does not sell contributed nonfinancial assets. For the years ended June 30, 2024 and 2023, the Organization did not have any in-kind contributions of services or nonfinancial assets.

Government grants and contracts

The Organization is the recipient of state grants to fund its primary programs. The Organization's grant funding from the State of Connecticut Department of Developmental Services is accounted for consistently with conditional contributions. Grants are not recognized until the conditions on which they depend have been substantially met. Such grants are conditioned upon the incurrence of allowable qualifying expenses and are recorded as revenue when the related approved expenditures are made. At June 30, 2024 and 2023, conditional reimbursement-basis grants of $3,202 and $12,566,734, respectively, have not been recognized in the accompanying financial statements because qualifying expenditures have not yet been incurred. The Organization's contract with DDS ended on June 30, 2024 and a new contract was executed in June 2024. The new contract is effective from July 1, 2024 through June 30, 2027 and has a maximum contract amount of $56,938,939.

Government grants and contracts, continued

The Organization is also party to contracts that provide funding for programming. Funding from such contracts, including those for room and board with the individual residents who receive funding through the State of Connecticut Department of Social Services, is based on contractually-identified performance obligations that include the nature and timing of services required in an exchange-type transaction. The Organization recognizes revenue over time as performance obligations are satisfied, which primarily includes the provision of room and board over the course of the year, based on contractual rates. The revenue is recognized at the amount reflecting the consideration the Organization expects to receive in exchange for the services provided.

The Organization received American Rescue Plan Act (ARPA) Home and Community Based Services (HCBS) funding during the years ended June 30, 2024 and 2023, which was provided by the State of Connecticut Department of Development Services (DDS). The funding provides for three initiatives: 1) Temporary provider stabilization (category 1), 2) Workforce stability incentives (category 2), and 3) Stability and infrastructure improvements through technology (category 3). The State has established expenditure deadlines, by category, for providers to adhere to and DDS will recover any funds not expended by the established deadlines. For the years ended June 30, 2024 and 2023, the Organization spent $701,573 and $510,486, respectively, in ARPA HCBS funding and has recorded $3,202 and $189,016, respectively, as a refundable advance, which represents the unspent funds as of the end of the fiscal years. The $701,573 and $510,486 ARPA revenue recognized is included in ARPA funds revenue on the statements of activities for the years ended June 30, 2024 and 2023, respectively.

Fundraising and 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

As Lessee

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. Management has elected to account for lease payments for such short term leases 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.

As Lessee, continued

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 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. All of the Organization's operating leases utilize a risk-free 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, 2024, 2023 and 2022 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, 2024, 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, 2024 and 2023, approximately 94% and 98%, respectively, of its revenue is from the State of Connecticut Department of Developmental Services (DDS). Approximately 85% and 100%, respectively, of its accounts receivable is due from DDS.

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, 2024 and 2023. As shown below, these advances are offset against DDS accounts receivable on the accompanying statements of financial position.

	2024	2023
DDS accounts receivable	$ 1,697,651	$ 1,532,515
Less: DDS bridge funding advance	(1,087,094)	(1,087,094)
Net DDS receivable	610,557	445,421
Other receivables	144,433	8,229
Less: allowance for credit losses	(35,887)	(35,887)
Accounts receivable, net	$ 719,103	$ 417,763

As of June 30, 2022, other receivables were $236,982.

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, 2024 and 2023, there were no such donor stipulations.

Endowment, continued

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.
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, 2024 and 2023:

June 30, 2024	With Donor Restrictions	Total
Original donor restricted gift amount and amounts required to be maintained in perpetuity by donor	$32,193	$32,193
Accumulated interest income	386	386
	$32,579	$32,579

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 interest income	370	370
	$31,181	$31,181

Changes in endowment net assets

The following tables represent the changes in the Organization's endowment net assets for the years ended June 30, 2024 and 2023:

Year ended June 30, 2024	With Donor Restrictions	Total
Endowment net assets, beginning of year	$31,181	$31,181
Interest income	16	16
Contributions	1,382	1,382
Endowment net assets, end of year	$32,579	$32,579

Changes in endowment net assets, continued

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

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, 2024 and 2023.

NOTE 4 – PROPERTY AND EQUIPMENT

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

	2024	2023
Land	$ 1,152,071	$ 1,052,477
Land improvements	266,159	229,700
Building and building improvements	3,615,934	2,483,489
Furniture and fixtures	116,030	94,311
Construction in process	101,209	862,402
Vehicles	325,508	550,300
	5,576,911	5,272,679
Less: accumulated depreciation	(1,659,105)	(1,780,286)
Property and equipment, net	$ 3,917,806	$ 3,492,393

Construction in process at June 30, 2024 represents $101,209 in costs incurred related to the Bristol Transition House.

Depreciation expense was $137,723 and $210,197 for the years ended June 30, 2024 and 2023, respectively.

NOTE 5 – DUE TO STATE

During the fiscal year ended June 30, 2024, 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, 2024 and 2023.

NOTE 6 – REFUNDABLE ADVANCES

Refundable advances consist of the following as of June 30:

	2024	2023
ARPA - DDS funding	$ 3,202	$189,014
DDS revenue retention	400,018	-
Other	109	2,000
Total refundable advances	$403,329	$191,014

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, 2024 and 2023.

NOTE 8 – LONG-TERM DEBT

Mortgages payable

	2024	2023
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.	$ 236,276	$ 254,666
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.	338,141	350,183
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.	113,093	122,298
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.	129,937	135,148
3.500% mortgage payable to Windsor Federal Savings & Loan Association in equal monthly installments of $1,034, including principal and interest through January 2031. The mortgage is collateralized by property in Meriden, Connecticut.	72,555	82,291
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.	49,440	54,787

Mortgages payable, continued

	2024	2023
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 Wallingford, Connecticut.	$ 173,955	$ 195,742
6.750% construction to permanent mortgage payable to Windsor Federal Savings & Loan Association in equal monthly installments of $2,786, including principal and interest through September 2044. The mortgage is collateralized by property in Meriden, Connecticut.	685,000	-
Total mortgages payable	1,798,397	1,195,115
Less: current portion	(81,887)	(64,228)
Total	$1,716,510	$1,130,887

Future maturities of long-term debt are as follows:

Years Ending June 30,	
2025	$ 81,887
2026	86,503
2027	91,391
2028	96,566
2029	102,047
Thereafter	1,340,003
Total	$1,798,397

Interest expense was $102,818 and $78,825 for the years ended June 30, 2024 and 2023, respectively.

NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS

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

	2024	2023
Time and purpose restricted:		
Hall Acres	$ 694	$ 1,535
Cuno MOW equipment	3,132	-
Endowment accumulated investment gains	386	370
Technology for smart home	1,711	-
Subtotal	5,923	1,905
Investment in perpetuity:		
Perpetual in nature, earnings from which are subject to endowment spending policy and appropriations:		
Endowment	32,193	30,811
Total perpetual endowments	32,193	30,811
Total net assets with donor restrictions	$38,116	$32,716

Net assets with donor restrictions, continued

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:

	2024	2023
Satisfaction of purpose restrictions:		
Byron Road	$ -	$ 485
CRS improvements	-	1,770
Cooking classes	-	14,138
Cuno MOW equipment	6,268	-
Hall Acres	841	-
Orange cluster	500	-
Total	$7,609	$16,393

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:

	2024	2023
Cash	$3,515,882	$3,340,374
Accounts receivable, net	719,103	417,763
	$4,234,985	$3,758,137

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 $6,660.

The Organization has a lease agreement with an unrelated party to rent an apartment building in Meriden, Connecticut for one year through March 2025, then on a month-to-month basis. 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 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 2024, then on a month-to-month basis. The house is used to operate a CRS program for DDS. Monthly rent is $2,427 and is adjustable by 2% annually.

Real Estate, continued

The Organization has a lease agreement with an unrelated party to rent a house in Naugatuck, Connecticut for ten years through April 2024, then on a month-to-month basis. 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 $3,287 and is adjustable by 2% annually.

The Organization sub-leases residential space to individuals served under operating lease agreements on a month-to-month basis. Total monthly rent payments under the agreements were $8,301. Total lease income was $99,612 and $98,437 for the years ended June 30, 2024 and 2023, respectively.

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 $23,604. Leases expire from July 2024 to September 2027.

The Organization presents the following balances related to leases on its statements of financial position as of June 30, 2024 and 2023:

	2024 Operating	2023 Operating
ROU assets	$1,214,305	$1,041,551
Accumulated amortization	(634,187)	(348,423)
	$ 580,118	$ 693,128
Lease liabilities - current	$ 318,249	$ 372,225
Lease liabilities - non-current	264,666	326,239
	$ 582,915	$ 698,464

Lease costs during the year ended June 30, 2024 and 2023 consist of the following:

	2024	2023
Operating leases:		
Operating lease costs	$425,586	$370,694
Short-term lease costs	47,355	40,515
Total lease costs	$472,941	$411,209

Total lease costs for the years ended June 30, 2024 and 2023 were $472,941 and $411,209, respectively, $203,813 and $232,187 are included in occupancy expenses and $269,128 and $179,022 are included in transportation expenses on the statements of functional expenses for the years ended June 30, 2024 and June 2023, respectively.

Leases, continued

Sub-lease income includes the following:

	2024	2023
Operating leases - sub-lease income	$99,612	$98,437

Total sub-lease income for the years ended June 30, 2024 and 2023 was $99,612 and $98,437, respectively, and is included in rental income on the statements of activities.

Cash paid for amounts included in the measurement of lease liabilities and other information for the years ended June 30, 2024 and 2023 include:

	2024	2023
Operating cash flows from operating leases	$428,125	$ 365,359
ROU assets obtained in exchange for lease obligations:		
Operating leases	$287,060	$1,041,551

Average lease terms and discount rates at June 30, 2024 and 2023 were as follows:

	2024 Operating	2023 Operating
Weighted average remaining lease term (years)	2.15	2.23
Weighted average discount rate	3.84%	3.11%

Aggregate future lease payments below summarize the remaining future undiscounted cash flows for operating and finance leases as of June 30, 2024:

	Operating
2025	$334,254
2026	155,489
2027	99,829
2028	20,178
Thereafter	-
Total lease payments	609,750
Less: amounts representing interest	(26,835)
Present value of lease liabilities	$582,915

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 2024 and 2023 however, 25% of the employer's contribution is allocated to match the employees' contributions.

Annually, the Board of Directors determines the contribution, if any, to the plan. For the years ended June 30, 2024 and 2023, the Organization elected to contribute $514,475 and $821,014, 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 December 20, 2024, which is the date the financial statements were available to be issued.

The Organization purchased a piece of land in Bristol, Connecticut in June 2023, for the purposes of constructing a licensed CLA, Transition Home, a 5 unit studio apartment living complex for current residents of another group home to move into in order to assess their abilities to live independently. The funding for staffing and transportation will follow the residents, room and board expenses will be funded by DSS; and there will be minimal impact on the income statement. As of the date of this report, construction is in progress, and is expected to be completed in the beginning of 2025 with the residents moving in shortly thereafter at which point the fixed asset will be placed in service.

Subsequent to June 30, 2024, the Organization paid $200,000 towards the ION Bank mortgage for property in Watertown, Connecticut. This will reduce interest expense in the current and future fiscal years.

The Organization was awarded approximately $1 million in grants through the State of Connecticut Office of Policy and Management for the purpose of facility improvements and vehicle purchases.