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

REPORT ON AUDITS OF CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022

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

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Templeton
ACCOUNTANTS & ADVISORS

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 accompanying 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, 2023 and 2022, and the related consolidated statements of activities and cash flows for the years then ended and the consolidated statement of functional expenses for the year ended September 30, 2023, 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, 2023 and 2022, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of 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 and *Government Auditing Standards* will always detect a material misstatement when it exists.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government 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 March 18, 2024, 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 Summarized Comparative Information

We have previously audited the 2022 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, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Templeton & Company, LLP

West Palm Beach, Florida
March 18, 2024

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
September 30, 2023 and 2022

	2023	2022
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,743,459	$ 5,724,815
Restricted cash	210,000	846,785
Grants, accounts and other receivables, net of allowance	1,627,617	1,980,885
Current portion of unconditional promises to give, net	-	92,593
Prepaid expenses and other current assets	84,867	130,403
Total current assets	5,665,943	8,775,481
Property and equipment, net	21,142,361	19,371,192
Right-of-use assets - operating lease	438,797	-
Other assets	90,207	85,620
Total assets	$ 27,337,308	$ 28,232,293
LIABILITIES AND NET ASSETS		
Current liabilities:		
Lines of credit	$ 478,054	$ 603,023
Current portion of long-term debt	76,459	73,243
Accounts payable	499,547	673,792
Accrued expenses	611,395	690,218
Deferred revenue	393,650	1,929,261
Agency funds payable	204,979	176,934
Current portion of lease liabilities	154,780	-
Current portion of settlement - Pension Benefit Guaranty Corporation	94,600	44,631
Total current liabilities	2,513,464	4,191,102
Lease liabilities, net of current portion	300,876	-
Settlement - Pension Benefit Guaranty Corporation, net of current portion (Note 11)	665,235	710,736
Long-term debt, net of current portion (Note 9)	604,073	678,256
Total liabilities	4,083,648	5,580,094
Commitments and contingencies (Notes 13 and 18)		
Net assets:		
Without donor restrictions	21,565,582	20,541,441
With donor restrictions	1,688,078	2,110,758
Total net assets	23,253,660	22,652,199
Total liabilities and net assets	$ 27,337,308	$ 28,232,293

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, 2023 and 2022

	For the Year Ended September 30, 2023			For the Year Ended September 30, 2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating:						
Support:						
Contributions	$ 637,219	$ 194,304	$ 831,523	$ 549,595	$ 324,009	$ 873,604
Town of Palm Beach United Way	318,600	1,500	320,100	322,170	197,600	519,770
Special events, net	17,672	-	17,672	77,606	-	77,606
Fees and grants	9,107,627	1,137,949	10,245,576	8,772,541	-	8,772,541
Revenue:						
Program service fees (including Medwaiver and Medicaid)	5,806,120	-	5,806,120	4,740,718	-	4,740,718
Investment income, net	298,871	-	298,871	24,394	-	24,394
Net assets released from restrictions	1,756,433	(1,756,433)	-	588,702	(588,702)	-
Total operating support and revenue	17,942,542	(422,680)	17,519,862	15,075,726	(67,093)	15,008,633
Expenses:						
Program services	15,017,640	-	15,017,640	12,047,962	-	12,047,962
General and administrative	3,040,355	-	3,040,355	2,584,708	-	2,584,708
Fundraising	977,444	-	977,444	970,173	-	970,173
Total expenses	19,035,439	-	19,035,439	15,602,843	-	15,602,843
Change in net assets - operating	(1,092,897)	(422,680)	(1,515,577)	(527,117)	(67,093)	(594,210)
Nonoperating:						
Inherent contribution - Seagull Industries	-	-	-	4,794,249	-	4,794,249
Inherent contribution - Palm Beach Habilitation	-	-	-	12,628,763	230,068	12,858,831
Employee Retention Credit, net of fees (Note 17)	2,166,137	-	2,166,137	-	-	-
Gain on forgiveness of Paycheck Protection Program Loan (Note 9)	-	-	-	279,300	-	279,300
Adjustment to discount on settlement with PBGC	(49,099)	-	(49,099)	(48,826)	-	(48,826)
Change in net assets	1,024,141	(422,680)	601,461	17,126,369	162,975	17,289,344
Net assets, beginning of year	20,541,441	2,110,758	22,652,199	3,415,072	1,947,783	5,362,855
Net assets, end of year	$ 21,565,582	$ 1,688,078	$ 23,253,660	$ 20,541,441	$ 2,110,758	$ 22,652,199

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, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Change in net assets	$ 601,461	$ 17,289,344
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	927,959	627,286
Amortization of loan costs	2,375	2,177
Amortization of discount on settlement	48,826	48,826
Inherent contribution - Seagull, net of cash assumed	-	(3,792,155)
Inherent contribution - Habilitation, net of cash assumed	-	(11,436,117)
(Gain) loss on sale of property and equipment	(2,850)	2,239
Contribution of in-kind property	-	(32,000)
Gain on forgiveness of Paycheck Protection Program Loan	-	(279,300)
Changes in operating assets and liabilities:		
Grants, accounts and other receivables	353,268	(273,400)
Unconditional promises to give, net	92,593	236,440
Prepaid expenses	(54,609)	229,103
Right-of-use assets and liabilites - operating leases, net	16,859	-
Accounts payable	(174,245)	419,869
Accrued expenses	(78,823)	239,491
Agency funds payable	28,045	22,392
Deferred revenue	(1,535,611)	710,449
Net cash provided by operating activities	225,248	4,014,644
Cash flows from investing activities:		
Purchases of property and equipment	(2,699,128)	(341,467)
Proceeds from sale of equipment	2,850	-
(Advances to) collections received from Housing, net	100,145	(19,626)
Increase in other assets	(4,587)	(49,539)
Net cash used in investing activities	(2,600,720)	(410,632)
Cash flows from financing activities:		
Borrowings on lines of credit	220,395	9,847
Repayments of lines of credit	(345,364)	-
Settlement payments - Pension Benefit Guaranty Corporation	(44,358)	(44,631)
Principal repayments of long-term debt	(73,342)	(70,207)
Net cash used in financing activities	(242,669)	(104,991)
Net change in cash, cash equivalents, and restricted cash	(2,618,141)	3,499,021
Cash, cash equivalents, and restricted cash beginning of year	6,571,600	3,072,579
Cash, cash equivalents, and restricted cash end of year	$ 3,953,459	$ 6,571,600
Supplemental cash flow disclosure:		
Interest paid	$ 94,823	$ 54,709

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, 2023 (with comparable totals for 2022)

	Adult Career Education	Charter Schools	Residential Services	Early Intervention	Respite and Recreation	Family Support	Thrift Store	Total Program Services	Management and General	Fundraising	**2023 Total Expenses**	**2022 Total Expenses**
Salaries	$ 1,678,977	$ 672,483	$ 1,784,150	$ 1,940,750	$ 606,121	$ 1,491,284	$ 122,659	$ 8,296,424	$ 1,999,464	$ 389,645	$ 10,685,533	$ 8,744,039
Employee benefits	147,070	105,496	263,858	314,832	55,260	248,649	14,282	1,149,447	248,079	29,138	1,426,664	1,309,142
Payroll taxes	134,384	51,225	137,236	145,044	46,204	113,748	9,451	637,292	164,681	23,448	825,421	643,013
Total salaries and related expenses	1,960,431	829,204	2,185,244	2,400,626	707,585	1,853,681	146,392	10,083,163	2,412,224	442,231	12,937,618	10,696,194
Professional fees	4,301	323,619	2,605	8,050	250	11,860	-	350,685	785,355	221,410	1,357,450	1,046,291
Supplies	200,931	22,138	172,336	94,740	16,953	48,471	3,683	559,252	98,828	39,846	697,926	649,682
Telephone	14,977	14,509	38,265	24,833	3,999	10,296	839	107,718	27,604	12,379	147,701	122,554
Postage	28,415	117	160	235	38	85	10	29,060	2,360	3,260	34,680	69,742
Occupancy	12,577	-	184	189,558	57	3,650	356	206,382	10,457	637	217,476	174,487
Utilities	53,619	15,439	114,913	307	-	32,659	12,986	229,923	90,103	1,505	321,531	296,153
Repairs and maintenance	6,434	33,114	98,479	588	2,368	5,780	1,162	147,925	191,830	465	340,220	308,129
Printing and promotion	2,495	10,941	-	175	882	3,756	679	18,928	2,390	61,120	82,438	110,589
Transportation	29,944	13,283	10,747	62,985	14,117	9,417	2,331	142,824	52,047	502	195,373	178,566
Training and meetings	5,156	7,151	17,800	30,954	2,250	29,909	-	93,220	42,686	6,907	142,813	114,167
Insurance	-	(8,466)	-	-	-	-	-	(8,466)	603,263	495	595,292	474,870
Miscellaneous	17,887	59,689	22,536	20,000	7,166	25,653	6,299	159,230	414,092	44,258	617,580	648,003
Interest expense	-	-	-	-	-	-	-	-	97,199	-	97,199	60,216
Bad debt expense	-	-	-	-	-	-	-	-	261,068	-	261,068	25,914
Grants	9,403	-	-	-	-	25,309	122	34,834	-	25,334	60,168	-
Administrative overhead	328,097	591,802	531,672	590,438	208,749	306,021	-	2,556,779	(2,669,826)	113,994	947	-
Total expenses before depreciation	2,674,667	1,912,540	3,194,941	3,423,489	964,414	2,366,547	174,859	14,711,457	2,421,680	974,343	18,107,480	14,975,557
Depreciation	51,793	18,752	189,143	-	19	26,827	19,649	306,183	618,675	3,101	927,959	627,286
Total expenses	$ 2,726,460	$ 1,931,292	$ 3,384,084	$ 3,423,489	$ 964,433	$ 2,393,374	$ 194,508	$ 15,017,640	$ 3,040,355	$ 977,444	$ 19,035,439	$ 15,602,843

See accompanying 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, 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 Arc are briefly described as follows:

a. Adult Career Education – The Arc 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 (Potentials) 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.

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 Palm Springs, Florida. The Arc 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 Arc 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.

Note 2 – Summary of Significant Accounting Policies, Continued

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 the 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 accounts 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, 2023 and 2022, grant receivables are fully collectible.

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:

	2023	2022
Cash and cash equivalents	$ 3,743,459	$ 5,724,815
Cash restricted for contractual purposes	210,000	846,785
Total	$ 3,953,459	$ 6,571,600

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

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 fundraising 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 Florida Atlantic Research and Development Authority and the School District of Palm Beach County. The estimated fair rental value of these premises is reported as support and expense in the periods 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, 2023 and 2022, the allowance for doubtful accounts was $90,846 and $51,420, 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, 2023 and 2022.

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.

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

Leases

The Organization leases certain office space under noncancellable operating lease agreements. The Organization determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (ROU) assets and operating lease liabilities on the accompanying 2023 statement of financial position.

ROU assets represent the Organization's right-to-use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As most of the Organization's operating leases do not provide an implicit rate, the Organization elected a practical expedient to use a risk-free rate (U.S. Treasury rates) as the discount rate, in determining the present value of lease payments. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise that option. For operating leases, lease expense is recognized on a straight-line basis over the lease term. The Organization's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The Organization elected the practical expedient to account for its lease and non-lease components as a single lease component. For arrangements accounted for as a single lease component, there may be variability in future lease payments as the amount of the non-lease component is typically revised from one period to the next. These variable lease payments are recognized as operating expenses in the period in which the obligation for such payments is incurred.

Donated services

During the years ended September 30, 2023 and 2022, 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 fund, as restricted cash and an agency payable in the consolidated statements of financial position.

Note 2 – Summary of Significant Accounting Policies, Continued

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 of the purchase price over the fair value of assets acquired and liabilities assumed. For the year ended September 30, 2022, The Arc's 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 their estimated fair value. No impairment losses were recorded for the years ended September 30, 2023 and 2022.

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.

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 the years 2023 and 2022. The Arc, Seagull, and PBHC are no longer subject to income tax examinations for fiscal years prior to 2020.

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.

Note 2 – Summary of Significant Accounting Policies, Continued

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 2022 presentation to conform with the 2023 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 fundraising and program services in accordance with FASB ASC 958, *Not-for-Profit-Entities*.

Adopted accounting principle

In 2016, the FASB issued Accounting Standards Updated (ASU) 2016-02, *Leases*, which, as amended, was codified as ASC 842, *Leases* (New Lease Standard). The New Lease Standard requires recognition of lease assets and lease liabilities on the statement of financial position of lessees. The Organization adopted the New Lease Standard effective October 1, 2022, using the modified retrospective transition approach with the election to apply the guidance as of the adoption date instead of at the beginning of the earliest comparative period presented. In connection with the adoption of the New Lease Standard, the Organization recognized right-of-use assets-operating leases and corresponding operating lease liabilities of approximately $589,000.

New accounting pronouncement

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*. Among other things, the ASU and its amendments replace the incurred loss impairment model for receivables and loan guarantees with a current expected credit loss model. The new model measures impairment based on expected credit losses over the remaining contractual life of an asset, considering available information about the collectability of cash flows, past events, current conditions, and reasonable and supportable forecasts. Additional quantitative and qualitative disclosures are required. The ASU is effective for fiscal years beginning after December 15, 2022. The Organization is evaluating the effects the ASU will have on its consolidated financial statements.

Note 2 – Summary of Significant Accounting Policies, Continued

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 consolidated financial statements for the year ended September 30, 2022, 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 table below summarizes the fair values of the assets acquired and liabilities assumed as of October 1, 2021:

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	(942,521)
Inherent contribution	$ 4,794,249

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.

Note 3 – Acquisitions, Continued

Palm Beach Habilitation Center, continued

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	(310,329)
Inherent contribution	$ 12,858,831

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, 2023 are:

Financial assets:	
Cash and cash equivalents	$ 3,743,459
Grants, accounts and other receivables, net	1,627,617
Total financial assets	5,371,076
Less financial assets held to meet donor-imposed and/or contractual restrictions:	
Board designated net assets	(265,950)
Subject to appropriation and satisfaction of donor-restrictions	(1,663,078)
Amount available for general expenditures within one year	$ 3,442,048

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 $750,000 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, 2023 and 2022:

	2023	2022
Grants receivable	$ 1,314,237	$ 1,593,674
Accounts receivable	283,517	181,392
Client receivables	119,888	218,976
Other receivables	821	38,263
Sub-total	1,718,463	2,032,305
Allowance for doubtful accounts	(90,846)	(51,420)
Total	$ 1,627,617	$ 1,980,885

Note 6 – Unconditional Promises to Give

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

Capital campaign pledges	$ 111,112
Less: unamortized discount and allowance	(18,519)
Net unconditional promises to give	$ 92,593

The Organization had no unconditional promises to give as of September 30, 2023. The Organization applied a discount rate of 5.50% to its unconditional promises to give at September 30, 2022.

Note 7 – Property and Equipment

Property and equipment at September 30, 2023 and 2022 consists of the following:

	2023	2022
Land and land improvements	$ 3,520,102	$ 3,520,102
Buildings and improvements	18,423,642	18,604,909
Furniture, fixtures and equipment	1,214,465	1,076,281
Vehicles	772,154	813,483
Subtotal	23,930,363	24,014,775
Less: accumulated depreciation	(5,958,344)	(5,071,715)
Operating property and equipment, net	17,972,019	18,943,060
Real estate held for sale	700,006	-
Construction in progress	2,470,336	428,132
Total property and equipment, net	$ 21,142,361	$ 19,371,192

Depreciation expense totaled $927,959 and $627,286, respectively, for the years ended September 30, 2023 and 2022. Construction in progress consists of upgrades and renovations not yet placed in service for 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, as of September 30, 2023.

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.

Real estate held for sale consists of certain real property located in Riviera Beach, Florida, held for sale as of September 30, 2023. Subsequent to September 30, 2023, the Organization sold the property for a total price $1,050,000.

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 as of September 30, 2022. The Organization spent the remaining HCBS program funds in accordance with the terms and conditions of the HCBS program, during the year ended September 30, 2023. As a result, there is no remaining deferred revenue associated with the HCBS program advance as of 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, 2023, 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, 2023. The contract with the Agency has been extended through June 30, 2026 in order for the Organization to complete the renovation project.

Note 9 – Long-Term Debt

Long-term debt includes the following at September 30, 2023 and 2022:

	2023	2022
Note payable – bank, collateralized by certain real property; interest at 4% and principal payable through September 2025.	$ 81,478	$ 119,694
Mortgage payable – bank, collateralized by certain real property; interest at 4.75% and principal payable through September 2025.	603,607	641,109
Total long-term debt	685,085	760,803
Less: unamortized loan costs	(4,553)	(9,304)
Less: current portion of long-term debt	(76,459)	(73,243)
Long-term debt, net	$ 604,073	$ 678,256

Principal maturities

Principal payments due in each of the years subsequent to September 30, 2023, and thereafter, are as follows:

Year Ending September 30,	Amount
2024	$ 76,459
2025	608,826
Total	$ 685,285

Note 9 – Long-Term Debt, Continued

Principal maturities, continued

Subsequent to September 30, 2023, the mortgage payable was repaid in full in conjunction with the sale of certain property. See Note 19.

Paycheck Protection Program Loan

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 $750,000 with a bank that is collateralized by certain real property and bears interest at the Wall Street Prime Rate plus 1.25% (9.75% as of September 30, 2023). At September 30, 2023, there were no outstanding borrowings under the Arc Line of Credit. The Arc Line of Credit automatically renews each year until it is cancelled by the Arc or the bank.

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 cash held in the capital campaign account and bears interest at the Wall Street Prime Rate (8.50% as of September 30, 2023). At September 30, 2023, outstanding borrowings on the construction line amounted to $478,054. The construction line is renewed annually and is secured by a money market account.

Margin line of credit

The Organization has a margin 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 margin line of credit is collateralized by a brokerage account held at the financial institution. Borrowings on the margin 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 (8.50% at September 30, 2023). As of September 30, 2023, there were no outstanding borrowings outstanding on the margin line of credit.

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 at a 0% interest rate. As part of the settlement with the PBGC, lien rights were granted to the PBGC on all assets of The Arc. The Organization discounted the payment stream to its present value using a discount rate of 6.5%.

The table below represents the schedule of payments to PBGC required under the settlement in each of the five years subsequent to September 30, 2023, and thereafter:

Year Ending September 30,	Amount
2024	$ 94,600
2025	94,600
2026	94,600
2027	94,600
2028	94,600
Thereafter	604,500
Total scheduled payments	1,077,500
Less: amount representing interest	(317,665)
Net present value at September 30, 2023	$ 759,835

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, 2023 and 2022, as follows:

	2023	2022
Time restrictions expired on Town of Palm Beach United Way allocations	$ 318,600	$ 148,200
Other releases of restrictions	1,437,833	440,502
	$ 1,756,433	$ 588,702

Net assets with donor restrictions as of September 30, 2023 and 2022 are restricted by donors for the following purposes:

	2023	2022
Time and purpose restrictions:		
Capital campaign	$ 704,860	$ 1,566,094
Charter school	196,397	49,509
Community living	536,457	229,123
Children's Services	110,000	110,000
Food services	78,597	-
Family support services	499	985
Early intervention programs	7,408	10,191
Capital improvements	-	90,996
Endowment	28,860	28,860
	$ 1,663,078	$ 2,085,758

Note 12 – Net Assets with Donor Restrictions, Continued

At September 30, 2023 and 2022, the Organization has $25,000 of net assets with donor restrictions of a perpetual nature.

Note 13 – Leases

The Organization leases certain facilities and equipment in connection with its program services under noncancelable lease agreements that expire through September 2026. Fixed costs for operating leases are composed of initial base rent amounts plus any annual increases specified in the lease agreements. The Organization's leases do not contain implicit interest rates and, therefore, the Organization elected a practical expedient under ASC 842 to use the risk-free rate as the discount rate to initially measure its lease liability.

The following table presents the Organization's operating lease ROU assets and lease liabilities at September 30, 2023:

ROU assets – operating leases	$ 438,797
Current operating lease liabilities	$ 154,780
Noncurrent operating lease liabilities	300,876
Total operating lease liabilities	$ 455,656

The following table represents the components of lease expense for the year ended September 30, 2023:

Operating lease cost	$ 236,992
Variable lease cost	18,970
Short-term lease cost	27,237
Total lease cost	$ 283,199

The following presents supplemental disclosure associated the Organization's cash flow information related to operating leases for the year ended September 30, 2023:

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows	$ 153,414
Non-cash activities - ROU assets obtained in exchange for lease liabilities	$ 589,319

The following table presents the weighted average lease term (in years) and discount rate of the Organization's operating leases as of September 30, 2023:

Weighted average remaining lease term (years)	2.79
Weighted average discount rate	3.83%

Note 13 – Leases, Continued

The following table presents a maturity analysis of the Organization's operating lease liabilities at September 30, 2023:

Year Ending September 30,	Minimum Lease Payments
2024	$ 168,994
2025	159,604
2026	152,218
Total minimum lease payments	480,816
Less: imputed interest	(25,160)
Present value minimum lease payments	$ 455,656

Rent expense previously defined under ASC 840, which includes the Organization's noncancelable leases for the year ended September 30, 2023, was $188,862.

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 year ended September 30, 2023, the Organization did not make a discretionary contribution. For the year ended September 30, 2022, the Organization made a discretionary contribution in the amount of $35,869 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 years ended September 30, 2023 and 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.

Note 16 – Related Party Transactions, Continued

Prior to 2022, 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, 2023 and 2022, amounts due from Housing approximated $0 and $100,000, respectively, and are included in prepaid expenses and other current assets in the accompanying consolidated statements of financial position.

The Arc used the insurance brokerage services of a company owned by a certain Trustee for each of the years ended September 30, 2023 and 2022. Costs for such insurance services for the years ended September 30, 2023 and 2022, approximated $123,000 and $87,800, respectively.

Note 17 – Federal COVID-19 Relief – Employee Retention Credit

The CARES Act provides an employee retention credit ("CARES Act Employee Retention Credit"), which is a refundable tax credit against certain employment taxes of up to $7,000 per employee for eligible employers. Additional relief provisions were passed by the United States government, which extend and slightly expanded the qualified wage caps on these credits through September 30, 2021. The tax credit is equal to 70% of qualified wages paid to employees during a quarter, capped at $10,000 of qualified wages per employee through September 30, 2021.

During the year ended September 30, 2023, the Arc received $2,531,997 related to the CARES Act Employee Retention Credit. The Arc incurred professional fees, totaling $365,860 related to the analysis, preparation, and filing of the CARES Act Employee Retention Credit's amended Forms 941-X. The amount of income recognized, net of related professional fees, amounted to $2,166,137 and is classified as non-operating income in the accompanying consolidated statement of activities for the year ended September 30, 2023. Amounts received may be subject to audit by the IRS and any disallowed expenses might constitute a liability for the Organization for return of those funds. Although this is a possibility, the Organization considers the contingency remote, since management believes that the Organization has fulfilled the provisions of the CARES Act Employee Retention Credit and subsequent guidance from the IRS.

Note 18 – 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 19 – Subsequent Events

In October 2023, the Organization sold certain real property with net proceeds of $1,050,000. A portion of the sale proceeds repaid the Organization's mortgage payable in full.

Subsequent to September 30, 2023, the Organization obtained a non-revolving line of credit from a bank, with a borrowing capacity of $1,500,000 to assist in the capital improvements and the expansion of its education facilities at the Courim Center in Riviera Beach, Florida. There have been no borrowings on the non-revolving line of credit as of the date the consolidated statements were available to be issued.

Management evaluated activity of the Organization subsequent to September 30, 2023 through March 18, 2024, 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.

Templeton
ACCOUNTANTS & ADVISORS

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, 2023, 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 March 18, 2024.

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
March 18, 2024