

The Arc of the Quad Cities Area and Subsidiary

Consolidated Financial Report
June 30, 2025

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Independent Auditor's Report

RSM US LLP

Board of Directors
The Arc of the Quad Cities Area and Subsidiary

Opinion

We have audited the consolidated financial statements of The Arc of the Quad Cities Area and Subsidiary (the Organization), which comprise the consolidated statements of financial position as of June 30, 2025 and 2024, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements). We have also audited the accompanying consolidated statement of functional expenses of the Organization for the year ended June 30, 2025.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2025 and 2024, and the results of their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

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

Report on Summarized Comparative Information

We have previously audited the Organization's 2024 statement of functional expenses, and we expressed an unmodified audit opinion on the audited financial statements, which included that statement of functional expenses, in our report dated December 20, 2024. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2024, is consistent, in all material respects, with the audited financial statements from which it has been derived.

RSM US LLP

Davenport, Iowa
December 23, 2025

The Arc of the Quad Cities Area and Subsidiary

Consolidated Statements of Financial Position
June 30, 2025 and 2024

	2025	2024
Assets		
Cash and cash equivalents	\$ 11,551,104	\$ 11,152,336
Receivables:		
Fees and grants due from governmental agencies	1,725,141	2,046,895
Other receivables	17,776	147,696
Prepaid expenses	32,157	22,399
Burrress Endowment Fund	7,486,610	6,965,609
Investments	2,964,564	2,151,896
Other assets	20,409	20,628
Land, buildings and equipment:		
Land	1,030,507	1,030,507
Buildings and improvements	18,394,690	17,903,929
Furniture and equipment	1,154,862	1,055,528
Vehicles	1,794,003	1,408,550
Construction in progress	-	3,489
Total land, buildings and equipment	22,374,062	21,402,003
Less accumulated depreciation	11,735,385	10,872,880
Net land, buildings and equipment	10,638,677	10,529,123
Total assets	\$ 34,436,438	\$ 33,036,582

See notes to consolidated financial statements.

	2025	2024
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 344,431	\$ 274,768
Accrued compensation	1,990,287	1,740,618
Other accrued expenses	66,230	102,278
Finance lease liabilities	31,059	48,807
Mortgage note payable	-	371,740
Total liabilities	2,432,007	2,538,211
Commitments and contingencies (Notes 6, 7, 8, 11 and 13)		
Net assets:		
Without donor restrictions:		
Designated by the Board	12,298,806	10,895,201
Undesignated	12,220,365	12,636,870
	24,519,171	23,532,071
With donor restrictions:		
Restricted by time or purpose:		
Burruss Endowment Fund	4,236,123	3,718,513
Restricted in perpetuity, Burruss Endowment Fund	3,249,137	3,247,787
	7,485,260	6,966,300
Total net assets	32,004,431	30,498,371
Total liabilities and net assets	\$ 34,436,438	\$ 33,036,582

The Arc of the Quad Cities Area and Subsidiary

**Consolidated Statements of Activities
Years Ended June 30, 2025 and 2024**

	2025	2024
Change in net assets without donor restrictions from operations:		
Public support and revenue:		
Fees for service	\$ 15,549,390	\$ 15,117,456
Grant revenue	650,276	499,781
Total public support and revenue	16,199,666	15,617,237
Other support and revenue:		
Contributions	235,167	159,259
Rental income	28,625	24,175
Government and business services income	2,188,299	2,706,626
Investment income	700,856	560,764
Fundraising income	83,953	57,764
Miscellaneous	13,298	19,830
(Loss) on disposal of land, buildings and equipment	-	(77,558)
Total other support and revenue	3,250,198	3,450,860
Net assets released from restrictions:		
Investment income released from endowment	218,082	238,353
Total net assets released from restrictions	218,082	238,353
Total support and revenue from operations	19,667,946	19,306,450

(Continued)

The Arc of the Quad Cities Area and Subsidiary

Consolidated Statements of Activities (Continued)
Years Ended June 30, 2025 and 2024

	2025	2024
Functional expenses:		
Program services:		
Developmental training	\$ 2,242,440	\$ 1,916,409
Supported employment program (SEP)	570,386	466,354
Business services	1,777,286	2,399,336
Source of America	1,133,517	595,842
Heritage fifty-three	103,929	45,127
Community Integrated Living Arrangements (CILA) homes	8,520,128	7,560,453
Client and family support	892,351	833,211
CILA community support	335,501	296,947
Assistive technology	204,332	166,097
Behavioral health	68,669	64,951
Medical	287,456	170,869
Total program services	16,135,995	14,515,596
Supporting services:		
Management and general	2,185,595	2,059,659
Fundraising	359,256	326,245
Total supporting services	2,544,851	2,385,904
Total functional expenses	18,680,846	16,901,500
Increase in net assets without donor restrictions from operations	987,100	2,404,950
Change in net assets with donor restrictions:		
Donor-restricted contributions	1,350	690
Investment income on endowment	735,692	770,448
Net assets released from restrictions:		
Expiration of time restrictions:		
Endowment	(218,082)	(238,353)
Increase in net assets with donor restrictions	518,960	532,785
Increase in net assets	1,506,060	2,937,735
Net assets, beginning of year	30,498,371	27,560,636
Net assets, end of year	\$ 32,004,431	\$ 30,498,371

See notes to consolidated financial statements.

The Arc of the Quad Cities Area and Subsidiary

**Consolidated Statements of Functional Expenses
Year Ended June 30, 2025 With Comparative Totals for 2024**

	Program Services	Supporting Services		Total Agency 2025	Total Agency 2024
		Management and General	Fundraising		
Functional Expenses:					
Payroll	\$ 11,838,632	\$ 1,233,961	\$ 209,238	\$ 13,281,831	\$ 11,654,099
Benefits	1,507,739	105,041	37,740	1,650,520	1,342,927
Professional services	167,025	103,861	1,782	272,668	212,277
Consumables	196,316	71,369	9,112	276,797	281,218
Contract consumables	552,576	-	-	552,576	837,632
Property and equipment	665,557	60,650	4,185	730,392	761,783
Fleet and mileage	215,105	52,398	548	268,051	201,651
Software and technology	150,654	165,845	9,993	326,492	250,118
Contracted services	58,658	-	-	58,658	47,197
Conference and outside training	11,157	15,736	127	27,020	29,601
Grant expense	55,845	37,442	14,967	108,254	151,069
Marketing, event and recruiting	49,993	26,929	64,489	141,411	186,121
Fees, license and interest	37,306	10,359	1,594	49,259	55,106
Professional dues, membership and subscription	4,036	51,180	4,756	59,972	78,702
Depreciation	613,336	249,169	-	862,505	801,184
Miscellaneous	12,060	1,655	725	14,440	10,815
Total expenses, year ended June 30, 2025	<u>\$ 16,135,995</u>	<u>\$ 2,185,595</u>	<u>\$ 359,256</u>	<u>\$ 18,680,846</u>	<u>\$ 16,901,500</u>
Total expenses, year ended June 30, 2024	<u>\$ 14,515,596</u>	<u>\$ 2,059,659</u>	<u>\$ 326,245</u>		

See notes to consolidated financial statements.

The Arc of the Quad Cities Area and Subsidiary

Consolidated Statements of Cash Flows Years Ended June 30, 2025 and 2024

	2025	2024
Cash flows from operating activities:		
Increase in net assets	\$ 1,506,060	\$ 2,937,735
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	862,505	801,184
Loss on disposal of land, buildings and equipment	-	77,558
Change in net realized and unrealized gain on investments	(720,082)	(737,884)
Interest and dividends restricted for long-term purposes, net of investment fees	(190,891)	(193,123)
Other contributions restricted for long-term purposes	1,350	690
Decrease (increase) in receivables	451,674	(435,126)
Increase (decrease) in prepaid expenses	(9,758)	3,474
Decrease in accounts payable and other accrued expenses	(31,576)	(51,614)
Increase in accrued compensation	249,669	81,775
Net cash provided by operating activities	2,118,951	2,484,669
Cash flows from investing activities:		
Proceeds from sales of investments	1,138,861	2,179,041
Purchases of investments	(1,752,229)	(2,049,030)
Purchases of land, buildings and equipment	(906,868)	(466,319)
Net cash used in investing activities	(1,520,236)	(336,308)
Cash flows from financing activities:		
Interest and dividends restricted for long-term purposes, net of investment fees	190,891	193,123
Contributions restricted for long-term purposes	(1,350)	(690)
Principal payments on debt	(371,740)	(19,946)
Payments on finance lease liabilities	(17,748)	(29,497)
Net cash (used in) provided by financing activities	(199,947)	142,990
Net increase in cash and cash equivalents	398,768	2,291,351
Cash and cash equivalents:		
Beginning	11,152,336	8,860,985
Ending	\$ 11,551,104	\$ 11,152,336
Supplemental disclosure of noncash operating and investing activities, land, buildings and equipment purchases in accounts payable	\$ 84,490	\$ 19,229
Supplemental disclosure of cash flow information, cash paid for interest	\$ 49,259	\$ 12,676

See notes to consolidated financial statements.

The Arc of the Quad Cities Area and Subsidiary

Notes to Consolidated Financial Statements

Note 1. Nature of Business and Significant Accounting Policies

Nature of business: The Arc of the Quad Cities Area and Subsidiary (The Arc) is a nonprofit organization that was organized for the general welfare of persons with disabilities. The Arc offers a range of services and programs for persons with developmental disabilities in the Rock Island County area. The Arc is supported by funding from the State of Illinois, Rock Island County, United Way and income from services and private contributions.

In December 2019, The Arc of the Quad Cities Area entered into a member substitution and affiliation agreement with The Arc of the Quad Cities Iowa (Arc QC Iowa) and became the sole member of Arc QC Iowa. Arc QC Iowa is a nonprofit organization that was organized for the general welfare of persons with disabilities and offers services and programs for persons with developmental disabilities in the Scott County area.

Significant accounting policies:

Principles of consolidation: The consolidated financial statements include The Arc of the Quad Cities Area and its subsidiary, Arc QC Iowa. All material intercompany accounts and transactions have been eliminated in consolidation.

Accounting estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets, liabilities, revenues, expenses and related disclosures at the date of the financial statements and during the reporting period. Accordingly, actual results could differ from those estimates.

Basis of presentation: The net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed stipulations. This category will also include funds that have been designated by the Board of Directors of The Arc for a particular purpose.

Net assets with donor restrictions: Net assets subject to donor-imposed stipulations that require they be maintained permanently by The Arc or net assets subject to donor-imposed stipulations that may or will be met either by actions of The Arc and/or the passage of time. Donor restricted contributions and grants whose restrictions are met within the same year as received, are reported as without donor restrictions in the accompanying financial statements.

Cash and cash equivalents: For purposes of the consolidated statements of cash flows, cash and cash equivalents consist of unrestricted cash and other highly liquid investments with maturities of three months or less when purchased.

Receivables: Receivables include grant and contributions receivables, as well as receivables related to sale of goods and services. A significant portion of receivables are due from governmental agencies and management expects these receivables to be fully collectible. Contributions and grant receivable are recorded net of management's estimate of an allowance for uncollectible accounts, which was \$0 as of both June 30, 2025 and 2024. The allowance for uncollectible accounts is based on management's review of the outstanding receivables, historical and current collections information, current condition and aging of the accounts and existing economic conditions.

The Arc of the Quad Cities Area and Subsidiary

Notes to Consolidated Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Sale of goods and services from receivables are stated at the amount of unpaid principal less an allowance for credit losses over the lifetime of the receivable. This estimation process is based on historical experience, current conditions, asset-specific risk characteristics, and reasonable and supportable forecasts about future economic and market conditions. Management expects these receivables to be fully collectible. There was no allowance for credit losses as of June 30, 2025 and 2024. As of July 1, 2023, the Arc had approximately \$1,156,000 of receivables related to sale of goods and services.

Investments: Investments in debt and equity securities are carried at fair value. Temporary cash investments held in investment accounts are reported as investments on the consolidated statements of financial position and for cash flow presentation. Realized and unrealized gains and losses are included in the change in net assets.

Land, buildings and equipment: Land, buildings and equipment are carried at cost or at their estimated fair value as of the date received, if received as a donation. All expenditures for land, buildings and equipment in excess of \$1,000 are capitalized. Depreciation is computed by the straight-line method over various estimated useful lives as follows:

	<u>Years</u>
Buildings and improvements	15-40
Furniture and equipment	5-10
Computer equipment	3-5
Vehicles	5-7

Leases: The Arc determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) The Arc obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Arc also considers whether its service arrangements include the right to control the use of an asset.

The Arc made an accounting policy election available under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 842, Leases, not to recognize right-of-use (ROU) assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease (or July 1, 2022, for existing leases upon the adoption of Topic 842). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives. To determine the present value of lease payments, The Arc made an accounting policy election available to nonpublic companies to utilize a risk-free borrowing rate, which is aligned with the lease term at the lease commencement date (or remaining term for leases existing upon the adoption of Topic 842).

Recognition of revenue:

Fees for services: The Arc's fees for service revenue are earned by providing home and community-based services to people with disabilities. Revenues are based on rates determined by state funding agencies for each program a person participates in and are recognized as the service is performed.

The Arc of the Quad Cities Area and Subsidiary

Notes to Consolidated Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Grants: Grant revenue funds certain of The Arc's services provided under various programs including Respite Services, Assistive Technology, Client and Family Support and Work Services. Grant revenue is recognized as specific services are performed or expenditures are made under the terms of the grant. Grants from the Illinois Department of Human Services are subject to reconciliation and the recovery of lapsed funds. Any funds left after the reconciliation are subject to the Grant Funds Recovery Act. As of June 30, 2025 and 2024, there were no lapsed funds. Grants from the Illinois Department of Transportation represent the fair value of in-kind gifts of vehicles. These grants are not subject to the Grant Funds Recovery Act and are not subject to the recovery of lapsed funds. The vehicles must be used for general public or specialized transportation service for the duration of their useful lives. If the vehicles are sold, withdrawn from service or otherwise disposed of, a portion of the fair value may be required to be remitted to the Department of Transportation as provided by the agreement. The Illinois Department of Transportation is the lienholder on these vehicles. The Arc received a grant totaling \$0 and \$127,411 during the fiscal year ended June 30, 2025 and 2024, respectively from the Illinois Department of Human Services. The grant is conditional upon the funds being used specifically to support and stabilize the expansion of the Arc's workforce. As of June 30, 2025 and 2024, The Arc has recognized the full amount of the grant in grant revenue on the consolidated statement of activities, as the conditions for recognition have been substantially met.

Donated assets: Donated assets are recorded at their estimated fair value at the date of donation and are classified with assets of a similar nature.

Donated services: Educational, maintenance and medical services donated by various individuals and organizations have not been recorded, as these services do not meet the specialized skills and purchase criteria set forth by accounting principles generally accepted in the United States of America.

Promises to give: Contributions are recognized when the donor makes a promise to give which is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Sales of goods and services: The Arc recognizes revenue in accordance with FASB Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which provides a five-step model for recognizing revenue from contracts with customers as follows:

- Identify the contract with a customer.
- Identify the performance obligations in the contract.
- Determine the transaction price.
- Allocate the transaction price to the performance obligations in the contract.
- Recognize revenue when or as performance obligations are satisfied.

The Arc enters into various contracts with customers for the sale of goods or services. The Arc assesses the contract term as the period in which the parties to the contract have presently enforceable rights and obligations. The contracts establish pricing and quantities. Revenue is recognized at a point in time when the control has transferred or when the services have been provided, which The Arc has identified as when the sale has been consummated through the delivery or shipment terms per the contract, and title to the goods and risk of loss have transferred to the buyer. The Arc has elected to treat shipping and handling activities related to contracts with customers as costs to fulfill the promise to transfer the associated goods and not as a separate performance obligation.

The transaction price is the amount of consideration to which The Arc expects to be entitled in exchange for transferring goods and services to the customer. Revenue is recorded based on the transaction price and consists exclusively of fixed consideration.

The Arc of the Quad Cities Area and Subsidiary

Notes to Consolidated Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Payment terms on invoiced amounts are typically 30 days. In instances where the timing of revenue recognition differs from the timing of the right to invoice, The Arc has determined that a significant financing component generally does not exist. The primary purpose of The Arc's invoicing terms is to provide customers with simplified and predictable ways of purchasing the products and services and not to receive financing from, or provide financing to, the customer.

The Arc excludes from revenue sales taxes and other government-assessed and imposed taxes on revenue generating activities.

Functional expenses: The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statements of activities and in the consolidated statements of functional expenses. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of time and expense estimates. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of The Arc.

Reclassifications: Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between period presented. The reclassifications had no impact on previously reported net assets.

Subsequent events: The Arc has evaluated subsequent events through December 23, 2025, the date the financial statements were available to be issued.

Note 2. Concentration of Credit Risk

The Arc has concentrated its credit risk for cash by maintaining deposits in banks located within the Quad Cities region. The maximum loss that could have resulted from that risk as of June 30, 2025 and 2024, totaled approximately \$9,976,000 and \$11,029,000, respectively, for the excess of the balances reported by three major financial institutions over the amounts that would have been covered by federal insurance. The Arc has entered into a Sweep Repurchase agreement with one of the banks in which it maintains deposits. As part of this agreement, the bank automatically withdraws amounts from the deposit account in excess of \$250,000 on a daily basis and invests this amount in certain designated investments that are segregated specifically as a collateral pledge for this agreement. The balance in this sweep account was approximately \$8,735,000 and \$8,592,000 as of June 30, 2025 and 2024, respectively.

Note 3. Financial Assets Available and Liquidity

The Arc regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Arc's main source of liquidity at its disposal consists of marketable securities as well as approximately \$750,000 available under a line of credit as described in Note 8.

For the purpose of analyzing resources available to meet general expenditures over a 12-month period, The Arc considers all expenditures related to its ongoing mission-related activities as well as the conduct of services undertaken to support those activities to be general expenditures.

In addition to financial assets available to meet general expenditures over the next 12 months, The Arc operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the consolidated statements of cash flows, which identifies the sources and uses of The Arc cash and shows positive cash generated by operations.

The Arc of the Quad Cities Area and Subsidiary

Notes to Consolidated Financial Statements

Note 3. Financial Assets Available and Liquidity (Continued)

Net assets with donor restrictions identified in the table below consist of the Burress Endowment Fund restricted in perpetuity, investment return from Burress Endowment Fund and restricted contributions.

The Arc's governing board has designated a portion of its resources, which could be made available, if necessary, for general expenditures within one year in the normal course of operations. Those amounts are identified as board-designated in the table below.

	2025	2024
Financial assets at year-end:		
Cash and cash equivalents	\$ 11,551,104	\$ 11,152,336
Receivables, net	1,742,917	2,194,591
Burress Endowment Fund investments	7,486,610	6,965,609
Investments at fair value	2,964,564	2,151,896
Total financial assets as of June 30	<u>23,745,195</u>	<u>22,464,432</u>
Less restricted and Board-designated amounts:		
Contractual or restrictions:		
Burress Endowment Fund earnings and appreciation	4,236,123	3,718,513
Burress Endowment Fund restricted in perpetuity	3,249,137	3,247,787
Board-designated net assets:		
Operating reserves	8,630,844	6,742,205
Capital reserves	3,030,125	3,971,865
Quasi endowment	637,837	181,131
	<u>\$ 3,961,129</u>	<u>\$ 4,602,931</u>

Note 4. Investments, Burress Endowment Fund and Net Asset Classifications

In April 1997, The Arc established the Wilber L. Burress Endowment Fund (Burress Endowment Fund) to encourage gifts and bequests and provide long-term funds for the general purposes of The Arc. The fund is managed by an Endowment Board of Trustees. Net assets associated with the Burress Endowment Fund are classified and reported based on the existence or absence of donor-imposed restrictions.

The fair values of investments in the Burress Endowment Fund as of June 30, 2025 and 2024, are as follows:

	2025	2024
Cash and cash equivalents	\$ 57,720	\$ 57,420
Equity securities	1,540,073	1,400,635
Mutual funds	3,288,216	3,048,966
Exchange-traded funds	1,445,267	1,378,502
Fixed income securities	1,155,334	1,080,086
	<u>\$ 7,486,610</u>	<u>\$ 6,965,609</u>

The Arc of the Quad Cities Area and Subsidiary

Notes to Consolidated Financial Statements

Note 4. Investments, Burress Endowment Fund and Net Asset Classifications (Continued)

Investment income on long-term funds is classified in the consolidated statements of activities as income from net assets with donor restrictions. Investment income for the years ended June 30, 2025 and 2024, is summarized as follows:

	2025	2024
Interest and dividends	\$ 225,043	\$ 205,376
Net realized and unrealized gains	544,801	596,649
Investment fees and expenses	(34,152)	(31,577)
	<u>\$ 735,692</u>	<u>\$ 770,448</u>

The investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the consolidated financial statements.

The Arc has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) adopted by the 2009 Illinois legislature as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted Burress Endowment Fund absent explicit donor stipulations to the contrary. As a result of this interpretation, The Arc classifies as net assets with donor restrictions (a) the original value of gifts donated to the endowment and (b) the original value of subsequent gifts to the endowment. The remaining portion of the Burress Endowment Fund is also classified as net assets with donor restrictions until those amounts are approved for expenditure by the Burress Endowment Board of Trustees to be appropriated for expenditure by The Arc in a manner consistent with the standard of prudence prescribed by the State of Illinois in its enacted version of UPMIFA. In accordance with UPMIFA, The Arc considers the following factors in making a determination to appropriate or accumulate donor-restricted Burress Endowment Funds: (1) the duration and preservation of the Burress Endowment Fund; (2) the purposes of The Arc and the donor-restricted Burress Endowment Fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and appreciation of investments; (6) other resources of The Arc; and (7) the investment policies of the Burress Endowment Fund.

The Arc has adopted investment and spending policies for its Burress Endowment Fund. The objective of these policies is to provide The Arc a predictable funding stream for its programs while protecting the purchasing power of the Burress Endowment Fund. The Burress Endowment Fund, through its investment policy, has established a target (inflation-adjusted) annualized rate of return over the long-term of at least 4%; the total return during any single measurement period may deviate from the long-term return objective. To satisfy its long-term rate-of-return objective, The Arc may invest in publicly traded securities of domestic corporations and foreign corporations listed on a major domestic or international exchange, mutual funds, U.S. Government and U.S. Agency obligations, short-term insured obligations of financial institutions, and bank demand deposits. The purpose is to moderate the overall investment risk of the Burress Endowment Fund.

An amount equal to 4% of the fund value as of each December 31 may, at the request of The Arc and by approval of the Endowment Board of Trustees, be used by The Arc for its general purposes. The distributions shall not cause the fund value to fall below \$3,000,000 per direction of the Endowment Board of Trustees. During the year ended June 30, 2025 and 2024, distributions of \$218,082 and \$238,353, respectively, were approved and distributed in 2025 and 2024.

The Arc of the Quad Cities Area and Subsidiary

Notes to Consolidated Financial Statements

Note 4. Investments, Burress Endowment Fund and Net Asset Classifications (Continued)

The changes in endowment net assets for the years ended June 30, 2025 and 2024, were as follows:

	2025		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ 6,966,300	\$ 6,966,300
Investment return:			
Interest and dividends	-	225,043	225,043
Net appreciation in fair value of investments (realized and unrealized)	-	544,801	544,801
Total investment gains	-	769,844	769,844
Appropriation of endowment funds for expenditures	-	(218,082)	(218,082)
Other changes	-	(32,802)	(32,802)
Endowment net assets, end of year	\$ -	\$ 7,485,260	\$ 7,485,260
	2024		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ 6,433,515	\$ 6,433,515
Investment return:			
Interest and dividends	-	205,376	205,376
Net appreciation in fair value of investments (realized and unrealized)	-	596,649	596,649
Total investment gains	-	802,025	802,025
Appropriation of endowment funds for expenditures	-	(238,353)	(238,353)
Other changes	-	(30,887)	(30,887)
Endowment net assets, end of year	\$ -	\$ 6,966,300	\$ 6,966,300

From time to time, the fair value of the Burress Endowment Fund may fall below the donor contributions that are required to be retained for perpetual duration, known as an underwater endowment. The Burress Endowment Fund was not underwater as of June 30, 2025 or 2024.

Note 5. Fair Value Measurements

The Fair Value Measurements and Disclosures Topic of the ASC defines fair value, establishes a framework for measuring fair value and requires disclosures about fair value measurements. The fair value hierarchy set forth in the topic is as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that The Arc has the ability to access as of the measurement date.

The Arc of the Quad Cities Area and Subsidiary

Notes to Consolidated Financial Statements

Note 5. Fair Value Measurements (Continued)

Level 2: Significant other observable inputs other than Level 1 prices 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.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Following is a description of the valuation methodologies used for assets measured at fair value:

Investments: Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include exchange traded fund, equity securities, fixed income securities and mutual funds.

The fair values of beneficial interests in assets held by community foundations are estimated at The Arc's beneficial interest percent of the fair value of investment pools held by each community foundation as of the statement of financial position date. The Arc's interests are at the community foundation level and not in the underlying investments within the community foundations' investment pools. Therefore, the beneficial interests are considered to be Level 3 despite containing underlying assets with quoted prices.

There have been no changes in valuation techniques used for any assets measured at fair value during the years ended June 30, 2025 and 2024.

The following tables set forth by level within the fair value hierarchy the investments measured at fair value on a recurring basis as of June 30, 2025 and 2024:

	June 30, 2025			
	Investments at Fair Value			Total
	Level 1	Level 2	Level 3	
Assets:				
Equity securities, domestic	\$ 1,618,245	\$ -	\$ -	\$ 1,618,245
Mutual funds:				
Domestic:				
Small/mid-cap equities	1,518,609	-	-	1,518,609
Large-cap equities	1,078,538	-	-	1,078,538
Fixed income	2,131,541	-	-	2,131,541
International large-cap equities	939,098	-	-	939,098
Exchange traded funds:				
Small blend	226,008	-	-	226,008
Mid-cap blend	363,643	-	-	363,643
Large value	436,994	-	-	436,994
Emerging markets	183,366	-	-	183,366
Real estate	53,757	-	-	53,757
Foreign	173,769	-	-	173,769
Other	270,842	-	-	270,842
Open-ended mutual funds	990,279	-	-	990,279
Beneficial interests in community foundations	-	-	153,071	153,071
	<u>\$ 9,984,689</u>	<u>\$ -</u>	<u>\$ 153,071</u>	<u>10,137,760</u>
Cash and cash equivalents				313,414
Total investments				<u>\$ 10,451,174</u>

The Arc of the Quad Cities Area and Subsidiary

Notes to Consolidated Financial Statements

Note 5. Fair Value Measurements (Continued)

	June 30, 2024			
	Investments at Fair Value			
	Level 1	Level 2	Level 3	Total
Assets:				
Equity securities, domestic	\$ 1,400,635	\$ -	\$ -	\$ 1,400,635
Mutual funds:				
Domestic:				
Small/mid-cap equities	1,002,183	-	-	1,002,183
Large-cap equities	898,185	-	-	898,185
Fixed income	1,956,197	-	-	1,956,197
International large-cap equities	1,044,670	-	-	1,044,670
Exchange traded funds:				
Small blend	286,213	-	-	286,213
Mid-cap blend	313,271	-	-	313,271
Large value	345,263	-	-	345,263
Emerging markets	159,796	-	-	159,796
Real estate	36,238	-	-	36,238
Foreign	165,684	-	-	165,684
Other	216,740	-	-	216,740
Open-ended mutual funds	1,060,182	-	-	1,060,182
Beneficial interests in community foundations	-	-	142,313	142,313
	<u>\$ 8,885,257</u>	<u>\$ -</u>	<u>\$ 142,313</u>	<u>9,027,570</u>
Cash and cash equivalents				89,935
Total investments				<u>\$ 9,117,505</u>

Note 6. Commitments

Employment contract: In June 2015, The Arc renewed the employment contract with its Executive Director who retired in July 2016. The contract included The Arc paying a fixed dollar amount of the cost to provide the employee with family supplemental major medical, health, dental and pharmacy coverage upon the employee reaching age 65 whether or not the Executive Director is employed at that time. The Arc has a liability in the amount of \$253,371 and \$267,311 recorded related to this contract as of June 30, 2025 and 2024, respectively, which is included in accrued compensation. For the years ended June 30, 2025 and 2024, the total payment amount was \$14,491 and \$14,069, respectively.

Following are estimated amounts of expected future payments:

Years ending June 30:	
2026	\$ 14,926
2027	15,374
2028	15,835
2029	16,310
2030	16,800
Thereafter	174,126
	<u>\$ 253,371</u>

The Arc of the Quad Cities Area and Subsidiary

Notes to Consolidated Financial Statements

Note 7. Mortgage Note Payable

Mortgage note payable as of June 30, 2025 and 2024, is as follows:

	2025	2024
Mortgage note payable, bank, 3.21% interest rate, payable \$3,513 per month including interest, due in November 2024. (a)	<u>\$ -</u>	<u>\$ 371,740</u>

(a) Collateralized by certain land, building and improvements with a net book value of \$811,504 as of June 30, 2024.

Notes payable fully matured and was paid in full in November 2024 in the amount of \$371,740.

Note 8. Line of Credit

The Arc has a line of credit with CBI Bank & Trust whereby it can borrow a maximum of \$750,000 at the prime rate (7.50% as of June 30, 2025) through January 2027. The Arc had no borrowings as of June 30, 2025 and 2024.

Note 9. Employee Benefits

The Arc has a 401(k) plan which covers all eligible employees. The total retirement plan expense for the 401(k) plan was approximately \$240,000 during each of the years ended June 30, 2025 and 2024.

Note 10. Custodian Funds

The Arc acts as custodian of the residents' funds for residents in their Community Integrated Living Arrangements (CILA). As of June 30, 2025 and 2024, these funds amounted to \$8,445 and \$7,557, respectively. These funds are not included in the accompanying consolidated financial statements.

Note 11. Postretirement Health Care Benefits

The current accounting standards guidance requires recognition of the overfunded or underfunded status of defined benefit postretirement plans as an asset or liability in the consolidated statement of financial position. This guidance also requires measurement of the funded status of a plan as of the date of the consolidated statement of financial position.

The Arc has a noncontributory unfunded postretirement health care benefit plan that covers certain eligible employees. Eligible employees must have been employed before 1992, have been employed in a position, which is not represented by a union for the last five years of employment and must not have been terminated for cause. Under the terms of the plan, The Arc will pay 50% of health insurance premiums for the eligible employees beginning at their retirement and continuing until the retiree reaches age 65, or is eligible for Medicare, whichever comes first.

The Arc of the Quad Cities Area and Subsidiary

Notes to Consolidated Financial Statements

Note 11. Postretirement Health Care Benefits (Continued)

The accumulated postretirement benefit obligation is included in accrued compensation in the accompanying consolidated statements of financial position as of June 30, 2025 and 2024. Information about the plan is as follows:

	2025	2024
Amount at the end of year:		
Fair value of plan assets	\$ -	\$ -
Projected benefit obligations	89,058	83,814
Funded status (plan obligations in excess of plan assets) included in accrued compensation on the consolidated statements of financial position	<u>\$ (89,058)</u>	<u>\$ (83,814)</u>
Accumulated postretirement benefit obligation	<u>\$ 89,058</u>	<u>\$ 83,814</u>

Benefits paid to retired members of the plan were \$12,379 and \$10,001 for the years ended June 30, 2025 and 2024, respectively.

Assumptions used in calculating the June 30, 2025, postretirement benefit included a discount rate of 5.0% and a health care cost trend of 3.4%.

There was one employee being paid benefits under this plan during the years ended June 30, 2025 and 2024.

Following are estimated amounts of expected future benefit payments:

Years ending June 30:	
2026	\$ -
2027	-
2028	13,319
2029	21,783
2030	23,765
Thereafter	30,191
	<u>\$ 89,058</u>

Note 12. Income Taxes

The Internal Revenue Service (IRS) has recognized The Arc as exempt from income taxes under Internal Revenue Code Section 501(c)(3).

The Arc files a Form 990 (Return of Organization Exempt from Income Tax) annually. When these returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the tax position taken or the amount of the position that would ultimately be sustained. Examples of tax positions common to not-for-profits include such matters as the following: the tax-exempt status of each entity and various positions relative to potential sources of unrelated business income tax (UBIT). UBIT is reported on Form 990T, as appropriate. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes that it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any.

The Arc of the Quad Cities Area and Subsidiary

Notes to Consolidated Financial Statements

Note 12. Income Taxes (Continued)

Tax positions are not offset or aggregated with other positions. Tax positions that meet the more likely than not recognition threshold are measured at the largest amount of tax benefit that is more than 50% likely to be realized on settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for uncertain tax benefits in the accompanying consolidated statements of financial position along with any associated interest and penalties that would be payable to the taxing authorities upon examination. As of June 30, 2025 and 2024, there were no uncertain tax benefits identified and recorded as a liability.

The Form 990 filed by The Arc is subject to examination by the IRS up to three years from the extended due date of each return.

Note 13. Leases

The Arc leases a phone system under a finance lease agreement that has an initial term of five years. The phone lease includes an option to renew for six periods at the end of the term. In addition, the lease does not contain a termination option. The option to extend a lease is included in the lease terms when it is reasonably certain that The Arc will exercise that option. The Arc's operating leases generally do not contain any material restrictive covenants or residual value guarantees. The phone system amounts to \$31,059 and \$48,807 as of June 30, 2025 and 2024, respectively, and is recorded under furniture and equipment on the consolidated statements of financial position as of June 30, 2025 and 2024.

The Arc has elected the use of risk-free discount rate for leases with no implicit interest rate practical expedient as there are no interest rates stated in the leases. The phone lease has a five-year term ending in March 2027.

Finance lease cost is recognized on a straight-line basis over the lease term. The Arc does not have any significant operating leases. The weighted average of the remaining lease term for the years ended June 30, 2025 and 2024, were two and three years, respectively.

Future minimum lease commitments are as follows:

Years ending June 30:

2026	\$	17,748
2027		13,311
	\$	<u>31,059</u>