



**THE ARC OF SAN DIEGO AND
ARC SAN DIEGO FOUNDATION
CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**



Leaf & Cole, LLP
Certified Public Accountants

**THE ARC OF SAN DIEGO AND
ARC SAN DIEGO FOUNDATION
CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1 - 2
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statements of Functional Expenses	5 - 6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8 - 22



Leaf & Cole, LLP
*Certified Public Accountants
A Partnership of Professional Corporations*

Independent Auditor's Report

To the Board of Directors
The Arc of San Diego and Arc San Diego Foundation

Opinion

We have audited the accompanying consolidated financial statements of The Arc of San Diego and Arc San Diego Foundation (a nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2022 and 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, 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 financial position of The Arc of San Diego and Arc San Diego Foundation as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 San Diego and Arc San Diego Foundation, and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. 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 consolidated 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 San Diego and Arc San Diego Foundation's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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, including omissions, 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 consolidated 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 consolidated 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 San Diego and Arc San Diego Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the 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 San Diego and Arc San Diego Foundation's ability to continue as a going concern for a reasonable period of time.

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

Leaf & Cole LLP

San Diego, California
November 3, 2022

**THE ARC OF SAN DIEGO AND
ARC SAN DIEGO FOUNDATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2022 AND 2021**

ASSETS

	<u>2022</u>	<u>2021</u>
<u>Current Assets:</u> (Notes 2, 4 and 5)		
Cash and cash equivalents	\$ 8,182,507	\$ 10,792,087
Accounts receivable, net	2,697,759	2,433,401
Investments	9,122,716	9,502,066
Prepaid expenses	184,936	79,142
Deposit and other assets	13,151	11,296
Total Current Assets	<u>20,201,069</u>	<u>22,817,992</u>
<u>Noncurrent Assets:</u> (Notes 2, 4, 6, 7 and 8)		
Deposits and other assets	27,500	27,500
Property and equipment, net	15,636,202	15,961,102
Charitable remainder trust	761,307	932,353
Beneficial interest in endowment funds	1,154,348	1,245,136
Total Noncurrent Assets	<u>17,579,357</u>	<u>18,166,091</u>
TOTAL ASSETS	<u>\$ 37,780,426</u>	<u>\$ 40,984,083</u>

LIABILITIES AND NET ASSETS

<u>Current Liabilities:</u> (Note 2)		
Accounts payable	\$ 720,686	\$ 1,218,477
Accrued expenses	5,269,017	5,215,718
Accrued compensated absences	977,823	948,431
Security deposits	-	588
Total Current Liabilities	<u>6,967,526</u>	<u>7,383,214</u>
<u>Commitments and Contingencies</u> (Notes 9, 12 and 13)		
<u>Net Assets:</u> (Notes 2, 10 and 11)		
Without Donor Restrictions	<u>27,399,691</u>	<u>29,915,478</u>
With Donor Restrictions:		
Purpose restrictions	1,497,554	1,507,902
Time restrictions	761,307	932,353
Perpetual in nature	1,154,348	1,245,136
Total With Donor Restrictions	<u>3,413,209</u>	<u>3,685,391</u>
Total Net Assets	<u>30,812,900</u>	<u>33,600,869</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 37,780,426</u>	<u>\$ 40,984,083</u>

The accompanying notes are an integral part of the consolidated financial statements.

**THE ARC OF SAN DIEGO AND
ARC SAN DIEGO FOUNDATION
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support:						
San Diego Regional Center	\$ 14,925,666	\$ -	\$ 14,925,666	\$ 15,283,629	\$ -	\$ 15,283,629
Services to the public	10,765,112	-	10,765,112	9,999,293	-	9,999,293
Medi-Cal	5,217,047	-	5,217,047	5,227,648	-	5,227,648
Other revenue	501,303	-	501,303	889,740	-	889,740
Workshop sales	478,877	-	478,877	284,202	-	284,202
Department of rehabilitation	381,956	-	381,956	492,651	-	492,651
Fundraising/special events	230,807	-	230,807	189,588	-	189,588
Other service contracts	228,784	-	228,784	501,382	-	501,382
Contributions	225,310	150	225,460	124,635	10,498	135,133
Memberships	19,167	-	19,167	16,481	-	16,481
Rental income	13,948	-	13,948	13,294	-	13,294
Change in value of charitable remainder trust	-	(171,046)	(171,046)	-	202,764	202,764
Investment return	(1,352,241)	(42,919)	(1,395,160)	2,005,470	291,222	2,296,692
Net assets released from restrictions	58,367	(58,367)	-	67,992	(67,992)	-
Total Revenue and Support	<u>31,694,103</u>	<u>(272,182)</u>	<u>31,421,921</u>	<u>35,096,005</u>	<u>436,492</u>	<u>35,532,497</u>
Expenses:						
Program Services:						
Employment services	14,267,874	-	14,267,874	12,597,909	-	12,597,909
Adult day services	7,167,944	-	7,167,944	6,239,459	-	6,239,459
Residential services	6,181,926	-	6,181,926	5,538,303	-	5,538,303
Respite services	928,738	-	928,738	914,941	-	914,941
Early intervention services	747,060	-	747,060	789,617	-	789,617
Special programs	66,550	-	66,550	95,201	-	95,201
Total Program Services	<u>29,360,092</u>	<u>-</u>	<u>29,360,092</u>	<u>26,175,430</u>	<u>-</u>	<u>26,175,430</u>
Supporting Services:						
Management and general	4,561,374	-	4,561,374	4,736,329	-	4,736,329
Fundraising and Chapter	288,424	-	288,424	194,443	-	194,443
Total Supporting Services	<u>4,849,798</u>	<u>-</u>	<u>4,849,798</u>	<u>4,930,772</u>	<u>-</u>	<u>4,930,772</u>
Total Expenses	<u>34,209,890</u>	<u>-</u>	<u>34,209,890</u>	<u>31,106,202</u>	<u>-</u>	<u>31,106,202</u>
Change in Net Assets	(2,515,787)	(272,182)	(2,787,969)	3,989,803	436,492	4,426,295
Net Assets at Beginning of Year	29,915,478	3,685,391	33,600,869	25,925,675	3,248,899	29,174,574
NET ASSETS AT END OF YEAR	<u>\$ 27,399,691</u>	<u>\$ 3,413,209</u>	<u>\$ 30,812,900</u>	<u>\$ 29,915,478</u>	<u>\$ 3,685,391</u>	<u>\$ 33,600,869</u>

The accompanying notes are an integral part of the consolidated financial statements.

**THE ARC OF SAN DIEGO AND
ARC SAN DIEGO FOUNDATION
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2022**

	Program Services						Supporting Services				Total
	Employment Services	Adult Day Services	Residential Services	Respite Services	Early Intervention Services	Special Programs	Total Program Services	Management and General	Fundraising and Chapter	Total Supporting Services	
Personnel Expenses:											
Salaries and wages	\$ 6,256,005	\$ 4,128,146	\$ 3,733,877	\$ 661,454	\$ 483,086	\$ 18,426	\$ 15,280,994	\$ 2,344,886	\$ 111,600	\$ 2,456,486	\$ 17,737,480
Health and welfare benefits	2,397,897	1,027,984	740,560	56,953	133,873	972	4,358,239	420,832	21,204	442,036	4,800,275
Payroll taxes	580,319	384,934	327,293	61,476	46,506	1,664	1,402,192	101,410	8,537	109,947	1,512,139
Employee benefits	19,613	17,551	35,785	3,181	144	-	76,274	216,837	4,958	221,795	298,069
Total Personnel Expenses	<u>9,253,834</u>	<u>5,558,615</u>	<u>4,837,515</u>	<u>783,064</u>	<u>663,609</u>	<u>21,062</u>	<u>21,117,699</u>	<u>3,083,965</u>	<u>146,299</u>	<u>3,230,264</u>	<u>24,347,963</u>
Non-Personnel Expenses:											
Direct production and contract costs	4,410,452	185,899	44,555	564	2,267	145	4,643,882	29,767	-	29,767	4,673,649
Occupancy	204,107	907,663	441,190	23,993	25,361	7,638	1,609,952	217,349	-	217,349	1,827,301
Vehicle and travel	175,896	242,216	149,184	83,404	9,324	-	660,024	66,399	-	66,399	726,423
Office supplies and expenses	65,650	99,695	39,945	19,653	8,264	1,339	234,546	467,740	-	467,740	702,286
Professional fees	93,155	55,474	77,467	16,184	16,297	36,292	294,869	291,601	-	291,601	586,470
Dues and assessments	3,236	120	321,223	-	-	-	324,579	67,953	-	67,953	392,532
Program supplies and expenses	5,889	87,248	259,269	128	21,445	28	374,007	-	3,710	3,710	377,717
Other expenses/refunds	-	-	2,035	-	-	-	2,035	101,402	29,337	130,739	132,774
Bad debt expense	-	-	-	-	-	-	-	119,522	-	119,522	119,522
Special events	-	-	-	-	-	-	-	-	109,078	109,078	109,078
Repairs and maintenance	52,010	21,312	5,898	1,748	359	46	81,373	12,699	-	12,699	94,072
Recruitment advertisement	3,645	7,289	3,645	-	-	-	14,579	49,705	-	49,705	64,284
Advertising and promotion	-	2,413	-	-	134	-	2,547	53,207	-	53,207	55,754
Interest expense	-	-	-	-	-	-	-	65	-	65	65
Total Non-Personnel Expenses	<u>5,014,040</u>	<u>1,609,329</u>	<u>1,344,411</u>	<u>145,674</u>	<u>83,451</u>	<u>45,488</u>	<u>8,242,393</u>	<u>1,477,409</u>	<u>142,125</u>	<u>1,619,534</u>	<u>9,861,927</u>
Total Expenses	<u>\$ 14,267,874</u>	<u>\$ 7,167,944</u>	<u>\$ 6,181,926</u>	<u>\$ 928,738</u>	<u>\$ 747,060</u>	<u>\$ 66,550</u>	<u>\$ 29,360,092</u>	<u>\$ 4,561,374</u>	<u>\$ 288,424</u>	<u>\$ 4,849,798</u>	<u>\$ 34,209,890</u>

The accompanying notes are an integral part of the consolidated financial statements.

**THE ARC OF SAN DIEGO AND
ARC SAN DIEGO FOUNDATION
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2021**

	Program Services						Supporting Services				Total
	Employment Services	Adult Day Services	Residential Services	Respite Services	Early Intervention Services	Special Programs	Total Program Services	Management and General	Fundraising and Chapter	Total Supporting Services	
Personnel Expenses:											
Salaries and wages	\$ 5,647,252	\$ 3,705,981	\$ 3,353,103	\$ 652,760	\$ 537,159	\$ 20,111	\$ 13,916,366	\$ 2,137,166	\$ 115,000	\$ 2,252,166	\$ 16,168,532
Health and welfare benefits	1,993,477	859,876	539,984	38,649	126,976	966	3,559,928	362,172	21,850	384,022	3,943,950
Payroll taxes	573,643	371,211	326,955	64,554	54,715	1,987	1,393,065	204,673	8,798	213,471	1,606,536
Employee benefits	24,234	20,003	47,696	3,112	1,646	325	97,016	133,156	6,761	139,917	236,933
Total Personnel Expenses	<u>8,238,606</u>	<u>4,957,071</u>	<u>4,267,738</u>	<u>759,075</u>	<u>720,496</u>	<u>23,389</u>	<u>18,966,375</u>	<u>2,837,167</u>	<u>152,409</u>	<u>2,989,576</u>	<u>21,955,951</u>
Non-Personnel Expenses:											
Direct production and contract costs	3,748,598	155,772	44,200	398	2,052	180	3,951,200	41,978	-	41,978	3,993,178
Occupancy	200,001	739,706	454,162	19,953	22,489	22,627	1,458,938	228,751	-	228,751	1,687,689
Other expenses/refunds	24	582	739	-	-	-	1,345	716,677	32,207	748,884	750,229
Office supplies and expenses	63,469	84,516	25,743	18,462	9,107	772	202,069	454,798	121	454,919	656,988
Vehicle and travel	169,227	166,644	79,692	97,327	10,257	-	523,147	30,201	-	30,201	553,348
Professional fees	96,197	43,459	66,201	18,855	20,598	28,161	273,471	265,996	-	265,996	539,467
Program supplies and expenses	10,538	44,084	292,698	167	4,271	20,025	371,783	-	-	-	371,783
Dues and assessments	11,369	-	241,168	-	-	-	252,537	81,721	-	81,721	334,258
Repairs and maintenance	59,694	47,514	65,962	704	347	47	174,268	10,877	-	10,877	185,145
Bad debt expense	-	-	-	-	-	-	-	32,698	-	32,698	32,698
Advertising and promotion	-	111	-	-	-	-	111	31,296	750	32,046	32,157
Special events	-	-	-	-	-	-	-	-	8,956	8,956	8,956
Recruitment advertisement	186	-	-	-	-	-	186	4,169	-	4,169	4,355
Total Non-Personnel Expenses	<u>4,359,303</u>	<u>1,282,388</u>	<u>1,270,565</u>	<u>155,866</u>	<u>69,121</u>	<u>71,812</u>	<u>7,209,055</u>	<u>1,899,162</u>	<u>42,034</u>	<u>1,941,196</u>	<u>9,150,251</u>
Total Expenses	<u>\$ 12,597,909</u>	<u>\$ 6,239,459</u>	<u>\$ 5,538,303</u>	<u>\$ 914,941</u>	<u>\$ 789,617</u>	<u>\$ 95,201</u>	<u>\$ 26,175,430</u>	<u>\$ 4,736,329</u>	<u>\$ 194,443</u>	<u>\$ 4,930,772</u>	<u>\$ 31,106,202</u>

The accompanying notes are an integral part of the consolidated financial statements.

**THE ARC OF SAN DIEGO AND
ARC SAN DIEGO FOUNDATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
<u>Cash Flows From Operating Activities:</u>		
Change in net assets	\$ (2,787,969)	\$ 4,426,295
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	773,105	759,772
Allowance for doubtful accounts	38,239	(75,645)
Realized and unrealized gains on investments	1,935,492	(1,767,894)
Gain on sale of property and equipment	(41,773)	(18,800)
Change in value of charitable remainder trust	171,046	(202,764)
Endowment investment gains	42,919	(291,222)
Endowment distributions	47,869	41,983
(Increase) Decrease in:		
Accounts receivable	(302,597)	893,566
Pledges receivable	-	2,250
Prepaid expenses	(105,794)	68,770
Deposits and other assets	(1,855)	16,835
Increase (Decrease) in:		
Accounts payable	(497,791)	553,251
Accrued expenses	53,299	41,006
Accrued compensated absences	29,392	(14,168)
Security deposits	(588)	-
Net Cash (Used in) Provided by Operating Activities	<u>(647,006)</u>	<u>4,433,235</u>
<u>Cash Flows From Investing Activities:</u>		
Purchase of property and equipment	(448,205)	(360,876)
Proceeds from sale of property and equipment, net	41,773	18,800
Sales and (purchases) of investments, net	(1,556,142)	610,359
Change in beneficial interest in endowment funds	90,788	(249,239)
Net Cash (Used in) Provided by Financing Activities	<u>(1,871,786)</u>	<u>19,044</u>
<u>Cash Flows From Financing Activities:</u>		
Endowment investment gains	(42,919)	291,222
Endowment distributions	(47,869)	(41,983)
Net Cash (Used in) Provided by Financing Activities	<u>(90,788)</u>	<u>249,239</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(2,609,580)	4,701,518
Cash and Cash Equivalents at Beginning of Year	<u>10,792,087</u>	<u>6,090,569</u>
CASH AND CASH EQUIVALENTS AT OF END OF YEAR	<u><u>\$ 8,182,507</u></u>	<u><u>\$ 10,792,087</u></u>

The accompanying notes are an integral part of the consolidated financial statements.

**THE ARC OF SAN DIEGO AND
ARC SAN DIEGO FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

Note 1 - Organization:

The Arc of San Diego

The Arc of San Diego is one of the largest, most comprehensive providers of services to children and adults with disabilities in San Diego County. The Arc of San Diego was founded in 1951, by parents and other community members who were concerned about the lack of services available for children with disabilities and their families. The Arc of San Diego provides assistance to approximately 2,000 children and adults with disabilities at fifteen locations throughout the county. Through The Arc of San Diego's programs, people with disabilities are able to obtain support in living independent and fulfilling lives.

The Arc of San Diego's mission is to support and empower persons with disabilities to achieve their life goals. Vocational training, job placement, employment opportunities, and programs for building daily living skills are offered countywide. The Arc of San Diego also offers residential living support, recreational activities, respite services, and early intervention programs for infants and toddlers. The Arc of San Diego is proud of the wide range of programs we offer to people with disabilities and their families. The Arc of San Diego's staff work in collaboration with other professionals such as speech therapists, psychologists, and nutritionists, as well as by partnering with community resources and other nonprofits to seek the best possible support for those served.

The Arc of San Diego is committed to securing the opportunity for people with disabilities to choose and realize their goals of where and how they live, work, and play in the community. The Arc of San Diego is committed to reducing the incidence and limiting the consequence of disabilities through education, research, advocacy, and the support of families, friends, staff, and community members. Through classes, workshops, community living, and individualized counseling, the dedicated staff at The Arc of San Diego empowers individuals with disabilities toward living the most self-sufficient life possible. The ultimate goal of all programs and services at The Arc of San Diego is to help each individual reach their highest level of independence.

Arc San Diego Foundation

Arc San Diego Foundation was incorporated under the laws of the state of California, in 1992, for the purpose of obtaining and administering funds and other property to be used in furtherance of the purpose of The Arc of San Diego. Its principal sources of revenue are contributions from the general public and special events.

Note 2 - Significant Accounting Policies:

Consolidated Financial Statements

The consolidated financial statements include the accounts of The Arc of San Diego and Arc San Diego Foundation, which are collectively referred to as "The Arc." The sole member of the Arc San Diego Foundation is The Arc of San Diego. All material intercompany transactions have been eliminated in consolidation.

Accounting Method

The consolidated financial statements of The Arc have been prepared on the accrual basis of accounting, which is in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), and, accordingly, reflect all significant receivables, payables, and other liabilities.

**THE ARC OF SAN DIEGO AND
ARC SAN DIEGO FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

Note 2 - Significant Accounting Policies: (Continued)

Financial Statement Presentation

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes thereon are classified and reported as follows:

- Net Assets Without Donor Restrictions - Net assets available for use in general operations, and not subject to donor (or certain grantor) restrictions.
- Net Assets With Donor Restrictions - Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires—that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Risks and Uncertainties

The Arc invests in various types of investment securities which are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near-term, and such changes could materially affect the amounts reported in the consolidated statements of financial position.

Fair Value Measurements

Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value, and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy), and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

- Level 1 inputs are quoted prices in active markets for identical investments that the investment manager has the ability to access at the measurement date.
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the investment, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the investments.

**THE ARC OF SAN DIEGO AND
ARC SAN DIEGO FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

Note 2 - Significant Accounting Policies: (Continued)

Fair Value Measurements (Continued)

The Arc's consolidated statements of financial position includes the following financial instruments that are required to be measured at fair value on a recurring basis:

- Investments in mutual and exchange traded funds are considered Level 1 assets, and are reported at fair value, based on quoted prices in active markets for identical assets at the measurement date.
- The charitable remainder trust is considered a Level 3 asset, and is reported at fair value, based on management's assumptions about the expected investment return on the underlying trust assets, an applicable discount rate, and the life expectancy of the donor. (Note 7)
- The beneficial interest in endowment funds held at San Diego Foundation ("SDF") is considered a Level 3 asset, and is reported at fair value, based on values provided by SDF. SDF determines the fair values based on the unit value of The Arc's interest in the pools in which it has invested. The unit value is based on the fair value of the underlying assets in the pools. (Note 8)

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable consist of amounts due to The Arc for services provided through June 30 that have not yet been collected. Amounts are generally considered past due if not collected within 30 days of billings. Interest is not charged on outstanding balances.

Bad debts are recognized on the allowance method, based on historical experience and management's evaluation of outstanding receivables. The allowance for doubtful accounts receivable totaled \$307,608 and \$269,369 at June 30, 2022 and 2021, respectively.

Capitalization and Depreciation

The Arc capitalizes all expenditures in excess of \$10,000 for property and equipment at cost, while donations of property and equipment are recorded at their estimated fair values. Such donations are reported as support without donor restrictions, unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use, and contributions of cash that must be used to acquire property and equipment, are reported as support with donor restrictions. Absent donor stipulations regarding how those donated assets must be maintained, The Arc reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Arc reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

**THE ARC OF SAN DIEGO AND
ARC SAN DIEGO FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

Note 2 - Significant Accounting Policies: (Continued)

Capitalization and Depreciation (Continued)

Property and equipment are depreciated using the straight-line method over the estimated useful asset lives as follows:

Buildings and improvements	5-50 years
Vehicles	5 years
Equipment, furniture and fixtures	3-10 years

Depreciation totaled \$773,105 and \$759,772 for the years ended June 30, 2022 and 2021, respectively, and is included in occupancy in the consolidated statement of functional expenses.

Maintenance and repairs are charged to operations as incurred. Upon sale or disposition of property or equipment, the asset account is reduced by the cost, and the accumulated depreciation account is reduced by the depreciation taken prior to the sale. Any resultant gain or loss is then recorded as income or expense.

Impairment of Long-Lived Assets

The Arc reviews its long-lived assets for impairment whenever events and changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of real estate exceeds the fair value of such property. There were no impairment losses recognized in 2022 and 2021.

Compensated Absences

Accumulated unpaid vacation and sick leave (for employees hired before 1996) totaling \$977,823 and \$948,431 at June 30, 2022 and 2021, respectively, is accrued when incurred.

Revenue Recognition

San Diego Regional Center, Services to the Public, Medi-Cal, Workshop Sales, Other Revenue, Other Service Contracts, Department of Rehabilitation and Rental Income

Revenue is recognized when services are provided in accordance with the contract, or in the period that the point-of-sale transaction occurs. Amounts received prior to performing services are recorded as unearned revenue.

Memberships

Revenue is recognized as nonrefundable payments when received.

**THE ARC OF SAN DIEGO AND
ARC SAN DIEGO FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

Note 2 - Significant Accounting Policies: (Continued)

Revenue Recognition (Continued)

Contributions

Contributions are recognized when the donor makes a promise to give to The Arc that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. Contributions to be received in future periods are discounted at an appropriate discount rate. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Donated Services and Support

The Arc utilizes the services of many volunteers throughout the year. This contribution of services by the volunteers is not recognized in the consolidated financial statements, unless the services received (a) create or enhance nonfinancial assets, or (b) require specialized skills which are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The donated services for the years ended June 30, 2022 and 2021 did not meet the requirements above; therefore, no amounts were recognized in the consolidated financial statements.

Functional Allocation of Expenses

The consolidated statements of functional expenses present expenses by function and natural classification. The Arc allocates its expenses on a functional basis among its various programs and supporting services. Expenditures which can be identified with a specific program or support services are allocated directly, according to their natural expenditure classification. Costs that are common to several functions are allocated among the program and supporting services on the basis of space utilized, and estimates made by The Arc's management.

Income Taxes

The Arc of San Diego and Arc San Diego Foundation are nonprofit California corporations. Both organizations are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code, except to the extent of unrelated business taxable income. For the years ended June 30, 2022 and 2021, no provision for unrelated business taxes is required. The Arc of San Diego and Arc San Diego Foundation believe that they have appropriate support for any tax positions taken, and, as such, do not have any uncertain tax positions that are material to the consolidated financial statements. The Arc of San Diego and Arc San Diego Foundation are not private foundations.

The Arc of San Diego and Arc San Diego Foundation Returns of Organization Exempt from Income Tax for the years ended June 30, 2022, 2021, 2020, and 2019 are subject to examination by the Internal Revenue Service and State taxing authorities, generally three-to-four years after the returns were filed.

**THE ARC OF SAN DIEGO AND
ARC SAN DIEGO FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

Note 2 - Significant Accounting Policies: (Continued)

Concentrations

Cash and Cash Equivalents

The Arc maintains its cash in bank deposit accounts which exceed federally insured deposit limits. The Arc has not experienced any losses in such accounts.

For purposes of the consolidated statements of cash flows, The Arc considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

State of California Funding

The Arc depends significantly on revenue received from state of California (the "State") agencies, including the San Diego Regional Center and Medi-Cal. The State operates within a budget environment that could impact the State's cash flows, its ability to pay vendors, and its ability to continue funding programs. Consequently, due to the significance of revenue generated from the State and Medi-Cal agreements, The Arc is subject to a risk that it will not receive timely payment from the State for services provided under these agreements, and that funding cuts may occur.

Services to the Public

Included in revenue from services to the public is approximately \$8,542,320 and \$7,881,000 for the years ended June 30, 2022 and 2021, respectively, earned from one company, which represents approximately 79% of total services to the public revenue for each of the years then ended.

Included in accounts receivable for services to the public is approximately \$355,000 and \$349,000 due from one company at June 30, 2022 and 2021, respectively, which represents approximately 35% and 55% of total receivables from these contracts at June 30, 2022 and 2021, respectively.

Accounting Pronouncement Adopted

In September 2020, the FASB issued ASU No. 2020-07, *Presentation and Disclosures by Not-for Profit Entities for Contributed Nonfinancial Assets (Topic 958)*. ASU 2020-07 improves transparency in the reporting of contributed nonfinancial assets, also known as gifts in-kind, for not-for-profit entities. The ASU requires a not-for-profit organization to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets, along with expanded disclosure requirements. This standard is applied on a retrospective basis. The adoption had no effect on the 2022 financial statements.

Subsequent Events

In preparing these consolidated financial statements, The Arc has evaluated events and transactions for potential recognition or disclosure through November 3, 2022, the date the consolidated financial statements were available to be issued, and concluded that there were no events or transactions that needed to be disclosed.

**THE ARC OF SAN DIEGO AND
ARC SAN DIEGO FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

Note 3 - Liquidity and Availability:

The Arc regularly monitors the availability of resources required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Arc considers investment income without donor restrictions, appropriated earnings from donor-restricted endowments, contributions without donor restrictions, and contributions with donor restrictions for use in current programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. For purposes of analyzing resources available to meet general expenditures over a 12-month period, The Arc considers all expenditures related to its ongoing activities, as well as the conduct of services undertaken to support those activities, to be general expenditures.

Financial assets available for general expenditure within one year are comprised of the following at June 30:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 8,182,507	\$ 10,792,087
Accounts receivable, net	2,697,759	2,433,401
Investments	9,122,716	9,502,066
Appropriation of endowment earnings	48,000	42,000
Total financial assets	<u>20,050,982</u>	<u>22,769,554</u>
Less assets unavailable for general expenditures:		
Cash and investments held for capital and emergency needs	(1,447,401)	(1,447,401)
Cash, investments and pledges held for capital campaign	<u>(50,003)</u>	<u>(50,003)</u>
Total financial assets not available to be used within one year	<u>(1,497,404)</u>	<u>(1,497,404)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 18,553,578</u>	<u>\$ 21,272,150</u>

In addition to financial assets available to meet general expenditures over the next 12 months, The Arc has a line-of-credit agreement with available borrowings totaling \$1,000,000, as described in Note 9.

Endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments is available for general use. Appropriations of endowment fund earnings are made in accordance with the spending policy, as described in Note 11. The portion of the donor-restricted endowment funds required to be held in perpetuity are not available for general expenditure.

**THE ARC OF SAN DIEGO AND
ARC SAN DIEGO FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

Note 4 - Fair Value Measurements:

The following table summarizes assets measured at fair value by classification within the fair value hierarchy at June 30:

	2022			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2022
Mutual and exchange traded funds:				
Domestic equity	\$ 4,611,317	\$ -	\$ -	\$ 4,611,317
Domestic fixed income	2,799,828	-	-	2,799,828
International equity	1,107,182	-	-	1,107,182
Corporate bonds	604,389	-	-	604,389
Charitable remainder trust (Note 7)	-	-	761,307	761,307
Beneficial interest in endowment funds (Note 8)	-	-	1,154,348	1,154,348
	<u>\$ 9,122,716</u>	<u>\$ -</u>	<u>\$ 1,915,655</u>	<u>\$ 11,038,371</u>
	2021			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2021
Mutual and exchange traded funds:				
Domestic equity	\$ 4,727,833	\$ -	\$ -	\$ 4,727,833
Domestic fixed income	3,072,414	-	-	3,072,414
International equity	1,318,926	-	-	1,318,926
Corporate bonds	382,893	-	-	382,893
Charitable remainder trust (Note 7)	-	-	932,353	932,353
Beneficial interest in endowment funds (Note 8)	-	-	1,245,136	1,245,136
	<u>\$ 9,502,066</u>	<u>\$ -</u>	<u>\$ 2,177,489</u>	<u>\$ 11,679,555</u>

The reconciliation for financial instruments measured at fair value on a recurring basis, as significant unobservable inputs (Level 3), are included in the Notes, as indicated above.

**THE ARC OF SAN DIEGO AND
ARC SAN DIEGO FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

Note 4 - Fair Value Measurements: (Continued)

The following table represents The Arc's Level 3 financial instruments, the valuation techniques used to measure the fair value of the financial instruments, and the significant unobservable inputs and the range of values for those inputs for the years ended June 30:

2022				
Instrument	Fair Value	Principal Valuation Technique	Unobservable Inputs	Significant Input Values
Beneficial interest in endowment funds	\$ 1,154,348	Valuation of underlying assets as provided by San Diego Foundation	Base price	N/A
Charitable remainder trust	\$ 761,307	Present value of expected cash flows	Investment yield Discount rate	3.6% 3.6%
2021				
Instrument	Fair Value	Principal Valuation Technique	Unobservable Inputs	Significant Input Values
Beneficial interest in endowment funds	\$ 1,245,136	Valuation of underlying assets as provided by San Diego Foundation	Base price	N/A
Charitable remainder trust	\$ 932,353	Present value of expected cash flows	Investment yield Discount rate	1.2% 1.2%

**THE ARC OF SAN DIEGO AND
ARC SAN DIEGO FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

Note 5 - Investments:

Investments consist of the following at June 30:

	<u>2022</u>	<u>2021</u>
Mutual funds:		
Domestic equity	\$ 4,611,317	\$ 4,727,833
Domestic fixed income	2,799,828	3,072,414
International equity	1,107,182	1,318,926
Corporate bonds	604,389	382,893
Total Investments	<u>\$ 9,122,716</u>	<u>\$ 9,502,066</u>

Investment return is summarized as follows for the years ended June 30:

	<u>2022</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Interest and dividend income	\$ 583,251	-	583,251
Realized and unrealized (loss) gains	<u>(1,935,492)</u>	<u>(42,919)</u>	<u>(1,978,411)</u>
Total Investment Return	<u>\$ (1,352,241)</u>	<u>(42,919)</u>	<u>(1,395,160)</u>
	<u>2021</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Interest and dividend income	\$ 237,576	-	237,576
Realized and unrealized gains	<u>1,767,894</u>	<u>291,222</u>	<u>2,059,116</u>
Total Investment Return	<u>\$ 2,005,470</u>	<u>291,222</u>	<u>2,296,692</u>

Note 6 - Property and Equipment:

Property and equipment consist of the following at June 30:

	<u>2022</u>	<u>2021</u>
Land	\$ 2,697,020	\$ 2,697,020
Buildings and improvements	23,698,114	23,648,992
Vehicles	1,909,100	1,762,294
Equipment, furniture and fixtures	972,099	956,670
Construction in progress	543,834	368,843
Subtotal	<u>29,820,167</u>	<u>29,433,819</u>
Less: Accumulated depreciation	<u>(14,183,965)</u>	<u>(13,472,717)</u>
Property and Equipment, Net	<u>\$ 15,636,202</u>	<u>\$ 15,961,102</u>

**THE ARC OF SAN DIEGO AND
ARC SAN DIEGO FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

Note 7 - Charitable Remainder Trust:

The Arc is the beneficiary of an irrevocable charitable remainder trust (the “Trust”) administered by a third party. The trust agreement requires the Trust to make periodic payments to the grantor over the grantor’s lifetime. The Trust terminates upon the death of the grantor, at which time The Arc will receive the remaining trust assets.

The fair value of the future benefits to be received by The Arc was determined using a discounted cash flow model, and was recorded in the consolidated statements of activities as temporarily restricted contributions in the year the trust was established. The fair value of the remainder interest at June 30, 2022 and 2021 is calculated using a discounted cash flow model, using the fair value of the assets in the Trust as provided by the Trustee, a discount rate of approximately 3.6% and 1.2% at June 30, 2022 and 2021, respectively, and the life expectancy of the donor based on applicable mortality tables. The unobservable inputs used in the calculations are evaluated and adjusted, as necessary, annually by the Chief Financial Officer in conjunction with the Investment Committee. Increases (decreases) in the discount rate or life expectancy based on mortality tables would result in decreases (increases) in the fair value of the beneficial interest in the charitable remainder trust. An increase (decrease) in the fair value of the assets in the Trust will increase (decrease) the fair value of The Arc’s beneficial interest.

The Trust is comprised of the following at June 30:

	<u>2022</u>	<u>2021</u>
Fair value of charitable remainder trust assets	\$ 1,057,576	\$ 1,329,407
Less: Discount to fair value	<u>(296,269)</u>	<u>(397,054)</u>
Charitable Remainder Trust	<u>\$ 761,307</u>	<u>\$ 932,353</u>

The activity of the Trust consisted of the following for the years ended June 30:

	<u>2022</u>	<u>2021</u>
Balance at beginning of year	\$ 932,353	\$ 729,589
Change in discount and fair value	<u>(171,046)</u>	<u>202,764</u>
Balance at end of year	<u>\$ 761,307</u>	<u>\$ 932,353</u>

Note 8 - Beneficial Interest in Endowment Funds:

The Arc has a beneficial interest in endowment funds held at San Diego Foundation, which is classified as with donor restrictions and must be maintained in perpetuity. The beneficial interest in endowment funds held at San Diego Foundation is invested in a portfolio of equity and debt securities, which is structured for long-term total return, consisting of 39% international equities; 18% private equities; 15% hedge funds; 11% fixed income; 10% real estate; and 7% real assets. The Arc receives distributions of earnings on an annual basis. The Arc received \$47,869 and \$41,983 in distributions for the years ended June 30, 2022 and 2021, respectively.

**THE ARC OF SAN DIEGO AND
ARC SAN DIEGO FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

Note 8 - Beneficial Interest in Endowment Funds: (Continued)

The activity in the beneficial interest in endowment funds consisted of the following for the years ended June 30:

	<u>2022</u>	<u>2021</u>
Balance at beginning of year	\$ 1,245,136	\$ 995,897
Investment loss (gain)	(42,919)	291,222
Distributions	(47,869)	(41,983)
Balance at end of year	<u>\$ 1,154,348</u>	<u>\$ 1,245,136</u>

Note 9 - Line of Credit:

The Arc has a line of credit with a bank, in the amount of \$1,000,000, at an interest rate of prime plus 0.75% (5.50% and 4.00% at June 30, 2022 and 2021, respectively). There was no outstanding balance on the line of credit at June 30, 2022 and 2021. The line of credit expires on January 31, 2023, and is secured by property and equipment.

Note 10 - Net Assets With Donor Restrictions:

Net assets with donor restrictions represent contributions received or receivable by The Arc, which are limited in their use by time or donor-imposed restrictions. Net assets with donor restrictions are available for the following purpose at June 30:

	<u>2022</u>	<u>2021</u>
Subject to Expenditure for Specified Purpose:		
Undesignated capital and emergency needs	\$ 1,447,401	\$ 1,447,401
Capital campaign	50,003	50,003
Program support	150	10,498
Total Subject to Expenditure For Specified Purpose	<u>1,497,554</u>	<u>1,507,902</u>
Subject to the Passage of Time:		
Charitable remainder trust	<u>761,307</u>	<u>932,353</u>
Perpetual in Nature:		
Endowments (Note 11)	<u>1,154,348</u>	<u>1,245,136</u>
Total Net Assets with Donor Restrictions	<u>\$ 3,413,209</u>	<u>\$ 3,685,391</u>

Net assets released from donor restrictions by incurring expenses satisfying the restricted purpose, or by the occurrence of the passage of time or other events specified by the donors, are as follows for the years ended June 30:

	<u>2022</u>	<u>2021</u>
Purpose Restrictions Accomplished:		
Program support	\$ 10,498	\$ 15,035
Capital campaign	-	10,974
Appropriation of Accumulated Earnings on Endowment Assets	<u>47,869</u>	<u>41,983</u>
Total Net Assets Released From Restrictions	<u>\$ 58,367</u>	<u>\$ 67,992</u>

**THE ARC OF SAN DIEGO AND
ARC SAN DIEGO FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

Note 11 - Endowment Net Assets:

The endowment funds of The Arc are held by San Diego Foundation (“SDF”). SDF manages the fund in accordance with the Uniform Prudent Management of Institutional Funds Act of 2006 (“UPMIFA”). SDF’s objective is to maintain the purchasing power (real value) of the endowment funds. The Arc classifies donor-restricted net assets of a perpetual nature held by SDF as:

- The original value of gifts donated to the fund
- The original value of The Arc funds transferred to the fund
- The original value of subsequent gifts donated to the fund
- Investment income, and realized and unrealized gains and losses on investments
- Distributions from the fund in accordance with the spending policy

The Arc considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund, and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Arc has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. The Arc has no underwater endowment funds at June 30, 2022 and 2021.

SDF has adopted investment and spending policies for endowment funds that:

- Protect the invested assets
- Preserve spending capacity of the fund income
- Maintain a diversified portfolio of assets that meet investment return objectives, while keeping risk at a level commensurate with that of the median fund in comparable foundations
- Comply with applicable laws

SDF’s endowment funds are invested in a diversified portfolio of equity and debt securities, which is structured for long-term total return. SDF’s spending policy is to disburse 5% annually, based upon endowment principal market value over the last 36 months. These calculations are made on a monthly basis. If the market value of the Endowment Principal of any fund, at the end of each month, is less than the initial value of all contributions made to the Endowment Principal, then distributions will be limited to interest and dividends received.

Endowment composition by type of fund, and changes in endowment net assets as of and for the years ended June 30:

	<u>2022</u>	<u>2021</u>
Endowment Net Assets at Beginning of Year	\$ 1,245,136	\$ 995,897
Investment gains	(42,919)	291,222
Distributions	<u>(47,869)</u>	<u>(41,983)</u>
Endowment Net Assets at End of Year	<u>\$ 1,154,348</u>	<u>\$ 1,245,136</u>

**THE ARC OF SAN DIEGO AND
ARC SAN DIEGO FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

Note 12 - Commitments and Contingencies:

Operating Leases

The Arc owns a 49% undivided interest in the North Shores facility land. The remaining 51% is owned by the City of San Diego (the “City”). No rent is payable to the City by The Arc for use of this land, unless The Arc is in default of certain terms of the agreement with the City, at which time a specified lease payment amount becomes payable to the City.

The Arc leases property from the County of San Diego for its East County facility, under a long-term lease agreement. Under the terms of the agreement, no rent is payable to the County of San Diego as long as The Arc provides certain maintenance services to the surrounding lease area, as described in the lease agreement.

Workers’ Compensation Coverage

The Arc is self-insured for workers’ compensation coverage. The Arc accrues workers’ compensation expense based on a combination of actual losses and actuarially justified loss rates. The Arc’s workers’ compensation claims administrator provides annually updated accrual rates based upon a rolling five-year historical loss experience analysis. Both the Workers’ Compensation Insurance Rating Bureau of California and The Arc’s specific loss trends are used to develop the projection. All claims are processed through The Arc’s third-party administrator. The Arc maintains a deposit with the third-party administrator, which totaled \$13,151 and \$11,296 at June 30, 2022 and 2021, respectively. In addition, The Arc maintains stop-loss insurance with Safety National Insurance Group. The policy has a \$500,000 per-incident deductible. The accrued workers’ compensation liability totaled \$3,647,875 and \$3,335,541 at June 30, 2022 and 2021, respectively, and is included in accrued expenses in the accompanying consolidated statements of financial position.

State of California and Medi-Cal Agreements

Under the terms of service agreements with the state of California and Medi-Cal, The Arc submits monthly billings for reimbursement, which are subject to audit. The billings are based on the participant’s enrollment and activities according to the agencies’ funding policies. Such audits could result in claims against the resources of The Arc. No provision has been made for any liabilities that may arise from such audits, since the amount, if any, cannot be determined.

Legal Matters

The Arc is subject to claims that arise out of the normal course of business. The Arc maintains insurance coverage, and uses various risk management activities which, combined, management believes are sufficient to ensure that the final outcome of any claims or proceedings will not have an adverse material effect on the consolidated financial position, operations, or liquidity of The Arc.

**THE ARC OF SAN DIEGO AND
ARC SAN DIEGO FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

Note 12 - Commitments and Contingencies: (Continued)

Coronavirus Pandemic Contingency

The COVID-19 pandemic, whose effects first became known in January 2020, is having a broad and negative impact on commerce and financial markets around the world. The United States and global markets experienced significant declines in value resulting from uncertainty caused by the pandemic. The Arc is closely monitoring its investment portfolio and its liquidity, and is actively working to minimize the impact of these declines. The extent of the impact of COVID-19 on The Arc's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and its impacts on The Arc's donors, customers, employees, and vendors, all of which at present cannot be determined. Accordingly, the extent to which COVID-19 may impact The Arc's financial position and changes in net assets and cash flows is uncertain, and the accompanying consolidated financial statements include no adjustments relating to the effects of this pandemic.

Note 13 - Retirement Plans:

The Arc has a 401(k)-retirement plan (the "401(k) Plan") covering all full-time employees of The Arc who have three months of service, and are age 21 or older. The 401(k) Plan allows for employee contributions to the plan from 1% to 100% of pretax annual compensation, up to the limit allowed by law, as defined in the 401(k) Plan. The Arc is not required to, and did not, make any contributions to the 401(k) Plan for the years ended June 30, 2022 and 2021.

The Arc has a 403(b)-retirement plan (the "403(b) Plan") covering employees who are not eligible for another qualified plan offered by The Arc. The 403(b) Plan year is January 1 through December 31. The minimum age requirement is 21 years, and the minimum service requirement is three months of eligible service. The employer-matching contribution for each plan year was equal to the lesser of (a) 50% of the employee salary reduction contribution, or (b) 2.5% of the employee compensation received during the plan year, until July 1, 2013 when the match was suspended. Participants vest in the employer-match portion over a four-year period. The Arc did not make any contributions to the 403(b) Plan for the years ended June 30, 2022 and 2021.

The Arc has a health and welfare benefit plan that has a defined contribution money purchase pension plan (the "DC Plan") component for employees rendering services for The Arc on contracts subject to the Davis-Bacon Act, Service Contract Act, or other federal, state or municipal prevailing wage laws. Other employees whose services are not subject to such prevailing wage laws may be included. Participants may elect to defer a portion of their compensation. Employer contributions are determined based on employee hours worked times a fringe benefit rate to satisfy the wage determination for certain contracts. The Arc contributed \$393,610 and \$657,553 in total to the health and welfare benefit plan of which the DC Plan is a component, for the years ended June 30, 2022 and 2021, respectively. The DC Plan portion of the contribution is determined after other benefits are paid through the health and welfare plan.

Note 14 - Related-Party Transactions:

During the years ended June 30, 2022 and 2021, the Arc used the services of Alliant Insurance Services ("Alliant") as a third-party claim administrator for The Arc's workers' compensation self-insurance reserve (Note 12). Two members of the Arc of San Diego Foundation's Board of Directors are employees of Alliant. Total premiums of approximately \$1,042,882 and \$913,261 were paid to Alliant for the years ended June 30, 2022 and 2021, respectively.