



THE ARC OF SAN DIEGO
AND
ARC SAN DIEGO FOUNDATION
CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023



Leaf & Cole, LLP
Certified Public Accountants

**THE ARC OF SAN DIEGO AND
ARC SAN DIEGO FOUNDATION
CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023**

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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, 2024 and 2023, 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, 2024 and 2023, 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 21, 2024

**THE ARC OF SAN DIEGO AND
ARC SAN DIEGO FOUNDATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2024 AND 2023**

ASSETS

	<u>2024</u>	<u>2023</u>
<u>Current Assets:</u> (Notes 2, 4, 5, 6 and 13)		
Cash and cash equivalents	\$ 8,025,568	\$ 7,222,306
Accounts receivable, net	2,633,274	3,494,796
Note receivable	-	4,000,000
Investments	22,416,293	15,924,914
Prepaid expenses	488,031	244,622
Deposit and other assets	65,363	96,161
Total Current Assets	<u>33,628,529</u>	<u>30,982,799</u>
<u>Noncurrent Assets:</u> (Notes 2, 4, 7, 8, 9 and 10)		
Deposits and other assets	28,038	27,500
Property and equipment, net	12,842,366	12,544,244
Charitable remainder trust	887,467	808,343
Beneficial interest in endowment funds	1,243,758	1,191,228
Total Noncurrent Assets	<u>15,001,629</u>	<u>14,571,315</u>
TOTAL ASSETS	<u>\$ 48,630,158</u>	<u>\$ 45,554,114</u>

LIABILITIES AND NET ASSETS

<u>Current Liabilities:</u> (Note 2)		
Accounts payable	\$ 761,229	\$ 714,147
Accrued expenses	5,113,286	4,951,826
Unearned revenue	19,500	3,000
Accrued compensated absences	1,021,566	951,229
Total Current Liabilities	<u>6,915,581</u>	<u>6,620,202</u>
<u>Commitments and Contingencies</u> (Notes 10, 13 and 14)		
<u>Net Assets:</u> (Notes 2, 11 and 12)		
Without Donor Restrictions	<u>38,129,011</u>	<u>35,486,940</u>
With Donor Restrictions:		
Purpose restrictions	1,454,341	1,447,401
Time restrictions	887,467	808,343
Perpetual in nature	1,243,758	1,191,228
Total With Donor Restrictions	<u>3,585,566</u>	<u>3,446,972</u>
Total Net Assets	<u>41,714,577</u>	<u>38,933,912</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 48,630,158</u>	<u>\$ 45,554,114</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, 2024 AND 2023**

	2024			2023		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support:						
San Diego Regional Center	\$ 16,032,027	\$ -	\$ 16,032,027	\$ 15,547,999	\$ -	\$ 15,547,999
Services to the public	11,922,307	-	11,922,307	10,728,283	-	10,728,283
Medi-Cal	6,180,684	-	6,180,684	5,926,328	-	5,926,328
Investment return	3,043,510	103,571	3,147,081	1,354,698	82,726	1,437,424
Other revenue	990,337	-	990,337	640,868	-	640,868
Contributions	753,663	6,940	760,603	212,962	-	212,962
Department of rehabilitation	376,309	-	376,309	733,704	-	733,704
Workshop sales	271,414	-	271,414	396,071	-	396,071
Fundraising/special events	267,285	-	267,285	201,383	-	201,383
Other service contracts	255,953	-	255,953	241,167	-	241,167
Change in value of charitable remainder trust	-	79,124	79,124	-	47,036	47,036
Gain on disposal of property and equipment	44,326	-	44,326	7,898,209	-	7,898,209
Memberships	16,555	-	16,555	15,931	-	15,931
Net assets released from restrictions	51,041	(51,041)	-	95,999	(95,999)	-
Total Revenue and Support	<u>40,205,411</u>	<u>138,594</u>	<u>40,344,005</u>	<u>43,993,602</u>	<u>33,763</u>	<u>44,027,365</u>
Expenses:						
Program Services:						
Employment services	15,082,707	-	15,082,707	14,695,885	-	14,695,885
Adult day services	9,113,725	-	9,113,725	8,019,281	-	8,019,281
Residential services	6,105,461	-	6,105,461	6,330,745	-	6,330,745
Respite services	963,676	-	963,676	870,356	-	870,356
Early intervention services	815,223	-	815,223	802,429	-	802,429
Special programs	56,772	-	56,772	69,413	-	69,413
Total Program Services	<u>32,137,564</u>	<u>-</u>	<u>32,137,564</u>	<u>30,788,109</u>	<u>-</u>	<u>30,788,109</u>
Supporting Services:						
Management and general	5,004,158	-	5,004,158	4,792,478	-	4,792,478
Fundraising and Chapter	421,618	-	421,618	325,766	-	325,766
Total Supporting Services	<u>5,425,776</u>	<u>-</u>	<u>5,425,776</u>	<u>5,118,244</u>	<u>-</u>	<u>5,118,244</u>
Total Expenses	<u>37,563,340</u>	<u>-</u>	<u>37,563,340</u>	<u>35,906,353</u>	<u>-</u>	<u>35,906,353</u>
Change in Net Assets	2,642,071	138,594	2,780,665	8,087,249	33,763	8,121,012
Net Assets at Beginning of Year	35,486,940	3,446,972	38,933,912	27,399,691	3,413,209	30,812,900
NET ASSETS AT END OF YEAR	<u>\$ 38,129,011</u>	<u>\$ 3,585,566</u>	<u>\$ 41,714,577</u>	<u>\$ 35,486,940</u>	<u>\$ 3,446,972</u>	<u>\$ 38,933,912</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, 2024**

	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	\$ 6,774,157	\$ 5,704,073	\$ 3,772,107	\$ 701,027	\$ 546,969	\$ -	\$ 17,498,333	\$ 2,706,273	\$ 126,160	\$ 2,832,433	\$ 20,330,766
Health and welfare benefits	2,366,830	1,278,944	726,871	48,163	144,169	-	4,564,977	589,286	23,970	613,256	5,178,233
Payroll taxes	536,467	455,138	280,087	54,804	44,552	-	1,371,048	203,482	9,651	213,133	1,584,181
Employee benefits	32,629	54,751	26,499	4,778	700	-	119,357	236,767	3,661	240,428	359,785
Total Personnel Expenses	<u>9,710,083</u>	<u>7,492,906</u>	<u>4,805,564</u>	<u>808,772</u>	<u>736,390</u>	<u>-</u>	<u>23,553,715</u>	<u>3,735,808</u>	<u>163,442</u>	<u>3,899,250</u>	<u>27,452,965</u>
Non-Personnel Expenses:											
Direct production and contract costs	4,694,646	130,522	30,772	138	946	51	4,857,075	19,361	-	19,361	4,876,436
Occupancy	161,199	896,916	437,708	13,800	38,000	8,158	1,555,781	259,054	-	259,054	1,814,835
Vehicle and travel	177,498	240,547	255,958	97,159	9,378	-	780,540	104,259	2,089	106,348	886,888
Professional fees	137,785	64,099	76,229	32,585	14,074	47,541	372,313	191,271	-	191,271	563,584
Office supplies and expenses	105,900	107,266	23,668	9,541	5,555	876	252,806	256,454	598	257,052	509,858
Program supplies and expenses	6,404	150,052	246,583	126	10,342	68	413,575	-	4,198	4,198	417,773
Dues and assessments	11,840	120	227,483	-	-	-	239,443	84,472	-	84,472	323,915
Special events	-	-	-	-	-	-	-	-	216,413	216,413	216,413
Repairs and maintenance	75,474	28,973	326	1,555	538	78	106,944	17,963	-	17,963	124,907
Other expenses/refunds	144	-	1	-	-	-	145	83,805	32,528	116,333	116,478
Advertising and promotion	1,129	2,264	30	-	-	-	3,423	87,918	2,350	90,268	93,691
Recruitment advertisement	413	-	978	-	-	-	1,391	81,460	-	81,460	82,851
Bad debt expense	-	-	-	-	-	-	-	81,520	-	81,520	81,520
Interest expense	192	60	161	-	-	-	413	813	-	813	1,226
Total Non-Personnel Expenses	<u>5,372,624</u>	<u>1,620,819</u>	<u>1,299,897</u>	<u>154,904</u>	<u>78,833</u>	<u>56,772</u>	<u>8,583,849</u>	<u>1,268,350</u>	<u>258,176</u>	<u>1,526,526</u>	<u>10,110,375</u>
Total Expenses	<u>\$ 15,082,707</u>	<u>\$ 9,113,725</u>	<u>\$ 6,105,461</u>	<u>\$ 963,676</u>	<u>\$ 815,223</u>	<u>\$ 56,772</u>	<u>\$ 32,137,564</u>	<u>\$ 5,004,158</u>	<u>\$ 421,618</u>	<u>\$ 5,425,776</u>	<u>\$ 37,563,340</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, 2023**

	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	\$ 6,520,173	\$ 4,850,716	\$ 3,896,022	\$ 612,579	\$ 534,551	\$ 10,751	\$ 16,424,792	\$ 2,516,796	\$ 126,160	\$ 2,642,956	\$ 19,067,748
Health and welfare benefits	2,442,438	1,205,054	863,365	73,208	139,697	1,143	4,724,905	542,132	23,970	566,102	5,291,007
Payroll taxes	495,747	387,052	303,716	48,241	42,357	867	1,277,980	126,448	9,651	136,099	1,414,079
Employee benefits	23,797	27,927	25,300	3,882	934	-	81,840	262,932	4,001	266,933	348,773
Total Personnel Expenses	<u>9,482,155</u>	<u>6,470,749</u>	<u>5,088,403</u>	<u>737,910</u>	<u>717,539</u>	<u>12,761</u>	<u>22,509,517</u>	<u>3,448,308</u>	<u>163,782</u>	<u>3,612,090</u>	<u>26,121,607</u>
Non-Personnel Expenses:											
Direct production and contract costs	4,523,638	162,696	53,850	1,324	1,452	75	4,743,035	26,378	-	26,378	4,769,413
Occupancy	220,617	840,771	429,317	24,281	36,563	7,974	1,559,523	255,583	-	255,583	1,815,106
Vehicle and travel	180,203	239,384	199,297	74,471	12,220	-	705,575	75,796	-	75,796	781,371
Professional fees	122,906	55,724	76,036	16,457	15,952	47,785	334,860	227,543	1,275	228,818	563,678
Office supplies and expenses	111,737	85,118	34,323	13,692	7,021	512	252,403	259,318	255	259,573	511,976
Program supplies and expenses	6,083	125,063	268,751	123	11,251	-	411,271	-	7,286	7,286	418,557
Dues and assessments	16	110	176,190	-	-	-	176,316	93,807	-	93,807	270,123
Advertising and promotion	30	1,743	90	-	-	-	1,863	126,238	6,184	132,422	134,285
Special events	-	105	-	-	-	-	105	-	123,508	123,508	123,613
Repairs and maintenance	48,418	37,818	3,130	2,098	431	306	92,201	21,895	-	21,895	114,096
Bad debt expense	-	-	-	-	-	-	-	106,560	-	106,560	106,560
Other expenses/refunds	-	-	1,288	-	-	-	1,288	73,436	23,476	96,912	98,200
Recruitment advertisement	-	-	-	-	-	-	-	76,854	-	76,854	76,854
Interest expense	82	-	70	-	-	-	152	762	-	762	914
Total Non-Personnel Expenses	<u>5,213,730</u>	<u>1,548,532</u>	<u>1,242,342</u>	<u>132,446</u>	<u>84,890</u>	<u>56,652</u>	<u>8,278,592</u>	<u>1,344,170</u>	<u>161,984</u>	<u>1,506,154</u>	<u>9,784,746</u>
Total Expenses	<u>\$ 14,695,885</u>	<u>\$ 8,019,281</u>	<u>\$ 6,330,745</u>	<u>\$ 870,356</u>	<u>\$ 802,429</u>	<u>\$ 69,413</u>	<u>\$ 30,788,109</u>	<u>\$ 4,792,478</u>	<u>\$ 325,766</u>	<u>\$ 5,118,244</u>	<u>\$ 35,906,353</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, 2024 AND 2023**

	<u>2024</u>	<u>2023</u>
<u>Cash Flows From Operating Activities:</u>		
Change in net assets	\$ 2,780,665	\$ 8,121,012
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	784,567	719,582
Allowance for credit losses	30,691	(101,645)
Realized and unrealized (gains) losses on investments	(2,219,369)	(710,870)
Gain on sale of property and equipment	(44,326)	(7,898,209)
Change in value of charitable remainder trust	(79,124)	(47,036)
Endowment investment (gain) loss	(103,571)	(82,726)
Endowment distributions	51,041	45,846
(Increase) Decrease in:		
Accounts receivable	830,831	(695,392)
Prepaid expenses	(243,409)	(59,686)
Deposits and other assets	30,260	(83,010)
Increase (Decrease) in:		
Accounts payable	47,082	(6,539)
Accrued expenses	161,460	(317,191)
Unearned revenue	16,500	3,000
Accrued compensated absences	70,337	(26,594)
Net Cash Provided by (Used in) Operating Activities	<u>2,113,635</u>	<u>(1,139,458)</u>
<u>Cash Flows From Investing Activities:</u>		
Purchase of property and equipment	(1,082,689)	(383,884)
Proceeds from sale of property and equipment, net	44,326	6,654,469
Proceeds from note receivable	4,000,000	-
Sales and (purchases) of investments, net	(4,272,010)	(6,091,328)
Change in beneficial interest in endowment funds	(52,530)	(36,880)
Net Cash (Used in) Provided by Financing Activities	<u>(1,362,903)</u>	<u>142,377</u>
<u>Cash Flows From Financing Activities:</u>		
Endowment investment gains	103,571	82,726
Endowment distributions	(51,041)	(45,846)
Net Cash Provided by Financing Activities	<u>52,530</u>	<u>36,880</u>
Net Increase (Decrease) in Cash and Cash Equivalents	803,262	(960,201)
Cash and Cash Equivalents at Beginning of Year	<u>7,222,306</u>	<u>8,182,507</u>
CASH AND CASH EQUIVALENTS AT OF END OF YEAR	<u>\$ 8,025,568</u>	<u>\$ 7,222,306</u>
<u>Supplemental Disclosure of Noncash Investing Activities:</u>		
Noncash proceeds from sale of property and equipment	<u>\$ -</u>	<u>\$ 4,000,000</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, 2024 AND 2023**

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, 2024 AND 2023**

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, 2024 AND 2023**

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 and fixed income securities 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 8)
- 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 9)

Accounts Receivable and Allowance for Credit Losses

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.

The Arc recognizes an allowance for credit losses on contracts and other receivables to present the net amount expected to be collected as of the statement of financial position date. Such allowance is based on the credit losses expected to arise over the life of the asset which is based on the expectation as of the statement of financial position date, aging reports and historical information. Contracts and other receivables are written off when The Arc determines such receivables are deemed uncollectible. Write-offs are recognized as a deduction from the allowance for credit losses. The allowance for credit losses totaled \$236,654 and \$205,963 at June 30, 2024 and 2023, 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.

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

**THE ARC OF SAN DIEGO AND
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Note 2 - Significant Accounting Policies: (Continued)

Capitalization and Depreciation (Continued)

Depreciation totaled \$784,567 and \$719,582 for the years ended June 30, 2024 and 2023, 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 2024 and 2023.

Compensated Absences

Accumulated unpaid vacation and sick leave (for employees hired before 1996) totaling \$1,021,566 and \$951,229 at June 30, 2024 and 2023, respectively, is accrued when incurred.

Revenue Recognition

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

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. Unearned revenue totaled \$19,500 and \$3,000 at June 30, 2024 and 2023, respectively.

Memberships

Revenue is recognized as nonrefundable payments when received.

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.

**THE ARC OF SAN DIEGO AND
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JUNE 30, 2024 AND 2023**

Note 2 - Significant Accounting Policies: (Continued)

Special Event Revenue

Special event revenue is recognized in the period the event occurs.

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, 2024 and 2023 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, 2024 and 2023, 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, 2024, 2023, 2022 and 2021 are subject to examination by the Internal Revenue Service and State taxing authorities, generally three-to-four years after the returns were filed.

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.

**THE ARC OF SAN DIEGO AND
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023**

Note 2 - Significant Accounting Policies: (Continued)

Concentrations (Continued)

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 \$9,389,810 and \$8,614,777 for the years ended June 30, 2024 and 2023, respectively, earned from one company, which represents approximately 79% and 80% of total services to the public revenue for the years then ended, respectively.

Included in accounts receivable for services to the public is approximately \$452,265 and \$753,000 due from one company at June 30, 2024 and 2023, respectively, which represents approximately 43% and 61% of total receivables from these contracts at June 30, 2024 and 2023, respectively.

Accounting Pronouncement Adopted

In June 2016, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2016-13, *Financial Instruments – Credit Losses (“Topic 326”)* to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. FASB ASU 2016-13 affects loans, debt securities, accounts receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash.

The standard requires a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset.

FASB ASU 2016-13 was adopted July 1, 2023 on a prospective transition approach. With respect to accounts receivable, ASU 2016-13 did not have a material impact on the consolidated financial statements.

Subsequent Events

In preparing these consolidated financial statements, The Arc has evaluated events and transactions for potential recognition or disclosure through November 21, 2024, 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
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023**

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>2024</u>	<u>2023</u>
Cash and cash equivalents	\$ 8,025,568	\$ 7,222,306
Accounts receivable, net	2,633,274	3,494,796
Note receivable	-	4,000,000
Investments	22,416,293	15,924,914
Appropriation of endowment earnings	45,000	40,000
Total financial assets	<u>33,120,135</u>	<u>30,682,016</u>
Less assets unavailable for general expenditures:		
Cash and investments held for capital and emergency needs	<u>(1,447,401)</u>	<u>(1,447,401)</u>
Total financial assets not available to be used within one year	<u>(1,447,401)</u>	<u>(1,447,401)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 31,672,734</u>	<u>\$ 29,234,615</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 10.

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 12. 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
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 4 - Fair Value Measurements:

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

	2024			
	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, 2024
Mutual and exchange traded funds:				
Bonds	\$ 6,913,948	\$ -	\$ -	\$ 6,913,948
Domestic equity	10,436,971	-	-	10,436,971
International equity	3,495,562	-	-	3,495,562
Fixed income securities				
Domestic	1,520,709	-	-	1,520,709
International	49,103	-	-	49,103
Charitable remainder trust (Note 8)	-	-	887,467	887,467
Beneficial interest in endowment funds (Note 9)	-	-	1,243,758	1,243,758
	<u>\$ 22,416,293</u>	<u>\$ -</u>	<u>\$ 2,131,225</u>	<u>\$ 24,547,518</u>
	2023			
	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, 2023
Mutual and exchange traded funds:				
Bonds	\$ 5,061,851	\$ -	\$ -	\$ 5,061,851
Domestic equity	7,461,609	-	-	7,461,609
International equity	2,329,312	-	-	2,329,312
Fixed income securities				
Domestic	1,028,815	-	-	1,028,815
International	43,327	-	-	43,327
Charitable remainder trust (Note 8)	-	-	808,343	808,343
Beneficial interest in endowment funds (Note 9)	-	-	1,191,228	1,191,228
	<u>\$ 15,924,914</u>	<u>\$ -</u>	<u>\$ 1,999,571</u>	<u>\$ 17,924,485</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
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023**

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:

2024				
Instrument	Fair Value	Principal Valuation Technique	Unobservable Inputs	Significant Input Values
Beneficial interest in endowment funds	\$ 1,243,758	Valuation of underlying assets as provided by San Diego Foundation	Base price	N/A
Charitable remainder trust	\$ 887,467	Present value of expected cash flows	Investment yield Discount rate	5.6% 5.6%
2023				
Instrument	Fair Value	Principal Valuation Technique	Unobservable Inputs	Significant Input Values
Beneficial interest in endowment funds	\$ 1,191,228	Valuation of underlying assets as provided by San Diego Foundation	Base price	N/A
Charitable remainder trust	\$ 808,343	Present value of expected cash flows	Investment yield Discount rate	5.0% 5.0%

Note 5 - Investments:

Investments consist of the following at June 30:

	<u>2024</u>	<u>2023</u>
Mutual funds:		
Bonds	\$ 6,913,948	\$ 5,061,851
Domestic equity	10,436,971	7,461,609
International equity	3,495,562	2,329,312
Fixed income securities:		
Domestic	1,520,709	1,028,815
International	49,103	43,327
Total Investments	<u>\$ 22,416,293</u>	<u>\$ 15,924,914</u>

**THE ARC OF SAN DIEGO AND
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Note 5 - Investments: (Continued)

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

	2024		
	Without Donor Restrictions	With Donor Restrictions	Total
Interest and dividend income	\$ 824,141	\$ -	\$ 824,141
Realized and unrealized gains	2,219,369	103,571	2,322,940
Total Investment Return	\$ 3,043,510	\$ 103,571	\$ 3,147,081
	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Interest and dividend income	\$ 643,828	\$ -	\$ 643,828
Realized and unrealized gains	710,870	82,726	793,596
Total Investment Return	\$ 1,354,698	\$ 82,726	\$ 1,437,424

Note 6 - Note Receivable

In November 2022, The Arc issued a \$4,000,000 loan to JCR Real Estate Investment Corporation. The note bears interest at 7%. Interest-only payments began December 1, 2022. The note was payable in full on November 9, 2023. The balance was \$- and \$4,000,000 at June 30, 2024 and 2023, respectively.

Note 7 - Property and Equipment:

Property and equipment consist of the following at June 30:

	2024	2023
Land	\$ 1,813,701	\$ 1,813,701
Buildings and improvements	19,865,577	19,671,013
Vehicles	2,298,360	1,919,250
Equipment, furniture and fixtures	1,195,302	989,790
Construction in progress	17,735	-
Subtotal	25,190,675	24,393,754
Less: Accumulated depreciation	(12,348,309)	(11,849,510)
Property and Equipment, Net	\$ 12,842,366	\$ 12,544,244

**THE ARC OF SAN DIEGO AND
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 8 - 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, 2024 and 2023 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 5.6% and 5.0% at June 30, 2024 and 2023, 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>2024</u>	<u>2023</u>
Fair value of charitable remainder trust assets	\$ 1,181,619	\$ 1,097,874
Less: Discount to fair value	<u>(294,152)</u>	<u>(289,531)</u>
Charitable Remainder Trust	<u>\$ 887,467</u>	<u>\$ 808,343</u>

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

	<u>2024</u>	<u>2023</u>
Balance at beginning of year	\$ 808,343	\$ 761,307
Change in discount and fair value	<u>79,124</u>	<u>47,036</u>
Balance at end of year	<u>\$ 887,467</u>	<u>\$ 808,343</u>

Note 9 - 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 45% international equities; 14% private equities; 15% hedge funds; 10% fixed income; 8% real estate; 5% private credit; and 3% real assets. The Arc receives distributions of earnings on an annual basis. The Arc received \$51,041 and \$45,846 in distributions for the years ended June 30, 2024 and 2023, respectively.

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Note 9 - 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>2024</u>	<u>2023</u>
Balance at beginning of year	\$ 1,191,228	\$ 1,154,348
Investment gain	103,571	82,726
Distributions	<u>(51,041)</u>	<u>(45,846)</u>
Balance at end of year	<u>\$ 1,243,758</u>	<u>\$ 1,191,228</u>

Note 10 - 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% (9.25% and 9.0% at June 30, 2024 and 2023, respectively). There was no outstanding balance on the line-of-credit at June 30, 2024 and 2023. The line-of-credit expires on June 30, 2024 and is secured by property and equipment.

Note 11 - 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>2024</u>	<u>2023</u>
Subject to Expenditure for Specified Purpose:		
Undesignated capital and emergency needs	\$ 1,447,401	\$ 1,447,401
Program support	<u>6,940</u>	<u>-</u>
Total Subject to Expenditure For Specified Purpose	<u>1,454,341</u>	<u>1,447,401</u>
Subject to the Passage of Time:		
Charitable remainder trust	<u>887,467</u>	<u>808,343</u>
Perpetual in Nature:		
Endowments (Note 12)	<u>1,243,758</u>	<u>1,191,228</u>
Total Net Assets with Donor Restrictions	<u>\$ 3,585,758</u>	<u>\$ 3,446,972</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>2024</u>	<u>2023</u>
Purpose Restrictions Accomplished:		
Capital campaign	\$ -	\$ 50,003
Program support	-	150
Appropriation of Accumulated Earnings on Endowment Assets	<u>51,041</u>	<u>45,846</u>
Total Net Assets Released From Restrictions	<u>\$ 51,041</u>	<u>\$ 95,999</u>

**THE ARC OF SAN DIEGO AND
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 12 - 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, 2024 and 2023.

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>2024</u>	<u>2023</u>
Endowment Net Assets at Beginning of Year	\$ 1,191,228	\$ 1,154,348
Investment gain	103,571	82,726
Distributions	<u>(51,041)</u>	<u>(45,846)</u>
Endowment Net Assets at End of Year	<u>\$ 1,243,758</u>	<u>\$ 1,191,228</u>

**THE ARC OF SAN DIEGO AND
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023**

Note 13 - Commitments and Contingencies:

Operating Leases

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 \$65,363 and \$96,161 at June 30, 2024 and 2023, 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 \$4,012,562 and \$3,816,013 at June 30, 2024 and 2023, 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.

Note 14 - Retirement Plans:

The Arc has a 401(k) retirement plan (the "401(k) Plan") covering all full-time employees of The Arc who 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. Effective July 1, 2022, The Arc reinstated matching contributions for participants with 12 months and 200 hours of service. The Arc matches 50% of contributions up to 5% of compensation. The Arc made contributions to the 401(k) Plan in the amount of \$113,895 and \$98,113 for the years ended June 30, 2024 and 2023, respectively.

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Note 14 - Retirement Plans: (Continued)

The Arc has a 403(b) retirement plan (the “403(b) Plan”) covering employees who are 21 or older and are not eligible for another qualified plan offered by The Arc. The 403(b) 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 403(b) Plan. Effective July 1, 2022, The Arc reinstated matching contributions for participants with 12 months and 200 hours of service. The Arc matches 50% of contributions up to 5% of compensation. The Arc made contributions to the 403(b) Plan in the amount of \$26,210 and \$24,118 for the years ended June 30, 2024 and 2023, respectively.

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 \$425,845 and \$335,015 in total to the health and welfare benefit plan of which the DC Plan is a component, for the years ended June 30, 2024 and 2023, respectively. The DC Plan portion of the contribution is determined after other benefits are paid through the health and welfare plan.

Note 15 - Related-Party Transactions:

During the years ended June 30, 2024 and 2023, 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 \$1,058,895 and \$1,209,202 were paid to Alliant for the years ended June 30, 2024 and 2023, respectively.