The Arc Baltimore, Inc.

Financial Report
(In Accordance With Uniform Guidance)
June 30, 2020

Contents

Independent Auditor's Report

Board of Directors
The Arc Baltimore, Inc.

Report on the Financial Statements
We have audited the accompanying financial statements of The Arc Baltimore, Inc. (Arc), which comprise the statements of financial position as of June 30, 2020 and 2019, 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 judgment, 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 The Arc Baltimore, 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 reports dated November 24, 2020, on our consideration of Arc'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 those reports is 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 internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Arc's internal control over financial reporting and compliance.

RSM US LLP

Baltimore, Maryland
November 24, 2020

The Arc Baltimore, Inc.

Statements of Financial Position
June 30, 2020 and 2019

	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	**$ 6,121,212**	$ 4,576,290
Cash designated for operating reserves (Note 2)	**4,000,000**	4,000,000
Accounts receivable, net	**2,169,296**	2,611,994
Receivables from government agencies	**1,704,470**	344,871
Other receivables	**45,814**	39,911
Residents' funds (Note 1)	**957,281**	571,572
Other current assets	**125,919**	344,626
Total current assets	**15,123,992**	12,489,264
Property and equipment, net (Notes 3, 5 and 7)	**8,957,201**	9,444,720
Other assets:		
Security deposits	**70,529**	78,528
Certificate of deposit (Note 10)	**609,179**	607,725
Escrow funds (Notes 7 and 8)	**566,533**	559,952
Board-designated investments (Notes 6 and 13)	**3,651,584**	3,522,537
Total other assets	**4,897,825**	4,768,742
Total assets	**$ 28,979,018**	$ 26,702,726

See notes to financial statements.

		2020	2019
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses (Note 4)		**$ 6,564,209**	$ 5,569,174
Deferred revenue		**82,662**	79,309
Residents' funds payable (Note 1)		**957,281**	571,572
Current portion of long-term debt (Notes 5 and 7)		**792,444**	876,816
Total current liabilities		**8,396,596**	7,096,871
Long-term liabilities:			
Long-term debt, net of issuance costs (Notes 5 and 7)		**4,868,673**	5,272,461
Pension liability (Note 4)		**1,745,028**	2,274,367
Total long-term liabilities		**6,613,701**	7,546,828
Total liabilities		**15,010,297**	14,643,699
Commitments and contingencies (Notes 2, 4, 5, 9 and 10)			
Net assets:			
Without donor restrictions:			
Operating		**9,266,205**	7,522,203
Board-designated for investment (Note 6)		**3,651,584**	3,522,537
Capital reserves (Note 1)		**450,000**	350,000
Total net assets without donor restrictions		**13,367,789**	11,394,740
With donor restrictions (Note 12)		**600,932**	664,287
Total net assets		**13,968,721**	12,059,027
Total liabilities and net assets		**$ 28,979,018**	$ 26,702,726

See notes to financial statements.

The Arc Baltimore, Inc.

Statement of Activities
Year Ended June 30, 2020
(With Comparative Totals for June 30, 2019)

	2020			
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	2019 Total
Support and revenue:				
Government agencies	**$ 34,884,760**	**$ -**	**$ 34,884,760**	$ 36,687,314
Contracts and other revenue	**14,065,598**	**-**	**14,065,598**	13,765,607
Public support, direct	**409,920**	**38,500**	**448,420**	509,743
Public support, indirect	**50,157**	**-**	**50,157**	69,626
Net assets released from restrictions	**101,855**	**(101,855)**	**-**	-
Total support and revenue	**49,512,290**	**(63,355)**	**49,448,935**	51,032,290
Expenses (Notes 3, 4, 5 and 7):				
Program services:				
Employment and Day	**21,419,490**	**-**	**21,419,490**	23,435,064
Community Living	**18,523,715**	**-**	**18,523,715**	17,858,662
Family and Children	**2,578,915**	**-**	**2,578,915**	2,814,602
Total program services	**42,522,120**	**-**	**42,522,120**	44,108,328
Supporting services:				
Management and general	**4,649,091**	**-**	**4,649,091**	4,674,773
Fundraising	**238,437**	**-**	**238,437**	249,768
Total supporting services	**4,887,528**	**-**	**4,887,528**	4,924,541
Total operating expenses	**47,409,648**	**-**	**47,409,648**	49,032,869
Change in net assets from operating activities	**2,102,642**	**(63,355)**	**2,039,287**	1,999,421
Nonoperating activities:				
Endowment contributions	**17,748**	**-**	**17,748**	104,796
Investment income, net (Note 6)	**111,321**	**-**	**111,321**	218,667
Pension related changes other than service costs (Note 4)	**(258,662)**	**-**	**(258,662)**	(27,043)
Unrealized gain on interest rate swap agreement (Note 7)	**-**	**-**	**-**	5,874
Change in net assets	**1,973,049**	**(63,355)**	**1,909,694**	2,301,715
Net assets at beginning of year	**11,394,740**	**664,287**	**12,059,027**	9,757,312
Net assets at end of year	**$ 13,367,789**	**$ 600,932**	**$ 13,968,721**	$ 12,059,027

See notes to financial statements.

The Arc Baltimore, Inc.

Statement of Activities
Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Government agencies	$ 36,687,314	$ -	$ 36,687,314
Contracts and other revenue	13,765,607	-	13,765,607
Public support, direct	448,914	60,829	509,743
Public support, indirect	69,626	-	69,626
Net assets released from restrictions	117,025	(117,025)	-
Total support and revenue	51,088,486	(56,196)	51,032,290
Expenses (Notes 3, 4, 5 and 7):			
Program services:			
Employment and Day	23,435,064	-	23,435,064
Community Living	17,858,662	-	17,858,662
Family and Children	2,814,602	-	2,814,602
Total program services	44,108,328	-	44,108,328
Supporting services:			
Management and general	4,674,773	-	4,674,773
Fundraising	249,768	-	249,768
Total supporting services	4,924,541	-	4,924,541
Total operating expenses	49,032,869	-	49,032,869
Change in net assets from operating activities	2,055,617	(56,196)	1,999,421
Nonoperating activities:			
Endowment contributions	104,796	-	104,796
Investment income, net (Note 6)	218,667	-	218,667
Pension related changes other than service costs (Note 4)	(27,043)	-	(27,043)
Unrealized gain on interest rate swap agreement (Note 7)	5,874	-	5,874
Change in net assets	2,357,911	(56,196)	2,301,715
Net assets at beginning of year	9,036,829	720,483	9,757,312
Net assets at end of year	$ 11,394,740	$ 664,287	$ 12,059,027

See notes to financial statements.

The Arc Baltimore, Inc.

Statement of Functional Expenses
Year Ended June 30, 2020

	Program Services	Supporting Services: Management and General	Supporting Services: Fundraising	Supporting Services: Total Supporting Services	Total
Staff salaries	$ 23,953,672	$ 2,148,996	$ 157,997	$ 2,306,993	$ 26,260,665
Client salaries	2,652,947	9,105	-	9,105	2,662,052
Fringe benefits (Note 4)	5,566,407	508,707	37,470	546,177	6,112,584
Supplies, equipment and materials	1,089,998	150,443	5,740	156,183	1,246,181
Contract services	2,634,513	823,158	31,340	854,498	3,489,011
Assistance to individuals	1,227,571	4,626	-	4,626	1,232,197
Depreciation and amortization (Note 3)	1,213,364	259,771	375	260,146	1,473,510
Transportation of clients	15,414	972	-	972	16,386
Food	695,333	2,158	-	2,158	697,491
Dues, memberships and licenses	17,800	140,074	470	140,544	158,344
Interest (Note 7)	232,746	61,816	-	61,816	294,562
Insurance	571,319	63,836	699	64,535	635,854
Utilities and telephone	735,004	143,458	656	144,114	879,118
Rent and lease expense	1,066,847	76,222	-	76,222	1,143,069
Repairs and maintenance	506,893	113,858	-	113,858	620,751
Training and travel	244,493	132,427	970	133,397	377,890
Miscellaneous	97,799	9,464	2,720	12,184	109,983
Total functional expenses	$ 42,522,120	$ 4,649,091	$ 238,437	$ 4,887,528	$ 47,409,648

See notes to financial statements.

The Arc Baltimore, Inc.

Statement of Functional Expenses
Year Ended June 30, 2019

	Program Services	Supporting Services: Management and and General	Supporting Services: Fundraising	Supporting Services: Total Supporting Services	Total
Staff salaries	$ 24,710,393	$ 2,109,178	$ 147,009	$ 2,256,187	$ 26,966,580
Client salaries	3,411,643	65,577	45	65,622	3,477,265
Fringe benefits (Note 4)	5,808,143	500,293	34,617	534,910	6,343,053
Supplies, equipment and materials	1,497,164	189,244	4,616	193,860	1,691,024
Contract services	1,622,700	735,859	27,209	763,068	2,385,768
Assistance to individuals	1,343,264	7,994	-	7,994	1,351,258
Depreciation and amortization (Note 3)	1,193,740	275,478	187	275,665	1,469,405
Transportation of clients	32,158	777	-	777	32,935
Food	749,043	703	-	703	749,746
Dues, memberships and licenses	18,472	138,744	1,181	139,925	158,397
Interest (Note 7)	231,978	60,925	-	60,925	292,903
Insurance	605,250	63,075	922	63,997	669,247
Utilities and telephone	783,469	133,689	567	134,256	917,725
Rent and lease expense	1,141,234	119,422	157	119,579	1,260,813
Repairs and maintenance	514,024	101,813	232	102,045	616,069
Training and travel	352,442	145,001	2,860	147,861	500,303
Miscellaneous	93,211	27,001	30,166	57,167	150,378
Total functional expenses	$ 44,108,328	$ 4,674,773	$ 249,768	$ 4,924,541	$ 49,032,869

See notes to financial statements.

The Arc Baltimore, Inc.

Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	$ 1,909,694	$ 2,301,715
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,473,510	1,469,405
Increase (decrease) in allowance for doubtful accounts	5,998	(10,548)
Net realized and unrealized gain on investments	(29,511)	(154,110)
Unrealized gain on interest rate swap agreement	-	(5,874)
Loss on disposal of property and equipment	21,266	-
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable, net	436,700	149,909
Receivables from governmental agencies	(1,359,599)	1,592,759
Other receivables	(5,903)	2,600
Other current assets	218,707	(155,690)
Increase (decrease) in:		
Accounts payable and accrued expenses	995,035	1,174,163
Deferred revenue	3,353	(7,513)
Pension liability	(529,339)	(466,855)
Net cash provided by operating activities	3,139,911	5,889,961
Cash flows from investing activities:		
Acquisition of property and equipment	(573,202)	(510,532)
Purchase of investments	(125,776)	(251,813)
Proceeds from sale of investments	26,240	80,800
Decrease in security deposit	7,999	350
Decrease in certificates of deposit	(1,454)	(6,367)
Increase in bond escrow funds	(6,581)	26,471
Net cash used in investing activities	(672,774)	(661,091)
Cash flows from financing activities:		
Principal payments on long-term debt	(922,215)	(968,547)
Payment of debt issuance costs	-	(39,500)
Net cash used in financing activities	(922,215)	(1,008,047)
Net increase in cash and cash equivalents	1,544,922	4,220,823
Cash and cash equivalents:		
Beginning of year	8,576,290	4,355,467
End of year	$ 10,121,212	$ 8,576,290

(Continued)

The Arc Baltimore, Inc.

Statements of Cash Flows (Continued)
Years Ended June 30, 2020 and 2019

	2020	2019
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	**$ 294,808**	$ 286,995
Supplemental schedule of noncash investing and financing activities:		
Vehicles and equipment acquired through notes payable	**$ 409,659**	$ 881,353

See notes to financial statements.

Note 1. Nature of Activities and Significant Accounting Policies

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

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

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

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

For the years ended June 30, 2020 and 2019, approximately 70% and 71%, respectively, of Arc's revenue was received from the State of Maryland.

A summary of Arc's significant accounting policies follows:

Basis of accounting: The accompanying financial statements are presented in accordance with the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred.

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

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

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

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

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

Cash and cash equivalents: Arc considers money market funds and certificates of deposit, which are highly liquid and mature within three months, to be cash equivalents. Cash designated for operating reserves represents amounts set aside to assist with potential funding shortages and billing delays during implementation of the statewide new rate system scheduled to begin on July 1, 2020. Due to the current pandemic, the State approved an extension of the new rate system which is to begin on July 1, 2021 (see Note 2).

Escrow funds: Escrow funds include amounts for mortgage purposes and for debt service purposes (see Note 8). Escrow funds for mortgage purposes represent deposits for taxes, insurance and repairs. The balance in the account related to mortgage escrow funds at June 30, 2020 and 2019, was $154,272 and $147,691, respectively.

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

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

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

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

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

Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by regularly evaluating individual accounts receivable and considering a customer's financial condition, credit history and current economic conditions. The allowance for doubtful accounts was $10,603 and $4,605 at June 30, 2020 and 2019, respectively. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

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

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

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

Land and buildings purchased with state funds prior to fiscal year 2020 are owned by Arc, subject to the provision that if the property is transferred within 20 years following the purchase, a pro rata share of the state funds must be returned to the granting state agency. It is the intent of management to hold the properties for at least 20 years.

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

Debt issuance costs: In November 2010, Arc incurred debt issuance costs that are being amortized on a straight-line basis over the life of the debt (20 years). In August 2018, Arc incurred additional debt issuance costs with the refinancing that are being amortized on a straight-line basis over the life of the debt (22 years). Amortization expense was $24,396 and $24,094 for the years ended June 30, 2020 and 2019, respectively. Accumulated amortization was $204,608 and $180,212 at June 30, 2020 and 2019, respectively.

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

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

Interest rate swap: Arc's interest rate swap contract is considered to be an economic hedge against changes in the amount of future cash flows associated with Arc's interest payments under variable rate debt obligations. Accordingly, the interest rate swap contract is reflected in Arc's statements of financial position, and the related gain or loss on the contract is recognized in the statements of activities. The effect of this accounting on Arc's operating results is that interest expenses on a portion of variable rate debt being hedged is generally recorded based on fixed interest rates. Arc terminated the interest rate swap contract on August 1, 2018.

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

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

Revenue from subcontract fees is recognized when the service is performed.

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

Contributions: Unconditional contributions are recognized as revenue upon receipt, or when unconditional promises to give are received. Contribution revenue is recorded as increases in net assets without donor restrictions, unless the use is limited by time or donor-imposed restrictions. Conditional contributions are recognized when donor-imposed conditions are met. These revenues are subject to right of return if funds are not spent and also have barriers that must be met in order to be entitled to the funds. Accordingly, amounts received, but not yet recognized as revenue, are classified as deferred revenue in the statements of financial position. There were no additional revenues to be earned on various conditional grants as of June 30, 2020 and 2019.

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

Income taxes: Arc is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). In addition, Arc qualifies for charitable contributions deductions under Section 170(c)(2)(B) and has been determined by the Internal Revenue Service (IRS) not to be a private foundation within the meaning of IRS §509(a). Income, which is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. There was no unrelated business income for 2020 and 2019.

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

Generally, Arc is no longer subject to income tax examinations for the U.S. federal, state or local tax authorities for years before June 30, 2017.

Adopted accounting pronouncements: In June 2018, the FASB issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. The ASU has different effective dates for resource recipients and resource providers. Where Arc is a resource recipient, the ASU is applicable to contributions received for the fiscal year ended June 30, 2020, and Arc adopted this amendment on a modified prospective basis. The adoption did not have a material impact on the reported net assets as of July 1, 2019 or June 30, 2020.

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

In March 2017, the FASB issued ASU 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.* This ASU improves the presentation of net periodic pension cost and not periodic postretirement benefit cost in the statements of activities, and narrows the amounts eligible for capitalization in assets. ASU 2017-07 requires that an employer report the service cost component in the same line item as other compensation costs, which is generally included in income from operations. All other components of net benefit cost must be presented in the statements of activities separately and outside a subtotal of change in net assets from operating activties. Arc adopted this amendment retrospectively for the years ended June 30, 2020 and 2019.

Pending accounting pronouncements: In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606).* This requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods and services to customers. ASU 2014-09 replaces most existing revenue recognition in GAAP. The ASU also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows from contracts with customers. In June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities.* In the ASU, the FASB provided one-year effective date deferrals for certain entities. ASU 2014-09 is now effective for the fiscal year beginning July 1, 2020. Arc is currently in the process of evaluating the impact of the new accounting guidance on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. A modified retrospective transition approach is requires for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. As a resulted of the aforementioned ASU 2020-05, ASU 2016-02 is now effective for the fiscal year beginning July 1, 2021. Arc is currently in the process of evaluating the impact of the new accounting guidance on its financial statements.

Uncertainties: On January 30, 2020, the World Health Organization declared the coronavirus (COVID-19) outbreak a “Public Health Emergency of International Concern” and on March 11, 2020 declared it to be a pandemic. Actions taken around the world to help mitigate the spread of COVID-19 include restrictions on travel, and quarantine in certain areas, and forced closures for certain types of public places and businesses. COVID-19 and actions taken to mitigate it have had, and are expected to continue to have, an adverse impact on the economies and financial markets of many countries. It is unknown how long these conditions will last and what the complete financial effect will be for Arc.

On March 5, 2020, Maryland Governor Lawrence J. Hogan, Jr., declared a state of emergency due to COVID-19. The Developmental Disabilities Administration (DDA) received federal Centers for Medicare and Medicaid Services (CMS) approval through an Appendix K emergency authority to provide retainer payment for specific services effective March 13, 2020. Retainer payments are for direct care staff and providers who normally provide services that include habilitation and personal care, but are currently unable to due to: (1) health and safety risk; (2) State mandates; (3) complications experienced during the COVID-19 pandemic because the participant is sick due to COVID-19; and/or (4) the participant is isolated or quarantined based on local, state, federal and/or medical requirements/orders.

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

CMS initially approved retainer payments up to 18 consecutive billable days which were utilized in fiscal year 2020. Subsequently, on September 2, 2020, CMS revised its policies, guidance, so that states can request under the Appendix K emergency authority up to three 30 days episodes of retainer payments.

The DDA revised the Appendix K and received approval from CMS on September 2, 2020 for one 30 day retainer payments episode. Therefore, DDA providers may request an additional 12 retainer days relating to services provided in fiscal year 2020. Providers are waiting for further guidance from DDA on the proper accounting and recording of these additional 12 retainer days; therefore, Arc is unable to estimate the impact of these additional retainer days in fiscal year 2020 and will record these amounts in fiscal year 2021.

In August 2020, Arc received $730,000 from the U.S. Department of Health and Human Services (HHS) under the Provider Relief Fund program. The Provider Relief Fund program was established by the Coronavirus Preparedness and Response Supplemental Appropriations Act in response to the COVID-19 outbreak. HHS has provided funding under this program to non-federal healthcare providers.

Subsequent events: Subsequent events have been evaluated through November 24, 2020, which is the date the financial statements were available to be issued.

Note 2. Liquidity and Availability

The following reflects Arc's financial assets as of June 30, 2020 and 2019, reduced by amounts not available for general use because of contractual or donor-imposed restrictions or internal designations. As part of Arc's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. To help manage unanticipated liquidity needs, Arc has a committed line of credit in the amount of $2,000,000, which it could draw upon. Arc also has a Board Designated endowment of $3,651,584 and $3,522,537 as of June 30, 2020 and 2019, respectively. Although Arc does not intend to spend from the endowment other than amounts appropriated for general expenditure as part of its annual approval process, amounts from the endowment could be made available if necessary and approved by the Board of Directors.

	2020	2019
Cash and cash equivalents	$ 10,121,212	$ 8,576,290
Accounts receivable, net	2,169,296	2,611,994
Receivables from government agencies	1,704,470	344,871
Other receivables	45,814	39,911
Residents' funds	957,281	571,572
Certificate of deposit	609,179	607,725
Escrow funds	566,533	559,952
Board-designated investments	3,651,584	3,522,537
	19,825,369	16,834,852
Less:		
Restrictions by donors	(600,932)	(664,287)
Residential funds	(957,281)	(571,572)
Certificate of deposit with bank securing letters of credit	(609,179)	(607,725)
Escrow funds	(566,533)	(559,952)
Board designated endowment funds, primarily for long-term investing, net of appropriations of $90,000 for each year	(3,561,584)	(3,432,537)
Amounts set aside for operating reserves	(4,000,000)	(4,000,000)
Amounts set aside for capital reserves	(450,000)	(350,000)
Financial assets available to meet cash needs for general expenditures within one year	$ 9,079,860	$ 6,648,779

In the 2014 Maryland General Assembly, legislation was passed for the DDA to conduct a comprehensive rate study, which will result in revised rates for Maryland providers effective July 1, 2020. Due to the current pandemic, the State approved an extension of the new rate system which is set to begin July 1, 2021. Services under the new Community Pathways Waiver will be converted from a daily rate to an hourly rate, will encompass several new waiver services, and will alter the payment system from prospective to fee-for-service. During 2019, DDA performed an analysis of the proposed rates and indicated the administration would require an additional appropriation in order to fully fund the new rates. The appropriation would also include funding to increase the reimbursement rate to ensure the direct support wage remains higher than the rising State minimum wage. Maryland providers cannot determine the level of funding the upcoming 2021 Maryland General Assembly will approve for the new rates; therefore, it is uncertain the financial impact the agency will face under the new rate system in fiscal year 2021. Given this uncertainty, Arc has appropriately created an operating reserve of $4,000,000 at June 30, 2020 to assist with potential funding shortages and billing delays during implementation of the statewide new rate system beginning July 1, 2021.

Note 3. Property and Equipment

The following is a summary of property and equipment at June 30, 2020 and 2019:

	2020	2019
Land	$ 1,971,654	$ 1,971,654
Buildings and improvements	19,904,196	19,795,296
Furniture, fixtures and vehicles	14,364,492	13,827,080
Leasehold improvements	280,221	280,221
Construction in progress	416,478	106,380
	36,937,041	35,980,631
Accumulated depreciation	(27,979,840)	(26,535,911)
	$ 8,957,201	$ 9,444,720

Depreciation expense was $1,449,114 and $1,445,311 for 2020 and 2019, respectively.

Note 4. Pension Plans

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

a) 100% of the first 1% of employee contributions

b) 50% of any employee contribution greater than 1% with a total match not to exceed 3% of an employee’s compensation during any 403(b) plan year

Total expense under the 403(b) plan for the years ended June 30, 2020 and 2019 was $700,108 and $699,756, respectively.

Deferred compensation plan: In February 2020, Arc established a 457(b) plan whereby a select group of employees are eligible to participate. There are no assets, liabilities, or expenses under the 457(b) plan for the year ended June 30, 2020 as no eligible employees elected to participate for the year ended June 30, 2020.

Noncontributory defined benefit plan: Arc maintains a noncontributory defined benefit pension plan (the Pension Plan) for the benefit of substantially all employees that were employed when the Pension Plan was frozen in 2003 as to participation, benefit service and accrued benefits. In February 2020, the Board of Directors approved to begin the termination process of the Pension Plan. The IRS had not yet issued a favorable determination letter to approve the plan termination as of June 30, 2020. On September 21, 2020, the IRS issued a favorable determination letter to terminate the plan. Arc commenced the termination process on October 15, 2020. Arc will fully fund the plan and expects all assets to be distributed from the plan by December 31, 2020. The components of net periodic benefit cost and other changes in plan assets and benefit obligations recognized in non-operating activities were losses of $258,662 and $27,043 for the years ended June 30, 2020 and 2019, respectively. Because there were no service costs included in net periodic benefit cost since the plan is frozen, these amounts are included in nonoperating activities on the statements of activities.

Note 4. Pension Plans (Continued)

Under the provisions of the Pension Plan, Arc makes contributions as required to maintain the Pension Plan on a sound actuarial basis. Arc's policy is to make annual contributions as determined through actuarial valuation. The overall rate of expected return on assets assumption was based on historical returns, with adjustments made to reflect expectations of future returns. The extent to which the future expectations were recognized included the target rates of return for the future, which has historically not changed.

The funded status and amounts recognized on the accompanying statements of financial position relating to the Pension Plan, as of the measurement dates, are as follows:

	2020	2019
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 5,884,116	$ 6,866,080
Actuarial loss (gain)	300,067	(348,646)
Interest cost	137,474	215,608
Benefits paid	(805,381)	(848,926)
Benefit obligation at end of year	5,516,276	5,884,116
Change in plan assets:		
Fair value of plan assets at beginning of year	3,609,749	4,124,858
Actual return (loss) on plan assets	178,880	(160,081)
Benefits paid	(805,381)	(848,926)
Employer contributions	788,000	493,898
Fair value of plan assets at end of year	3,771,248	3,609,749
Pension liability (funded status)	$ (1,745,028)	$ (2,274,367)
Components of net periodic benefit cost and other changes in plan assets and benefit obligations recognized in nonoperating activities:		
Interest cost	$ 137,474	$ 215,608
Expected return on plan assets	(109,684)	(199,306)
Net amortization and deferral	240,773	320,344
Settlement cost	330,823	358,444
Change in unrecognized net actuarial loss	(858,048)	(722,133)
Net periodic benefit cost other than service costs recognized in nonoperating activities	$ (258,662)	$ (27,043)

Assumptions: Weighted average assumptions used to determine net periodic pension cost and benefit obligations are as follows:

	2020	2019
Discount rate – periodic pension cost	2.92%	4.30%
Discount rate – benefit obligation	2.33%	3.26%
Discount rate – settlement cost	2.92%	4.30%
Average increase in future compensation levels	N/A	N/A
Expected long-term rate of return on assets	3.50%	7.00%

Note 4. Pension Plans (Continued)

Arc determines the expected long-term rate of return on Pension Plan assets by taking into consideration the historical returns of various asset classes and the types of investments the Pension Plan is expected to hold. The chart below details ranges for the expected long-term returns for the asset classes in which the Pension Plan currently invests:

Asset Class	Range of Expected Returns
Fixed income	2.2%-5.6%
Cash	2.5%

Plan assets: The Pension Plan's weighted-average asset allocations at June 30, 2020 and 2019, by asset category, are as follows:

	2020	2019
Fixed income	98%	60%
Cash	2%	40%

Assets of the Pension Plan are invested in a manner consistent with fiduciary standards of the Employee Retirement Income Security Act of 1974 (ERISA); namely, (a) the safeguards and diversity to which a prudent investor would adhere must be present and (b) all transactions undertaken on behalf of the Pension Plan must be for the sole interest of plan participants and beneficiaries to provide benefits in a prudent manner. Given the pending Pension Plan termination, Arc has appropriately adjusted the weighted-average asset allocations at June 30, 2020. Investment objectives of the Pension Plan also include:

- Preserve the value of the Pension Plan's assets

- Provide sufficient liquidity to the Pension Plan benefit payment outflows and meet the Pension Plan's requirements

Contributions: Arc contributed $788,000 and $493,898 to the Pension Plan during the years ended June 30, 2020 and 2019, respectively.

Estimated future benefit payments: As previously described, because Arc has received approval from the IRS to terminate the Pension Plan, Arc expects to distribute all assets of the Pension Plan by December 31, 2020.

Note 5. Commitments and Contingencies

Operating leases: Arc leases a portion of its facilities, automobiles and equipment, which are treated as operating leases for financial reporting purposes. Facility lease terms generally expire through November 2021 with options to renew for additional periods. Under the terms of the facility leases, Arc is responsible for the payment of real estate taxes and other operating expenses. Additionally, Arc leases certain automobiles and equipment with minimum lease terms of one year with options to renew. At June 30, 2020, Arc is liable under terms of non-cancelable leases for the following minimum annual lease payments:

Years ending June 30:		
2021	$	256,569
2022		10,387
	$	266,956

Rent expense charged to operations amounted to $969,999 and $1,004,073 for facilities and $173,070 and $256,740 for equipment and automobiles for the years ended June 30, 2020 and 2019, respectively.

Capital leases: Arc is obligated under various capital leases for office and landscape equipment, which expire through 2022. The following is a schedule of future minimum payments required under the lease, together with their present value as of June 30, 2020:

Years ending June 30:		
2021	$	71,752
2022		16,783
Total minimum lease payments		88,535
Less amount representing interest (at imputed rates ranging from 6% to 7%)		(4,464)
Present value of minimum lease payments	$	84,071

Amortization of assets held under capital leases is included with depreciation expense (see Note 7 for maturity schedule of capital lease obligations).

The following is an analysis at June 30, 2020 and 2019, of the equipment acquired under capital leases, which is included in property and equipment on the statements of financial position:

		2020		2019
Cost	$	3,403,415	$	3,403,415
Less accumulated depreciation		(3,294,933)		(3,221,335)
	$	108,482	$	182,080

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

Note 6. Board-Designated Net Assets

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

	2020		2019	
	Cost	Fair Value	Cost	Fair Value
Money market funds	$ 82,932	$ 82,932	$ 78,928	$ 78,928
Mutual funds	2,296,633	2,415,310	2,198,150	2,374,618
Common stock	844,507	1,153,342	809,613	1,068,991
	$ 3,224,072	$ 3,651,584	$ 3,086,691	$ 3,522,537

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

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

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

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

Endowment net assets are included in net assets without donor restrictions. Changes in endowment net assets are as follows for the years ended June 30, 2020 and 2019:

	2020	2019
Endowment net assets, beginning of year	$ 3,522,537	$ 3,197,414
Contributions	43,966	182,411
Unrealized loss	(8,333)	49,144
Realized gain	37,844	104,966
Investment income, net of fees	81,810	69,402
Endowment distribution	(26,240)	(80,800)
Endowment net assets, end of year	$ 3,651,584	$ 3,522,537

Note 7. Long-Term Obligations

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

	2020	2019
Bank loan	$ 3,717,813	$ 3,902,167
Various mortgages payable, collateralized by deeds of trust on the respective properties; interest at rates ranging between 2% and 6.5%, payable monthly with various maturity dates through March 2034	923,120	995,155
Capital lease obligations (see Note 5)	84,071	182,235
Various notes payable, collateralized by vehicles; interest at rates ranging between 0% and 7.54%; payable monthly with various maturity dates through August 2024	1,180,050	1,338,053
Subtotal	5,905,054	6,417,610
Less debt issuance costs, net of amortization	(243,937)	(268,333)
Long-term debt, net	5,661,117	6,149,277
Less current portion	(792,444)	(876,816)
	$ 4,868,673	$ 5,272,461

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

Interest expense relating to long-term debt of $294,562 and $292,903 was charged to operations for 2020 and 2019, respectively.

Bank loan: Arc entered into a bank loan on November 17, 2010, in the amount of $5,790,000. The bank loan had a variable interest rate based on the one-month London Interbank Offered Rate (LIBOR) plus 205 basis points multiplied by an adjustable margin rate factor. The additional basis points could increase to as much as 225 basis points depending on the results of the debt service coverage ratio prepared at June 30 and December 31 annually. The bank loan is subjected to other nonfinancial covenants that would not have an effect on the interest rate. Principal and interest payments were scheduled based on a 20-year amortization table. The maturity date of the underlying bonds was November 17, 2030. The Lender had the ability to call the bank loan on August 1, 2025, or could have granted an extension of the current terms if it received a written request from Arc 120 days prior to that date.

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

Note 7. Long-Term Obligations (Continued)

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

	Bank Loan	Mortgages Payable	Capital Lease Obligations	Notes Payable	Total
Years ending June 30:					
2021	$ 184,354	$ 75,822	$ 68,000	$ 464,268	$ 792,444
2022	184,354	79,943	16,071	386,188	666,556
2023	184,354	83,868	-	261,623	529,845
2024	184,354	259,124	-	66,051	509,529
2025	184,354	70,481	-	1,920	256,755
Thereafter	2,796,043	353,882	-	-	3,149,925
	$ 3,717,813	$ 923,120	$ 84,071	$ 1,180,050	$ 5,905,054

Bond issuance costs associated with the bank loan equal $448,545 for the years ended June 30, 2020 and 2019, and are being amortized over the life of the transaction. Total accumulated amortization was $204,608 and $180,212 as of June 30, 2020 and 2019, respectively. The net issuance costs of $243,937 and $268,333 were netted against long-term debt on the statements of financial position at June 30, 2020 and 2019, respectively.

Note 8. Escrow Funds

In connection with the bank loan (see Note 7), Arc is required to retain certain loan proceeds in the amount of $405,580 in a separate fund. Arc maintained a balance of $412,261 in a separate fund as of both June 30, 2020 and 2019.

Note 9. Line of Credit

Arc has a $2,000,000 revolving line of credit, which bears interest at the daily one-month LIBOR plus 1.75% at June 30, 2020 (1.91% at June 30, 2020), and matures on December 15, 2020. As of June 30, 2020 and 2019, there was no outstanding balance.

Note 10. Letters of Credit

Arc has available a stand-by letter of credit totaling $419,560 through September 30, 2021, in accordance with an agreement with the State of Maryland. The letter of credit can be used by the State if Arc fails to pay self-insured unemployment compensation claims. There are no outstanding borrowings at June 30, 2020 and 2019, related to the stand-by letter of credit. The letter of credit was collateralized by a certificate of deposit in the amount of $449,940 and $448,717 as of June 30, 2020 and 2019, respectively. Arc additionally has a money market account in the amount of $159,239 and $159,008 as of June 30, 2020 and 2019, respectively.

Note 11. Government Agencies

Revenue is recognized from federal and state grants and reimbursement for services is provided by state agencies based on per diem rates. Subsequent to year-end, regulatory reports are submitted and final determinations are made regarding over or underpayments. As of June 30, 2020 and 2019, Arc had accrued a liability of approximately $3,414,087 and $2,497,826, respectively, for the potential adjustments, which is included in accounts payable and accrued expenses on the statements of financial position.

Note 11. Government Agencies (Continued)

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

Note 12. Net Assets With Donor Restrictions

Net assets with donor restrictions were $600,932 and $664,287 at June 30, 2020 and 2019, respectively. Within these net assets, $378,473 is restricted for the purchase of residences as of June 30, 2020 and 2019. The remaining $222,459 and $285,814 as of June 30, 2020 and 2019, respectively, are restricted contributions for the purchase of furnishings, DJ's and dances, Bay Buddies summer camp, and the Healthy Weighs Program. Net assets with donor restrictions released from restrictions for the years ended June 30, 2020 and 2019 were for the following:

	2020	2019
Furnishings	$ 918	$ 6,449
DJ's and dances	37,575	21,839
Healthy Weighs Program	2,533	3,588
Bay Buddies summer camp	60,829	85,149
Total	$ 101,855	$ 117,025

Note 13. Fair Value Measurements

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

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Listed equities and holdings in mutual funds are types of investments included in Level 1.

Level 2: Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly; Level 2 includes the use of models or other valuation methodologies. Investments that are generally included in this category include corporate loans, less liquid, restricted equity securities and certain corporate bonds and over-the-counter derivatives.

Level 3: Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation.

Note 13. Fair Value Measurements (Continued)

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

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

Level 2: Arc has no Level 2 assets or liabilities at June 30, 2020 and 2019.

Level 3: Arc has no Level 3 assets or liabilities at June 30, 2020 and 2019.

The following tables present Arc's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2020 and 2019:

	June 30, 2020			
Description – Board-Designated Investments	Total	Level 1	Level 2	Level 3
Mutual funds:				
International	$ 894,695	$ 894,695	$ -	$ -
Growth	486,995	486,995	-	-
Fixed income	1,033,620	1,033,620	-	-
Total mutual funds	2,415,310	2,415,310	-	-
Common stock	1,153,342	1,153,342	-	-
	3,568,652	$ 3,568,652	$ -	$ -
Cash and cash equivalents	82,932			
Total Board-designated investments	$ 3,651,584			

	June 30, 2020			
Description – Pension Plan Assets	Total	Level 1	Level 2	Level 3
Mutual funds:				
Fixed income	$ 3,686,394	$ 3,686,394	$ -	$ -
	3,686,394	$ 3,686,394	$ -	$ -
Cash and cash equivalents	84,854			
Total pension plan assets	$ 3,771,248			

Note 13. Fair Value Measurements (Continued)

Description – Board-Designated Investments	June 30, 2019 Total	Level 1	Level 2	Level 3
Mutual funds:				
International	$ 877,297	$ 877,297	$ -	$ -
Growth	472,232	472,232	-	-
Fixed income	1,025,089	1,025,089	-	-
Total mutual funds	2,374,618	2,374,618	-	-
Common stock	1,068,991	1,068,991	-	-
	3,443,609	$ 3,443,609	$ -	$ -
Cash and cash equivalents	78,928			
Total Board-designated investments	$ 3,522,537			

Description – Pension Plan Assets	June 30, 2019 Total	Level 1	Level 2	Level 3
Mutual funds:				
Fixed income	$ 2,175,896	$ 2,175,896	$ -	$ -
	2,175,896	$ 2,175,896	$ -	$ -
Cash and cash equivalents	1,433,853			
Total pension plan assets	$ 3,609,749			

Independent Auditor's Report on the Supplementary Information

Board of Directors
The Arc Baltimore, Inc.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, on page 38, as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for the Federal Awards (Uniform Guidance),* is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information on pages 29 through 33 is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information, except for the budget information on page 33 marked unaudited, has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. The budget information on page 33 marked unaudited has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it. In our opinion, except for the budget information on page 33 marked unaudited, the information is fairly stated in all material respects in relation to the financial statements as a whole.

RSM US LLP

Baltimore, Maryland
November 24, 2020

The Arc Baltimore, Inc.

Supplemental Schedule of Revenue and Expenses
Year Ended June 30, 2020
(With Comparative Totals for 2019)

	Program Services			
	Employment and Day	Community Living	Family and Children	Total Program Services
Support and revenue:				
Government agencies	$ 12,684,177	$ 19,455,343	$ 2,745,240	$ 34,884,760
Contracts and other revenue	12,394,803	1,241,049	9,894	13,645,746
Public support, direct	105,531	27,715	51,136	184,382
Public support, indirect	-	-	50,157	50,157
Total support and revenue	25,184,511	20,724,107	2,856,427	48,765,045
Expenses:				
Staff salaries	10,804,937	12,051,857	1,096,878	23,953,672
Client salaries	2,652,947	-	-	2,652,947
Fringe benefits	2,766,342	2,545,022	255,043	5,566,407
Supplies, equipment and materials	902,216	182,287	5,495	1,089,998
Contracted services	2,022,038	515,022	97,453	2,634,513
Assistance to individuals	17,816	197,262	1,012,493	1,227,571
Depreciation and amortization	758,484	449,676	5,204	1,213,364
Transportation of clients	1,624	635	13,155	15,414
Food	34,695	654,945	5,693	695,333
Dues, memberships and licenses	9,106	3,848	4,846	17,800
Interest	94,063	133,403	5,280	232,746
Insurance	383,822	180,722	6,775	571,319
Utilities and telephone	308,508	410,471	16,025	735,004
Rent and lease expense	218,145	841,352	7,350	1,066,847
Repairs and maintenance	213,401	284,202	9,290	506,893
Training and travel	147,858	64,809	31,826	244,493
Administration and support	2,196,280	1,952,205	261,388	4,409,873
Miscellaneous	83,488	8,202	6,109	97,799
Total expenses	23,615,770	20,475,920	2,840,303	46,931,993
Change in net assets from operating activities	$ 1,568,741	$ 248,187	$ 16,124	$ 1,833,052

Support and Administration	Totals	2019 Totals
$ -	**$ 34,884,760**	$ 36,687,314
419,852	**14,065,598**	13,765,607
264,038	**448,420**	509,743
-	**50,157**	69,626
683,890	**49,448,935**	51,032,290
2,306,993	**26,260,665**	26,966,580
9,105	**2,662,052**	3,477,265
546,177	**6,112,584**	6,343,053
156,183	**1,246,181**	1,691,024
854,498	**3,489,011**	2,385,768
4,626	**1,232,197**	1,351,258
260,146	**1,473,510**	1,469,405
972	**16,386**	32,935
2,158	**697,491**	749,746
140,544	**158,344**	158,397
61,816	**294,562**	292,903
64,535	**635,854**	669,247
144,114	**879,118**	917,725
76,222	**1,143,069**	1,260,813
113,858	**620,751**	616,069
133,397	**377,890**	500,303
(4,409,873)	**-**	-
12,184	**109,983**	150,378
477,655	**47,409,648**	49,032,869
$ 206,235	**$ 2,039,287**	$ 1,999,421

The Arc Baltimore, Inc.

Supplemental Schedule of Revenue and Expenses
Year Ended June 30, 2019

	Program Services			
	Employment and Day	Community Living	Family and Children	Total Program Services
Support and revenue:				
Government agencies	$ 15,619,723	$ 18,400,102	$ 2,667,489	$ 36,687,314
Contracts and other revenue	12,083,878	1,271,718	16,830	13,372,426
Public support, direct	113,242	-	111,214	224,456
Public support, indirect	-	-	69,626	69,626
Total support and revenue	27,816,843	19,671,820	2,865,159	50,353,822
Expenses:				
Staff salaries	11,795,811	11,723,497	1,191,085	24,710,393
Client salaries	3,411,527	-	116	3,411,643
Fringe benefits	3,054,723	2,481,359	272,061	5,808,143
Supplies, equipment and materials	1,226,346	267,351	3,467	1,497,164
Contracted services	1,441,855	85,037	95,808	1,622,700
Assistance to individuals	30,601	224,309	1,088,354	1,343,264
Depreciation and amortization	751,462	436,465	5,813	1,193,740
Transportation of clients	10,143	3,137	18,878	32,158
Food	53,352	676,807	18,884	749,043
Dues, memberships and licenses	12,501	1,687	4,284	18,472
Interest	88,826	138,214	4,938	231,978
Insurance	403,271	194,271	7,708	605,250
Utilities and telephone	334,270	434,326	14,873	783,469
Rent and lease expense	284,938	846,014	10,282	1,141,234
Repairs and maintenance	261,273	242,683	10,068	514,024
Training and travel	212,313	84,819	55,310	352,442
Administration and support	2,232,049	1,756,090	267,497	4,255,636
Miscellaneous	61,852	18,686	12,673	93,211
Total expenses	25,667,113	19,614,752	3,082,099	48,363,964
Change in net assets from operating activities	$ 2,149,730	$ 57,068	$ (216,940)	$ 1,989,858

Support and Administration	Totals
$ -	$ 36,687,314
393,181	13,765,607
285,287	509,743
-	69,626
678,468	51,032,290
2,256,187	26,966,580
65,622	3,477,265
534,910	6,343,053
193,860	1,691,024
763,068	2,385,768
7,994	1,351,258
275,665	1,469,405
777	32,935
703	749,746
139,925	158,397
60,925	292,903
63,997	669,247
134,256	917,725
119,579	1,260,813
102,045	616,069
147,861	500,303
(4,255,636)	-
57,167	150,378
668,905	49,032,869
$ 9,563	$ 1,999,421

The Arc Baltimore, Inc.

Schedule of Foster Care and Treatment
Foster Care Revenue and Expenses
Year Ended June 30, 2020

	Treatment Foster Care		
	Actual	Budget (Unaudited)	
Revenue:			
Fee for service	$ 1,184,246	$ 1,375,000	
	1,184,246	1,375,000	
Allowable expenses:			
Administrative and support services	100,943	136,400	
Assistance	539,300	632,200	
Contracted services	4,890	3,500	
Depreciation	2,602	2,900	
Dues, memberships and licenses	4,742	6,300	
Fringe benefits	83,177	105,800	
Insurance	2,422	4,600	
Miscellaneous	3,001	11,000	
Equipment rental and lease repairs	3,675	5,000	
Repairs and maintenance	4,611	6,900	
Salary	350,747	413,300	
Supply	1,929	2,500	
Travel and transportation	7,450	21,000	
Utility	8,758	10,100	
Total allowable expenses	1,118,247	1,361,500	
Excess of revenue over allowable expenses	65,999	13,500	
Pension adjustment	(5,173)	-	
Excess of revenue over expenses	$ 60,826	$ 13,500	
Child care months	300		
Actual cost of care per month	$ 3,727		
Contracted monthly fees	$ 3,973	Treatment rate	
	$ 921	Additional child rate	

Conversion of Revenue from Accrual Basis to Cash Basis

Fee for Service Revenue – Accrual Basis	$ 1,184,246
Fee for Service Receivable, Beginning Balance	109,241
Fee for Service Receivable, Ending Balance	(105,814)
Fee for Service Revenue – Cash Basis	$ 1,187,673

RSM

RSM US LLP

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Independent Auditor's Report

Board of Directors
The Arc Baltimore, Inc.

We have audited, 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, the financial statements of The Arc Baltimore, Inc. (Arc), which comprise the statement of financial position as of June 30, 2020, the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 24, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Arc's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Arc's internal control. Accordingly, we do not express an opinion on the effectiveness of Arc's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Arc's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Baltimore, Maryland
November 24, 2020

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the *Uniform Guidance*

Independent Auditor's Report

Board of Directors
The Arc Baltimore, Inc.

Report on Compliance for Each Major Federal Program
We have audited The Arc Baltimore, Inc.'s (Arc) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Arc's major federal program for the year ended June 30, 2020. Arc's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility
Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility
Our responsibility is to express an opinion on compliance for Arc's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for the Federal Awards (Uniform Guidance).* Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Arc's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Arc's compliance.

Opinion on Each Major Federal Program
In our opinion, Arc complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2020.

Report on Internal Control Over Compliance
Management of Arc is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Arc's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Arc's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance
We have audited the financial statements of Arc as of and for the year ended June 30, 2020, and have issued our report thereon dated November 24, 2020, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

RSM US LLP

Baltimore, Maryland
November 24, 2020

The Arc Baltimore, Inc.

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

Federal Award Program	Federal CFDA Number	Pass-Through Grantor Program Title	Expenditures Recognized (Allowable)
U.S. Department of Health and Human Services			
Pass-through Maryland Department of Human Resources:			
Treatment Foster Care	93.658	Treatment Foster Care	$ 1,122,757
Pass-through The Arc of the United States:			
ACL National Institute on Disability, Independent Living, and Rehabilitation Research	93.433	N/A	2,500
U.S. Department of Housing and Urban Development			
Pass-through Baltimore County Department of Community Conservation:			
Block Grants Renovation Project	14.218	Block Grants Renovation Project	14,925
Total expenditures of federal awards			$ 1,140,182

See notes to schedule of expenditures of federal awards.

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of The Arc Baltimore, Inc. (Arc) under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a portion of the operations of the Arc, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Arc.

There are no amounts passed through to sub-recipients for the year ended June 30, 2020.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain expenditures are not allowable or are limited as to reimbursements.

Note 3. Indirect Cost Rate

Arc did not elect to use the 10% de minimus cost rate.

The Arc Baltimore, Inc.

Schedule of Findings and Questioned Costs
Year Ended June 30, 2020

Section I. Summary of Independent Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	___ Yes _X_ No
• Significant deficiency(ies) identified?	___ Yes _X_ None Reported
Noncompliance material to financial statements noted?	___ Yes _X_ No

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	___ Yes _X_ No
• Significant deficiency(ies) identified?	___ Yes _X_ None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)?	___ Yes _X_ No

Identification of major programs:

Name of Federal Program or Cluster	CFDA Number(s)
Treatment Foster Care	93.658

Dollar threshold used to distinguish between Type A and Type B Programs:	$750,000
Auditee qualified as low-risk auditee?	_X_ Yes ___ No

(Continued)

Section II. Financial Statement Findings

None reported.

Section III. Federal Award Findings and Questioned Costs

None reported.

The Arc Baltimore, Inc.

Summary Schedule of Prior Year Audit Findings
Year Ended June 30, 2020

There were no audit findings reported for the year ended June 30, 2019.