

Independent Auditor's Reports as  
Required by Title 2 *U.S. Code of  
Federal Regulations (CFR) Part 200,  
Uniform Administrative Requirements,  
Cost Principles, and Audit  
Requirements for Federal Awards and  
Government Auditing Standards* and  
Related Information

**NYSARC, Inc.,  
New York City Chapter and Affiliates**

June 30, 2021

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

To the Board of Directors of  
NYSARC, Inc., New York City Chapter and Affiliates:

**Report on the financial statements**

We have audited the accompanying consolidated financial statements of NYSARC, Inc., New York City Chapter and Affiliates (collectively, "AHRC"), which comprise the consolidated statements of financial position as of June 30, 2021 and 2020, 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.

**Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

**Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. 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 General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to AHRC's preparation and fair presentation of the consolidated financial statements 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 AHRC's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NYSARC, Inc., New York City Chapter and Affiliates as of June 30, 2021 and 2020, 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.

### **Other matters**

#### *Supplementary information*

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* for the year ended June 30, 2021, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

### **Other reporting required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 1, 2021, on our consideration of AHRC's 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 solely 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 the effectiveness of AHRC's 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 AHRC's internal control over financial reporting and compliance.

*Grant Thornton LLP*

New York, New York  
December 1, 2021

**NYSARC, Inc., New York City Chapter and Affiliates**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2021 and 2020**

	<b>2021</b>	<b>2020</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 3,541,338	\$ 4,116,559
Investments	47,288,979	38,707,968
Receivables, net	40,960,775	36,360,658
Prepaid expenses and other current assets	6,228,800	6,101,968
Total current assets	98,019,892	85,287,153
Restricted deposits	129,112	126,095
Real property and equipment, at cost, net of accumulated depreciation and amortization of \$96,467,152 and \$89,051,689, respectively	80,783,995	78,222,758
Right of use assets, net of amortization	120,118,917	127,788,288
Advances to and investment in affiliates	35,840	35,840
Programmatic investment	2,288,265	2,288,265
Investments - endowment	1,182,156	987,207
Debt service reserve funds	2,054,257	2,385,860
Other assets	8,364,279	7,783,093
Total assets	<b>\$ 312,976,713</b>	<b>\$ 304,904,559</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities</b>		
Bank line of credit	\$ 9,971,273	\$ 3,000,000
Current portion of long-term debt	4,197,256	3,943,078
Current portion of operating lease liability	13,749,098	12,829,507
Accounts payable	11,925,275	12,415,452
Accrued expenses and other current liabilities	19,967,684	17,528,031
Accrued employee benefits	18,200,962	17,074,638
Due to government agencies	1,750,000	1,750,000
Deferred grant revenue	-	931,119
Total current liabilities	79,761,548	69,471,825
Long-term debt, net of current portion and unamortized issuance costs	46,289,618	46,332,875
Long-term accrued employee benefits, net of current portion	7,308,399	6,697,755
Long-term operating lease liability	111,875,440	118,864,673
Refundable advances	100,000	100,000
Total liabilities	245,335,005	241,467,128
Commitments and contingencies		
<b>Net assets</b>		
Without donor restrictions	64,557,359	60,900,275
With donor restrictions	3,084,349	2,537,156
Total net assets	67,641,708	63,437,431
Total liabilities and net assets	<b>\$ 312,976,713</b>	<b>\$ 304,904,559</b>

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

NYSARC, Inc., New York City Chapter and Affiliates

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Revenue and support</b>			
Fees for service	\$ 189,107,977	\$ -	\$ 189,107,977
Government grants	67,317,512	-	67,317,512
Contracted services	2,266,755	-	2,266,755
Program rent fees and private pay	5,795,828	-	5,795,828
Contributions and grants	1,619,511	335,827	1,955,338
Special event revenues	912,614	71,773	984,387
Commercial real property rent	3,983,629	-	3,983,629
Dividends and interest, net	511,047	31,652	542,699
Realized and unrealized gains on investments	8,365,340	219,055	8,584,395
Insurance reimbursements	183,811	-	183,811
Other	367,585	-	367,585
Net assets released from restrictions	111,114	(111,114)	-
	<u>280,542,723</u>	<u>547,193</u>	<u>281,089,916</u>
<b>Expenses</b>			
Salaries	145,534,618	-	145,534,618
Employee benefits	39,650,510	-	39,650,510
Payroll taxes	13,283,080	-	13,283,080
Office	11,218,003	-	11,218,003
Information technology	4,052,839	-	4,052,839
Occupancy costs	30,218,045	-	30,218,045
Staff travel	2,088,723	-	2,088,723
Conferences and events	237,598	-	237,598
Interest	2,068,629	-	2,068,629
Depreciation and amortization	7,523,637	-	7,523,637
Insurance	3,263,064	-	3,263,064
Professional fees	2,862,493	-	2,862,493
Clinical services	6,913,200	-	6,913,200
Client transportation, allowance and meals	5,942,592	-	5,942,592
Grant awards	7,075	-	7,075
Other	2,558,886	-	2,558,886
	<u>277,422,992</u>	<u>-</u>	<u>277,422,992</u>
Change in net assets before other item	3,119,731	547,193	3,666,924
<b>Other item</b>			
Pension related activity, other than net periodic pension costs	537,353	-	537,353
<b>CHANGE IN NET ASSETS</b>	3,657,084	547,193	4,204,277
<b>Net assets - beginning of year</b>	<u>60,900,275</u>	<u>2,537,156</u>	<u>63,437,431</u>
<b>Net assets - end of year</b>	<u>\$ 64,557,359</u>	<u>\$ 3,084,349</u>	<u>\$ 67,641,708</u>

The accompanying notes are an integral part of this consolidated financial statement.

NYSARC, Inc., New York City Chapter and Affiliates

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue and support</b>			
Fees for service	\$ 225,479,298	\$ -	\$ 225,479,298
Government grants	45,568,110	-	45,568,110
Contracted services	2,291,708	-	2,291,708
Program rent fees and private pay	6,917,444	-	6,917,444
Contributions and grants	944,566	49,181	993,747
Special event revenues	895,558	34,032	929,590
Commercial real property rent	4,694,754	-	4,694,754
Dividends and interest, net	785,827	24,200	810,027
Realized and unrealized (loss) gains on investments	(89,832)	4,806	(85,026)
Insurance reimbursements	200,918	-	200,918
Other	806,777	-	806,777
Net assets released from restrictions	800,366	(800,366)	-
<b>Total support and revenue</b>	<b>289,295,494</b>	<b>(688,147)</b>	<b>288,607,347</b>
<b>Expenses</b>			
Salaries	150,238,649	-	150,238,649
Employee benefits	36,721,211	-	36,721,211
Payroll taxes	16,440,743	-	16,440,743
Office	10,571,551	-	10,571,551
Information technology	3,555,048	-	3,555,048
Occupancy costs	29,536,640	-	29,536,640
Staff travel	2,440,538	-	2,440,538
Conferences and events	359,262	-	359,262
Interest	2,658,519	-	2,658,519
Depreciation and amortization	7,612,215	-	7,612,215
Insurance	3,175,142	-	3,175,142
Professional fees	3,015,612	-	3,015,612
Clinical services	7,623,554	-	7,623,554
Client transportation, allowance and meals	13,455,846	-	13,455,846
Grant awards	143,566	-	143,566
Other	2,644,316	-	2,644,316
<b>Total expenses</b>	<b>290,192,412</b>	<b>-</b>	<b>290,192,412</b>
<b>Change in net assets before other items</b>	<b>(896,918)</b>	<b>(688,147)</b>	<b>(1,585,065)</b>
<b>Other items</b>			
Impairment loss on programmatic investment (Note 6)	(6,542,662)	-	(6,542,662)
Pension related activity, other than net periodic pension costs	(244,432)	-	(244,432)
<b>Total other items</b>	<b>(6,787,094)</b>	<b>-</b>	<b>(6,787,094)</b>
<b>CHANGE IN NET ASSETS</b>	<b>(7,684,012)</b>	<b>(688,147)</b>	<b>(8,372,159)</b>
<b>Net assets - beginning of year</b>	<b>68,584,287</b>	<b>3,225,303</b>	<b>71,809,590</b>
<b>Net assets - end of year</b>	<b>\$ 60,900,275</b>	<b>\$ 2,537,156</b>	<b>\$ 63,437,431</b>

The accompanying notes are an integral part of this consolidated financial statement.

**NYSARC, Inc., New York City Chapter and Affiliates**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**

**Year ended June 30, 2021**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 132,731,808	\$ 12,587,840	\$ 214,970	\$ 145,534,618
Employee benefits	36,537,768	3,070,544	42,198	39,650,510
Payroll taxes	12,373,250	894,398	15,432	13,283,080
Office	9,612,524	1,548,391	57,088	11,218,003
Information technology	421,113	3,610,990	20,736	4,052,839
Occupancy costs	27,941,894	2,270,762	5,389	30,218,045
Staff travel	2,054,951	33,493	279	2,088,723
Conferences and events	42,394	36,872	158,332	237,598
Interest	1,001,978	1,066,651	-	2,068,629
Depreciation and amortization	5,598,294	1,920,194	5,149	7,523,637
Insurance	2,803,615	451,936	7,513	3,263,064
Professional fees	506,854	2,060,033	295,606	2,862,493
Clinical services	6,792,413	120,787	-	6,913,200
Program transportation, allowance and meals	5,942,592	-	-	5,942,592
Grant awards	7,075	-	-	7,075
Other	2,358,441	189,292	11,153	2,558,886
	<u>\$ 246,726,964</u>	<u>\$ 29,862,183</u>	<u>\$ 833,845</u>	<u>\$ 277,422,992</u>

The accompanying notes are an integral part of this consolidated financial statement.

**NYSARC, Inc., New York City Chapter and Affiliates**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**

**Year ended June 30, 2020**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 137,080,504	\$ 12,938,957	\$ 219,188	\$ 150,238,649
Employee benefits	33,642,915	3,030,610	47,686	36,721,211
Payroll taxes	15,455,761	969,134	15,848	16,440,743
Office	9,140,536	1,372,448	58,567	10,571,551
Information technology	290,650	3,248,167	16,231	3,555,048
Occupancy costs	26,923,080	2,612,373	1,187	29,536,640
Staff travel	2,368,923	55,093	16,522	2,440,538
Conferences and events	132,871	86,298	140,093	359,262
Interest	1,217,055	1,441,464	-	2,658,519
Depreciation and amortization	5,972,015	1,635,794	4,406	7,612,215
Insurance	2,752,445	415,197	7,500	3,175,142
Professional fees	606,406	2,200,590	208,616	3,015,612
Clinical services	7,514,143	104,836	4,575	7,623,554
Program transportation, allowance and meals	13,452,365	3,415	66	13,455,846
Grant awards	18,566	125,000	-	143,566
Other	2,470,866	171,498	1,952	2,644,316
	<u>\$ 259,039,101</u>	<u>\$ 30,410,874</u>	<u>\$ 742,437</u>	<u>\$ 290,192,412</u>

The accompanying notes are an integral part of this consolidated financial statement.

NYSARC, Inc., New York City Chapter and Affiliates

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30,

	<u>2021</u>	<u>2020</u>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 4,204,277	\$ (8,372,159)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	7,415,459	7,499,600
Unrealized (gain) loss on investments	(7,529,095)	1,574,355
Realized gain on investments	(1,055,300)	(1,489,329)
Impairment loss on programmatic investment	-	6,542,662
Amortization of deferred mortgage costs	70,568	210,363
Amortization of bond premium	(71,660)	(282,555)
Amortization of leasing commissions	108,178	111,561
Amortization of operating lease liability	1,599,730	3,905,891
Increase (decrease) in cash attributable to changes in operating assets and liabilities:		
Receivables from government and other agencies	(4,600,117)	3,365,877
Prepaid expenses and other current assets	(126,832)	(1,802,491)
Other assets	(689,364)	(1,478,336)
Accounts payable	(490,177)	(1,400,453)
Accrued expenses and other current liabilities	2,439,653	5,963,026
Accrued employee benefits	1,736,968	197,954
Deferred grant revenue	(931,119)	-
Net cash provided by operating activities	<u>2,081,169</u>	<u>14,545,966</u>
<b>Cash flows from investing activities</b>		
Purchases of investments	(12,907,400)	(35,363,745)
Proceeds from the sales of investments	12,715,835	36,314,234
Acquisition of real property and equipment	(9,976,697)	(7,968,961)
Increase in restricted deposits	(3,017)	(3,041)
Net cash used in investing activities	<u>(10,171,279)</u>	<u>(7,021,513)</u>
<b>Cash flows from financing activities</b>		
Proceeds from bank line of credit	111,660,637	105,950,000
Repayments of bank line of credit	(104,710,637)	(118,450,000)
Repayments of long-term debt	(345,158)	(5,063,444)
Proceeds from long-term debt	3,230,657	15,623,580
Repayments of mortgages and bonds payable	(2,674,044)	(7,376,167)
Deferred mortgage and bond issuance costs	21,831	(301,709)
Distribution from debt service reserve fund	331,603	94,307
Net cash provided by (used in) financing activities	<u>7,514,889</u>	<u>(9,523,433)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<u>(575,221)</u>	<u>(1,998,980)</u>
<b>Cash and cash equivalents</b>		
Beginning of year	<u>4,116,559</u>	<u>6,115,539</u>
End of year	<u>\$ 3,541,338</u>	<u>\$ 4,116,559</u>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid during the year for:		
Interest	<u>\$ 1,977,484</u>	<u>\$ 2,449,215</u>

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

**NYSARC, Inc., New York City Chapter and Affiliates**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2021 and 2020**

**NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Organization***

AHRC, a family governed organization, is dedicated to enhancing the lives of people with intellectual and developmental disabilities and their families. AHRC is one of 36 New York State county chapters of The Arc New York. The Arc New York is a membership corporation formed in 1949 for all county chapters. AHRC is governed by its own Board of Directors, which is responsible for its operations, operating under guidelines promulgated by The Arc New York.

The accompanying consolidated financial statements of NYSARC, Inc., New York City Chapter and Affiliates (collectively, "AHRC") have been prepared on the accrual basis. The accounting policies that affect the significant elements of the consolidated financial statements are summarized below.

***Principles of Consolidation***

The consolidated financial statements include the accounts of NYSARC, Inc., New York City Chapter and the following entities:

- Superior Direct Care, Inc. ("Superior") provides temporary well-trained, highly qualified, non-licensed direct care staff to agencies within the five boroughs of New York City.
- AHRC Home Care Services, Inc. ("Home Care") provides high quality preventive, supportive and restorative home health care service to qualified individuals located in New York.
- AHRC Development, Inc. ("Development") is a U.S. Department of Housing and Urban Development ("HUD") financed entity, which operates a 12-unit residential project for the elderly and/or handicapped persons of low income where no adequate housing exists for such persons.
- AHRC NYC Guardianship Fund, Inc. (the "Fund") was established as a not-for-profit corporation to solicit, receive, hold, invest, and disburse funds for guardianship services, benefiting persons with intellectual and developmental disabilities, served by NYSARC, Inc., New York City Chapter. The Fund acknowledges that there are many unique expenses faced by individuals who are wards, stand-by wards or in process to be wards, which cannot be met by traditional funding streams available to persons with intellectual and developmental disabilities.
- AHRC NYC New Projects, Inc. ("New Projects") acquires, owns, leases, sells, mortgages and maintains property that provides housing for the people supported by NYSARC, Inc., New York City Chapter within the New York City area.
- AHRC NYC Properties, Inc. ("Properties") provides housing for the people of NYSARC, Inc., New York City Chapter within the New York City area. Properties owns 44 residential sites where individuals with developmental disabilities reside.
- AHRC NYC Foundation, Inc. (the "Foundation") was formed for the purpose of raising funds for the exclusive benefit of developmentally disabled persons in New York City and to supplement the programs and activities available from state funds for such persons.

All material intercompany transactions and account balances have been eliminated in preparing the accompanying consolidated financial statements.

Each member of AHRC is committed to promoting a culture that embraces:

- Committing wholeheartedly to the mission of the agency;

**NYSARC, Inc., New York City Chapter and Affiliates**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2021 and 2020**

- Responding to all members of the AHRC community with courtesy, kindness and open and honest communication;
- Making decisions based on fairness, honesty, morality and ethical principles;
- Respecting and appreciating the differences found among people with intellectual and developmental disabilities, their families and our colleagues; and
- Providing an environment in which distinction and merit are affirmed, celebrated and enhanced.

These principles direct, design and govern the operation of all AHRC services and supports, including but not limited to, those in the areas of: education; residential options; day services; training and employment; camping and recreation; clinical services; in-home care; family support; advocacy; information and referral. For the years ended June 30, 2021 and 2020, program service expenses were 89% of total expenses, each year.

***Pandemic Considerations***

In March 2020, the World Health Organization declared COVID-19, the disease caused by a novel coronavirus, a pandemic. The pandemic has had a broad and significant impact on commerce and financial markets in the United States and around the world. AHRC is closely monitoring cash flows, working capital and liquidity and is actively working to minimize the impact of these declines. The extent of the impact of the pandemic on AHRC's operational and financial performance will depend on certain developments, including the duration and severity of the outbreak and its impact on the timely collection of receivables, federal and state funding, employees and vendors, all of which at present, cannot be determined. Accordingly, the extent to which the pandemic may impact AHRC's financial position and changes in net assets and cash flows is uncertain and the accompanying consolidated financial statements do not include any adjustments relating to the effects of this pandemic.

***Basis of Presentation Net Assets***

Net assets and related revenues and support are classified based upon the existence or absence of donor-imposed restrictions. Accordingly, the net assets of AHRC and changes therein are classified and reported as follows:

**Net Assets without Donor Restrictions**

Represent net assets which are not restricted by donors. Net assets without donor restrictions are funds that are fully available, at the discretion of the Board of Directors and management, for AHRC to utilize for carrying on AHRC's general mission in any of its programs or supporting services. Net assets without donor restrictions may be designated for specific purposes by AHRC's Board of Directors or may be limited by legal requirements or contractual agreements with outside parties.

**Net Assets with Donor Restrictions**

Net assets whose use is limited by donor-imposed stipulations that either expire with the passage of time or are for expenditure on a specific program or in a specific geographic location or time period. These donor-imposed stipulations can be fulfilled and removed by the actions of AHRC pursuant to those stipulations. In addition, net assets with donor restrictions also include net assets whereby the respective donors have stipulated that the corpus contributed be invested and/or maintained in perpetuity. Income earned from these investments is available for expenditure according to restrictions, if any, imposed by donors.

**NYSARC, Inc., New York City Chapter and Affiliates**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2021 and 2020**

AHRC's net assets with donor restrictions as of June 30, 2021 and 2020 consist of \$1,450,000 of funds restricted for AHRC's camp and recreation programs, \$1,182,156 and \$987,207, respectively, of endowment funds, inclusive of accumulated unspent earnings on the endowment, and \$452,193 and \$99,949, respectively, of funds restricted for use in other programs. Net assets released from restrictions for the years ended June 30, 2021 and 2020 consist of appropriations and reclassifications from AHRC's endowment amounting to \$111,114 and \$800,366, respectively.

***Contributions, Grants and Bequests***

Contributions, grants and bequests, including unconditional promises to give (pledges), are recognized as revenue in the period received or pledged. AHRC follows guidance which requires organizations to determine whether a contribution is conditional based on whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. If the agreement (or a referenced document) includes both, the recipient is not entitled to the transferred assets (or a future transfer of assets) until it has overcome the barriers in the agreement.

Contributions received are recorded as support with or without donor restrictions depending on the existence and/or nature of donor restrictions, if any. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions. However, the receipt of any restricted contributions whose restrictions expire, or are otherwise satisfied within the period of receipt, are reported as revenue without donor restrictions in the consolidated statement of activities.

***Functional Allocation of Expenses***

The costs of providing AHRC's programs are presented in the consolidated statements of activities and functional expenses. Management and general expenses include executive and financial administration, human resources and information services. Fundraising expenses relate to salaries and benefits, special events and conferences, and leadership professional development events.

***Investments***

Investments consist of common stocks, mutual funds, U.S. government and mortgage-backed obligations, and corporate bonds and are stated at fair value. Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Generally, the fair value of investments is determined by reference to quoted market prices as of the reporting date.

Securities are subject to various risks that determine the value of the investments. Due to the level of risk associated with certain securities and the level of uncertainty related to changes in the value of these securities, it is at least reasonable that changes in market conditions in the near-term could materially affect the value of the investments reported in the accompanying consolidated financial statements.

AHRC relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). In determining the specific investment strategy, AHRC and its investment advisors focus heavily on the purpose of the investment portfolio. Other considerations include spending and investment goals, range of investment alternatives, liquidity constraints, number of investments, risk and diversification. Portfolios must be appropriate in order to be sustainable for the long-term. When adopting AHRC's approach, basic economic drivers are considered as well as three fundamental economic groupings of scenarios: growth, inflation and deflation.

NYSARC, Inc., New York City Chapter and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

**Receivables, Net of Allowances**

Receivables from government and other agencies are periodically evaluated for collectability. Changes in the estimated collectability of receivables are recorded in the consolidated statement of activities in the period in which the estimate is revised.

Tenant accounts receivable consist of base rents for commercial tenants and their proportionate share of building expenses. Tenant accounts receivable are periodically evaluated for collectability based on past credit history with tenants and their current financial position. Changes in the estimated collectability of tenant accounts receivable are recorded in the change in net assets for the period in which the estimate is revised. Tenant accounts receivable that are deemed uncollectible are offset against the allowance for uncollectible accounts.

Pledges receivable are expected to be collected within one year and are recorded at net realizable value. Pledges receivable are periodically evaluated for collectability. Changes in the estimated collectability of the receivables are recorded in the consolidated statement of activities in the period in which the estimate is revised.

**Depreciation and Amortization**

Depreciation and amortization is provided on the straight-line basis to amortize the cost of the respective assets over their estimated useful lives (or, in the case of leasehold improvements, the lease term, if shorter) as follows:

Equipment	3-15 years
Building and leasehold improvements	2-25 years
Vehicles	4 years
Computer software	3-10 years

Additions and betterments are capitalized, whereas cost of maintenance and repairs are charged to expense as incurred.

**Leasing Commissions**

Leasing commissions consist of certain fees incurred to initiate and renew tenant leases and are amortized on a straight-line basis over the terms of the related leases. For the years ended June 30, 2021 and 2020, amortization expense related to leasing commissions totaled \$108,178 and \$111,562, respectively, and is included in depreciation and amortization expenses in the accompanying consolidated statements of activities and functional expenses.

**Deferred Mortgage and Bond Costs**

Deferred mortgage costs are amortized on the straight-line method over the lives of the related mortgages, which range from two to 19 years. The amortization is removed as the obligations come due or are extinguished through refinancing. Deferred mortgage and bond costs are reflected as deductions from the face amount of the debt (see Note 9). Amortization of these deferred costs is included within interest expense.

**Deferred Rent**

Included in prepaid expenses and other assets is \$3,364,860 and \$3,270,139 at June 30, 2021 and 2020, respectively, of net deferred rental income representing the difference between actual rent payments received and the income recognized using the straight-line method.

**NYSARC, Inc., New York City Chapter and Affiliates**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2021 and 2020**

***Estimates***

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The more significant estimates made relate to the valuation of receivables from government and other agencies, useful lives assigned to fixed assets, realizability of programmatic investments, and actuarial assumptions used in the calculation of accrued employee benefits. Actual results could differ from those estimates.

***Cash and Cash Equivalents***

AHRC considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

AHRC maintains its cash balances with financial institutions located in northeastern United States. At various times throughout the years ended June 30, 2021 and 2020, AHRC maintained cash balances in excess of the Federal Deposit Insurance Corporation insured limits. AHRC has not experienced nor does it anticipate any losses with respect to such accounts.

***Unrelated Business Income Taxes***

Tenant rental revenues, net of building operating expenses from the Lower Manhattan office building acquired in 2005, are considered to be unrelated trade or business income and are therefore subject to federal and state income taxes (see Note 14).

***Debt Service Reserve Funds***

The debt service reserve funds were established from the proceeds of the Dormitory Authority of the State of New York and Facilities Development Corporation mortgage closings. These funds are restricted as security for future disbursements for mortgage principal and interest.

***Restricted Deposits***

Restricted deposits are funds whose use is restricted by outside agencies or persons as contrasted with funds over which Development has complete control or discretion. The restrictions on such funds are described as follows:

Replacement Reserve - Reserve established under the mortgage agreement for replacement of property, plant and equipment. Distributions may be made from the reserve only upon approval by HUD.

Residual Receipts Reserve - Surplus cash maintained by Development to meet requirements established by HUD. Distributions may be made from the reserve only upon approval by HUD. HUD approved various distributions during the year from this account for certain operating expenses incurred and to be applied against certain cash receipts due from HUD for tenant assistance payments.

**NOTE 2 - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS**

AHRC regularly monitors liquidity to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. AHRC has various sources of liquidity at its disposal, including cash and cash equivalents, receivables, investments, and drawings on lines of credit.

**NYSARC, Inc., New York City Chapter and Affiliates**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2021 and 2020**

The following table presents the total financial assets held by AHRC as of June 30, 2021 and 2020 that could be readily made available within one year of the consolidated statement of financial position date to meet general expenditures:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 3,541,338	\$ 4,116,559
Receivables, net	40,960,775	36,360,658
Investments	<u>47,288,979</u>	<u>38,707,968</u>
 Total financial assets	 91,791,092	 79,185,185
Less:		
Amounts subject to the satisfaction of donor-imposed restrictions	(1,902,193)	(1,549,949)
Receivable related to education program	<u>(942,593)</u>	<u>(2,793,608)</u>
 Total financial assets available, before minimum liquidity requirements	 <u>88,946,306</u>	 <u>74,841,628</u>
 Minimum liquidity requirement	 <u>(10,000,000)</u>	 <u>(10,000,000)</u>
 Total financial assets available to meet cash needs for general expenditures within one year	 <u>\$ 78,946,306</u>	 <u>\$ 64,841,628</u>

In addition to financial assets available to meet general expenditures over the next 12 months, AHRC operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures. To manage liquidity, AHRC maintains two lines of credit totaling \$33,000,000 that can be drawn upon as needed during the year to manage cash flow. Amounts borrowed against the lines of credit are repaid as soon as possible to minimize interest expense. 100% of AHRC's investment portfolio consists of highly liquid investments.

The \$10,000,000 liquidity requirement is a financial covenant stipulated in the line of credit agreements.

**NOTE 3 - INVESTMENTS**

AHRC follows guidance with respect to accounting and reporting for the fair value of its financial assets and liabilities. This guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure and report fair value. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between participants on the measurement date. Fair value requires an organization to determine the unit of account, the mechanism of hypothetical transfer, and the appropriate market for the asset or liability being measured.

The guidance establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entities' own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure and report fair value.

NYSARC, Inc., New York City Chapter and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

The following describes the hierarchy of inputs used to measure and report fair value and the primary valuation methodologies used by AHRC for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

- Level 1 - Quoted prices in active markets that AHRC has the ability to access for identical assets and liabilities for which significant observable inputs exist. Market price data is generally obtained from exchange or dealer markets as of the reporting date. AHRC does not adjust the quoted price for such assets and liabilities. Investments included in Level 1 may include certain equity and fixed income securities, registered mutual funds and exchange-traded funds;
- Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the respective asset or liability. This includes use of model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Inputs are obtained from various sources, including market participants, dealers and brokers; and
- Level 3 - Unobservable inputs, as they trade infrequently or not at all, that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while AHRC believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of any input that is significant to the fair value measurement. Inputs are used in applying the various valuation techniques and broadly refer to the assumptions market participants use to make valuation decisions. Inputs may include price information, credit data, liquidity statistics and other factors. AHRC considers observable data to be that market data which is readily available and reliable and provided by independent sources. The categorization of a financial instrument within the hierarchy is therefore based upon the pricing transparency of the instrument and does not necessarily correspond to AHRC's perceived risk of that investment.

Investments (current and long-term) as of June 30, 2021 and 2020 are summarized as follows:

	2021		
	Level 1	Level 2	Total
U.S. government bonds and U.S. government mortgage-backed obligations	\$ -	\$ 11,799,349	\$ 11,799,349
Mutual funds	25,797,432	-	25,797,432
Common stocks	7,280,518	-	7,280,518
Corporate bonds	-	3,593,836	3,593,836
	<u>\$ 33,077,950</u>	<u>\$ 15,393,185</u>	48,471,135
Investments - current portion			<u>(47,288,979)</u>
Investments - long-term portion (endowment)			<u>\$ 1,182,156</u>

**NYSARC, Inc., New York City Chapter and Affiliates**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2021 and 2020**

	2020		
	Level 1	Level 2	Total
U.S. government bonds and U.S. government mortgage-backed obligations	\$ -	\$ 13,704,620	\$ 13,704,620
Mutual funds	16,959,683	-	16,959,683
Common stocks	5,418,759	-	5,418,759
Corporate bonds	-	3,612,113	3,612,113
	<u>\$ 22,378,442</u>	<u>\$ 17,316,733</u>	39,695,175
Investments - current portion			<u>(38,707,968)</u>
Investments - long-term portion (endowment)			<u>\$ 987,207</u>

For the years ended June 30, 2021 and 2020, AHRC recognized net dividend and interest income of \$542,699 and \$810,027, respectively, realized gains of \$1,055,300 and \$1,489,329, respectively, and unrealized gains (losses) of \$7,529,095 and \$(1,574,355), respectively. For the years ended June 30, 2021 and 2020, dividend and interest income are shown net of investment management fees of \$156,912 and \$236,385, respectively.

**NOTE 4 - RECEIVABLES, NET**

Receivables, net of allowances and liabilities for recoupment, as of June 30, 2021 and 2020 consist of the following:

	2021	2020
New York State Medicaid	\$ 19,086,919	\$ 21,422,659
New York State Office for People with Developmental Disabilities (OPWDD)	1,763,434	1,732,958
New York City Department of Education	6,740,964	6,476,373
New York State Industries for the Disabled	10,266,291	6,514,776
Other government agencies	3,807,327	2,311,994
Other receivables	4,792,021	4,909,657
	<u>46,456,956</u>	<u>43,368,417</u>
Less:		
Allowance for doubtful accounts	(2,125,158)	(1,601,891)
Liabilities for recoupment	(3,371,023)	(5,405,868)
	<u>\$ 40,960,775</u>	<u>\$ 36,360,658</u>
Total		

Receivables are pledged as collateral for various obligations of AHRC (see Notes 8 and 9).

Liabilities for recoupments are advances from the government that are paid back through reductions in remittances.

**NYSARC, Inc., New York City Chapter and Affiliates**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2021 and 2020**

**NOTE 5 - REAL PROPERTY AND EQUIPMENT, NET**

Property and equipment, net, as of June 30, 2021 and 2020 consist of the following:

	2021	2020
Buildings and leasehold improvements	\$ 122,786,139	\$ 116,708,691
Equipment	15,541,206	14,521,364
Computer software	9,068,228	8,841,447
Vehicles	116,778	116,778
Work-in-progress	16,354,153	13,701,524
	163,866,504	153,889,804
Less: Accumulated depreciation and amortization	(96,467,152)	(89,051,689)
Land	13,384,643	13,384,643
Total	\$ 80,783,995	\$ 78,222,758

Real property is pledged as collateral for the mortgages and bonds payable (See Note 9).

As of June 30, 2021 and 2020, work-in-progress consists primarily of costs incurred associated with the development of an industry-specific electronic health record software.

Depreciation amounted to \$7,415,459 and \$7,499,600 for the years ended June 30, 2021 and 2020, respectively. Included in building and leasehold improvements is interest expense of approximately \$1,707,000, incurred while the 83 Maiden Lane, New York, New York building was being renovated, which has been capitalized.

**NOTE 6 - PROGRAMMATIC INVESTMENT**

Programmatic investments by their nature meet two distinct criteria: (1) its primary purpose is to further the tax-exempt objectives of the organization; and (2) the production of income or appreciation of the investment is not a significant purpose for making the investment.

As of June 30, 2021 and 2020, AHRC has advanced funds totaling \$8,740,487 in a managed-care organization (the "MCO"). The MCO, together with four other chapters of The Arc New York in the New York City metropolitan area, provide a broad range of support and services for people with intellectual and developmental disabilities, in transition from a fee for service program model to a capitated, comprehensive care management model. The MCO consists of Partners Health Plan, Inc. ("PHP"), a New York not-for-profit corporation, the operating entity which will serve as a health management organization ("HMO") for payment of claims for the support and services delivered to people with intellectual and developmental disabilities in the geographic regions of each chapter. PHP is a licensed HMO under Article 44 of the New York State Public Health Law. The sole member organization of the MCO, Partners Health Services, Inc. ("PHSI"), is the obligor for repayment of the investment until such time that the MCO becomes operational. AHRC is represented by two Board positions in the MCO for which it will have a 2/9 voting authority. Enrollments began on April 1, 2016.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2021 and 2020**

During fiscal 2020, AHRC conducted a valuation of its programmatic investment in PHP. The standard of value used was fair value, which is defined in Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 820, *Fair Value Measurements and Disclosures*, 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. During the year ended June 30, 2020, AHRC determined that the carrying value of its investment in PHP exceeded its fair value. Accordingly, AHRC recognized a write-down of the investment in the amount of \$6,542,662 that has been reflected as a component of other items on the accompanying 2020 consolidated statement of activities. The PHP balance of \$2,197,825 as of June 30, 2021 and 2020 is deemed to be recoverable.

As of June 30, 2021 and 2020, AHRC has advanced funds of \$90,440, as a capital contribution related to the start-up of Care Design NY, LLC. Care Design NY, LLC is a Care Coordination Organization (“CCO”). CCOs replaced the Medicaid Service Coordination model.

**NOTE 7 - ENDOWMENT**

AHRC’s endowment consists of funds established for a variety of purposes. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

On September 17, 2010, New York State enacted the New York Prudent Management of Institutional Funds Act (“NYPMIFA”). NYPMIFA contains provisions that govern charitable institutions’ appropriation and use, among other things, of donor-restricted endowment funds. NYPMIFA updated certain provisions of prior endowment management law that had become outdated. Most significantly, under prior law, charitable institutions were required to maintain the “historic dollar value” of endowment funds, meaning that institutions could appropriate only a prudent portion of a fund if the value of the fund was greater than the dollar value of the donor’s contribution(s) to the fund (i.e., the “historic dollar value”), and the appropriation would not take the fund below that amount, or a prudent portion only of the income from the fund, if the value of the fund was less than the historic dollar value.

Under NYPMIFA, a detailed prudence standard governs appropriation from endowment funds, and there is no longer a requirement to maintain historic dollar value. Prudent appropriation from an endowment fund whose value is less than its historic dollar value is permitted. In particular, NYPMIFA provides that, unless a donor expresses a contrary intention in a gift instrument, a charitable institution may appropriate as much of an endowment fund as it “determines is prudent for the uses, benefits, purposes and duration for which the fund is established,” without regard for historic dollar value. As with prior law, NYPMIFA retains the requirement that in making any decision to appropriate, “the institution shall act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances.” It further provides a new requirement that the institution “shall consider, if relevant” the following eight factors in deciding whether or not to appropriate from an endowment:

- The duration and preservation of its endowment fund;
- The purposes of the institution and its endowment fund;
- General economic conditions;
- The possible effect of inflation or deflation;
- The expected total return from income and the appreciation of endowment investments;

**NYSARC, Inc., New York City Chapter and Affiliates**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2021 and 2020**

- Other resources of the institution;
- Alternatives to expenditure of the endowment fund; and
- The investment policy of AHRC.

AHRC's spending policy rate is designed to stabilize annual spending levels and to preserve the real value of its investment portfolio over time. To preserve the portfolio's long-term value, AHRC makes available to be spent each fiscal year 5% of each fund's allocable portions of the portfolio's average fair value, net of fees and taxes (if any), as of June 30 of each of the preceding three years. This spending policy is consistent with AHRC's objectives to utilize earnings to support programs while preserving capital and ensuring future endowment growth.

Endowment funds are invested with investment managers charged with meeting or exceeding the representative index, universe or blended market index and universe that most closely corresponds to the investment manager's style of investment management. The investment strategy emphasizes long-term appreciation of the assets and consistency of total portfolio returns to support general operations while ensuring endowment preservation of capital.

Consistent with endowment accounting for not-for-profit organizations, for funds subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act, AHRC classifies as net assets with donor restrictions (a) the original value of gifts donated to its permanent endowment, (b) the original value of subsequent gifts to its permanent endowment, (c) the net realizable value of future payments to permanent endowment net assets in accordance with the donor's gift instrument (outstanding endowment pledges, net of applicable discount), and (d) accumulations, including appreciation, gains and income, to its permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

For financial reporting purposes, donor-restricted endowment fund appreciation, gains and income are classified as net assets with donor restrictions (accumulated gains) until such amounts are appropriated for expenditure by AHRC in a manner consistent with the standard of prudence prescribed by law. Upon appropriation, appreciation and earnings are reclassified to net assets without donor restrictions.

AHRC's endowment consists of the following as of June 30, 2021 and 2020:

	Net Assets Without Donor Restrictions	2021		Total	Total
		Accumulated Gains	Amounts Held in Perpetuity		
Donor restricted	\$ -	\$ 681,641	\$ 500,515	\$ 1,182,156	\$ 1,182,156
Board-designated	1,011,346	-	-	-	1,011,346
<b>Total</b>	<b>\$ 1,011,346</b>	<b>\$ 681,641</b>	<b>\$ 500,515</b>	<b>\$ 1,182,156</b>	<b>\$ 2,193,502</b>

	Net Assets Without Donor Restrictions	2020		Total	Total
		Accumulated Gains	Amounts Held in Perpetuity		
Donor restricted	\$ -	\$ 486,692	\$ 500,515	\$ 987,207	\$ 987,207
Board-designated	665,682	-	-	-	665,682
<b>Total</b>	<b>\$ 665,682</b>	<b>\$ 486,692</b>	<b>\$ 500,515</b>	<b>\$ 987,207</b>	<b>\$ 1,652,889</b>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2021 and 2020**

AHRC's endowment had the following changes for the year ended June 30, 2021:

	Net Assets Without Donor Restrictions	Net Assets with Donor Restrictions			Total
		Accumulated Gains	Amounts Held in Perpetuity	Total	
Endowment Fund, June 30, 2020	\$ 665,682	\$ 486,692	\$ 500,515	\$ 987,207	\$ 1,652,889
Investment return	345,664	244,949	-	244,949	590,613
Appropriation of endowment assets for expenditures	-	(50,000)	-	(50,000)	(50,000)
Endowment Fund, June 30, 2021	<u>\$ 1,011,346</u>	<u>\$ 681,641</u>	<u>\$ 500,515</u>	<u>\$ 1,182,156</u>	<u>\$ 2,193,502</u>

AHRC's endowment had the following changes for the year ended June 30, 2020:

	Net Assets Without Donor Restrictions	Net Assets with Donor Restrictions			Total
		Accumulated Gains	Amounts Held in Perpetuity	Total	
Endowment Fund, June 30, 2019	\$ -	\$ 1,162,080	\$ 1,950,515	\$ 3,112,595	\$ 3,112,595
Investment return	41,288	29,006	-	29,006	70,294
Appropriation of endowment assets for expenditures	(30,000)	(50,000)	-	(50,000)	(80,000)
Releases and reclassifications	654,394	(654,394)	(1,450,000)	(2,104,394)	(1,450,000)
Endowment Fund, June 30, 2020	<u>\$ 665,682</u>	<u>\$ 486,692</u>	<u>\$ 500,515</u>	<u>\$ 987,207</u>	<u>\$ 1,652,889</u>

During fiscal 2020, as a result of a clarification of donor intent, it was determined that an endowment gift and associated accumulated earnings could be used as AHRC deems necessary in support of camp and recreational programs, and accordingly, the original gift of \$1,450,000 has been reclassified from the endowment to net assets with donor restrictions (purpose restricted) and the associated accumulated earnings of \$654,394 have been reclassified to net assets without donor restrictions.

**NOTE 8 - LINES OF CREDIT**

Under a line of credit with a bank, AHRC may borrow an amount not to exceed \$30,000,000. The line of credit provides short-term financing for working capital needs and contains a sublimit of \$5,550,000 for individual term loans for financing of leasehold renovation capital projects. The amount outstanding under this line of credit as of June 30, 2021 and 2020 amounted to \$9,971,273 and \$3,000,000, respectively. There was no amount outstanding under the sublimit as of June 30, 2020. Under the line of credit, expiring May 31, 2022, the terms for borrowing are at a rate equal to, at AHRC's option, either (i) the greater of

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2021 and 2020**

(x) London Interbank Offered Rate (“LIBOR”) plus 175 basis points (1.75%) or (y) the Index Floor plus 1.75%, or (ii) the greater of (x) LIBOR Daily Floating Rate plus 1.75% or (y) the Index Floor plus 1.75%. The Index Floor is 0.5%.

Borrowings under the line are in the form of individual loans and are collateralized by accounts receivable. Under a line of credit with a bank, expiring May 31, 2022, AHRC New Projects may borrow an amount up to \$3,000,000. The terms for the borrowing are at a rate equal to, at New Projects option, either (i) the greater of (x) LIBOR Rate plus 175 basis points (1.75%) or (y) the Index Floor plus 1.75%, or (ii) the greater of (x) LIBOR Daily Floating Rate plus 1.75% or (y) the Index Floor plus 1.75%. The Index Floor is 0.5%. There was no amount outstanding under this line of credit as of June 30, 2021 or 2020.

Under a revolving line of credit with a bank, available through September 30, 2021, AHRC New Projects may borrow an amount up to \$9,000,000. The amount outstanding under this revolving line of credit as of June 30, 2021 and 2020 amounted to \$6,838,695 and \$2,772,072, respectively. As repayments under this revolving line of credit were due beyond one year from June 30, 2020, the balance as of June 30, 2020 has been reflected within long-term debt on the accompanying consolidated statement of financial position. The revolving line of credit was converted into a term loan upon its expiration on September 30, 2021 (refer to Note 9 for further details).

**NOTE 9 - LONG-TERM DEBT**

Long-term debt at June 30, 2021 and 2020 consists of the following:

	2021	2020
Revolving Line of Credit - Bank of America, one loan with principal and interest payable in monthly installments beginning on November 1, 2021 and a maturity date of October 1, 2023. Each installment amount is based on an amortization period of 13 years, with the remaining balance due on the maturity date. The interest rate, at New Projects’ option, is either (a) the LIBOR Daily Floating Rate plus 1.75% or (b) the LIBOR (adjusted periodically) plus 1.75%.	\$ 6,838,695	\$ 2,772,072
Mortgages payable - Bank of America, one mortgage with interest payable monthly at one-month LIBOR plus 2.15% (2.25% and 2.32% at June 30, 2021 and 2020, respectively) and a maturity date of March 1, 2025. The mortgage was fully repaid in 2021.	—	157,902
Term loan - Bank of America, one term loan with principal payable in 42 equal monthly installments of \$25,000 and a maturity date of December 1, 2024. The interest rate is one-month LIBOR plus 1.75% (2.25% and 2.32% at June 30, 2021 and 2020, respectively). Accounts receivables of AHRC are pledged as collateral for this obligation in addition to real property.	1,050,000	1,350,000
Mortgages payable - Loan from U.S. Department of Housing and Urban Development, due through December 1, 2024, payable in monthly installments of \$4,968, including interest at the rate of 9.25% per annum and collateralized by land and building (see Note 5).	177,660	222,819

**NYSARC, Inc., New York City Chapter and Affiliates**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
Bonds payable - Dormitory Authority of the State of New York ("DASNY"), 22 bonds payable, with principal and interest payable monthly, interest rates ranging from 1.075% to 5.73% due through July 2045. Final payment will be made by application of the debt service reserve fund, which was withheld as a deposit from the bond closings. Bonds are collateralized by real property (See Note 5). Under certain conditions, bondholders obtain the right to intercept certain accounts receivable, but that right is subordinate to a prior pledge held by Bank of America.	\$ 43,356,729	\$ 46,801,771
	51,423,084	51,304,564
Less: Current maturities	(4,197,256)	(3,943,078)
Less: Unamortized deferred mortgage and bond costs	<u>(936,210)</u>	<u>(1,028,611)</u>
 Total	 <u>\$ 46,289,618</u>	 <u>\$ 46,332,875</u>

The approximate annual maturities of long-term debt are as follows:

<u>Year Ending June 30,</u>	
2022	\$ 4,197,000
2023	4,120,000
2024	9,436,000
2025	3,378,000
2026	3,218,000
Thereafter	<u>27,074,000</u>
 Total	 <u>\$ 51,423,000</u>

**NOTE 10 - COMMITMENTS AND CONTINGENCIES**

***Guarantees***

NYSARC, Inc., New York City Chapter, New Projects and Properties guarantee the lines of credit and mortgage obligations of each respective entity.

***Contingencies***

AHRC has been named as a defendant in legal actions involving alleged claims which seek damages in unstated amounts. It is the opinion of AHRC, based on a review of the aforementioned claims by defense attorneys, that insurance coverage is adequate and that the final disposition of such claims will not have a material adverse effect on AHRC's financial position, changes in net assets or liquidity.

**NYSARC, Inc., New York City Chapter and Affiliates**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2021 and 2020**

**NOTE 11 - DEFERRED REVENUE**

Deferred revenue at June 30, 2020 is advances from the Office for People with Developmental Disabilities ("OPWDD") to assist AHRC in the assumption of additional Day Habilitation and Prevocational programs from Federation Employment and Guidance Services ("FECS").

**NOTE 12 - DUE TO GOVERNMENT AGENCIES**

As of June 30, 2021 and 2020, advances from government agencies of \$1,750,000, each year, represents amounts owed to OPWDD and relates to AHRC's assumption of additional Day Habilitation and Prevocational programs from FECS.

**NOTE 13 - EMPLOYEE BENEFIT PLANS**

***Defined Contribution Retirement Plans***

AHRC has two defined contribution plans (one plan for unionized employees and one plan for non-unionized employees) established under Section 403(b) of the Internal Revenue Code ("IRC"). Eligible AHRC employees can defer a portion of their salaries up to the federal limit. Eligible employees may elect to contribute to the plan and AHRC will then match at rates varying between 1% and 4.5% of eligible compensation depending upon the employee's contribution and length of service. In addition, AHRC makes an annual contribution equal to 1% of an eligible participant's base pay.

Contributions to the plans by AHRC for the years ended June 30, 2021 and 2020 totaled \$2,627,773 and \$3,034,541, respectively.

AHRC has a defined contribution plan under Section 401(a) of the Internal Revenue Code for the benefit of hourly employees included in the plan sponsor's H.I.R.E. program. Covered employees work under direct labor contracts with governmental agencies. The requirements necessary for an employee to become eligible to participate in the plan differ based on the contract with the respective governmental agency.

Contributions to the plan are made by AHRC in accordance with the terms specified by the participant's individual contract with the respective governmental agency. Contributions to the plan by AHRC for the years ended June 30, 2021 and 2020 totaled \$5,444,893 and \$3,617,749, respectively.

***Supplemental Retirement Plan***

Effective January 1, 2004, AHRC established a supplemental plan for its senior executives (the "SERP"). The SERP provides a lump-sum benefit, generally at retirement, following 30 years of service, equal to an annuity paying the participant 60% of the participant's final average compensation from AHRC. The benefit is prorated in cases of employees with less than 30 years of service. The total benefit is reduced by other retirement income sources (both employer funded and employee funded, including AHRC's retirement plan). The 457(b) component of the plan vests immediately. The 457(f) component of the plan is fully vested at the earliest of age 65, death, disability or involuntary termination of employment.

At its March 22, 2012 meeting, the Executive Compensation Committee resolved that the existing SERP shall be preserved for senior executive employees who qualified as eligible for coverage under the SERP as of March 22, 2012. The Executive Compensation Committee also resolved that newly hired executives (i.e., after March 22, 2012) shall participate in a new plan approach generally providing a gross annual defined contribution benefit of 10% of the executive's base pay.

**NYSARC, Inc., New York City Chapter and Affiliates**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2021 and 2020**

Plan assets are held in trust to pay benefits under the plan. However, these assets are considered assets of AHRC and could be subject to creditor liabilities and claims. Related plan assets are included in other assets on the consolidated statements of financial position.

A summary of AHRC's pension cost, employer net contributions and benefits paid is as follows for the years ended June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Pension cost	\$ 273,098	\$ 137,345
Employer withdrawals, net of contributions	-	-
Benefits paid	209,208	138,818

The measurement of the net periodic pension cost is based on the following assumptions for the years ended June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Weighted-average discount rate	0.97%	1.01%
Weighted-average rate of compensation increase	3.00%	3.00%
Weighted-average expected long-term rate of return on plan assets	7.00%	7.00%

The measurement of the benefit obligation is based on the following assumptions:

	<u>2021</u>	<u>2020</u>
Discount rate	0.97%	1.01%
Rate of compensation increase	3.00%	3.00%

The weighted-average expected long-term rate of return on plan assets was derived based on the asset allocation of the plan and the anticipated long-term economic outlook of the trustees of the plan.

The funded status of AHRC's supplemental retirement plan at June 30, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Projected benefit obligation	\$ 5,282,026	\$ 4,691,383
Fair value of plan assets	<u>(5,389,770)</u>	<u>(4,714,872)</u>
Funded status	<u>\$ 107,744</u>	<u>\$ 23,489</u>
Accumulated benefit obligation	<u>\$ 3,488,858</u>	<u>\$ 3,304,495</u>

The projected benefit obligation for the supplemental retirement plan is reflected within long-term accrued employee benefits on the accompanying consolidated statements of financial position as of June 30, 2021 and 2020.

**NYSARC, Inc., New York City Chapter and Affiliates**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2021 and 2020**

The following benefit payments are expected to be paid as follows:

<u>Year Ending June 30,</u>	
2022	\$ 1,802,967
2023	820,330
2024	54,868
2025	148,057
2026	1,069,220
2027-2031	203,031

These estimates indicate that AHRC is not expected to make a contribution to the plan for the year ended June 30, 2022. AHRC's estimated pension cost for the years ended June 30, 2021 and 2020 totaled \$273,098 and \$137,345, respectively.

The amounts represented on the line pension related (credit) charges, other than net periodic pension costs within the consolidated statement of activities for the years ended June 30, 2021 and 2020 are comprised of unexpected (gain) loss adjustment of \$(398,354) and \$158,021, respectively, and prior service costs and actuarial gains of \$(138,999) and \$86,411, respectively. These amounts are not yet reflected in the net periodic pension cost.

Contributions to the plan by AHRC for the years ended June 30, 2021 and 2020 totaled \$112,448 and \$156,378, respectively.

The composition of plan assets as of June 30, 2021 and 2020 is as follows:

	2021		Total
	Level 1	Level 2	
Cash and cash equivalents	\$ 65,782	\$ -	\$ 65,782
Fixed income	-	1,329,153	1,329,153
Equities	3,994,835	-	3,994,835
	<u>\$ 4,060,617</u>	<u>\$ 1,329,153</u>	<u>\$ 5,389,770</u>
			<u>2021</u>
Equities			74.12%
Fixed income			24.66
Cash and cash equivalents			1.22
			<u>100.00%</u>

**NYSARC, Inc., New York City Chapter and Affiliates**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2021 and 2020**

	2020		
	Level 1	Level 2	Total
Cash and cash equivalents	\$ 458,130	\$ -	\$ 458,130
Fixed income	-	1,273,692	1,273,692
Equities	2,983,050	-	2,983,050
	\$ 3,441,179	\$ 1,273,692	\$ 4,714,872
			2020
Equities			63.27%
Fixed income			27.01
Cash and cash equivalents			9.72
			100.00%

In order to provide benefits at normal retirement age, the principal goal of the investment of the funds in the plan is both security and long-term stability with moderate growth commensurate with the anticipated retirement dates of participants. Investments, other than “fixed dollar” investments, are included among the plan’s investments to prevent erosion by inflation. However, investments are to be sufficiently liquid to enable the plan, on short notice, to make some distributions in the event of the death or disability of a participant.

***Fair Value Measurement***

An asset’s or liability’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The valuation methodologies used for the pension plan assets as of June 30, 2021 and 2020 are all Level 1 observable inputs with the exception of fixed income securities, which are Level 2.

**NOTE 14 - INCOME TAXES**

AHRC is organized under the not-for-profit corporation law of the State of New York. NYSARC, Inc., New York City Chapter, Superior, Home Care, Development, Guardianship Fund, and New Projects have been granted exemption from Federal income tax pursuant to Section 501 (c)(3) of the IRC. Properties have been granted exemption from Federal income tax pursuant to Section 501 (c)(2) of the IRC. AHRC is current with respect to its Federal and New York State income tax filing requirements. Management is not aware of any issues or circumstances that would unfavorably impact its tax exempt status. Management has determined that AHRC had no uncertain tax positions that would require financial statement recognition or disclosure. AHRC is no longer subject to audits by the applicable taxing jurisdictions for periods prior to 2016.

Deferred income taxes are provided for the temporary differences between the financial-reporting basis and the tax basis of New Project’s taxable assets and liabilities. The temporary difference is attributable to net operating loss carryforwards.

NYSARC, Inc., New York City Chapter and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

New Projects incurred net operating losses for the years ended June 30, 2021 and 2020 of approximately \$569,000 and \$1,726,000, respectively. As of June 30, 2021, the net operating loss available to carryforward is approximately \$6,864,000, which expires over a period of 20 years ranging between 2026 and 2040.

New Projects has a fully reserved deferred tax asset of approximately \$1,441,000 from net operating losses. Management has determined that it is more likely than not that the majority of the deferred tax asset will not be realized in future years.

**NOTE 15 - LEASES**

In February 2016, the FASB issued Accounting Standards Update 2016-02, *Leases (Topic 842)*. This Accounting Standards Update requires lessees to recognize a lease liability and a ROU asset on a discounted basis, for substantially all leases, as well as additional disclosures regarding leasing arrangements. Disclosures are required to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides an optional transition method of applying the new lease standard. Topic 842 can be applied using either a modified retrospective approach at the beginning of the earliest period presented or, as permitted by ASU 2018-11, at the beginning of the period in which it is adopted (i.e., the comparatives under ASC 840 option).

AHRC adopted Topic 842 on July 1, 2019 (the effective date), using the comparatives under ASC 840 transition method, which applies Topic 842 at the beginning of the period in which it is adopted. Prior period amounts have not been adjusted in connection with the adoption of this standard. AHRC elected the package of practical expedients under the new standard, which permits entities to not reassess lease classification, lease identification or initial direct costs for existing or expired leases prior to the effective date. AHRC has lease agreements with non-lease components that relate to the lease components. AHRC elected the practical expedient to account for non-lease components and the lease components to which they relate as a single lease component for all leases. Also, AHRC elected to keep short-term leases with an initial term of 12 months or less off its consolidated statement of financial position. As well as the practical expedient to not assess whether existing or expired land easements that were not previously accounted for as leases under Topic 840 are or contain a lease under Topic 842. AHRC did not elect the hindsight practical expedient in determining the lease term for existing leases as of July 1, 2019.

The most significant impact of adoption was the recognition of operating lease ROU assets and operating lease liabilities of \$142,760,092 and \$144,058,722, respectively. As part of adopting the standard, previously recognized liabilities for deferred rent were reclassified as a component of the ROU assets, which totaled \$1,298,630 as of July 1, 2019 and reconciles the difference between the ROU asset and operating lease liability at the date of adoption. The accounting for existing capital leases (now referred to as finance leases) remained substantially unchanged. The standard did not significantly affect AHRC's changes in net assets or cash flows.

**Leases**

Accounting Policies

AHRC determines if an arrangement is a lease or contains a lease at inception of a contract. A contract is determined to be or contain a lease if the contract conveys the right to control the use of identified property, plant, or equipment (an identified asset) in exchange for consideration. AHRC determines these assets are leased because AHRC has the right to obtain substantially all of the economic benefit from and the right to direct the use of the identified asset. Assets in which the supplier or lessor has the practical ability and right to substitute alternative assets for the identified asset and would benefit economically from the exercise of

**NYSARC, Inc., New York City Chapter and Affiliates**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2021 and 2020**

its right to substitute the asset are not considered to be or contain a lease because AHRC determines it does not have the right to control and direct the use of the identified asset. AHRC's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

In evaluating its contracts, AHRC separately identifies lease and non-lease components, such as common area and other maintenance costs, in calculating the ROU assets and lease liabilities for its office buildings, apartments and vehicles. AHRC has elected the practical expedient to not separate lease and non-lease components and classifies the contract as a lease if consideration in the contract allocated to the lease component is greater than the consideration allocated to the non-lease component.

Leases result in the recognition of ROU assets and lease liabilities on the consolidated statement of financial position. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. AHRC determines lease classification as operating or finance at the lease commencement date.

At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. AHRC has made a policy election to use a risk-free rate (the rate of a zero-coupon U.S. Treasury instrument) for the initial and subsequent measurement of all lease liabilities. The risk-free rate is determined using a period comparable with the lease term.

The lease term may include options to extend or to terminate the lease that AHRC is reasonably certain to exercise. Lease expense is generally recognized on a straight-line basis over the lease term.

AHRC has elected not to record leases with an initial term of 12 months or less on its consolidated statement of financial position. Lease expense on such leases is recognized on a straight-line basis over the lease term.

***Nature of Leases***

AHRC has various real estate leases for office and instructional space, housing, land and storage space that expire in various years through 2112. These leases generally contain renewal options for periods ranging from two years to 10 years and require AHRC to pay all executory costs (property taxes, maintenance and insurance). Lease payments have an escalating fee schedule, which range from 0% to 3% increase each year. Termination of the leases is generally prohibited unless there is a violation under the lease agreement. A portion of certain leased space is subleased under leases expiring over the next 12 years.

***Short-Term Leases***

AHRC has certain leases that are for a period of 12 months or less or contain renewals for periods of 12 months or less. Total short-term lease expense included in operating expenses for the years ended June 30, 2021 and 2020 totals \$13,749,098 and \$12,829,507, respectively.

**NYSARC, Inc., New York City Chapter and Affiliates**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2021 and 2020**

**Quantitative Disclosures**

The lease cost and other required information for the years ended June 30 2021 and 2020 are as follows:

	2021	2020
Lease cost		
Operating lease cost	\$ 18,455,522	\$ 18,781,706
Short term lease cost	-	35,000
Variable lease cost	1,599,730	2,607,261
Sublease income	(323,820)	(567,565)
	<u>\$ 19,731,462</u>	<u>\$ 20,856,402</u>
 Operating cash flows from operating leases	 \$ 16,855,822	 \$ 16,174,444
 ROU assets obtained in exchange for new operating lease liabilities	 \$ 988,627	 \$ 974,012
 Weighted-average remaining lease term:		
Operating leases	11.27 years	12.08 years
Weighted-average discount rate:		
Operating leases	1.95%	1.98%

Future minimum lease payments and reconciliation to the consolidated statement of financial position at June 30, 2021, are as follows:

Year Ending June 30,	Operating Leases
2022	\$ 16,103,804
2023	13,722,958
2024	13,506,006
2025	13,346,723
2026	12,906,667
Thereafter	70,336,170
 Total future undiscounted lease payments	 139,922,328
 Less: interest	 (14,297,790)
 Lease liabilities	 \$ 125,624,538

**NOTE 16 - SUBSEQUENT EVENTS**

AHRC has evaluated subsequent events through December 1, 2021, the date the consolidated financial statements were available for issuance, and noted no events that require recognition or disclosure in the consolidated financial statements, other than what has been disclosed within Note 8.

UNIFORM GUIDANCE SUPPLEMENTARY INFORMATION

**NYSARC, Inc.,  
New York City Chapter and Affiliates**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For the year ended June 30, 2021**

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Pass-through Entity's Identifying Number</u>	<u>Assistance Listing Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Labor</b>			
<b>Workforce Innovation and Opportunity Act ("WIOA") Cluster</b>			
Passed through from NYS Department of Labor			
A.I.P Training	DOL01-C18379GG-3550000	17.278	\$ 384
Passed through from NYC Department of Youth and Community Development			
Out-of-School Youth (OSY) - Brooklyn Train and Earn	CT126020211402867	17.259	484,030
Out-of-School Youth (OSY) - Bronx Train and Earn	CT126020211402866	17.259	829,742
Out-of-School Youth (OSY) - Staten Island Train and Earn	CT126020211402868	17.259	326,867
Out-of-School Youth (OSY) - Brooklyn Workforce Development	20171403882	17.259	93,477
Out-of-School Youth (OSY) - Bronx Workforce Development	20171403877	17.259	49,100
Out-of-School Youth (OSY) - Staten Island Workforce Development Advance and Earn Program	20171403883	17.259	127,246
	CT126020201412781	17.259	<u>1,433,378</u>
Total Assistance Listing Number 17.259			<u>3,343,840</u>
Total WIOA Cluster			<u>3,344,224</u>
Total U.S. Department of Labor			<u>3,344,224</u>
<b>U.S. Department of Health and Human Services</b>			
Passed through from Planned Parenthood of Greater New York, Inc.			
Adolescent Health Programs	1 TP2AH000068-01-00	93.297	<u>73,862</u>
Total U.S. Department of Health and Human Services			<u>73,862</u>
Total Expenditures of Federal Awards			<u>\$ 3,418,086</u>

This schedule should be read in conjunction with the accompanying notes thereto.

**NYSARC, Inc.,  
New York City Chapter and Affiliates**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For the year ended June 30, 2021**

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant expenditures of NYSARC, Inc., New York City Chapter and Affiliates (collectively, "AHRC") for the year ended June 30, 2021, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance").

**NOTE 2 - INDIRECT COST RATE**

AHRC has elected not to use the 10% de-minimus indirect cost rate allowed under the Uniform Guidance.

**NOTE 3 - SUBRECIPIENTS**

No amounts were provided to subrecipients during the year ended June 30, 2021.

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## **REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors of  
NYSARC, Inc., New York City Chapter and Affiliates:

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 consolidated financial statements of NYSARC, Inc., New York City Chapter and Affiliates (collectively "AHRC"), which comprise the consolidated statement of financial position as of June 30, 2021, 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 December 1, 2021.

### **Internal control over financial reporting**

In planning and performing our audit of the consolidated financial statements, we considered AHRC's internal control over financial reporting ("internal control") as a basis for designing 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 internal control. Accordingly, we do not express an opinion on the effectiveness of AHRC'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 AHRC'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 AHRC's 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 AHRC'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 financial statements. 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*.

**Intended purpose**

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 AHRC's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering AHRC's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

*Grant Thornton LLP*

New York, New York  
December 1, 2021

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## **REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors of  
NYSARC, Inc., New York City Chapter and Affiliates:

### **Report on compliance for each major federal program**

We have audited the compliance of NYSARC, Inc., New York City Chapter and Affiliates (collectively "AHRC") with the types of compliance requirements described in the U.S. Office of Management and Budget's *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021. AHRC's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

### **Management's responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to AHRC's federal programs.

### **Auditor's responsibility**

Our responsibility is to express an opinion on compliance for each of AHRC's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about AHRC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of AHRC's compliance.

### **Opinion on each major federal program**

In our opinion, AHRC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

## Report on internal control over compliance

Management of AHRC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered AHRC's internal control over compliance with the types of compliance requirements that could have a direct and material effect on each major federal program to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of AHRC's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in AHRC's internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this Report on Internal Control Over Compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Grant Thornton LLP*

New York, New York  
September 28, 2022

**NYSARC, Inc.,  
New York City Chapter and Affiliates**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**For the year ended June 30, 2021**

**SECTION I - SUMMARY OF AUDITORS' RESULTS**

**Consolidated financial statements:**

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_ yes  X  no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_ yes  X  none reported
- Noncompliance material to consolidated financial statements noted? \_\_\_ yes  X  no

**Federal awards:**

Internal control over the major program:

- Material weakness(es) identified? \_\_\_ yes  X  no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_ yes  X  none reported

Type of auditors' report issued on compliance for the major program:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 516(a) of the Uniform Guidance? \_\_\_ yes  X  no

**Identification of the major program:**

<u>Federal Grantor/Program or Cluster Title</u>	<u>Assistance Listing Number</u>
WIOA Cluster	17.278 & 17.259

**Dollar threshold used to distinguish between type A and type B programs:** \$750,000

Auditee qualified as low-risk auditee?

X  yes \_\_\_ no

**NYSARC, Inc.,  
New York City Chapter and Affiliates**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**

**For the year ended June 30, 2021**

**SECTION II - FINANCIAL STATEMENT FINDINGS**

None noted.

**SECTION III - FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None noted.