The Arc Los Angeles & Orange Counties

Financial Statements and
Independent Auditor's Report

June 30, 2023 and 2022

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Independent Auditor's Report

To the Board of Directors of
The Arc Los Angeles & Orange Counties
Downey, California

Opinion

We have audited the accompanying financial statements of The Arc Los Angeles & Orange Counties (a nonprofit organization), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Arc Los Angeles & Orange Counties as of June 30, 2023 and 2022, 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 Los Angeles & Orange Counties 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 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 financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Arc Los Angeles & Orange Counties' ability to continue as a going concern within one year after the date that the 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 financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the 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 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 Los Angeles & Orange Counties' 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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Arc Los Angeles & Orange Counties' 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.

Galani & Associates LLC

Galani & Associates LLC
Collegeville, Pennsylvania
October 29, 2024

The Arc Los Angeles & Orange Counties
Statements of Financial Position
June 30, 2023 and 2022

Assets	**2023**	**2022**
Current assets:		
Cash and cash equivalents	$ 181,957	$ 375,530
Accounts receivable, net	143,344	358,949
Prepaid expenses	36,356	147,018
Total current assets	361,657	881,497
Employee retention tax credit receivable	695,499	-
Property, plant and equipment, net	761,820	648,314
Investments	221,013	205,098
Land held for sale	57,099	57,099
Deposits	-	10,145
Total assets	$ 2,097,088	$ 1,802,153
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	$ 14,081	$ 34,716
Accrued payroll and benefits	125,894	155,890
Other accrued expenses	1,652	13,296
Total current liabilities	141,627	203,902
Total liabilities	141,627	203,902
Net assets:		
Without donor restrictions	1,955,461	1,598,251
With donor restrictions	-	-
Total net assets	1,955,461	1,598,251
Total liabilities and net assets	$ 2,097,088	$ 1,802,153

The accompanying notes are an integral part of these financial statements.

The Arc Los Angeles & Orange Counties
Statements of Activities
Years Ended June 30, 2023 and 2022

	2023	2022
Revenue, gains, and other support:		
Habilitation program services	$ 192,937	$ 146,321
Workshop contract income	-	270,201
Activities and transportation services	1,588,360	1,547,144
Retail store and support services	44,325	5,535
Contributions and grants	396,481	124,245
Interest and dividends	3,791	33,416
Unrealized and realized gains (losses)	13,274	(71,439)
Loss on sale of assets	(22,110)	-
Employee retention tax credit	695,499	-
Other revenue	51,426	27,252
Total revenue, gains, and other support	2,963,983	2,082,675
Expenses:		
Habilitation programs	1,447,769	1,798,814
Retail store	118,865	152,011
General, administrative and fundraising	971,229	669,722
Total functional expenses	2,537,863	2,620,547
Depreciation	68,910	79,501
Total expenses	2,606,773	2,700,048
Change in net assets without donor restrictions	357,210	(617,373)
Net assets, beginning of year	1,598,251	2,215,624
Net assets, end of year	$ 1,955,461	$ 1,598,251

The accompanying notes are an integral part of these financial statements.

The Arc Los Angeles & Orange Counties
Statements of Functional Expenses
Years Ended June 30, 2023 and 2022

	2023			
	Habilitation Programs	Retail Store	General, Admininistrative, and Fundraising	Total
Direct Client Expenses				
Client - employment	$ -	$ -	$ -	$ -
Workshop and Store				
Shop materials and cost of sales	-	51,145	-	51,145
Supporting Expenses				
Personnel - Administrative	1,115,187	5,258	540,808	1,661,253
Occupancy	150,379	7,315	285,489	443,183
Supplies	71,337	2,349	32,617	106,303
Communication	9,985	18,389	55,949	84,323
Transportation	42,827	64	58	42,949
Professional, investment fees and dues	19,793	33,481	28,642	81,916
Miscellaneous	36,191	100	157	36,448
Meetings/conferences/training	1,094	-	5,955	7,049
Special events & fundraising costs	-	-	20,570	20,570
Bank and service charges	976	764	984	2,724
Total supporting expenses	1,447,769	67,720	971,229	2,486,718
Total operating expenses	1,447,769	118,865	971,229	2,537,863
Depreciation	49,700	14,539	4,671	68,910
Total functional expenses	$ 1,497,469	$ 133,404	$ 975,900	$ 2,606,773

The accompanying notes are an integral part of these financial statements.

The Arc Los Angeles & Orange Counties
Statements of Functional Expenses, *Continued*
Years Ended June 30, 2023 and 2022

	2022			
	Habilitation Programs	Retail Store	General, Admininistrative, and Fundraising	Total
Direct Client Expenses				
Client - employment	$ 125,752	$ -	$ 11,502	$ 137,254
Workshop and Store				
Shop materials and cost of sales	3,452	-	-	3,452
Supporting Expenses				
Personnel - Administrative	1,344,128	19,190	457,138	1,820,456
Occupancy	179,111	126,201	55,352	360,664
Supplies	46,465	1,826	20,933	69,224
Communication	30,509	2,507	36,049	69,065
Transportation	32,842	244	-	33,086
Professional, investment fees and dues	34,528	2,043	70,462	107,033
Miscellaneous	1,762	-	6,779	8,541
Meetings/conferences/training	224	-	1,253	1,477
Special events & fundraising costs	-	-	9,176	9,176
Bank and service charges	41	-	1,061	1,102
Interest	-	-	17	17
Total supporting expenses	1,669,610	152,011	658,220	2,479,841
Total operating expenses	1,798,814	152,011	669,722	2,620,547
Depreciation	66,330	9,412	3,759	79,501
Total functional expenses	$ 1,865,144	$ 161,423	$ 673,481	$ 2,700,048

The accompanying notes are an integral part of these financial statements.

The Arc Los Angeles & Orange Counties
Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Change in net assets	$ 357,210	$ (617,373)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	68,910	79,501
Realized (gains) losses	1,068	(82,191)
Unrealized (gains) losses	(14,342)	153,630
Loss on sale of assets	22,110	-
(Increase) decrease in assets:		
Accounts receivable	215,605	337,669
Inventories	-	6,380
Prepaid expenses	110,662	(128,039)
Employee retention tax credit receivable	(695,499)	-
Deposits	(10,145)	(2,264)
Increase (decrease) in liabilities:		
Accounts payable	(20,635)	(51,879)
Accrued payroll and benefits	(29,996)	(7,712)
Other accrued expenses	(11,644)	10,109
Net cash used in operating activities	(6,696)	(302,169)
Cash flows from investing activities:		
Purchase of assets	(204,526)	(5,541)
Purchase of investments	(236,078)	(242,857)
Proceeds from sale of investments	253,727	754,033
Net cash provided by (used in) financing activities	(186,877)	505,635
Net change in cash and cash equivalents	(193,573)	203,466
Cash and cash equivalents, beginning of year	375,530	172,064
Cash and cash equivalents, end of year	$ 181,957	$ 375,530
Supplemental Disclosure:		
Interest paid	$ -	$ 17

The accompanying notes are an integral part of these financial statements.

1. The Organization and Nature of Operations

The Arc Los Angeles & Orange Counties (the "Organization") was founded in 1956 and the Organization's mission has been to provide advocacy and services to people with intellectual and developmental disabilities, and to assist their families. The Organization was incorporated on March 13, 1969 pursuant to the General Nonprofit Corporation Law of the State of California, and is exempt from income taxes under Section 501 (c)(3) of the Internal Revenue Code. The Organization operates a Vocational and Education Center, an Employment Center and a number of other programs. Funds for these programs are received from Regional Centers for the Developmentally Disabled and the California Department of Rehabilitation. Other funds to support the Organization's programs services are derived from workshop contracts, foundations and community contributions.

In July 2012, the Organization opened a franchise retail store located in Long Beach, California with the purpose of providing job training and operating the store with employees that have intellectual disabilities. The Organization closed the franchise retail store in May 2022.

2. Summary of Significant Accounting Policies

This summary of significant accounting policies of the Organization is presented to assist in understanding the Organization’s financial statements. The financial statements and notes are representations of the Organization’s management who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America (“GAAP”) and have been consistently applied in the preparation of the financial statements.

Basis of Accounting
The Organization’s assets, liabilities, revenues, and expenses are recognized on the accrual basis of accounting for financial statements purposes.

Basis of Presentation
The Organization prepares its financial statements in accordance with Accounting Standards Codification (“ASC”) 958*, Not-for-Profit Entities* (“ASC 958”) and adopted the modification during current year as described in FASB Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The Organization is required to report information regarding its financial position and activities according to two classes of net assets (without donor restrictions, and with donor restrictions) based upon the existence or absence of donor-imposed restrictions.

Cash and Cash Equivalents
For purposes of the statement of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Accounts Receivable
The Organization assesses the financial strength of its receivables and the collectability of those receivables based on prior history and experience. Accordingly, the Institute has determined that an allowance for uncollectible amounts to $1,500 is appropriate as of June 30, 2023 and 2022, respectively.

Investments and Fair Value Measurements
Investments are reported at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This guidance establishes a three-level hierarchy for fair value measurements based upon the transparency of

inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 - Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term as the financial instrument. Alternative investments' fair value is based on their net asset value per unit as reported by their managers.

Level 3 - Inputs to the valuation methodology are unobservable.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Assets and liabilities that are measured at fair value are based on one or more of the three valuation techniques that follow:

Market approach - Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

Cost approach - Amount that would be required to replace the service capacity of an asset (i.e., replacement cost).

Income approach - Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques and option-pricing models).

Property and Equipment
The Organization follows the practice of capitalizing fixed assets expenditures in excess of $2,500. Depreciation is computed on a reasonable method basis over the estimated useful lives of the related asset.

Use of Estimates
The preparation of the financial statements in conformity with generally accepted accounting principles 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 reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Promises to Give
Contributions are recognized when the donor makes a promise to give to the Organization 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.

The Organization uses the allowance method to determine uncollectible promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

Allocation of Functional Expenses
Expenses by function have been allocated amongst program and supporting services classification on the basis of time records and on estimates made by the Organization's management.

Revenue Recognition
The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-19, Revenue from Contracts with Customers (ASC 606). The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers including significant judgements, changes in judgement and asset recognition from costs incurred to obtain or fulfill a contract.

The Organization's program revenues consist of a performance obligation to provide pre-qualified individuals with approved program service(s) or to transfer promised goods. Based on the Organization's evaluation process and review of its program services and workshop customers, the timing and amount of revenue recognized in prior years is consistent with how revenue is recognized under the updated accounting standard. Revenue from contributions is not within the scope of ASC 606 as they represent nonreciprocal transfers and do not represent the sale of goods or services with any of the Organizations' Customers. Revenue from contributions continues to be accounted for under ASC 958-605.

Contributions
Contributions received are recorded as net assets with donor restrictions or net assets without donor restrictions depending on the existence or nature of any donor restrictions.

Contributed In-Kind Services
Donated services are recognized as contributions in accordance with ASC 605, *Contributed Services,* if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. For the years ended June 30, 2023 and 2022, the Organization had recognized zero in-kind services.

Advertising
The Organization expenses the advertising costs as incurred. For the years ended June 30, 2023 and 2022, the advertising expense was $8,203 and $5,694, respectively.

Income Taxes
The Organization is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code and is classified by the Internal Revenue Service as other than a private foundation.

The Organization's management evaluates tax positions taken by the Organization and recognize a tax liability (or asset) if an uncertain position that more than likely than not would not be sustained upon examination by taxing authorities. The Organization's management has analyzed the tax positions taken by the Organization, and has concluded that as of June 30, 2023, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Organization's management believes that it is no longer subject to income tax examinations for years ending prior to June 30, 2020.

3. Liquidity and Availability of Resources

The Organization's financial assets at June 30:

	2023	2022
Cash and cash equivalents	$ 181,957	$ 375,530
Accounts receivable, net	143,344	358,949
Financial assets available to meet cash needs for general expenditures within one year as of June 30:	$ 325,301	$ 734,479

As part of the Organization's liquidity management, it invests cash in excess of daily requirements in short-term investments and money market funds.

4. Property, Plant and Equipment

Property, plant and equipment at June 30:

	Estimated Useful Life	2023	2022
Land	-	$ 293,126	$ 293,126
Building and improvements	5 - 40 years	1,688,259	2,156,611
Funiture and fixtures	7 - 10 years	104,309	284,224
Equipment and vehicles	5 - 15 years	946,460	1,266,175
Accumulated depreciation		(2,270,334)	(3,351,822)
		$ 761,820	$ 648,314

Depreciation expenses were $68,910 and $79,501 for the years ended June 30, 2023 and 2022, respectively.

5. Land Held for Sale

In March 2003, the Organization was gifted two parcels of vacant land located in the unincorporated area of Riverside County, California which had an estimated value of $40,204 at the date of the gift. In September 2008, the Organization was gifted a 2.24 acre parcel of vacant land located in California City which had an estimated value of $3,425 at the date of the gift. It is the intention of the Organization to sell the land if a buyer makes a fair market value purchase offer. The Donors of the land did not impose any restriction on the use of any subsequent sales proceeds.

The total value of the vacant land has been recorded at $57,099 based on county assessor values, net of allowance of $4,965 for estimated selling cost. As of the date of these financials the vacant parcels of land remained available for sale.

6. Line of Credit

The Organization has a $250,000 Line of Credit with a bank that has a maturity date of July 26, 2023. Periodic borrowings and subject to monthly payments with Interest rate of prime rate (Prime Rate 8.25% at June 30, 2023 and 4.75% at June 30, 2022) plus 0.50%. The line of credit is collateralized by a trust deed on the building at 12049 Woodruff Ave, Downey California and all fixtures and equipment located at this building. At June 30, 2023 and 2022, there were no outstanding balances on the line of credit.

7. Investments

The following tables set forth by level, within the fair value hierarchy, the Organizations' investments as of June 30:

	2023			
	Level 1	Level 2	Level 3	Total
Mutual funds	$ 221,013	$ -	$ -	$ 221,013
	$ 221,013	$ -	$ -	$ 221,013

	2022			
	Level 1	Level 2	Level 3	Total
Mutual funds	$ 205,098	$ -	$ -	$ 205,098
	$ 205,098	$ -	$ -	$ 205,098

8. Retirement Plan

The Organization contributes a maximum of four percent of an employee's compensation, if the employee contributes a minimum of six percent of compensation. An employee's maximum contribution for any year is limited by the applicable Internal Revenue Code provisions.

The Organization has a Section 403(b) retirement plan covering all eligible employees electing to participate. The Organization's contribution to the Plan for the years ended June 30, 2023 and 2022 were $34,192 and $14,957, respectively.

9. Employee Retention Tax Credit Receivable

The Organization prepared payroll tax filing amendments (Form 941-X) for various quarters in 2020 and 2021 and submitted the Internal Revenue Service for refundable tax credits. The Organization has determined this to take longer than 12 months after its fiscal year end June 30, 2023. Accordingly, the Organization recorded a receivable and income in the amount of $695,499 as of and for the year ended June 30, 2023.

10. Evaluation of Subsequent Events

The Organization has evaluated events and transactions through October 29, 2024, the date these financial statements were available for issuance.

During the fiscal year, 2022-2023, the Organization opened a new program. The program was a Vocational Retail Store that was modeled after the bin store concept (all items priced per day of the week). The store opened in May 2023 and the Organization quickly realized that it could not sustain the losses and decided to close it August 2023. The store was run out of our warehouse building so no additional leases were made. The products sold at the store were overstock items, returns, etc. from stores like Amazon, Target and Walmart. When the store closed, all remaining inventory was sold as one wholesale transaction.