

MIDSTATE ARC, INC.

**Financial Statements with
Independent Auditor's Report**

June 30, 2020 and 2019

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 Financial Statements

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, 2020 and 2019, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MidState Arc, Inc. as of June 30, 2020 and 2019, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2021 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.

Guilmodiu D'Am + Sokolowski, LLC

Middletown, Connecticut
January 7, 2021

MIDSTATE ARC, INC.

Statements of Financial Position

June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<u>Assets</u>		
Current assets:		
Cash	\$ 2,742,144	\$ 1,123,424
Accounts receivable, net	842,780	391,136
Prepaid expenses and other current assets	<u>174,126</u>	<u>114,341</u>
Total current assets	<u>3,759,050</u>	<u>1,628,901</u>
Property and equipment, net	<u>4,351,677</u>	<u>4,461,627</u>
Other assets:		
Security deposits	24,207	26,071
Endowment asset	<u>29,029</u>	<u>28,232</u>
Total other assets	<u>53,236</u>	<u>54,303</u>
Total assets	<u>\$ 8,163,963</u>	<u>\$ 6,144,831</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 415,382	\$ 224,356
Accrued expenses	1,431,181	1,135,450
Current portion of mortgages payable	155,127	176,451
Current portion of note payable	3,740	10,779
Refundable advances	<u>1,930,316</u>	<u>50,300</u>
Total current liabilities	<u>3,935,746</u>	<u>1,597,336</u>
Long-term liabilities:		
Mortgages payable, less current portion	2,214,980	2,494,353
Note payable, less current portion	-	4,534
DDS cash advances	<u>214,411</u>	<u>214,411</u>
Total long-term liabilities	<u>2,429,391</u>	<u>2,713,298</u>
Total liabilities	<u>6,365,137</u>	<u>4,310,634</u>
Net assets:		
Without donor restrictions	1,767,393	1,798,613
With donor restrictions	<u>31,433</u>	<u>35,584</u>
Total net assets	<u>1,798,826</u>	<u>1,834,197</u>
Total liabilities and net assets	<u>\$ 8,163,963</u>	<u>\$ 6,144,831</u>

See accompanying notes to financial statements.

MIDSTATE ARC, INC.

Statements of Activities

For the years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<u>Changes in Net Assets Without Donor Restrictions</u>		
Operating revenues and other support:		
Grants and contracts	\$ 13,428,966	\$ 12,457,630
Sales to the public	75,830	111,474
Contributions	20,166	44,801
Fundraising	21,038	20,853
Rental	7,875	10,500
Other	16,378	3,302
Net assets released from satisfaction of program restrictions	<u>6,191</u>	<u>11,704</u>
Total operating revenues and other support	<u>13,576,444</u>	<u>12,660,264</u>
Operating expenses:		
Program services:		
Day programs	4,198,004	4,562,199
Residential programs	7,124,319	6,277,484
Other	21,489	102,291
Total program services	<u>11,343,812</u>	<u>10,941,974</u>
Supporting services:		
Administrative and general	2,253,750	1,833,786
Fundraising	10,102	8,747
Total supporting services	<u>2,263,852</u>	<u>1,842,533</u>
Total operating expenses	<u>13,607,664</u>	<u>12,784,507</u>
Change in net assets without donor restrictions from operations	<u>(31,220)</u>	<u>(124,243)</u>
Non-operating activity:		
Capital grant	-	71,115
Total non-operating activity	<u>-</u>	<u>71,115</u>
Change in net assets without donor restrictions	<u>(31,220)</u>	<u>(53,128)</u>
Net assets without donor restrictions, beginning of year	<u>1,798,613</u>	<u>1,851,741</u>
Net assets without donor restrictions, end of year	<u>\$ 1,767,393</u>	<u>\$ 1,798,613</u>
<u>Changes in Net Assets With Donor Restrictions</u>		
Contributions	\$ 2,011	\$ 8,814
Investment income	29	28
Net assets released from satisfaction of program restrictions	<u>(6,191)</u>	<u>(11,704)</u>
Change in net assets with donor restrictions	<u>(4,151)</u>	<u>(2,862)</u>
Net assets with donor restrictions, beginning of year	<u>35,584</u>	<u>38,446</u>
Net assets with donor restrictions, end of year	<u>\$ 31,433</u>	<u>\$ 35,584</u>
Change in net assets	\$ (35,371)	\$ (55,990)
Net assets, beginning of year	<u>1,834,197</u>	<u>1,890,187</u>
Net assets, end of year	<u>\$ 1,798,826</u>	<u>\$ 1,834,197</u>

See accompanying notes to financial statements.

MIDSTATE ARC, INC.

Statement of Functional Expenses

For the year ended June 30, 2020

(with comparative totals for 2019)

	<i>Program Services</i>				Total Program Services	<i>Supporting Services</i>			2020 Total Expenses	2019 Total Expenses
	Day Programs	Residential Programs	Other	Occupancy Allowance		Fundraising	Administrative and General	Supporting Services		
Salaries and wages	\$ 2,609,973	\$ 4,024,377	\$ 10,935	\$ 44,694	\$ 6,689,979	\$ -	\$ 1,048,531	\$ 1,048,531	\$ 7,738,510	\$ 7,733,815
Fringe benefits/payroll taxes	552,062	861,436	2,341	9,567	1,425,406	-	224,416	224,416	1,649,822	1,701,141
Total salaries and fringe benefits	<u>3,162,035</u>	<u>4,885,813</u>	<u>13,276</u>	<u>54,261</u>	<u>8,115,385</u>	<u>-</u>	<u>1,272,947</u>	<u>1,272,947</u>	<u>9,388,332</u>	<u>9,434,956</u>
Transportation	391,398	192,322	116	1,628	585,464	-	11,964	11,964	597,428	681,822
Consultants and professional fees	255,542	1,443,166	8,097	-	1,706,805	-	416,619	416,619	2,123,424	1,014,457
Supplies	84,567	88,119	-	-	172,686	10,102	115,419	125,522	298,208	419,804
Depreciation	32,009	61,589	-	77,437	171,035	-	15,914	15,914	186,949	185,715
Utilities	33,555	65,153	-	44,411	143,119	-	-	-	143,119	201,983
Repairs and maintenance	29,017	72,872	-	39,455	141,344	-	-	-	141,344	245,204
Interest	14,560	77,864	-	48,902	141,326	-	4,287	4,287	145,613	154,215
Food supplies	9,431	104,240	-	-	113,671	-	298	298	113,969	109,471
Insurance	5,971	15,521	-	16,201	37,693	-	55,128	55,128	92,821	81,997
Training and conferences	400	-	-	-	400	-	29,031	29,031	29,431	62,043
Occupancy	174,584	111,084	-	(286,858)	(1,190)	-	272,916	272,916	271,726	125,041
Licenses, dues and subscriptions	-	-	-	-	-	-	32,010	32,010	32,010	33,455
Bad debts	-	-	-	-	-	-	3,412	3,412	3,412	20,239
Equipment	4,935	6,576	-	-	11,511	-	22,190	22,190	33,701	7,918
Property taxes	-	-	-	4,563	4,563	-	1,615	1,615	6,178	6,187
Total operating expenses	<u>\$ 4,198,004</u>	<u>\$ 7,124,319</u>	<u>\$ 21,489</u>	<u>\$ -</u>	<u>\$ 11,343,812</u>	<u>\$ 10,102</u>	<u>\$ 2,253,750</u>	<u>\$ 2,263,852</u>	<u>\$ 13,607,664</u>	<u>\$ 12,784,507</u>

See accompanying notes to financial statements.

MIDSTATE ARC, INC.

Statement of Functional Expenses

For the year ended June 30, 2019

	<i>Program Services</i>					<i>Supporting Services</i>			
	<u>Day Programs</u>	<u>Residential Programs</u>	<u>Other</u>	<u>Occupancy Allowance</u>	<u>Total Program Services</u>	<u>Fundraising</u>	<u>Administrative and General</u>	<u>Total Supporting Services</u>	<u>Total Expenses</u>
Salaries and wages	\$ 2,844,014	\$ 3,991,536	\$ 10,706	\$ 29,223	\$ 6,875,479	\$ -	\$ 858,336	\$ 858,336	\$ 7,733,815
Fringe benefits/payroll taxes	622,283	880,682	2,362	6,447	1,511,774	-	189,367	189,367	1,701,141
Total salaries and fringe benefits	<u>3,466,297</u>	<u>4,872,218</u>	<u>13,068</u>	<u>35,670</u>	<u>8,387,253</u>	<u>-</u>	<u>1,047,703</u>	<u>1,047,703</u>	<u>9,434,956</u>
Transportation	452,074	209,692	14	12,095	673,875	-	7,947	7,947	681,822
Consultants and professional fees	112,811	514,321	11,935	-	639,067	-	375,390	375,390	1,014,457
Supplies	103,102	148,223	71,115	9,624	332,064	8,747	78,993	87,740	419,804
Depreciation	31,179	60,632	-	77,806	169,617	-	16,098	16,098	185,715
Utilities	41,496	95,497	-	64,824	201,817	-	166	166	201,983
Repairs and maintenance	35,681	135,841	-	73,619	245,141	-	63	63	245,204
Interest	15,100	85,530	-	53,202	153,832	-	383	383	154,215
Food supplies	10,578	98,744	-	-	109,322	-	149	149	109,471
Insurance	5,393	12,412	-	14,500	32,305	-	49,692	49,692	81,997
Training and conferences	9,228	920	-	-	10,148	-	51,895	51,895	62,043
Occupancy	277,043	42,456	6,159	(346,451)	(20,793)	-	145,834	145,834	125,041
Licenses, dues and subscriptions	-	-	-	-	-	-	33,455	33,455	33,455
Bad debts	-	-	-	-	-	-	20,239	20,239	20,239
Equipment	2,217	998	-	-	3,215	-	4,703	4,703	7,918
Property taxes	-	-	-	5,111	5,111	-	1,076	1,076	6,187
Total operating expenses	<u>\$ 4,562,199</u>	<u>\$ 6,277,484</u>	<u>\$ 102,291</u>	<u>\$ -</u>	<u>\$ 10,941,974</u>	<u>\$ 8,747</u>	<u>\$ 1,833,786</u>	<u>\$ 1,842,533</u>	<u>\$ 12,784,507</u>

See accompanying notes to financial statements.

MIDSTATE ARC, INC.

Statements of Cash Flows

For the years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ (35,371)	\$ (55,990)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	186,949	185,715
Bad debts	3,412	20,239
Restricted contributions	(768)	(768)
Non-operating contributions for long-lived assets	-	(71,115)
(Increase) decrease in accounts receivable	(455,056)	93,672
(Increase) decrease in prepaid expenses and other current assets	(59,785)	83,121
Decrease in security deposits	1,864	2,132
Increase in accounts payable	191,026	43,645
Increase in accrued expenses	295,731	61,339
Increase in refundable advances	<u>1,880,016</u>	<u>50,300</u>
Net cash provided by operating activities	<u>2,008,018</u>	<u>412,290</u>
Cash flows from investing activities:		
Purchase of property and equipment	(76,999)	(28,107)
(Increase) in endowment asset	<u>(797)</u>	<u>(796)</u>
Net cash (used in) investing activities	<u>(77,796)</u>	<u>(28,903)</u>
Cash flows from financing activities:		
Restricted contributions	768	768
Contributions for long-lived assets	-	71,115
Proceeds from mortgages payable	-	5,861
Payments on mortgages payable	(300,697)	(163,726)
Payments on note payable	<u>(11,573)</u>	<u>(10,364)</u>
Net cash (used in) financing activities	<u>(311,502)</u>	<u>(96,346)</u>
Net increase in cash	1,618,720	287,041
Cash, beginning of year	<u>1,123,424</u>	<u>836,383</u>
Cash, end of year	<u>\$ 2,742,144</u>	<u>\$ 1,123,424</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 145,613</u>	<u>\$ 154,215</u>

See accompanying notes to financial statements.

MIDSTATE ARC, INC.

Notes to Financial Statements

June 30, 2020 and 2019

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, school to work transition, community experience, retirement program, out of home and in-home individualized services and residential support, food service, behavioral support, self-advocacy, recreation, respite services, autism services, transportation, volunteering, children's play group, employer education, community education, assistance technology, senior supports and advocacy.

Summary of significant accounting policies:

Measure of operations

The Organization's operating expenses in excess of operating revenues include all operating revenues and expenses that are an integral part of its programs and supporting activities and net assets related from donor restrictions to support operating expenses. The Organization has presented donation of property as non-operating in the statements of activities.

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:

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

Net assets with donor restrictions - Net assets subject to donor-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.

Recent accounting pronouncements adopted

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)* including amendments. This update establishes a comprehensive revenue recognition standard. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Organization implemented this ASU using a modified retrospective method of application as of July 1, 2019.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU was issued to standardize how grants and other contracts received and made are classified across the sector, as either an exchange transaction or a contribution. If the transaction is deemed to be a contribution, the guidance provides factors to consider with regard to whether the contribution is conditional or unconditional. For contributions received, if determined to be an unconditional contribution, the determination will then need to be made as to whether the contribution is restricted. The ASU will assist in the determination of the nature of the transaction, which will then govern the revenue and expense recognition methodology and timing of the transaction. This ASU was adopted on July 1, 2019.

The adoption of these standards did not have a material impact on our financial position or results of operations for any periods presented and a cumulative adjustment was not recorded to our beginning net asset balance.

MIDSTATE ARC, INC.

Notes to Financial Statements

June 30, 2020 and 2019

Use of estimates

The preparation of the Organization's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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).

Management has reviewed the Organization's reporting and believe they have not taken tax positions that are more likely than not to be determined to be incorrect by the Internal Revenue Service and therefore, no adjustments or disclosures are required. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods pending or in progress.

Cash and cash equivalents

For the purpose of the statements of cash flows, the Organization considers all highly liquid investments available for current use, with an initial maturity of three months or less when purchased, to be cash equivalents. The Organization had no cash equivalents as of June 30, 2020 and 2019.

Accounts receivable

The Organization has accounts receivable related to grants and third-party reimbursements. Based on historical experience, grants are considered fully collectible. 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 doubtful accounts, which is based on a review of significant delinquent balances and past collection experience. The allowance for doubtful accounts at June 30, 2020 and 2019 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, except that property used in the Organization's Department of Social Services programs is capitalized when the cost exceeds \$2,500. 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. Repairs and maintenance are charged to expense as incurred. For assets sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in change in net assets for the period.

Realization of long-lived assets

Management evaluates the long-lived assets for impairment using an undiscounted cash flow method whenever events or circumstances indicate the carrying value of an asset may not be recoverable. There were no impairment losses related to long-lived assets as of June 30, 2020 and 2019.

Refundable advances

The Organization presents refundable advances when grant advances and other revenue exceed the eligible costs 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.

MIDSTATE ARC, INC.

Notes to Financial Statements

June 30, 2020 and 2019

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 gifts, 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.

Conditional government grants and contracts not recognized as of June 30, 2020 totaled \$14,031,004. The Organization only expects to recognize \$6,000,000 of the \$14,031,004 from July 1, 2020 to December 31, 2020.

The Organization received Payroll Protection Program (PPP) funds from the SBA in April 2020 that is being accounted for as a grant under ASC 958-605.

Because the Organization's performance obligations relate to contracts with a duration of less than one year, the Organization has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a), *Revenue from Contracts with Customers*, and therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. There are no incremental costs of obtaining a contract and no significant financing components.

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.

MIDSTATE ARC, INC.

Notes to Financial Statements

June 30, 2020 and 2019

Cost settlement

The Organization is subject to cost settlement procedures prescribed by various agencies of the State of Connecticut. Management estimates that no cost settlement is due for the years ended June 30, 2020 and 2019.

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.

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.

NOTE 2 – LIQUIDITY AND AVAILABILITY

The Organization manages its liquid resources by focusing on collecting receivables timely to maximize the cash collections due to the Organization. The Organization prepares budgets and monitors expenses. The Organization has a line of credit (see Note 8) to assist in meeting cash needs if they experience a lag between the receipt of contributions and grants and the payment of costs, which will be a last resort option for the Organization.

The Organization's financial assets available within one year of the statements of financial position date for general expenditures are as follows:

	<u>2020</u>	<u>2019</u>
Cash	\$2,742,144	\$1,123,424
Accounts receivable, net	<u>842,780</u>	<u>391,136</u>
	<u>\$3,584,924</u>	<u>\$1,514,560</u>

MIDSTATE ARC, INC.

Notes to Financial Statements

June 30, 2020 and 2019

NOTE 3 – CONCENTRATIONS

The Organization maintains its cash with high-credit quality financial institutions. At times, such amounts may exceed federal depository insurance limits. At June 30, 2020, the cash balance exceeded the federally insured limit by \$2,620,448.

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, 2020 and 2019, approximately 92% and 93% of its revenue is due from the State of Connecticut Department of Developmental Services (DDS), respectively. Approximately 98% and 90% of its accounts receivable is due from DDS, respectively.

NOTE 4 – 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 the years ended June 30, 2020 and 2019.

NOTE 5 – 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 \$1,091,689 as of June 30, 2020 and 2019.

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

	<u>2020</u>	<u>2019</u>
DDS accounts receivable	\$ 1,920,356	\$ 1,445,355
Less: DDS bridge funding advance	<u>(1,091,689)</u>	<u>(1,091,689)</u>
Net DDS receivable	828,667	353,666
Other receivables	50,000	73,357
Less: allowance for doubtful accounts	<u>(35,887)</u>	<u>(35,887)</u>
Accounts receivable, net	<u>\$ 842,780</u>	<u>\$ 391,136</u>

NOTE 6 – CONSTRUCTION IN PROCESS

Construction in process at June 30, 2020 and 2019 included costs incurred related to the driveway for 200 Research Parkway, Meriden, Connecticut. During fiscal year ended June 30, 2020, the Organization placed these assets into operations. Total costs incurred as of June 30, 2020 and 2019 were \$0 and \$16,213, respectively.

MIDSTATE ARC, INC.

Notes to Financial Statements

June 30, 2020 and 2019

NOTE 7 – PROPERTY AND EQUIPMENT

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

	<u>2020</u>	<u>2019</u>
Land	\$ 1,400,878	\$ 1,400,878
Land improvements	212,574	204,574
Building and building improvements	4,643,825	4,630,768
Furniture and fixtures	68,436	130,619
Construction in process	-	16,213
Vehicles	<u>78,848</u>	<u>94,393</u>
	6,404,561	6,477,445
Less: accumulated depreciation	<u>(2,052,884)</u>	<u>(2,015,818)</u>
	<u>\$ 4,351,677</u>	<u>\$ 4,461,627</u>

NOTE 8 – LINE OF CREDIT

The Organization has a \$120,000 revolving line of credit with ION Bank through February 2021 which provides borrowings up to a maximum of \$120,000. Borrowings under the line bear interest at The Wall Street Journal prime rate and are collateralized by all business assets of the Organization. There were no outstanding balances on the line of credit at June 30, 2020 and 2019.

NOTE 9 – REFUNDABLE ADVANCE

On April 13, 2020, the Organization received a Paycheck Protection Program (PPP) loan of \$1,883,316 (including interest incurred through June 30, 2020) granted by the U.S. Small Business Administration (the SBA) pursuant to Title 1 of the Coronavirus Aid, Relief and Economic Security Act (the CARES Act). While the Payroll Protection Program funds are known as a loan, the Organization is treating them as a cost-reimbursement grant from the government for accounting purposes. Management considers PPP loans to be conditional contributions, with a right-of-return in the form of an obligation to be repaid if barriers to entitlement are not met. These barriers include qualifying expenses to be used to pay for payroll costs, including salaries, commissions and similar compensation, group health care benefits, and paid leaves; rent; utilities; and interest on certain other outstanding debt. Management considers the review of the Organization's application for forgiveness by the lender and the SBA, as well as potential audits, to be administrative in nature rather than barriers to entitlement. While the primary barriers are identifiable, the evolving nature of guidance has not been adequately met at June 30, 2020. Accordingly, for the year ended June 30, 2020, the Organization did not recognize any contribution income as management had not yet concluded that any portion of the barriers has been met with certainty. The balance of the PPP loan is reported as a refundable advance in the accompanying statements of financial position.

At the time of issuance of the financial statements, notice of forgiveness has not been received from the lender. If not forgiven, the lending institution will provide the Organization with a schedule of payments once the amounts to be forgiven have been determined and the principal balance to be repaid becomes known. Any portion of the loan that must be repaid will bear interest at the rate of 1% per annum and shall be due and payable in full in April 2022. At June 30, 2020 this represents a conditional government grant not recognized in the amount of \$1,883,316.

MIDSTATE ARC, INC.

Notes to Financial Statements

June 30, 2020 and 2019

NOTE 10 – LONG-TERM DEBT

Mortgages payable

	<u>2020</u>	<u>2019</u>
4.750% mortgage payable to ION Bank in equal monthly installments of \$11,328, including principal and interest through April 2028, at which time interest will be calculated at the FHLBB Classic Advance Rate plus 4.750%. The mortgage is collateralized by property in Meriden, Connecticut.	\$ 849,231	\$ 936,147
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.	307,668	322,968
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.	383,608	393,318
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.	148,717	156,695
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.	150,055	154,425
3.500% mortgage payable to Windsor Federal Savings & Loan Association in equal monthly installments of \$1,034, including principal and interest through June 2022. The mortgage is collateralized by property in Meriden, Connecticut.	109,235	116,970
4.500% mortgage payable to People's United Bank in equal monthly installments of \$891, including principal and interest through July 2033, 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.	-	111,439
5.250% mortgage payable to ION Bank in equal monthly installments of \$1,023, including principal and interest through January 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.	99,215	105,993
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.	69,296	73,654
6.000% mortgage payable to the State of Connecticut in equal monthly installments of \$170 through August 2025, collateralized by property in Meriden, Connecticut.	-	10,493
6.000% mortgage payable to the State of Connecticut in equal monthly installments of \$235 through July 2020, collateralized by property in Meriden, Connecticut.	-	3,170

MIDSTATE ARC, INC.

Notes to Financial Statements

June 30, 2020 and 2019

Mortgages payable, continued

	<u>2020</u>	<u>2019</u>
6.000% mortgage payable to the State of Connecticut in equal monthly installments of \$79 through March 2026, collateralized by property in Meriden, Connecticut.	\$ -	\$ 5,276
6.000% mortgage payable to the State of Connecticut in equal monthly installments of \$60 through July 2027, collateralized by property in Meriden, Connecticut.	-	4,635
6.000% mortgage payable to the State of Connecticut in equal monthly installments of \$113 through June 2024, collateralized by property in Meriden, Connecticut.	-	5,861
6.626% mortgage payable to Connecticut Housing Finance Authority in equal monthly installments of \$2,843 through September 2030, collateralized by property in Meriden, Connecticut.	<u>253,082</u>	<u>269,760</u>
	2,370,107	2,670,804
Less: current portion	<u>(155,127)</u>	<u>(176,451)</u>
Total	<u>\$2,214,980</u>	<u>\$2,494,353</u>

Note payable

	<u>2020</u>	<u>2019</u>
4.750% note payable to ION Bank in equal monthly installments of \$939 through February 2021, collateralized by a vehicle.	\$ 3,740	\$ 15,313
Less: current portion	<u>(3,740)</u>	<u>(10,779)</u>
Total	<u>\$ -</u>	<u>\$ 4,534</u>

Future maturities of the long-term debt are as follows:

2021	\$ 158,867
2022	163,100
2023	166,611
2024	175,186
2025	184,056
Thereafter	<u>1,526,027</u>
Total	<u>\$2,373,847</u>

NOTE 11 – OPERATING LEASES

Real estate

The Organization leases day program facilities from an unrelated third party and is responsible for utilities, maintenance, common area charges and insurance. Monthly rent is \$3,286 and escalates annually until the lease expires in December 2023.

MIDSTATE ARC, INC.

Notes to Financial Statements

June 30, 2020 and 2019

Real estate, continued

The Organization has an operating lease agreement with an unrelated party to rent program space in Wallingford, Connecticut on a month-to-month basis. The space is used to operate a day program for DDS. Monthly rent is \$2,929 (plus common area maintenance charges of approximately \$700) and is adjustable by 3% annually. The Organization vacated the property in September 2020.

The Organization has the following operating lease agreements with unrelated parties to rent houses used to operate Continuous Residential Support (CRS) programs. Rent expense for CRS programs is reimbursed by the clients and, as a result, there is no corresponding expense in the financial statements.

The Organization has an operating lease agreement with an unrelated third party in East Hampton, Connecticut for ten years through July 2022. The house is used to operate a CRS program for DDS. Monthly rent is \$2,350 and is adjustable by 2% annually.

The Organization has an operating lease agreement with an unrelated party to rent a house in Naugatuck, Connecticut for ten years through April 2023. The house is used to operate CRS programs for DDS. Monthly rent is \$2,583 and is adjustable by 2% annually.

The Organization has an operating 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 \$2,977 and is adjustable by 2% annually.

The Organization is the guarantor for the leases above, which are reimbursed by clients. Since the Organization is the guarantor of those leases, those amounts have been included within the future minimum payments.

Vehicles and equipment

The Organization leases vehicles and office equipment and is responsible for the maintenance and insurance costs. Vehicle and equipment lease expense for the years ended June 30, 2020 and 2019 was \$284,475 and \$308,655, respectively. Aggregate monthly rent expense on ongoing leases is \$24,284. Leases expire from September 2020 to September 2023.

Future minimum lease payments due under all noncancelable operating leases are as follows:

2021	\$332,437
2022	217,296
2023	118,902
2024	61,489
2025	2,926
Thereafter	<u>-</u>
Total	<u>\$733,050</u>

MIDSTATE ARC, INC.

Notes to Financial Statements

June 30, 2020 and 2019

NOTE 12 – NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2020</u>	<u>2019</u>
Time and purpose restricted:		
Hall Acres	\$ 600	\$ -
Pembroke House Recreation	-	402
Childrens Program	-	371
Byron Road	485	786
Endowment accumulated investment gains	318	289
Technology center	107	4,629
CRS improvements	<u>1,416</u>	<u>1,368</u>
Subtotal	2,926	7,845
Investment in perpetuity:		
Subject to the Organization's endowment spending policy and appropriation:		
Endowment	<u>28,507</u>	<u>27,739</u>
Total perpetual endowments	<u>28,507</u>	<u>27,739</u>
Total net assets with donor restrictions	<u>\$31,433</u>	<u>\$35,584</u>

NOTE 13 – 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 Trustees 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.

As a result of this interpretation, the Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanent endowment is classified as net assets with donor restrictions until those amounts are appropriated 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.

MIDSTATE ARC, INC.

Notes to Financial Statements

June 30, 2020 and 2019

Endowment, continued

Endowment net asset composition as of June 30, 2020

	<u>With Donor Restrictions</u>	<u>Total</u>
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$28,507	\$28,507
Accumulated investment gains	<u>318</u>	<u>318</u>
	<u>\$28,825</u>	<u>\$28,825</u>

Endowment net asset composition as of June 30, 2019

	<u>With Donor Restrictions</u>	<u>Total</u>
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$27,739	\$27,739
Accumulated investment gains	<u>289</u>	<u>289</u>
	<u>\$28,028</u>	<u>\$28,028</u>

Changes in endowment net assets

The following table represents the changes in the Organization's endowment funds during the year ended June 30, 2020 as follows:

	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$28,028	\$28,028
Investment return, net	29	29
Contributions	<u>768</u>	<u>768</u>
Endowment net assets, end of year	<u>\$28,825</u>	<u>\$28,825</u>

The following table represents the changes in the Organization's endowment funds during the year ended June 30, 2019 as follows:

	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$27,232	\$27,232
Investment return, net	28	28
Contributions	<u>768</u>	<u>768</u>
Endowment net assets, end of year	<u>\$28,028</u>	<u>\$28,028</u>

MIDSTATE ARC, INC.

Notes to Financial Statements

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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. There were no such deficiencies as of June 30, 2020 and 2019.

NOTE 14 – 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 twelve 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 2020 and 2019.

Annually, the Board of Directors determines the contribution, if any, to the plan. For the years ended June 30, 2020 and 2019, the Organization elected to contribute \$200,000 and \$100,000, respectively.

NOTE 15 – 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 16 – RISKS AND UNCERTAINTIES

Recently, the outbreak of the novel coronavirus has adversely impacted global commercial activity and contributed to significant declines and volatility in financial markets. Depending on the severity and length of the outbreak, the novel coronavirus could present material uncertainty and risk with respect to this entity and its operations and financial results.

NOTE 17 – SUBSEQUENT EVENTS

Effective August 31, 2020, the Organization started a Promontory Product through ION Bank that spreads available cash amongst various banks based in the United States that significantly reduces the amount of cash exceeding the federally insured limit at any time.

Evaluation of subsequent events

The Organization has evaluated events and transactions for potential recognition or disclosure through January 7, 2021, which is the date the financial statements were available to be issued.