MIDSTATE ARC, INC.

Financial Statements with
Independent Auditor's Report

June 30, 2022 and 2021

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, 2022 and 2021, 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, 2022 and 2021, 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.

Responsibilities of Management for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

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

- Exercise professional judgement and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MidState Arc, Inc.'s internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about MidState Arc, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audits.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2023 on our consideration of MidState Arc, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MidState Arc, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MidState Arc, Inc.'s internal control over financial reporting and compliance.

Guilmartin, DiPiro + Sokolowski, LLC

Middletown, Connecticut
January 12, 2023

MIDSTATE ARC, INC.

Statements of Financial Position

June 30, 2022 and 2021

	2022	2021
Assets		
Current assets:		
Cash	**$ 3,314,583**	$ 1,637,461
Accounts receivable, net	**204,201**	764,846
Prepaid expenses and other current assets	**121,862**	104,299
Total current assets	**3,640,646**	2,506,606
Property and equipment, net	**2,791,547**	3,068,209
Other assets:		
Security deposits	**30,734**	30,407
Endowment asset	**30,603**	29,436
Total other assets	**61,337**	59,843
Total assets	**$ 6,493,530**	$ 5,634,658
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	**$ 433,561**	$ 207,727
Accrued expenses	**1,953,614**	1,517,941
Current portion of mortgages payable	**60,976**	58,375
Refundable advances	**266,999**	46,091
Total current liabilities	**2,715,150**	1,830,134
Long-term liabilities:		
Mortgages payable, less current portion	**1,212,758**	1,290,133
DDS cash advances	**214,411**	214,411
Total long-term liabilities	**1,427,169**	1,504,544
Total liabilities	**4,142,319**	3,334,678
Net assets:		
Without donor restrictions	**2,311,658**	2,268,382
With donor restrictions	**39,553**	31,598
Total net assets	**2,351,211**	2,299,980
Total liabilities and net assets	**$ 6,493,530**	$ 5,634,658

See accompanying notes to financial statements.

MIDSTATE ARC, INC.

Statements of Activities

For the years ended June 30, 2022 and 2021

	2022	2021
Changes in Net Assets Without Donor Restrictions		
Operating revenues and other support:		
Grants and contracts	**$ 14,207,071**	$ 12,938,838
PPP loan forgiveness	**-**	1,879,300
ARPA funds	**367,230**	-
Sales to the public	**14,161**	20,387
Contributions	**22,899**	45,488
Fundraising	**34,091**	23,691
Other	**89,509**	64,276
Net assets released from restrictions	**2,063**	12,466
Total operating revenues and other support	**14,737,024**	14,984,446
Operating expenses:		
Program services:		
Day programs	**4,055,400**	3,678,896
Residential programs	**7,488,089**	7,479,954
Other	**152,576**	126,021
Total program services	**11,696,065**	11,284,871
Supporting services:		
Administrative and general	**2,991,367**	2,696,614
Fundraising	**6,316**	10,104
Total supporting services	**2,997,683**	2,706,718
Total operating expenses	**14,693,748**	13,991,589
Change in net assets without donor restrictions from operations	**43,276**	992,857
Non-operating activity:		
(Loss) on sale of property and equipment	**-**	(491,868)
Total non-operating activity	**-**	(491,868)
Change in net assets without donor restrictions	**43,276**	500,989
Net assets without donor restrictions, beginning of year	**2,268,382**	1,767,393
Net assets without donor restrictions, end of year	**$ 2,311,658**	$ 2,268,382
Changes in Net Assets With Donor Restrictions		
Contributions	**$ 10,003**	$ 12,609
Investment income	**15**	22
Net assets released from restrictions	**(2,063)**	(12,466)
Change in net assets with donor restrictions	**7,955**	165
Net assets with donor restrictions, beginning of year	**31,598**	31,433
Net assets with donor restrictions, end of year	**$ 39,553**	$ 31,598
Change in net assets	**$ 51,231**	$ 501,154
Net assets, beginning of year	**2,299,980**	1,798,826
Net assets, end of year	**$ 2,351,211**	$ 2,299,980

See accompanying notes to financial statements.

MIDSTATE ARC, INC.

Statement of Functional Expenses

For the year ended June 30, 2022
(with comparative totals for 2021)

	Program Services					*Supporting Services*				
	Day Programs	Residential Programs	Other	Occupancy Allowance	Total Program Services	Administrative and General	Fundraising	Total Supporting Services	2022 Total Expenses	2021 Total Expenses
Salaries and wages	$ 2,214,155	$ 4,039,784	$ 54,389	$ 9,689	$ 6,318,017	$ 1,803,613	$ -	$ 1,803,613	$ 8,121,630	$ 7,815,841
Fringe benefits/payroll taxes	379,214	704,702	9,334	1,663	1,094,913	309,518	-	309,518	1,404,431	1,556,435
Total salaries and fringe benefits	2,593,369	4,744,486	63,723	11,352	7,412,930	2,113,131	-	2,113,131	9,526,061	9,372,276
Transportation	360,196	161,921	11,871	221	534,209	10,684	33	10,717	544,926	517,476
Consultants and professional fees	529,213	1,827,901	27,502	-	2,384,616	406,915	-	406,915	2,791,531	2,576,796
Supplies	71,433	112,081	30,938	5,483	219,935	109,078	6,283	115,361	335,296	314,075
Depreciation	247,251	188,933	-	-	436,184	7,147	-	7,147	443,331	177,253
Utilities	43,345	120,715	480	69,378	233,918	104	-	104	234,022	200,887
Repairs and maintenance	10,373	42,157	526	24,261	77,317	99	-	99	77,416	90,900
Interest	13,221	67,196	-	-	80,417	1,017	-	1,017	81,434	115,025
Food supplies	10,407	96,001	-	582	106,990	3,204	-	3,204	110,194	101,657
Insurance	6,299	17,095	5,828	8,112	37,334	66,043	-	66,043	103,377	95,162
Training and conferences	1,520	2,295	2,115	-	5,930	57,746	-	57,746	63,676	42,801
Occupancy	158,563	95,471	5,960	(125,512)	134,482	162,106	-	162,106	296,588	255,948
Licenses, dues and subscriptions	-	-	325	-	325	31,159	-	31,159	31,484	33,149
Bad debts	-	-	1,725	-	1,725	6,866	-	6,866	8,591	5,536
Equipment	10,210	11,837	1,583	-	23,630	16,068	-	16,068	39,698	35,822
Property taxes	-	-	-	6,123	6,123	-	-	-	6,123	56,826
Total operating expenses	$ 4,055,400	$ 7,488,089	$ 152,576	$ -	$ 11,696,065	$ 2,991,367	$ 6,316	$ 2,997,683	$ 14,693,748	$ 13,991,589

See accompanying notes to financial statements.

MIDSTATE ARC, INC.

Statement of Functional Expenses

For the year ended June 30, 2021

	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	$ 2,272,908	$ 3,980,416	$ 82,776	$ 19,593	$ 6,355,693	$ 1,458,949	$ 1,199	$ 1,460,148	$ 7,815,841
Fringe benefits/payroll taxes	451,032	793,802	16,508	3,907	1,265,249	290,947	239	291,186	1,556,435
Total salaries and fringe benefits	2,723,940	4,774,218	99,284	23,500	7,620,942	1,749,896	1,438	1,751,334	9,372,276
Transportation	340,667	166,431	150	-	507,248	10,190	38	10,228	517,476
Consultants and professional fees	220,732	1,901,649	7,989	-	2,130,370	446,426	-	446,426	2,576,796
Supplies	63,350	114,678	11,519	17,639	207,186	98,261	8,628	106,889	314,075
Depreciation	35,229	83,382	-	45,742	164,353	12,900	-	12,900	177,253
Utilities	39,652	98,688	892	61,307	200,539	348	-	348	200,887
Repairs and maintenance	25,596	47,806	-	17,498	90,900	-	-	-	90,900
Interest	13,950	70,476	-	30,599	115,025	-	-	-	115,025
Food supplies	6,833	94,031	-	31	100,895	762	-	762	101,657
Insurance	5,382	14,930	2,210	8,918	31,440	63,722	-	63,722	95,162
Training and conferences	424	-	-	-	424	42,377	-	42,377	42,801
Occupancy	199,254	77,571	3,732	(240,711)	39,846	216,102	-	216,102	255,948
Licenses, dues and subscriptions	-	-	-	-	-	33,149	-	33,149	33,149
Bad debts	-	-	-	-	-	5,536	-	5,536	5,536
Equipment	3,887	14,745	245	-	18,877	16,945	-	16,945	35,822
Property taxes	-	21,349	-	35,477	56,826	-	-	-	56,826
Total operating expenses	$ 3,678,896	$ 7,479,954	$ 126,021	$ -	$ 11,284,871	$ 2,696,614	$ 10,104	$ 2,706,718	$ 13,991,589

See accompanying notes to financial statements.

MIDSTATE ARC, INC.

Statements of Cash Flows

For the years ended June 30, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets	**$ 51,231**	$ 501,154
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	**443,331**	177,253
Bad debts	**8,591**	5,536
Loss on sale of property and equipment	**-**	491,868
Decrease in accounts receivable	**552,054**	72,398
(Increase) decrease in prepaid expenses and other current assets	**(18,730)**	63,220
(Increase) in security deposits	**(327)**	-
Increase (decrease) in accounts payable	**225,834**	(207,655)
Increase in accrued expenses	**435,673**	86,760
Increase (decrease) in refundable advances, including PPP	**220,908**	(1,884,225)
Net cash provided by (used in) operating activities	**1,918,565**	(693,691)
Cash flows from investing activities:		
Purchase of property and equipment	**(166,669)**	(485,653)
Net cash (used in) investing activities	**(166,669)**	(485,653)
Cash flows from financing activities:		
Proceeds from the sale of property and equipment	**-**	1,100,000
Payments on mortgages payable	**(74,774)**	(1,025,339)
Net cash (used in) provided by financing activities	**(74,774)**	74,661
Net increase (decrease) in cash	**1,677,122**	(1,104,683)
Cash, beginning of year	**1,637,461**	2,742,144
Cash, end of year	**$ 3,314,583**	$ 1,637,461
Supplemental disclosure of cash flow information:		
Interest paid	**$ 81,434**	$ 115,025

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, 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:

Basis of accounting and presentation

The accounts of the Organization are maintained, and the financial statements are prepared in accordance with accounting principles generally accepted in the United States of America on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities. The Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. They are described as follows:

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

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

Operating and non-operating activities

Non-operating activities consist primarily of (a) pension-related changes other than net periodic pension costs, (b) other components of net periodic pension costs, (c) investment return in excess of amounts utilized for operations as defined by the Organization's spending policy, (d) release from restrictions for contributions given for the acquisition of property and equipment, and (e) changes in the value of split-interest agreements.

Recent accounting guidance

In September 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2020-07, *Not-for-Profit Entities (Topic 958*): *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The ASU requires not-for-profits to present contributed nonfinancial assets as a separate line item on the statements of activities and provide additional disclosures about contributions of nonfinancial assets. The ASU was effective for annual periods beginning after June 15, 2021 and the amendments in the ASU were applied by the Organization on a retrospective basis for the year ended June 30, 2022.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. This accounting standard changes the disclosure requirements for fair value measurement. The Organization adopted the provisions of ASU 2018-13 on July 1, 2020. There is no effect on net assets, or significant disclosures in connection with the implementation of ASU 2018-13.

The adoption of ASUs 2020-07 and 2018-13 standards did not have a material impact on the Organization's financial position or results of operations for any periods presented and a cumulative adjustment was not recorded to the Organization's beginning net asset balance.

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, 2022 and 2021.

Accounts receivable

The Organization has accounts receivable related to grants and third-party reimbursements. Based on historical experience, grants are considered fully collectable. Management performs an assessment of collectability related to other receivables and will write off receivables from individuals and other sources after all attempts at collection are exhausted. When appropriate, management maintains an allowance for uncollectable accounts, which is based on a review of significant delinquent balances, historical experience, an assessment of economic conditions and a review of subsequent collections. The allowance for uncollectable accounts at June 30, 2022 and 2021 was $35,887. The statements of financial position report accounts receivable net of allowance.

Property and equipment

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

The Organization reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. The Organization has determined that there was no impairment of long-lived assets as of June 30, 2022 and 2021.

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.

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.

Contributions, continued

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.

The Organization received cost-reimbursable grants of $27,549,102 that have not been recognized at June 30, 2022 because qualifying expenditures have not yet been incurred.

The Organization received Paycheck Protection Program (PPP) funding from the U.S. Small Business Administration (the SBA) in April 2020, which was accounted for as a contribution under ASC 958-605. Refer to Note 6 for further details on the PPP funding and recognition within the fiscal year 2021 financial statements.

Federal and State COVID-19 Funding

In March 2022, the Organization received $502,566 in American Rescue Plan Act of 2021 (ARPA) Home and Community Based Services (HCBS) funding, which was provided by the State of Connecticut Department of Developmental Services (DDS). The funding includes payments for the following three initiatives: temporary provider stabilization (category 1), workforce stability incentives and stability (category 2) and infrastructure improvements through technology (category 3). The State has established expenditure deadlines, by category, for providers to adhere to before additional payments are made, which are as follows: September 30, 2022 expenditure deadline for category 1, December 31, 2022 expenditure deadline for category 2 and June 30, 2023 expenditure deadline for category 3. DDS will recover any funds not expended by the established deadlines. For the year ended June 30, 2022, the Organization spent $367,230 in ARPA HCBS funding and has recorded $135,336 as a refundable advance, which represents the unspent funds as of the end of the fiscal year.

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.

Cost settlement

The Organization was subject to cost settlement procedures prescribed by various agencies of the State of Connecticut for the year ended June 30, 2021, whereby unspent (or a portion of unspent) funds were due back to the state agencies. The Organization had no cumulative cost settlement as of June 30, 2021 that was subject to recoupment by the state agencies. Cost settlement was eliminated for the year ended June 30, 2022 and as such, no amounts are due back to the state agencies.

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.

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.

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.

Concentrations of credit risk

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, 2022, no cash balances exceeded the federally insured limit.

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, 2022 and 2021, approximately 96% of its revenue is from the State of Connecticut Department of Developmental Services (DDS). Approximately 91% and 90% of its accounts receivable is due from DDS, respectively.

NOTE 2 – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that are, without donor or other restrictions limiting their use, within one year of the date of the statements of financial position, comprise the following:

	2022	2021
Cash	$3,314,583	$1,637,461
Accounts receivable, net	204,201	764,846
	$3,518,784	$2,402,307

NOTE 3 – 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 and $1,091,689 as of June 30, 2022 and 2021, respectively.

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

	2022	2021
DDS accounts receivable	$ 1,090,200	$ 1,777,576
Less: DDS bridge funding advance	(1,087,094)	(1,091,689)
Net DDS receivable	3,106	685,887
Other receivables	236,982	114,846
Less: allowance for uncollectable accounts	(35,887)	(35,887)
Accounts receivable, net	$ 204,201	$ 764,846

NOTE 4 – PROPERTY AND EQUIPMENT

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

	2022	2021
Land	$ 1,108,878	$ 1,108,878
Land improvements	109,508	100,008
Building and building improvements	2,477,963	2,477,963
Furniture and fixtures	102,121	102,121
Construction in process	15,863	5,700
Vehicles	578,316	431,309
	4,392,649	4,225,979
Less: accumulated depreciation	(1,601,102)	(1,157,770)
Property and equipment, net	$ 2,791,547	$ 3,068,209

Construction in process at June 30, 2022 represents $15,863 in costs incurred related to architectural work for a Transitional House in Meriden, Connecticut.

Depreciation expense was $443,331 and $177,253 for the years ended June 30, 2022 and 2021, respectively.

NOTE 5 – LINE OF CREDIT

The Organization had a revolving line of credit with ION Bank through February 2021 which provided borrowings up to a maximum of $120,000. Borrowings under the line bore interest at The Wall Street Journal prime rate and were collateralized by all business assets of the Organization. However, the line of credit was not renewed. There was no outstanding balance on the line of credit at June 30, 2021.

NOTE 6 – PPP LOAN FORGIVENESS

On April 13, 2020, the Organization received a Paycheck Protection Program (PPP) loan of $1,879,300 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 Paycheck Protection Program funds are known as a loan, the Organization treated them as a cost-reimbursement grant from the government for accounting purposes. Management considered the PPP loan to be a conditional contribution, with a right-of-return in the form of an obligation to be repaid if barriers to entitlement were not met. These barriers included maintaining payroll levels, and incurring qualifying expenses 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, in addition to the review of the Organization's application for forgiveness by the lender and the SBA. The PPP loan was subject to be fully forgiven if (1) proceeds were used to pay eligible payroll costs or other eligible costs and (2) full-time employee headcount and salaries were either maintained or restored during the time frame established by the terms of the loan. If not maintained or restored, any forgiveness of the PPP loan would have been reduced in accordance with the regulations that were issued by the SBA. The interest rate on the PPP loan was at a fixed rate of 1% per annum and to the extent that amounts were owed under the PPP loan, or a portion of them, were not forgiven, the Organization would have been required to make principal and interest payments monthly beginning in October 2020. The barriers were determined to not be met during the year ended June 30, 2020 and as such the PPP loan was recorded as a refundable advance as of June 30, 2020.

All the proceeds of the PPP loan were used by the Organization to pay eligible payroll costs and the Organization maintained its headcount and otherwise complied with the terms of the PPP loan. During fiscal year 2021, the Organization applied for and received forgiveness for the full amount of the PPP loan. The amount forgiven is recognized as PPP contribution revenue within the operating section of the statements of activities for the year ended June 30, 2021.

NOTE 7 – REFUNDABLE ADVANCES

Refundable advances consist of the following as of June 30:

	2022	2021
ARPA - DDS funding	$135,336	$ -
Other	131,663	46,091
Total refundable advances	$266,999	$46,091

NOTE 8 – LONG-TERM DEBT

Mortgages payable

	2022	2021
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.	$ 272,279	$ 289,087
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.	362,063	373,232
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.	131,346	140,284
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.	140,438	145,408
3.500% mortgage payable to Windsor Federal Savings & Loan Association in equal monthly installments of $1,034, including principal and interest through June 2024. The mortgage is collateralized by property in Meriden, Connecticut.	91,603	100,571
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.	59,880	64,713
6.626% mortgage payable to Connecticut Housing Finance Authority in equal monthly installments of $2,843 including principal and interest through September 2030, collateralized by property in Meriden, Connecticut.	216,125	235,213
Total mortgages payable	1,273,734	1,348,508
Less: current portion	(60,976)	(58,375)
Total	$1,212,758	$1,290,133

Long-term debt, continued

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

Years Ending June 30,	
2023	$ 60,976
2024	64,228
2025	67,661
2026	71,285
2027	75,110
Thereafter	934,474
Total	$1,273,734

Interest expense was $81,434 and $115,025 for the years ended June 30, 2022 and 2021, respectively.

NOTE 9 –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, 2022 and 2021.

NOTE 10 – 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 $3,486 and escalates annually until the lease expires in December 2023.

The Organization has an operating lease agreement with an unrelated party to rent office space in Meriden, Connecticut for two years through February 2023. The space is used for administrative offices. Monthly rent is $5,753.

The Organization has an operating lease agreement with an unrelated party to rent an apartment building in Meriden, Connecticut for one year through January 2023. The building is used for office space. Monthly rent is $1,250.

The Organization has an operating lease agreement with an unrelated party to rent program space in Meriden, Connecticut for one year through April 30, 2023. The space is used to operate a day program for DDS. Monthly rent is $3,350.

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 2023. The house is used to operate a CRS program for DDS. Monthly rent is $2,470 and is adjustable by 2% annually.

The Organization has 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 a CRS program for DDS. Monthly rent is $2,688 and is adjustable by 2% annually.

Real estate, continued

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 $2,926 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, 2022 and 2021 was $182,716 and $266,138, respectively. Aggregate monthly rent expense on ongoing leases is $30,415. Leases expire from November 2021 to July 2025.

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

Years Ending June 30,	
2023	$156,109
2024	156,109
2025	138,176
2026	26,791
2027	-
Thereafter	
Total	$477,185

NOTE 11 – NET ASSETS WITH DONOR RESTRICTIONS

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

	2022	2021
Time and purpose restricted:		
Hall Acres	$ 900	$ 900
Byron Road	485	485
Endowment accumulated investment gains	355	340
CUNO equipment	-	598
CRS improvements	270	-
Cooking classes	7,500	-
Subtotal	9,510	2,323
Investment in perpetuity:		
Perpetual in nature, earnings from which are subject to endowment spending policy and appropriations:		
Endowment	30,043	29,275
Total perpetual endowments	30,043	29,275
Total net assets with donor restrictions	$39,553	$31,598

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:

	2022	2021
Satisfaction of purpose restrictions:		
CRS improvements	$1,465	$ 1,416
CUNO equipment	598	10,802
Tech center	-	248
Total	$2,063	$12,466

NOTE 12 – 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, 2022 and 2021, there were no such donor stipulations.

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

1. The duration and preservation of the fund.
2. The purposes of the Organization and the donor-restricted endowment fund.
3. General economic conditions.
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 tables represent the composition of the Organization's endowment by net asset class as of June 30, 2022 and 2021:

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

Endowment net asset composition, continued

June 30, 2021	With Donor Restrictions	Total
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	$29,275	$29,275
Accumulated investment gains	340	340
	$29,615	$29,615

Changes in endowment net assets

The following table represents the changes in the Organization's endowment net assets for the years ended June 30, 2022 and 2021:

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

Year ended June 30, 2021	With Donor Restrictions	Total
Endowment net assets, beginning of year	$28,825	$28,825
Investment return, net	22	22
Contributions	768	768
Endowment net assets, end of year	$29,615	$29,615

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, 2022 and 2021.

NOTE 13 – 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 2022 and 2021.

Annually, the Board of Directors determines the contribution, if any, to the plan. For the years ended June 30, 2022 and 2021, the Organization elected to contribute $200,000 for both years.

NOTE 14 – 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 15 – RISKS AND UNCERTAINTIES

The outbreak of the novel Coronavirus has adversely impacted global commercial activity and contributed to volatility in employment, inflation and the 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 16 – SUBSEQUENT EVENTS

The Organization has evaluated events and transactions for potential recognition or disclosure through January 12, 2023, which is the date the financial statements were available to be issued.

Subsequent to June 30, 2022, the Organization purchased a building located at 74 South Broad Street, Meriden, Connecticut for $465,000.