

**THE ARC OF PALM BEACH COUNTY, INC.
AND CONSOLIDATED AFFILIATES**

**REPORT ON AUDITS OF CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021**

THE ARC OF PALM BEACH COUNTY, INC. AND CONSOLIDATED AFFILIATES

Table of Contents

	<u>Page</u>
Report of independent auditors	1–2
Consolidated financial statements:	
Consolidated statements of financial position	3
Consolidated statements of activities	4
Consolidated statements of cash flows	5
Consolidated statement of functional expenses	6
Notes to consolidated financial statements	7–21
Independent auditors' report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	22–23
Supplemental information:	
Consolidating statement of financial position information – 2022	24
Consolidating statement of activities information – 2022	25



Independent Auditors' Report

To the Board of Trustees
The Arc of Palm Beach County, Inc. and consolidated affiliates
Riviera Beach, Florida

Opinion

We have audited the consolidated financial statements of The Arc of Palm Beach County, Inc. and its consolidated affiliates, Seagull Industries for the Disabled, Inc. and Palm Beach Habilitation Center, Inc. (collectively, The Arc) (a nonprofit organization), which comprise the consolidated statements of financial position as of September 30, 2022 and 2021, and the related consolidated statements of activities and cash flows for the years then ended and the statement of functional expenses for the year ended September 30, 2022, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Arc of Palm Beach County, Inc. and consolidated affiliates as of September 30, 2022 and 2021, and the changes in their net assets and their 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. 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 The Arc of Palm Beach County, Inc. and consolidated affiliates 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 opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Arc of Palm Beach County, Inc. and its consolidated affiliates' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 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 judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined 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 The Arc of Palm Beach County, Inc. and consolidated affiliates' 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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Arc of Palm Beach County, Inc. and consolidated affiliates' 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 audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 14, 2023, on our consideration of The Arc of Palm Beach County, Inc. and consolidated affiliates' 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 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Arc of Palm Beach County, Inc. and consolidated affiliates' internal control over financial reporting and compliance.

Report on Supplementary Information

Our 2022 audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statement of financial position information and consolidating statement of activities information is presented for purposes of additional analysis 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited the 2021 financial statements, and our report dated August 14, 2023, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.



West Palm Beach, Florida
August 14, 2023

THE ARC OF PALM BEACH COUNTY, INC. AND CONSOLIDATED AFFILIATES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

September 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,724,815	\$ 3,072,579
Restricted cash	846,785	-
Grants, accounts and other receivables, net of allowance	1,980,885	377,508
Current portion of unconditional promises to give, net	92,593	329,033
Prepaid expenses and other current assets	<u>130,403</u>	<u>204,193</u>
Total current assets	8,775,481	3,983,313
Property and equipment, net	19,371,192	2,999,769
Other assets	<u>85,620</u>	<u>36,081</u>
Total assets	<u>\$ 28,232,293</u>	<u>\$ 7,019,163</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Lines of credit	\$ 603,023	\$ 282,847
Current portion of long-term debt	73,243	36,738
Accounts payable	673,792	99,917
Accrued expenses	690,218	340,929
Deferred revenue	1,929,261	25,135
Agency funds payable	176,934	-
Current portion of settlement - Pension Benefit Guaranty Corporation	<u>44,631</u>	<u>44,631</u>
Total current liabilities	4,191,102	830,197
Settlement - Pension Benefit Guaranty Corporation, net of current portion (Note 11)	710,736	706,541
Long-term debt, net of current portion (Note 9)	<u>678,256</u>	<u>119,570</u>
Total liabilities	5,580,094	1,656,308
Commitments and contingencies (Notes 13 and 16)		
Net assets:		
Without donor restrictions	20,541,441	3,415,072
With donor restrictions	<u>2,110,758</u>	<u>1,947,783</u>
Total net assets	<u>22,652,199</u>	<u>5,362,855</u>
Total liabilities and net assets	<u>\$ 28,232,293</u>	<u>\$ 7,019,163</u>

See accompanying notes to consolidated financial statements.

THE ARC OF PALM BEACH COUNTY, INC. AND CONSOLIDATED AFFILIATES

**CONSOLIDATED STATEMENTS OF ACTIVITIES
For the Years Ended September 30, 2022 and 2021**

	For the Year Ended September 30, 2022			For the Year Ended September 30, 2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating:						
Support:						
Contributions	\$ 549,595	\$ 324,009	\$ 873,604	\$ 383,836	\$ 510,635	\$ 894,471
Town of Palm Beach United Way	322,170	197,600	519,770	-	197,600	197,600
Special events, net	77,606	-	77,606	58,232	1,247	59,479
Fees and grants	8,772,541	-	8,772,541	5,496,779	466,909	5,963,688
Revenue:						
Program service fees (including Medwaiver and Medicaid)	4,740,718	-	4,740,718	1,645,165	-	1,645,165
Investment income, net	24,394	-	24,394	68,221	1,580	69,801
Net assets released from restrictions	<u>588,702</u>	<u>(588,702)</u>	<u>-</u>	<u>685,274</u>	<u>(685,274)</u>	<u>-</u>
Total operating support and revenue	<u>15,075,726</u>	<u>(67,093)</u>	<u>15,008,633</u>	<u>8,337,507</u>	<u>492,697</u>	<u>8,830,204</u>
Expenses:						
Program services	12,047,962	-	12,047,962	6,603,264	-	6,603,264
General and administrative	2,584,708	-	2,584,708	593,347	-	593,347
Fundraising	<u>970,173</u>	<u>-</u>	<u>970,173</u>	<u>711,451</u>	<u>-</u>	<u>711,451</u>
Total expenses	<u>15,602,843</u>	<u>-</u>	<u>15,602,843</u>	<u>7,908,062</u>	<u>-</u>	<u>7,908,062</u>
Change in net assets - operating	(527,117)	(67,093)	(594,210)	429,445	492,697	922,142
Non operating:						
Inherent contribution - Seagull Industries	4,794,249	-	4,794,249	-	-	-
Inherent contribution - Palm Beach Habilitation	12,628,763	230,068	12,858,831	-	-	-
Gain on forgiveness of Paycheck Protection Program Loan (Note 9)	279,300	-	279,300	1,086,510	-	1,086,510
Adjustment to discount on settlement with PBGC	<u>(48,826)</u>	<u>-</u>	<u>(48,826)</u>	<u>(48,570)</u>	<u>-</u>	<u>(48,570)</u>
Change in net assets	17,126,369	162,975	17,289,344	1,467,385	492,697	1,960,082
Net assets, beginning of year	<u>3,415,072</u>	<u>1,947,783</u>	<u>5,362,855</u>	<u>1,947,687</u>	<u>1,455,086</u>	<u>3,402,773</u>
Net assets, end of year	<u>\$ 20,541,441</u>	<u>\$ 2,110,758</u>	<u>\$ 22,652,199</u>	<u>\$ 3,415,072</u>	<u>\$ 1,947,783</u>	<u>\$ 5,362,855</u>

See accompanying notes to consolidated financial statements.

THE ARC OF PALM BEACH COUNTY, INC. AND CONSOLIDATED AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended September 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Change in net assets	\$ 17,289,344	\$ 1,960,082
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	627,286	218,514
Amortization of loan costs	2,177	-
Amortization of discount on settlement	48,826	48,570
Inherent contribution - Seagull, net of cash assumed	(3,792,155)	-
Inherent contribution - Habilitation, net of cash assumed	(11,436,117)	-
Loss on disposal of property and equipment	2,239	-
Contribution of in-kind property	(32,000)	(60,883)
Gain on forgiveness of Paycheck Protection Program Loan	(279,300)	(1,086,510)
(Increase) decrease in operating assets:		
Grants, accounts and other receivables	(273,400)	213,921
Unconditional promises to give, net	236,440	138,118
Prepaid expenses	229,103	(30,588)
Increase (decrease) in operating liabilities:		
Accounts payable	419,869	25,751
Accrued expenses	239,491	43,895
Agency funds payable	22,392	-
Deferred revenue	<u>710,449</u>	<u>(5,315)</u>
Net cash provided by operating activities	<u>4,014,644</u>	<u>1,465,555</u>
Cash flows from investing activities:		
Purchases of property and equipment	(341,467)	(326,536)
(Advances to) collections from Housing, net	(19,626)	38,263
Increase in other assets	<u>(49,539)</u>	<u>(1,579)</u>
Net cash used in investing activities	<u>(410,632)</u>	<u>(289,852)</u>
Cash flows from financing activities:		
Proceeds from (repayments of) lines of credit, net	9,847	(203,208)
Settlement payments - Pension Benefit Guaranty Corporation	(44,631)	(44,631)
Principal repayments of long-term debt	<u>(70,207)</u>	<u>(35,278)</u>
Net cash used in financing activities	<u>(104,991)</u>	<u>(283,117)</u>
Net change in cash, cash equivalents, and restricted cash	3,499,021	892,586
Cash, cash equivalents, and restricted cash beginning of year	<u>3,072,579</u>	<u>2,179,993</u>
Cash, cash equivalents, and restricted cash end of year	<u>\$ 6,571,600</u>	<u>\$ 3,072,579</u>
Supplemental cash flow disclosure:		
Interest paid	<u>\$ 54,709</u>	<u>\$ 17,205</u>

See accompanying notes to consolidated financial statements.

THE ARC OF PALM BEACH COUNTY, INC. AND CONSOLIDATED AFFILIATES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended September 30, 2022 (with comparable totals for 2021)

	Adult Career Education	Charter Schools	Residential	Early Intervention	Respite and Recreation	Family Support	Thrift Store	Total Program Services	Management and General	Fundraising	2022 Total Expenses	2021 Total Expenses
Salaries	\$ 1,181,817	\$ 766,346	\$1,214,437	\$1,837,026	\$ 478,344	\$ 1,348,773	\$ 74,128	\$ 6,900,871	\$ 1,417,906	\$ 425,262	\$ 8,744,039	\$4,819,914
Employee benefits	133,973	113,431	216,746	314,192	61,466	224,405	8,516	1,072,729	185,942	50,471	1,309,142	767,493
Payroll taxes	80,774	58,779	96,010	136,327	36,453	102,782	1,161	512,286	100,976	29,751	643,013	356,564
Total salaries and related expenses	1,396,564	938,556	1,527,193	2,287,545	576,263	1,675,960	83,805	8,485,886	1,704,824	505,484	10,696,194	5,943,971
Professional fees	28,896	327,761	2,461	7,750	3,935	8,883	14	379,700	399,188	267,403	1,046,291	535,639
Supplies	125,266	27,086	136,443	103,492	31,637	61,169	1,480	486,573	129,639	33,470	649,682	267,455
Telephone	4,170	13,557	24,448	22,718	3,125	5,046	190	73,254	39,284	10,016	122,554	80,972
Postage	63,523	470	156	159	48	223	-	64,579	2,929	2,234	69,742	6,419
Occupancy	7,583	-	629	130,646	959	6,370	123	146,310	27,685	492	174,487	159,526
Utilities	42,910	14,760	103,159	245	-	28,384	8,239	197,697	97,245	1,211	296,153	75,975
Repairs and maintenance	34,351	22,610	77,016	179	4,700	6,865	(4,825)	140,896	163,302	3,931	308,129	99,444
Printing and promotion	16,940	10,146	-	116	291	806	159	28,458	42,981	39,150	110,589	22,828
Transportation	45,543	21,909	15,343	46,742	11,613	4,250	3,518	148,918	27,469	2,179	178,566	43,394
Training and meetings	3,282	1,054	1,069	4,234	8,614	20,109	50	38,412	74,437	1,318	114,167	41,664
Insurance	49,250	58,053	67,997	1,007	15,962	59,651	12,736	264,656	208,164	2,050	474,870	162,408
Miscellaneous	39,468	79,080	26,219	10,282	13,672	49,546	7,502	225,769	382,437	39,797	648,003	221,843
Interest expense	546	-	262	-	-	308	43	1,159	59,031	26	60,216	17,205
Bad debt expense	22,072	-	644	-	(257)	3,455	-	25,914	-	-	25,914	10,805
Administrative overhead	108,574	191,292	279,441	236,832	89,894	122,943	-	1,028,976	(1,086,710)	57,734	-	-
Total expenses before depreciation	1,988,938	1,706,334	2,262,480	2,851,947	760,456	2,053,968	113,034	11,737,157	2,271,905	966,495	14,975,557	7,689,548
Depreciation	54,438	41,798	169,079	-	536	28,311	16,643	310,805	312,803	3,678	627,286	218,514
Total expenses	<u>\$ 2,043,376</u>	<u>\$ 1,748,132</u>	<u>\$2,431,559</u>	<u>\$2,851,947</u>	<u>\$ 760,992</u>	<u>\$ 2,082,279</u>	<u>\$129,677</u>	<u>\$12,047,962</u>	<u>\$ 2,584,708</u>	<u>\$ 970,173</u>	<u>\$15,602,843</u>	<u>\$7,908,062</u>

See accompanying notes to consolidated financial statements.

THE ARC OF PALM BEACH COUNTY, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Nature of Activities

Since February 7, 1958, The Arc of Palm Beach County, Inc. (The Arc) has been providing quality services, education and advocacy for children and adults with developmental disabilities and their families. The Arc's programs offer a continuum of care for a lifetime. Services can begin as early as during pregnancy, in order to minimize or prevent developmental delays, and options are available to address a variety of needs for infants, children, teens, adults and families.

The Arc of Palm Beach County envisions a community where every person feels welcome, connected and accepted. The Arc is changing the conversation around disabilities by defying definitions, inspiring possibilities and improving the lives of the people we serve, their families, and our community. In order to accomplish this mission, The Arc operates programs throughout Palm Beach County which deliver services to individuals with developmental disabilities from infancy through adulthood, as well as to families in need of support.

The Arc is supported primarily through donor contributions, fees and grants from government agencies, and program services fees.

Strategic acquisitions

Beginning October 1, 2021 and again on January 1, 2022, The Arc's Board of Trustees approved certain agreements to acquire the assets and assume the liabilities, along with the programs and operations of Seagull Industries for the Disabled, Inc. DBA Seagull Services (Seagull) effective October 1, 2021 and on January 1, 2022, the Board of Trustees approved an agreement to acquire the assets and assume the liabilities of the Palm Beach Habilitation Center, Inc. (PBHC) along with PBHC programs and operations. The Boards of both PBHC and Seagull voted on January 1, 2022 and October 1, 2021, respectively, to amend their respective Articles of Incorporation and By-Laws to have The Arc Palm Beach County, Inc. named as their corporate sole member and parent organization giving legal control, management and operational responsibilities to The Arc's Board of Trustees and executive management. No consideration was paid by The Arc to consummate either transaction. The transactions are recognized under the acquisition method in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-805, *Not-for-Profit-Entities – Business Combination* (see Note 3 for further details). Accordingly, assets acquired at fair value in excess of the fair value of liabilities assumed are recorded as an inherent contribution in the accompanying consolidated statement of activities for the year ended September 30, 2022.

Description of program services

The significant program services provided by The Organization are briefly described as follows:

- a. Adult Career Education – The Organization helps people with developmental disabilities become independent and involved in the community through a hands-on learning experiences which includes life skills coaching, supervised work experiences, vocational training, and job-skills training. Employment coaches help those served to obtain appropriate employment as well as assisting them to master their job skills.
- b. Charter Schools – Seagull Academy for Independent Living (Seagull Academy) and Potentials charter schools are affiliated with the School District of Palm Beach County. Both Potentials and Seagull Academy provide a cutting-edge approach to educating students from pre-kindergarten through age 22 in a small class environment with innovative methods designed to help students develop and succeed through their intensive educational, vocational, and therapeutic models.
- c. Residential Services – Provides community-based homes for adults with developmental disabilities. These homes are designed to help adults over the age of 21 learn to live on their own by acquiring new skills which enhance their quality of life and help them achieve their highest level of independence.

THE ARC OF PALM BEACH COUNTY, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

Note 1 – Nature of Activities, Continued

Description of program services, continued

- d. Early intervention programs - Provides in-home services to families of children between birth to five years of age who demonstrate a mild delay in child development, as well as, developmental services in local pediatricians' offices to improve health, development and emotional wellness of children up to age three. Further, the program Provides short-term, in-home developmental services to children up to age 5, who have slight developmental delays. Trained specialists provide developmental interventions in the children's home or daycare for 6 months.
- e. Thrift store – Single thrift store location in Lake Worth Beach, Florida. The Organization collects donated items from the general public and sells them for the benefit of its rehabilitative programs.
- a. Respite and Recreation services – Offers a variety of recreational camp experiences for children, teens and young adults. Well trained staff facilitate a safe, active community-based experience with developmental, social and behavioral support services to youth enrolled in approved afterschool, day camp and summer camp programs throughout the county. Respite services consists of in-home care to children with development delay which allows the parents the opportunity to balance their lives and recharge.
- b. Family support services – Provides direct support and referral services for families with children of any age with developmental disabilities. It serves as the gateway into the agency, helping to acquaint new families with everything the Organization has to offer.

Note 2 – Summary of Significant Accounting Policies

A summary of significant accounting policies used in the preparation of the accompanying consolidated financial statements follows:

Basis of accounting

The accompanying consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Principles of consolidation

The consolidated financial statements include the accounts of The Arc of Palm Beach County, Inc. (the Arc) and the not-for-profit corporations for which The Arc is the corporate sole member, Seagull Industries for the Disabled, Inc. DBA Seagull Services (Seagull) and Palm Beach Habilitation Center, Inc. (PBHC) (collectively, the Organization). All inter-entity transactions, accounts, and balances are eliminated upon consolidation.

Basis of presentation

The consolidated financial statements report net assets and changes in net assets in two classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

Net assets without donor restrictions - Net assets without donor restrictions are available to support operations. The only limits on the use of these net assets are the broad limits resulting from the nature of the Organization, the contractual arrangements with creditors or others that are entered into in the course of operations or designated by the Board of Trustees.

THE ARC OF PALM BEACH COUNTY, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

Note 2 – Summary of Significant Accounting Policies

Basis of presentation, continued

Net assets with donor restrictions - Net assets with donor restrictions which are restricted by a donor for use for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature; the Organization must continue to use the resources in accordance with the donor's instructions.

When a donor's restriction is satisfied either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the consolidated financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions. Net assets restricted for acquisition of building or equipment (or less commonly the contribution of those assets directly) are reported as net assets with donor restrictions until the specified assets are placed in service, unless the donor provided more specific directions about the period of its use.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions

The Organization recognizes contributions as support in the period that unconditional promises are received. Contributions received with donor restrictions that are met in the year of receipt are recorded as net assets without donor restrictions. Contributions of nonfinancial assets are recorded at their estimated fair value at date of receipt. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met.

Contributions to be received in future periods are discounted at an appropriate discount rate. Amortization of discounts on multi-year pledges is recorded as additional contributions as either with or without donor restrictions based on any donor-imposed restrictions, if any, on the related contributions.

The Organization uses the allowance method to account for possible uncollectible unconditional promises to give. The allowance is based on historical experience and management's analysis of specific promises made. No allowance for uncollectible promises to give is reflected in the accompanying consolidated financial statements.

Program service fee revenue

Program service fees revenue is reported at net realizable amounts for services rendered at the time those services are rendered, inclusive of any retroactive adjustments under reimbursement agreements with Medicaid and other state or local payors and school districts. The Organization records amounts receivable for program service fees invoiced to third parties and provides a reserve for estimated uncollectible amounts.

Grant revenue

Grants receivable consist of amounts due from government agencies and represents amounts due to the Organization in accordance with cost-reimbursement contracts. Other accounts receivable are carried at the invoiced amount or the amount of reimbursable costs incurred, less an estimate made for doubtful collections. Management estimates that as of September 30, 2022 and 2021, grant receivables are fully collectible.

THE ARC OF PALM BEACH COUNTY, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

Note 2 – Summary of Significant Accounting Policies, Continued

Cash and cash equivalents and restricted cash

The Organization considers all highly liquid investments with an original or remaining maturity of three months or less when purchased and money market funds to be cash equivalents. The following provides a reconciliation of cash, cash equivalents, and restricted cash reported in the consolidated statements of financial position to the sum of the corresponding amounts with the consolidated statements of cash flows:

	2022	2021
Cash and cash equivalents	\$ 5,724,815	\$ 3,072,579
Cash restricted for contractual purposes	<u>846,785</u>	<u>-</u>
Total	<u>\$ 6,571,600</u>	<u>\$ 3,072,579</u>

Special events

Special events represent various activities undertaken to raise funds for the Organization for both restricted and unrestricted purposes. Support from special events is reported net of the related expenses in the consolidated statements of activities as net assets with or without donor restrictions, as appropriate.

Nonfinancial asset contributions

During the year ended September 30, 2021, The Arc received a donation of certain real property with an estimated fair value of \$60,883 recorded as support.

The Organization does not recognize any support, revenue or expense from services contributed by individual volunteers since no objective basis is available to measure the value of such services. However, a substantial number of volunteers have donated significant amounts of time in the Organization's program services and fund-raising campaigns.

The Organization has two of its facilities located on land that is leased to the Organization for \$1 per year under long-term leases with Palm Beach County and the School District of Palm Beach County. The estimated fair rental value of these premises is reported as support and expense in the period the premises are used.

Grants, accounts, and other receivables

Accounts receivable is stated at the amount of the uncollected balances less an allowance for doubtful accounts. Management's periodic evaluation of the adequacy of the allowance is based on past experience and adverse situations that may affect the collectability. As of September 30, 2022 and 2021, the allowance for doubtful accounts was \$51,420 and \$9,765, respectively.

Grants receivable represent amounts awarded by various government agencies. Government grants receivable are due within one year and are recorded at their net realizable value. Management estimates an allowance for uncollectible government grants receivable based on current economic conditions, historical trends, and current and past experience with the individual grantors. Management determined that no allowance was necessary at September 30, 2022 and 2021.

Property and equipment and depreciation

Donations of property and equipment are recorded at fair value at date of receipt, and purchases of land, property, and equipment are stated at cost. Donations of property and equipment are reported as unrestricted support unless the donor has restricted the donated property for a specific purpose. Absent donor stipulations regarding how long donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service.

THE ARC OF PALM BEACH COUNTY, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

Note 2 – Summary of Significant Accounting Policies, Continued

Property and equipment and depreciation, continued

Depreciation of property and equipment is calculated on the straight-line method over the following estimated useful lives:

Buildings and improvements	25-30 years
Land improvements	15-20 years
Furniture, fixtures and equipment	3-10 years
Vehicles	5 years

Donated services

During the years ended September 30, 2022 and 2021, the value of donated services meeting the requirements for recognition in the consolidated financial statements was not material and has not been recorded.

Agency funds payable

In connection with the Organization's supported living programs, the Organization follows FASB ASC 958-605, *Not-for-profit Entities, Revenue Recognition*, to account for agency transaction funds with its clients. The Organization has no discretionary powers over the funds and is to make payments as directed for the benefit of the client. The Organization records the acceptance of these funds, as restricted cash and an agency payable in the consolidated statements of financial position.

Business combinations

The Organization accounts for business combinations using the acquisition method and accordingly, the identifiable assets acquired and the liabilities assumed are recorded at their estimated fair values at the date of acquisition. If applicable, goodwill is recorded as part of an acquisition representing the excess purchase price over the fair value of assets acquired and liabilities assumed. For the year ended September 30, 2022, The Arc acquisition of Seagull and PBHC did not include a purchase price. The excess of the fair value of assets acquired and liabilities assumed at the acquisition date is recorded as an inherent contribution from Seagull and PBHC included in the accompanying consolidated statement of activities in non-operating activities for the year ended September 30, 2022.

Acquisition-related costs, including advisory, legal, accounting, appraisal, and other costs, are expensed in the periods in which the costs are incurred. The results of the operations of Seagull and PBHC are included in the consolidated statement of activities from the date of each acquisition.

Impairment of long-lived assets

The Organization assesses the recoverability of long-lived assets when events or circumstances or changes in circumstances occur that indicate that the carrying value of the asset may not be recoverable. This assessment is based on the asset's current and anticipated future undiscounted cash flows. Impairment occurs when the cash flows do not exceed the carrying value of the asset. The amount of impairment loss is the difference between the carrying value of the assets and its estimated fair value. No impairment losses were recorded for the years ended September 30, 2022 and 2021.

Income taxes

The Arc of Palm Beach County, Inc., Seagull Industries for the Disabled, Inc., and Palm Beach Habilitation Center, Inc. are exempt from federal and state income taxes under Internal Revenue Code (IRC) Section 501(c)(3). Accordingly, no provision for income taxes is recorded in the accompanying consolidated financial statements.

THE ARC OF PALM BEACH COUNTY, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

Note 2 – Summary of Significant Accounting Policies, Continued

Income taxes, continued

Management analyzes tax positions in jurisdictions where it is required to file income tax returns. Based on its evaluation, management did not identify any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease. Interest and penalties attributable to income taxes, if any, are included in administration expenses. No such interest or penalties were recorded for years 2022 and 2021. The Arc, Seagull, and PBHC are no longer subject to income tax examinations for fiscal years prior to 2019.

Use of estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the consolidated financial statements. On an ongoing basis, management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. Management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates and such differences could be material.

Fair value of financial instruments

The carrying amounts of financial instruments including cash and cash equivalents, restricted cash, accounts and grants receivable, accounts payable, accrued expenses, and deferred revenue, approximate their fair values because of the relatively short-term nature of their maturities.

Reclassifications

Certain financial statement items have been reclassified from their 2021 presentation to conform with the 2022 presentation of the consolidated financial statements. Such reclassifications have no effect on the change in net assets previously reported.

Functional allocation of expenses

The cost of providing the Organization's programs and other related activities is summarized on a functional basis in the accompanying consolidated statements of activities. The consolidated statements of functional expenses present the natural classification detail for expenses by function. Expenses are directly charged to the program activities other than those that benefit multiple functions. The consolidated financial statements report certain categories of expenses that are attributable to one or more program or supporting service of the Organization. Occupancy, depreciation and amortization, and insurance are allocated on a square footage basis dependent on the programs and supporting services occupying the space.

Certain salaries and wages, benefits and payroll taxes are allocated based on activity reports prepared by key personnel. Every year when new space or programs are added, the bases on which costs are allocated are evaluated. Fundraising costs are expensed as incurred, even though they may result in contributions received in future years. Additionally, advertising costs are expensed as incurred.

Joint costs

The Organization accounts for costs included in joint activities that are not identifiable with a particular component of the activity are allocated between fund raising and program services in accordance with FASB ASC 958, *Not-for-Profit-Entities*.

THE ARC OF PALM BEACH COUNTY, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

Note 2 – Summary of Significant Accounting Policies, Continued

Adopted accounting principle

The 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*, which requires nonprofit entities to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets, and disaggregate the contributions into categories of the nonfinancial assets. For each category of assets utilized by the entity, the description of programs or other activities utilizing the nonfinancial assets and any donor-imposed restriction on the use of those assets need to be disclosed. The guidance is effective for the Organization's year ended September 30, 2022. The Organization adopted ASU 2020-07 for the year ended September 30, 2022, and applied the new guidance retrospectively. The adoption of this standard did not have a material impact on the Organization's consolidated financial statements.

New accounting pronouncements

In February 2016, the FASB issued ASU 2016-02 *Leases* (Topic 842). This guidance requires the rights and obligations of new and existing arrangements to be recognized as assets and liabilities on the statement of financial position. The guidance will require disclosures to better inform financial statement users of the amount, timing and uncertainty of cash flows arising from leases. The primary impact of this guidance, which will be effective for the Organization's year beginning October 1, 2022, will be to record right-of-use assets and obligations for current operating leases.

Comparative financial information

The consolidated financial statements include certain prior year summarized comparable information in total. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended September 30, 2021, from which the summarized information was derived.

Note 3 – Acquisitions

Seagull Industries for the Disabled

On October 1, 2021, Seagull Industries for the Disabled, Inc. DBA Seagull Services (Seagull) entered into an agreement with The Arc in which Seagull's Board of Directors approved an amendment and restatement of Seagull's Articles of Incorporation and By-Laws, whereby The Arc became the sole corporate member of Seagull. The agreement was entered into for no consideration. As a result of the transfer of corporate membership, solely to The Arc, Seagull was under the direction and control of The Arc. The acquisition of Seagull resulted in the Organization recording an inherent contribution in the amount of \$4,794,249 representing the excess of the fair values of assets acquired, net of liabilities assumed at the acquisition date.

The Seagull acquisition was accounted for as a business combination using the acquisition method described in Note 1. The acquisition of Seagull allowed the Organization to expand its services to adults and adolescents with developmental disabilities throughout Palm Beach County, Florida, including Seagull's charter school, "Seagull Academy," supported living programs and job-skill development programs. For the year ended September 30, 2022, revenue and support included in the consolidated statement activities attributed to Seagull totaled \$2,026,372.

THE ARC OF PALM BEACH COUNTY, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

Note 3 – Acquisitions, Continued

Seagull Industries for the Disabled, continued

The table below summarizes the fair values of the assets acquired and liabilities assumed as of October 1, 2022:

Cash and cash equivalents	\$ 1,002,094
Grants receivable	174,453
Property and equipment	4,535,235
Other assets	69,701
Accounts payable and accrued expenses	(37,313)
Other liabilities	(7,400)
Debt	<u>(942,521)</u>
Inherent contribution	<u>\$ 4,794,249</u>

Palm Beach Habilitation Center

On December 22, 2021, the Palm Beach Habilitation Center, Inc.'s (PBHC) entered into an agreement with The Arc, whereby PBHC's Board of Directors approved an amendment and restatement to PBHC's Articles of Incorporation and By-Laws to name The Arc the sole corporate member of PBHC. As a result, PBHC was under the direction and control of The Arc. The acquisition of PBHC resulted in the Organization recording an inherent contribution in the amount of \$12,858,831 representing the excess of the fair value of assets acquired, net of liabilities assumed at the acquisition date.

The PBHC business combination was accounted for as a business combination using the acquisition method described in Note 1. The acquisition of PBHC expanded the Organization's rehabilitation and supportive employment services, a thrift store, and job skill development programs for adults with developmental disabilities with services located throughout central and south Palm Beach County, Florida. For the year ended September 30, 2022, revenue and support recorded from the acquisition date of January 1, 2022, totaled \$3,948,821 and is included in the accompanying consolidated statement of activities.

The table below summarizes the fair values of the assets acquired and liabilities assumed as of January 1, 2022:

Cash and cash equivalents	\$ 1,662,907
Grants and accounts receivable	344,247
Land, property and equipment	12,092,246
Other assets	38,920
Accounts payable and accrued expenses	(381,033)
Deferred revenue	(588,127)
Debt	<u>(310,329)</u>
Inherent contribution	<u>\$ 12,858,831</u>

THE ARC OF PALM BEACH COUNTY, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

Note 4 – Liquidity and Availability of Resources

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of September 30, 2022 are:

Financial assets:	
Cash and cash equivalents	\$ 5,724,815
Grants, accounts and other receivables, net	1,980,885
Unconditional promises to give, net	<u>133,326</u>
Total financial assets	7,839,026
Less financial assets held to meet donor-imposed and/or contractual restrictions:	
Board designated net assets	(611,314)
Subject to appropriation and satisfaction of donor-restrictions	<u>(2,085,759)</u>
Amount available for general expenditures within one year	<u>\$ 5,141,953</u>

The above table reflects donor-restricted and any board-designated reserve funds as unavailable because it is the Organization's intention to invest those resources for the long-term support of the Organization's programs. However, in the case of need, the Board of Trustees could appropriate resources from the board-designated reserve for general use.

The Organization maintains working capital lines of credit aggregating \$1,600,000 to cover short-term cash needs (Note 10).

Note 5 – Grants, Accounts and Other Receivables

Grants, accounts and other receivables are summarized as follows at September 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Grants receivable	\$ 1,593,674	\$ 381,058
Accounts receivable	181,392	-
Client receivables	218,976	6,215
Other receivables	<u>38,263</u>	<u>-</u>
Sub-total	2,032,305	387,273
Allowance for doubtful accounts	<u>(51,420)</u>	<u>(9,765)</u>
Total	<u>\$ 1,980,885</u>	<u>\$ 377,508</u>

THE ARC OF PALM BEACH COUNTY, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

Note 6 – Unconditional Promises to Give

Unconditional promises to give consist of the following at September 30, 2022 and 2021:

	2022	2021
Capital campaign pledges	\$ 111,112	\$ 191,112
Program services	<u>-</u>	<u>148,200</u>
Subtotal	111,112	339,312
Less: unamortized discount	<u>(18,519)</u>	<u>(10,279)</u>
Net unconditional promises to give	<u>\$ 92,593</u>	<u>\$ 329,033</u>
Amounts due in:		
Less than one year	\$ -	\$ 339,312
One to three years	<u>111,112</u>	<u>-</u>
Total	<u>\$ 111,112</u>	<u>\$ 339,312</u>

The Organization applied discount rate of 20.0% and 5.25% to its pledges with terms in excess of one year received during the years ended September 30, 2022 and 2021, respectively.

Note 7 – Property and Equipment

Property and equipment at September 30, 2022 and 2021 consists of the following:

	2022	2021
Land and land improvements	\$ 3,520,102	\$ 372,061
Buildings and improvements	18,604,909	5,638,818
Furniture, fixtures and equipment	1,076,281	622,754
Vehicles	<u>813,483</u>	<u>654,896</u>
	24,014,775	7,288,529
Less: accumulated depreciation	<u>(5,071,715)</u>	<u>(4,453,070)</u>
Subtotal	18,943,060	2,835,459
Construction in progress	<u>428,132</u>	<u>164,310</u>
Total property and equipment, net	<u>\$ 19,371,192</u>	<u>\$ 2,999,769</u>

Depreciation expense totaled \$627,286 and \$218,514, respectively, for the years ended September 30, 2022 and 2021. Construction in progress consists of upgrades and modifications made to certain group home residences, the Arc's Courim Center in Riviera Beach, Florida, as well as the Organization's South Campus in Lake Worth, Florida not yet in service as of September 30, 2022.

The Organization owns certain parcels of land on which its South Campus and residential facilities are located which was previously deeded to PBHC by Palm Beach County (the County). The County restricted the use of both parcels of land such that the Organization may not encumber or sell it in any manner without the approval of the County. The Organization uses the properties as intended.

THE ARC OF PALM BEACH COUNTY, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

Note 8 – Deferred Revenue

Deferred revenue – grant

During 2020, the Organization received advances totaling \$1,826,302 from the State of Florida's Agency for Health Care Administration under the Florida HCBS Enhanced Funding Opportunity program (HCBS program). Funding HCBS program is to be expended in accordance with the spending plan specified by the HCBS program and any unspent funds are refundable to the HCBS program. Through September 30, 2022, the Organization had expended approximately \$291,000 of the HCBS program funds. The remaining unspent funds are included in the accompanying consolidated statement of financial position as deferred revenue and amounted to \$1,534,710. The Organization anticipates spending the remaining HCBS program funds during the year ending September 30, 2023.

Agency refundable advance

The Organization received an advance of \$375,000 which represented 25% of the total budget of a \$1,500,000 contract from the Florida Agency for Persons with Disabilities (Agency) to make renovations to its South Campus Cultural Arts building in Lake Worth, Florida. The purpose of the Agency's contract is to renovate the Cultural Arts building to "harden" it for significant weather events and to operate as an emergency shelter for the South Campus' program participants and their families.

Funding for the Agency by the State of Florida is contingent upon an annual appropriation from the Florida Legislature. The Agency's obligation to pay under this contract is subject to the availability of funds. As of September 30, 2022, the renovation has not started. Due to the renovation not being started and the contingent nature of funding by the Agency, the amount is included in deferred revenue as of September 30, 2022. The contract with the Agency has been extended through June 30, 2025 in order for the Organization to complete the renovation project.

Note 9 – Long-Term Debt

Long-term debt includes the following at September 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Note payable – bank, collateralized by certain real property; interest at 4% and principal payable through September 2025.	\$ 119,694	\$ 156,308
Mortgage payable – bank, collateralized by certain real property; interest at 4.75% and principal payable through September 2025.	<u>641,109</u>	<u>-</u>
	760,803	156,308
Less: unamortized loan costs	(9,304)	-
Less: current portion of long-term debt	<u>(73,243)</u>	<u>(36,738)</u>
Long-term debt, net	<u>\$ 678,256</u>	<u>\$ 119,570</u>

Principal maturities

Principal payments due in each of the years subsequent to September 30, 2022, and thereafter, are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2023	\$ 73,243
2024	76,459
2025	<u>611,101</u>
Total	<u>\$ 760,803</u>

THE ARC OF PALM BEACH COUNTY, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

Note 9 – Long-Term Debt, Continued

Paycheck Protection Program Loans

PPP Loan – The Arc

On April 16, 2020, The Arc received loan proceeds in the amount of \$1,086,510 under the Paycheck Protection Program (PPP) from an unrelated third-party lender (the lender). The PPP Loan, established as part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), is designed to be a direct incentive for qualifying employers to keep their workers on payroll due to the COVID-19 pandemic and its far-reaching economic disruption. The U.S. Small Business Association (SBA) will forgive the loan if eligible expenses are incurred over the period specified in the SBA and US Treasury's PPP guidance.

The PPP Loan, which is in the form of a promissory note, matured two years from the date of funding, April 16, 2022, and bears interest at a rate of 1.00% per annum, payable monthly, commencing 10 months after the end of the loan forgiveness covered period, which was September 30, 2020. The PPP Loan may be prepaid by The Arc at any time prior to maturity with no prepayment penalties. The PPP Loan is uncollateralized.

During 2021, The Arc applied for forgiveness of the entire PPP Loan amount with its lender and the SBA. The Arc received notification that both the lender and SBA approved The Arc's application for full forgiveness of the PPP Loan. As a result of the PPP Loan forgiveness, The Arc reduced the PPP Loan amount and recognized \$1,086,510 as a non-operating gain on debt forgiveness in the accompanying consolidated statement of activities for the year ended September 30, 2021.

PPP Loan – Seagull

On March 17, 2021, Seagull received loan proceeds in the amount of \$279,300 under the Paycheck Protection Program (PPP) from an unrelated third-party lender (the lender). The U.S. Small Business Association (SBA) will forgive the loan if eligible expenses are incurred over the period specified in the SBA and US Treasury's PPP guidance.

The PPP Loan, was a promissory note, matured in two years from the date of funding, March 17, 2021, and bore interest at a rate of 1.00% per annum, payable monthly, commencing 10 months after the end of the loan forgiveness covered period.

During 2022, Seagull applied for forgiveness of the entire PPP Loan amount with its lender and the SBA. Seagull received notification that both the lender and SBA approved the application for full forgiveness of the PPP Loan. As a result of the PPP Loan forgiveness, Seagull reduced the PPP Loan amount and recognized \$279,300 as a non-operating gain on debt forgiveness in the accompanying consolidated statement of activities for the year ended September 30, 2022.

Note 10 – Lines of Credit

Working capital line of credit – The Arc

The Organization has a working capital line of credit (Arc Line of Credit) with available borrowings of \$350,000 with a bank that is collateralized by certain real property and bears interest at the Wall Street Prime Rate plus 1.25% (6.25% as of September 30, 2022). At September 30, 2022, there were no outstanding borrowings under the Arc Line of Credit. The Arc Line of Credit automatically renews each year until it is cancelled.

Subsequent to September 30, 2022, the Organization and financial institution amended the loan agreement with the bank to increase the Arc Line of Credit's borrowing capacity to \$750,000.

THE ARC OF PALM BEACH COUNTY, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

Note 10 – Lines of Credit, Continued

Construction line of credit

The Organization has a construction line of credit (construction line) with available borrowings of \$500,000 with a bank. The construction line is collateralized by certain real property and bears interest at the Wall Street prime rate plus 1.25% (6.25% as of September 30, 2022). At September 30, 2022, outstanding borrowings on the construction line amounted to \$282,847. The construction line is renewed annually and is secured by a money market account.

Line of credit - PBHC

The Organization has a line of credit with a financial institution with available borrowings of up to \$500,000 to be used for short-term working capital purposes. The PBHC line of credit is collateralized by a brokerage account held at the financial institution. Borrowings on the PBHC line of credit are due on demand, subject to certain borrowing limitations and restrictions based on the balance of available collateral and bear interest at the Wall Street Prime Rate (5.0% at September 30, 2022). As of September 30, 2022, borrowings outstanding on the line of credit – PBHC amounted to \$320,176.

Note 11 – Defined Benefit Pension Plan

Previously, The Arc maintained a defined benefit pension plan (the defined benefit plan) that covered substantially all of its employees through 2001. Effective October 1, 2002, The Arc discontinued the benefit plan whereby existing participants became fully vested and no new participants were allowed. In 2010, The Arc filed a distressed termination application with the Pension Benefit Guaranty Corporation (PBGC) which was subsequently approved. Under a settlement, The Arc and the PBGC entered into an agreement whereby PBGC assumed responsibility for payments to beneficiaries and The Arc agreed to contribute a fixed amount, aggregating \$1,390,655, to PBGC, payable over twenty years. As part of the settlement with the PBGC, lien rights were granted to the PBGC on all assets of The Arc.

The table below represents the schedule of payments to PBGC required under the settlement in each of the five years subsequent to September 30, 2022, and thereafter:

<u>Year Ending September 30,</u>	<u>Amount</u>
2023	\$ 44,631
2024	94,600
2025	94,600
2026	94,600
2027	94,600
Thereafter	<u>699,100</u>
Total scheduled payments	1,122,131
Less: amount representing interest	<u>(366,764)</u>
Net present value at September 30, 2022	<u>\$ 755,367</u>

The Organization discounted the payment stream to its present value using a discount rate of 6.5%.

THE ARC OF PALM BEACH COUNTY, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

Note 12 – Net Assets with Donor Restrictions

Net assets were released from donor restrictions by time restrictions specified by donors and payments received during the years ended September 30, 2022 and 2021, as follows:

	<u>2022</u>	<u>2021</u>
Time restrictions expired on Town of Palm Beach United Way allocations	\$ 148,200	\$ 197,600
Other releases of restrictions	<u>440,502</u>	<u>487,674</u>
	<u>\$ 588,702</u>	<u>\$ 685,274</u>

Net assets with donor restrictions as of September 30, 2022 and 2021 are restricted by donors for the following purposes:

	<u>2022</u>	<u>2021</u>
Time and purpose restrictions:		
Capital campaign	\$ 1,566,094	\$ 1,379,457
Charter school	49,509	79,498
Community living	229,123	154,425
Children's Services Council	110,000	135,000
Family support services	985	76,616
Early intervention programs	10,191	11,742
Capital improvements	90,996	82,185
Endowment	<u>28,860</u>	<u>3,860</u>
	<u>\$ 2,085,758</u>	<u>\$ 1,922,783</u>

At September 30, 2022 and 2021, the Organization has \$25,000 of net assets with donor restrictions of a perpetual nature.

Note 13 – Description of Leasing Arrangements

The Organization leases certain facilities, land and equipment in connection with its program services under noncancelable lease agreements that expire through October 2028. The following is a schedule of the estimated future minimum lease payments on operating leases in years subsequent to September 30, 2022:

<u>Year Ending September 30,</u>	<u>Amount</u>
2023	\$ 34,570
2024	31,824
2025	15,649
2026	14,929
2027	14,929
Thereafter	<u>14,929</u>
Total	<u>\$ 126,830</u>

Lease expense for the years ended September 30, 2022 and 2021 totaled \$151,592 and \$120,214, respectively.

THE ARC OF PALM BEACH COUNTY, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

Note 14 – Defined Contribution Retirement Plans

The Arc 401(k) Plan

The Arc maintains a 401(k) plan (the Plan) for the benefit of qualified employees. Those employees who have completed 90 days of service and have attained the age of 21 are eligible to participate and may contribute a portion of their compensation to the Plan. The Arc may make discretionary contributions that are allocated based upon the participant's share of total compensation paid during the plan year to all participants in the Plan. The Organization may also make a matching contribution. For the years ended September 30, 2022 and 2021, the Organization made a discretionary contribution of \$35,869 and \$20,000, respectively, to the Plan which was allocated to Plan participants.

Seagull 403(b) Plan

Seagull provides a defined contribution plan (403(b) Plan) for its employees under Section 403(b) of the IRC. Contributions are set annually by the Board of Trustees for eligible employee's compensation. For the year ended September 30, 2022, no contributions were made to the 403(b) Plan.

Note 15 – Concentrations

The Organization receives a substantial amount of its revenue and support from state program funding which is passed through various state and local governmental entities. A significant reduction in the level of this support, if this were to occur, would have a significant effect on the Organization's services and activities. Other grants represent amounts received from the local grant funding agencies.

Note 16 – Related Party Transactions

The Arc provides management services to the Housing Corporation of the Palm Beach County Arc, Inc. (Housing). Housing is a non-profit organization with certain directors that also serve as directors for The Arc. Housing's primary function is to operate the Eleanor Trachtenberg Residence (ETR) pursuant to a Department of Housing and Urban Development (HUD) program.

During 2020, Housing received a grant from a municipality to renovate ETR. Such renovation costs exceeded the amount of the grant and The Arc advanced certain funds to Housing which will be repaid by Housing as excess cash is available over the next year. At September 30, 2022 and 2021, amounts due from Housing approximated \$100,000 and \$80,000, respectively, and are included in prepaid expenses and other current assets in the accompanying consolidated statements of financial position. For the years ended September 30, 2022 and 2021, there were \$0 and \$10,078, respectively, in management fees received from Housing.

The Arc used the insurance brokerage services of a company owned by a certain Trustee for each of the years ended September 30, 2022 and 2021. Costs for such insurance services for the years ended September 30, 2022 and 2021, approximated \$87,800 and \$56,000, respectively.

Note 17 – Contingencies

From time to time, the Organization is subject to legal proceedings which arise in the ordinary course of its operations. Management believes that the final resolution of these matters will not have a material adverse effect on the Organization's consolidated financial position, cash flows, or results of operations.

Note 18 – Subsequent Events

Management evaluated activity of the Organization subsequent to September 30, 2022 through August 14, 2023, the date on which the consolidated financial statements were available to be issued, for events that require recognition in the consolidated financial statements or disclosure in the notes thereto.



Independent Auditors' 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

To the Board of Trustees of
The Arc of Palm Beach County, Inc. and consolidated affiliates
Riviera Beach, Florida

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 of Palm Beach County, Inc. and consolidated affiliates (the Organization) (a nonprofit organization), which comprise the consolidated statement of financial position as of September 30, 2022, and the related consolidated 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 August 14, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine 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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 the Organization's consolidated 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 determination of consolidated financial statement amounts. 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 Arc of Palm Beach County, Inc. and consolidated affiliates' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Templeton & Company, LLP

West Palm Beach, Florida
August 14, 2023

SUPPLEMENTAL INFORMATION

THE ARC OF PALM BEACH COUNTY, INC. AND CONSOLIDATED AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION INFORMATION
September 30, 2022

	The Arc of Palm Beach County, Inc.	Seagull Industries for the Disabled, Inc.	Seagull Academy	Palm Beach Habilitation Center, Inc.	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 3,147,703	\$ 615,703	\$ 101,910	\$ 1,859,499	\$ 5,724,815
Restricted cash	649,919	5,113	-	191,753	846,785
Grants, accounts and other receivables, net of allowance	900,396	274,645	17,235	788,609	1,980,885
Current portion of unconditional promises to give, net	92,593	-	-	-	92,593
Prepaid expenses and other current assets	110,861	13,275	-	6,267	130,403
Total current assets	4,901,472	908,736	119,145	2,846,128	8,775,481
Property and equipment, net	2,988,961	4,574,212	-	11,808,019	19,371,192
Other assets	85,620	-	-	-	85,620
Total assets	<u>\$ 7,976,053</u>	<u>\$ 5,482,948</u>	<u>\$ 119,145</u>	<u>\$ 14,654,147</u>	<u>\$ 28,232,293</u>
LIABILITIES AND NET ASSETS					
Current liabilities:					
Lines of credit	\$ 282,847	\$ -	\$ -	\$ 320,176	\$ 603,023
Current portion of long-term debt	38,255	34,988	-	-	73,243
Accounts payable	200,684	199,009	73,467	200,632	673,792
Accrued expenses	430,384	400,558	(381,209)	240,485	690,218
Deferred revenue	740,622	7,400	-	1,181,239	1,929,261
Agency funds payable	7,823	6,993	-	162,118	176,934
Current portion of settlement - Pension Benefit Guaranty Corporation	44,631	-	-	-	44,631
Total current liabilities	1,745,246	648,948	(307,742)	2,104,650	4,191,102
Settlement - Pension Benefit Guaranty Corporation, net of current portion	710,736	-	-	-	710,736
Long-term debt, net	81,439	596,817	-	-	678,256
Total liabilities	2,537,421	1,245,765	(307,742)	2,104,650	5,580,094
Net assets:					
Total net assets	5,438,632	4,237,183	426,887	12,549,497	22,652,199
Total liabilities and net assets	<u>\$ 7,976,053</u>	<u>\$ 5,482,948</u>	<u>\$ 119,145</u>	<u>\$ 14,654,147</u>	<u>\$ 28,232,293</u>

THE ARC OF PALM BEACH COUNTY, INC. AND CONSOLIDATED AFFILIATES
CONSOLIDATING STATEMENT OF ACTIVITIES INFORMATION
For the Year Ended September 30, 2022

	The Arc of Palm Beach County, Inc.	Seagull Industries for the Disabled, Inc.	Seagull Academy	Palm Beach Habilitation Center, Inc.	Consolidated
Operating:					
Support:					
Contributions	\$ 787,513	\$ 9,206	\$ -	\$ 76,885	\$ 873,604
Town of Palm Beach United Way	307,966	-	-	211,804	519,770
Special events, net	79,958	(2,352)	-	-	77,606
Fees and grants	6,176,469	543,522	770,492	1,282,058	8,772,541
Revenue:					
Program service fees (including Medwaiver and Medicaid)	1,661,890	705,024	56	2,373,748	4,740,718
Investment, income, net	<u>19,644</u>	<u>4,056</u>	<u>(3,632)</u>	<u>4,326</u>	<u>24,394</u>
Total operating support and revenue	<u>9,033,440</u>	<u>1,259,456</u>	<u>766,916</u>	<u>3,948,821</u>	<u>15,008,633</u>
Expenses:					
Program services	6,707,058	1,486,065	807,367	3,047,472	12,047,962
General and administrative	1,231,606	142,419	-	1,210,683	2,584,708
Fundraising	<u>970,173</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>970,173</u>
Total expenses	<u>8,908,837</u>	<u>1,628,484</u>	<u>807,367</u>	<u>4,258,155</u>	<u>15,602,843</u>
Change in net assets - operating	124,603	(369,028)	(40,451)	(309,334)	(594,210)
Non operating:					
Inherent contribution - Seagull Industries	-	4,326,911	467,338	-	4,794,249
Inherent contribution - Palm Beach Habilitation	-	-	-	12,858,831	12,858,831
Gain on forgiveness of Paycheck Protection Program Loan	-	279,300	-	-	279,300
Adjustment to discount on settlement with PBGC	<u>(48,826)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(48,826)</u>
Change in net assets	75,777	4,237,183	426,887	12,549,497	17,289,344
Net assets, beginning of year	<u>5,362,855</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,362,855</u>
Net assets, end of year	<u>\$ 5,438,632</u>	<u>\$ 4,237,183</u>	<u>\$ 426,887</u>	<u>\$ 12,549,497</u>	<u>\$ 22,652,199</u>