CALMRA, INC.

FINANCIAL STATEMENTS

JUNE 30, 2021

MULLEN SONDBERG WIMBISH & STONE, PA

CERTIFIED PUBLIC ACCOUNTANTS

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MULLEN & SONDBERG
WIMBISH & STONE, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

888 Bestgate Road • Suite 310 • Annapolis, Maryland 21401

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
CALMRA, Inc.
Laurel, Maryland

We have audited the accompanying financial statements of CALMRA, Inc. (a non-profit organization), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 the entity'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 financial statements.

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

To the Board of Directors of
CALMRA, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CALMRA, Inc. as of June 30, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited CALMRA, Inc.'s 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 3, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects with the audited financial statements from which it has been derived.

Mullen Sondberg Wimbish & Stone

MULLEN, SONDBERG, WIMBISH & STONE, P.A.

Annapolis, Maryland
August 15, 2022

CALMRA, Inc.
STATEMENT OF FINANCIAL POSITION
June 30, 2021

ASSETS

	2021	2020
CURRENT ASSETS		
Cash and cash equivalents	$ 978,586	$ 1,579,679
Investments	471,206	-
Accounts receivable - funding sources	709,589	634,887
Accounts receivable - other	-	5,619
Prepaid expenses	13,604	13,571
Total current assets	2,172,985	2,233,756
PROPERTY AND EQUIPMENT		
Net of accumulated depreciation	5,971,629	6,216,960
OTHER ASSETS		
Loan fees - mortgage escrow	651	687
Deposits	14,461	15,302
Restricted deposits - reserve for replacements	237,270	249,928
Total other assets	252,382	265,917
Total assets	$ 8,396,996	$ 8,716,633

LIABILITIES AND NET ASSETS

	2021	2020
CURRENT LIABILITIES		
Accounts payable	$ 9,755	$ 205,455
Accrued payroll, taxes, and benefits	170,470	682,395
Accrued vacation	250,341	223,593
Due to consumers	47,308	30,765
Due to State of Maryland	198,614	140,274
Lines of credit	-	350,223
Deferred revenue - Paycheck Protection Program	-	88,950
Mortgages and notes payable - net of debt issuance costs	265,776	253,852
Capital lease obligations	151,964	119,928
Total current liabilities	1,094,228	2,095,435
LONG-TERM LIABILITIES		
Mortgages and notes payable - net of debt issuance costs	3,458,940	3,693,426
Participation liability	358,606	393,289
Capital lease obligations	214,118	377,326
Total long-term liabilities	4,031,664	4,464,041
Total liabilities	5,125,892	6,559,476
NET ASSETS		
Without donor restrictions - undesignated	3,271,104	2,157,157
Total net assets	3,271,104	2,157,157
Total liabilities and net assets	$ 8,396,996	$ 8,716,633

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

CALMRA, Inc.
STATEMENT OF ACTIVITIES
Year Ended June 30, 2021

	2021	2020
REVENUES, GAINS AND OTHER SUPPORT		
WITHOUT DONOR RESTRICTIONS		
State of Maryland Program fees	$ 6,657,492	$ 5,696,139
Montgomery and Prince George's County program fees	379,293	387,737
Consumer fees	287,708	280,536
Contributions and fundraising	127,577	104,581
Grants	115,853	-
Forgiveness of debt	109,000	36,000
Food stamps	87,608	27,373
Miscellaneous	85,996	53,582
Special events, net of direct expenses	13,082	-
Memberships	8,010	8,295
Rental income	6,810	23,580
Investment income, net	186	(4,087)
Gain on sale of property and equipment	-	247,913
Total revenues, gains and other support	7,878,615	6,861,649
EXPENSES		
Program services		
Residential	5,065,038	4,858,212
Day	868,022	904,819
Personal supports	48,195	45,708
Individual support services	16,680	13,167
Total program services	5,997,935	5,821,906
Supporting services		
Management and general	854,902	809,818
Fundraising	781	1,080
Total supporting services	855,683	810,898
Total expenses	6,853,618	6,632,804
Change in net assets before other changes	1,024,997	228,845
OTHER CHANGES IN NET ASSETS		
Other grant income - Paycheck Protection Program	88,950	837,250
Change in net assets	1,113,947	1,066,095
NET ASSETS AT BEGINNING OF YEAR WITHOUT DONOR RESTRICTIONS	2,157,157	1,091,062
NET ASSETS AT END OF YEAR WITHOUT DONOR RESTRICTIONS	$ 3,271,104	$ 2,157,157

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

CALMRA, Inc.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2021
With Summarized Financial Information for the Year Ended June 30, 2020

	Program Services				Supporting Services		Total	
	Residential	Day	Personal Supports	ISS	Management and General	Fundraising	2021	2020
Salaries	$ 3,391,987	$ 525,893	$ 33,349	$ 10,817	$ 412,308	$ -	$ 4,374,354	$ 4,070,946
Payroll taxes	293,721	45,850	3,227	1,050	35,997	-	379,845	415,415
Fringe benefits	302,145	32,070	1,895	373	25,926	-	362,409	308,073
Total salaries and related expenses	3,987,853	603,813	38,471	12,240	474,231	-	5,116,608	4,794,434
Depreciation	268,272	73,274	148	49	34,261	-	376,004	433,176
Interest	118,156	65,607	-	-	56,955	-	240,718	250,584
Utilities	138,658	20,731	-	-	12,240	-	171,629	159,797
Food	133,992	16,455	-	-	-	-	150,447	176,802
Insurance	79,179	12,638	214	161	6,721	-	98,913	95,390
Janitorial	75,463	13,112	-	-	5,911	-	94,486	100,171
Supplies	80,990		68	53	1,501	-	82,612	64,045
Purchase of services - other	-	-	-	-	78,431	-	78,431	48,445
Office supplies	25,293	17,968	918	331	29,915	1,688	76,113	36,649
Miscellaneous	10,062	595	90	29	45,064	-	55,840	27,087
Small equipment	31,703	14,509	-	-	672	-	46,884	698
Telephone	33,918	6,369	734	136	2,273	-	43,430	43,218
Professional fees	-	-	-	-	43,190	-	43,190	36,291
Vehicle expense	25,712	6,702	-	-	3,526	-	35,940	52,276
Penalties and late fees	-	-	-	-	26,539	-	26,539	20,534
Bad debt	20,728	-	1,328	2,805	-	-	24,861	-
Travel	11,722	4,052	3,804	464	972	-	21,014	14,501
Repairs and maintenance	12,614	1,730	444	148	1,216	-	16,152	35,175
National dues	167	-	-	-	14,216	-	14,383	15,487
Real estate taxes	-	7,206	-	-	4,803	-	12,009	136,798
Conferences and meetings	2,590	1,591	-	-	5,213	-	9,394	1,476
Awards and grants	601	-	-	-	4,725	-	5,326	19,422
Printing and publications	2,530	778	86	29	783	210	4,416	10,643
Postage and shipping	1,402	214	83	21	993	571	3,284	3,305
Purchase of services - consumers	1,125	-	1,806	214	-	-	3,145	7,499
Training	2,068	32	1	-	265	-	2,366	12,976
Licenses and permits	214	646	-	-	212	-	1,072	3,540
Registration fees	26	-	-	-	74	-	100	1,826
Rent	-	-	-	-	-	-	-	23,118
Condo dues	-	-	-	-	-	-	-	5,066
Consultants	-	-	-	-	-	-	-	2,330
Advertising	-	-	-	-	-	-	-	45
Total expenses	5,065,038	868,022	48,195	16,680	854,902	2,469	6,855,306	6,632,804
Less: special events expense offset against revenue in the statement of activities	-	-	-	-	-	(1,688)	(1,688)	-
Total expenses reported in the statement of activities	$ 5,065,038	$ 868,022	$ 48,195	$ 16,680	$ 854,902	$ 781	$ 6,853,618	$ 6,632,804

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

CALMRA, Inc.
STATEMENT OF CASH FLOWS
Year Ended June 30, 2021

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 1,113,947	$ 1,066,095
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	376,004	433,176
Amortization of debt issuance costs	197	197
Gain on sale of property and equipment	-	(247,913)
Realized/unrealized loss on investments	-	12,961
Amortization of loan discount and equity participation liability	7,750	13,755
Forgiveness of debt	(109,000)	(36,000)
Increase (decrease) in operating assets:		
Accounts receivable	(69,083)	(274,990)
Prepaid expenses	(33)	6,321
Deposits	841	(403)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(680,877)	329,470
Due to consumers	16,543	26,894
Due to State of Maryland	58,340	2,498
Deferred revenue - Paycheck Protection Program	(88,950)	88,950
Net cash provided by operating activities	625,679	1,421,011
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments and reinvested earnings	(971,251)	3,995
Acquisition of property and equipment	(85,161)	(55,088)
Proceeds from sale/redemption of investments	500,045	385,459
Proceeds from sale/disposal of property and equipment	-	190,330
Net cash provided by (used in) investing activities	(556,367)	524,696
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in margin line of credit	-	(154,064)
Change in restricted deposits - reserve for replacements	12,658	(23,461)
Proceeds from line of credit	-	354,400
Principal payments on line of credit	(350,223)	(304,177)
Principal payments on mortgages and notes payable	(201,668)	(207,234)
Principal payments on capital lease obligations	(131,172)	(116,319)
Net cash used in financing activities	(670,405)	(450,855)
Net change in cash and cash equivalents	(601,093)	1,494,852
Cash and cash equivalents at beginning of year	1,579,679	84,827
Cash and cash equivalents at end of year	$ 978,586	$ 1,579,679
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the year for interest	$ 232,771	$ 236,632
Noncash investing and financing activities:		
Acquisition of property and equipment	$ 130,637	$ 251,534
Less amounts financed	(45,476)	(196,446)
Cash paid for property and equipment	$ 85,161	$ 55,088
Sale proceeds of property and equipment	$ -	$ 626,140
Less selling expenses and mortgage payoff withheld	-	(435,810)
Cash proceeds from sale of property and equipment	$ -	$ 190,330

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

Note 1 - Summary of Significant Accounting Policies

Nature and Organization

CALMRA, Inc. (the Organization) is a not-for-profit organization and was incorporated in the State of Maryland on November 27, 1984, and began operations in 1992. The Organization provides residential, individual, and community support services for adults with developmental disabilities.

Basis of Accounting

The Organization prepares its financial statements in accordance with accounting principles generally accepted in the United States of America. This basis of accounting involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Financial Statement Presentation

The financial statements of the Organization have been prepared in accordance with U.S. Generally Accepted Accounting Principles, which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions that may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management or Board of Directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. As of June 30, 2021 and 2020, the Organization did not have any net assets with donor restrictions.

Summarized Financial Information

The financial statements include certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2020, from which the summarized information was derived.

Reclassifications of Prior Year Balances

Certain reclassifications of the prior year balances have been made to conform to current year presentation.

Note 1 - Summary of Significant Accounting Policies (Cont.)

Revenue Recognition – Contributions and Fundraising

Contributions are reported as revenue in the year received and/or when the unconditional promises are made. The Organization reports gifts of cash and other assets as support with donor restrictions if they are received with donor restrictions that limit the use of the donated assets. When a donor restriction expires, that is, when the restriction is met, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions, including donor-restricted conditional contributions, whose restrictions (and conditions, if applicable) are met in the same year are reported as support without donor restrictions.

Promises to give with a measurable performance or other barrier and a right of return are considered conditional promises to give and are not recognized until the conditions on which they depend have been met. There were no conditional promises to give for the years ended June 30, 2021 and 2020.

Revenue Recognition – Grants

Grants are reported as revenue based on the terms and conditions of each specific grant agreement with the grantor. Grants that are earned based on the expenditure of specific expenses are recorded as revenue when the expenses are incurred and the Organization has an unconditional right to the grant funds. Unexpended grant awards under these arrangements are classified as deferred revenue in the statement of financial position until they are earned. Grants that are received with grantor restrictions or stipulations regarding the use of the grant funds are classified as grants with donor restrictions. When a donor restriction expires, that is, when the restriction is met, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor-restricted grants whose restrictions are met in the same year are reported as support without donor restrictions.

Revenue Recognition – Program Service Fees and Consumer Program Fees

The Organization offers several levels of services for individuals with developmental disabilities. These services are funded primarily by the Developmental Disabilities Administration of the State of Maryland Department of Health (DDA). Program service fees for DDA programs are reported at the amount that reflects the consideration to which the Organization expects to be entitled to in exchange for providing services. Changes in the valuation of the consideration to which the Organization expects to be entitled to in exchange for providing services are recognized in the period in which the changes are determined. Program service fees are recognized at the point in time at which performance obligations are satisfied. The point in time at which performance obligations are satisfied is based on the provision of services on a daily or hourly basis, as prescribed by DDA program regulations. Revenue is recorded based on daily or hourly reimbursement rates established and approved by DDA.

Note 1 - Summary of Significant Accounting Policies (Cont.)

Revenue Recognition – Program Service Fees and Consumer Program Fees (Cont.)

The Organization receives advance payments from DDA on a quarterly basis, which are subsequently reconciled to actual amounts earned. Any amounts due to or from DDA upon reconciliation are adjusted by an increase or decrease in future quarterly advances.

The Organization discontinued providing services under the personal supports program in November 2020.

Program service fees recognized for DDA programs for the years ending June 30, 2021 and 2020 are as follows:

Service Type:	Measurement Period for Performance Obligations	Revenue Recognized June 30, 2021	Revenue Recognized June 30, 2020
Residential	Daily	$ 6,105,547	$ 5,044,518
Day	Daily	551,437	552,252
Personal supports	Quarter-hour	508	86,210
Individual support	Service based	-	13,159
		$ 6,657,492	$ 5,696,139

The Organization collects consumer program fees for room and board and contribution to care from individuals in the Organization's residential services program. Consumer program fee revenue is recognized at the point in time at which performance obligations are satisfied. The point in time at which performance obligations are satisfied is based on the provision of services on a monthly basis. The monthly reimbursement rate is determined for each individual based on rates established and approved by DDA.

Program service fees from consumers were as follows for the years ended June 30:

	2021	2020
Room and board fees	$ 201,238	$ 197,427
Contribution to care	74,006	62,445
Representative pay fees	12,464	20,664
	$ 287,708	$ 280,536

Note 1 - Summary of Significant Accounting Policies (Cont.)

Revenue Recognition – Program Service Fees and Consumer Fees (Cont.)

The Organization also receives a supplement from both Montgomery County and Prince George's County to support all DDA programs which are paid on a quarterly basis. Supplemental fund revenue amounted to the following during the years ended June 30:

	2021	2020
Montgomery County supplement	$ 295,859	$ 297,316
Prince George's County supplement	83,434	90,421
	$ 379,293	$ 387,737

Revenue Recognition – Special Events

The Organization's policy for recognizing revenue for special events is to recognize revenue in the year the event occurs.

Revenue Recognition – Rental Income

The Organization collects rent from employees who live in the Organization's residential program homes with their children. Rental income is recognized monthly as it is earned.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the statement of financial position date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Allocation of Functional Expenses

Accounting principles generally accepted in the United States of America require all not-for-profit organizations to present their expenses on a functional basis, separating program services from management and general and fundraising expenses. Expenses are either charged directly to program services as incurred or allocated based on estimates of time and effort or usage. The expenses that have been allocated based on estimates of time and effort or usage include the following; salaries and related expenses, depreciation, repairs and maintenance, supplies, and various occupancy costs.

Note 1 - Summary of Significant Accounting Policies (Cont.)

Measure of Operations

The statement of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the Organization's ongoing program services. Nonoperating activities are limited to resources from other activities considered to be of a more unusual or nonrecurring nature. Nonoperating activities for the years ended June 30, 2021 and 2020 consist of other grant income from the Paycheck Protection Program (See Note 13).

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents represent deposits in checking and savings accounts and certificates of deposit with maturities of ninety days or less, except cash and money market funds that are part of an investment portfolio.

The Organization manages funds for consumers in the residential program. The funds are deposited into a separate collective consumer representative payee bank account and are included with cash on the statement of financial position. The balance in the consumer representative payee account at June 30, 2021 and 2020 was $47,308 and $30,765, respectively.

Investments

Investments in marketable equity securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position.

Property and Equipment

Property and equipment acquisitions are recorded at cost. During the year ended June 30, 2021, the organization increased is threshold for the capitalization of assets from $500 to $5,000. Assets costing $5,000 or more and having a useful life of more than one year are capitalized. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. Gifts of long-lived assets such as land, buildings, or equipment are recorded at their fair values and reported as support without donor restrictions, unless explicit donor stipulations specify how the donated assets must be used.

Accounts Receivable

Accounts receivable from funding sources consist of amounts due from the State of Maryland Department of Health, Montgomery County, and Prince George's County for program fees and grants. Other accounts receivable consist of amounts due from consumers. All accounts receivable are considered fully collectible at June 30, 2021 and 2020. Accordingly, an allowance for doubtful accounts has not been established.

Note 1 - Summary of Significant Accounting Policies (Cont.)

Donated Services, Materials, and Equipment

Contributed services are recognized at fair value if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. There were no amounts recorded for contributed services, materials, or equipment for the years ending June 30, 2021 and 2020.

Advertising

The Organization's policy is to expense advertising costs as the costs are incurred. Total advertising costs for the years ended June 30, 2021 and 2020 amounted to $-0- and $45, respectively.

Income Tax Status and Income Tax Position

The Organization is exempt under Section 501(c)(3) of the Internal Revenue Code and is classified as other than a private foundation. It is exempt from paying federal income tax on any income except unrelated business income. No provision has been made for income taxes as the Organization has had no significant unrelated business income.

The Organization follows the guidance of *ASC 740-10*, "*Accounting for Uncertainty in Income Taxes*" which clarifies the accounting for the recognition and measurement of the benefits of individual tax positions in the financial statements, including those of not-for-profit organizations. Tax positions must meet a recognition threshold of more-likely-than-not in order for the benefit of those tax positions to be recognized in the Organization's financial statements.

The Organization analyzes tax positions taken, including those related to the requirements set forth in IRC Sec. 501(c)(3) to qualify as a tax-exempt organization, activities performed by volunteers and Board members, the reporting of unrelated business income, and its status as a tax-exempt organization under Maryland State statute. The Organization does not know of any tax benefits arising from uncertain tax positions and there was no effect on the Organization's financial position or changes in net assets as a result of analyzing its tax positions.

Note 1 - Summary of Significant Accounting Policies (Cont.)

New Accounting Pronouncement

On July 1, 2020, the Organization adopted *ASU 2014-09, Revenue Recognition (Topic 606) – "Revenue from Contracts with Customers"*, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. *ASU 2014-09* outlines a five-step process for revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards, and also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. Major provisions include determining which goods and services are distinct and represent separate performance obligations, how variable consideration (which may include change orders and claims) is recognized, whether revenue should be recognized at a point in time or over time and ensuring the time value of money is considered in the transaction price. The Organization adopted *ASU 2014-09* and related amendments using the retrospective method. Accordingly, the comparative financial statements for the year ending June 30, 2020 have been adjusted to fully conform with *ASU 2014-09*. The adoption of *ASU 2014-09* did not have any impact on the Organization's financial position, results of operations or cash flows, and therefore did not result in a prior period adjustment. The adjustments to the year ending June 30, 2020 consisted of enhanced disclosures regarding revenue recognition and timing of cash flows and reclassifications of certain revenue accounts only.

Note 2 - Availability and Liquidity

The following represents the Organization's financial assets at June 30:

	2021	2020
Financial assets at year end:		
Cash and cash equivalents	$ 978,586	$ 1,579,679
Investments	471,206	-
Accounts receivable - funding sources	709,589	634,887
Accounts receivable - other	-	5,619
Total financial assets	2,159,381	2,220,185
Less amounts not available to be used within one year:		
Consumer cash	(47,308)	(30,765)
Financial assets available to meet general expenditures over the next twelve months	$ 2,112,073	$ 2,189,420

Note 2 - Availability and Liquidity (Cont.)

The Organization's goal is to establish at least three months of average recurring operating costs in available liquidity (approximately $1,713,000). Monthly average recurring costs are calculated by dividing total operating expenses for the year by twelve months. In addition to calculating the actual operating reserve at year end, the target minimum reserve will be calculated each year after approval of the annual budget. As part of its liquidity plan, excess cash is invested in an investment account to be used for operations.

The Organization has a $300,000 line of credit available to draw upon in the event of an unanticipated liquidity need (See Note 9). The Organization also has equity in its properties located in Prince George's and Montgomery Counties. The Organization may choose to use any available equity after all other options have been exhausted.

Note 3 - Concentration of Cash Balances

At June 30, 2021 and 2020 and at various times during the year, the Organization maintained cash balances in excess of the federally insured limit. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000.

Note 4 - Investments

Investments are recorded at fair market value. The Organization liquidated the investments during the year ended June 30, 2020 and reinvested funds during the year ended June 30, 2021. Investments consisted of the following at:

	June 30, 2021		
	Cost	Fair Market Value	Gross Unrealized Gain (Loss)
Cash/money market funds	$ 471,206	$ 471,206	$ -

Note 5 - Fair Value Measurement

ASC 820-10 Fair Value Measurements establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under *FASB ASC 820* are as described as follows:

Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.

Level 2: Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs that are unobservable and supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The asset 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 maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

As of June 30, 2021, investments whose values are based on quoted market prices in active markets, and are, therefore classified with Level 1, include cash and money market funds held in brokerage accounts.

The table below presents the balances of investments measured at fair value on a recurring basis by level within the hierarchy as of June 30:

	2021			
	Level 1	Level 2	Level 3	Total
Cash/money market funds	$ 471,206	$ -	$ -	$ 471,206

Note 6 - Property and Equipment

A summary of property and equipment follows for June 30:

	Estimated Lives	2021	2020
Land	-	$ 2,274,829	$ 2,274,829
Buildings	25 - 30 years	4,066,370	4,066,370
Furniture and equipment	5 - 10 years	258,563	258,563
Vehicles	75,000 miles	77,084	77,084
Vehicles	5 years	973,692	973,692
Capital and leasehold improvements	5 - 30 years	2,251,740	2,021,549
Construction in progress	-	-	99,875
		9,902,278	9,771,962
Less accumulated depreciation		(3,930,649)	(3,555,002)
Net property and equipment		$ 5,971,629	$ 6,216,960

Depreciation expense for the years ended June 30, 2021 and 2020 was $376,004 and $433,176, respectively.

Note 7 - Restricted Deposits

The Organization is required to maintain a reserve for replacements escrow account for each residential property financed through Maryland Department of Housing and Community Development (MDHCD). As of June 30, 2021 and 2020, the cumulative monthly deposits required to be made into the reserve for replacements escrow accounts was $2,355 and $537, respectively. Effective June 1, 2020 MDHCD suspended the requirement to deposit funds into the reserve for replacements for 13 of the mortgages through May 30, 2021. The Organization must request approval from MDHCD to expend the funds for approved repairs and replacements. As of June 30, 2021 and 2020, the balance in the reserve for replacement accounts was $237,270 and $249,928, respectively.

Note 8 - Mortgages and Notes Payable

To comply with *ASU 2015-3,* the Organization reports debt issuance costs as a direct deduction from the face amount of the related debt. The Organization reports amortization of debt issuance costs as interest expense. Debt at June 30, 2021 and 2020 is shown net of unamortized debt issuance cost of $2,639 and $2,836, respectively.

Note 8 - Mortgages and Notes Payable (Cont.)

Details and balances of mortgages and notes payable are as follows for years ending June 30:

	2021	2020
Mortgages payable to the Maryland Department of Housing and Community Development. The loans were obtained to acquire residential properties. Aggregate monthly payments of $9,222 and $10,044 as of June 30, 2021 and 2020, respectively, include principal and interest ranging between 1% - 7.06%. The mortgages are for 15 to 30 years and mature between April 2033 and May 2050. The mortgages are secured by residential properties.	$ 1,439,877	$ 1,544,497
Mortgage payable to the State Employee Credit Union. The mortgage was obtained to acquire one residential property. Monthly payments of $2,301 include principal and interest at 4.65% for the first 60 months. Monthly payments increase to $2,355 in October 2019 and include interest at 4.92%. A balloon payment is due for the remaining principal balance on the mortgage in September 2024. The mortgage is secured by one residential property.	320,171	328,117
Notes payable to Montgomery County Department of Housing and Community Affairs. The loans were obtained to assist in the purchase of various capital renovations for residential properties. The notes are non-interest bearing and are forgivable after 5 years if the Organization meets its obligations as stated in the loan agreements. The notes mature between fiscal years ending June 30, 2022 and 2030.	255,671	210,195
Mortgages payable to the Montgomery County Department of Housing and Community Affairs. The loans were obtained to supplement the acquisition of six group homes. The loans are non-interest bearing and aggregate monthly payments total $856. The mortgages are for 30 years and mature between March 2027 and November 2036. The mortgages are secured by residential properties.	65,857	76,216
Notes payable to Prince George's County Department of Housing. The loans were obtained to assist in the purchase of four residential properties. The notes are non-interest bearing and repayment is only required if the Organization violates certain loan stipulations within 20 years from the date of the loan. Forgiveness of the notes was approved during the fiscal year ending June 30, 2021.	-	109,000
Mortgages payable to Prince George's County Community Development Administration. The mortgages were obtained for the acquisition of a building. Aggregate monthly payments of $12,085 include principal and interest ranging from 0% - 6.75%. The mortgages mature in May 2042. The mortgages are secured by the property.	1,837,822	1,905,876
Note payable obtained to purchase new computer equipment. Note requires 48 monthly payments of $333 including interest at 13.4%. The note was paid off during the year ended June 30, 2021.	-	10,689
Total mortgages and notes payable	3,919,398	4,184,590
Less discount	(192,043)	(234,476)
Less current maturities	(265,776)	(253,852)
Less debt issuance costs, net of amortization	(2,639)	(2,836)
Long-term portion	$ 3,458,940	$ 3,693,426

Note 8 - Mortgages and Notes Payable (Cont.)

The Organization has entered into certain participation mortgage loans with Maryland Department of Housing and Community Development (DHCD). These loans totaled $1,439,877 and $1,544,497 as of June 30, 2021 and 2020, respectively. These agreements entitle DHCD to 50% of the appreciation, as defined in the agreement, upon sale, refinancing, or transfer of the related property; upon ceasing use of the related property for its stated purpose; or default or maturity of the related note. At June 30, 2021 and 2020, the Organization has recorded a participation liability of $358,606 and $393,289, respectively, and a related mortgage loan discount of $192,043 and $234,476, respectively in connection with these agreements.

The State Employee Credit Union (SECU) mortgage agreement contains various covenants, which among other things, places restrictions on the Organization's ability to incur additional indebtedness, requires the Organization to maintain certain financial ratios, and prevents the Organization for loaning money, or selling the building or merging with another entity.

Required principal payments are as follows for future years ending June 30:

2022	$	190,776
2023		152,796
2024		270,912
2025		428,107
2026		152,739
Thereafter		2,724,068
	$	3,919,398

For the years ended June 30, 2021 and 2020, total interest expense was $240,718 and $250,584, respectively.

Note 9 - Lines of Credit

In April 2008, the Organization obtained a revolving line of credit with a bank. The borrowing limit is $300,000, with interest at the prime rate plus 1%, limited by a floor on the interest rate at a minimum of 4%. The line of credit is secured by cash, securities, and property of the Organization. As of June 30, 2021 and 2020, the balance outstanding on the line of credit was $-0- and $300,000, respectively.

In March 2012, the Organization entered into a line of credit with a bank. The borrowing limit is $125,000, with interest at the prime rate plus 1%. The line of credit is available to assist with the purchase of equipment or to finance improvements to group homes. As of June 30, 2021 and 2020, the balance outstanding on the line of credit was $-0- and $50,223, respectively.

Note 10 - Capital Lease Obligations

The Organization has entered into several lease arrangements for vehicles, which have been accounted for as capital leases. The terms of the leases range between 36 - 60 months. At June 30, 2021 and 2020, aggregate monthly payments of $11,413 and $16,117, respectively, include principal and interest ranging between 5.9% - 6.9%. At June 30, 2021 and 2020, the total cost of vehicles acquired was $973,692. The remaining book value at June 30, 2021 and 2020 was $269,111 and $396,238 respectively. Amortization of the vehicles is included in depreciation expense.

Future minimum lease payments under these leases are as follows:

Year Ending June 30	
2022	$ 170,382
2023	121,876
2024	66,503
2025	46,694
	405,455
Less payments representing interest	(39,373)
Present value of future lease payments (including current portion of $151,964)	$ 366,082

Note 11 - Accrued Vacation

Employees of the Organization are entitled to paid vacation, depending on the length of service and job classification. At June 30, 2021 and 2020, there was $250,341 and $223,593, respectively, of vacation benefits due employees.

Note 12 - Retirement Plan

The Organization has established a 403(b) tax-deferred annuity plan for all eligible employees. The Organization matches employees' voluntary contributions of up to 3% to 6% of base pay, depending on the length of employment. Employer contributions to the plan were suspended during the year ended June 30, 2021. Pension expense for the years ended June 30, 2021 and 2020 was $-0- and $67,328, respectively, and is included in fringe benefits in the financial statements.

Note 13 - Paycheck Protection Program

In April 2020, the Organization received $926,200 under the United States Small Business Administration's (SBA) Paycheck Protection Program (PPP). The PPP funding is legally structured as a forgivable loan by the SBA. In order to achieve forgiveness of the loan, the Organization must spend the funding for specific purposes and also must generally maintain its full-time equivalent level of staffing over a defined time period.

The Organization has accounted for the PPP funding as a conditional grant in the financial statements. The Organization's management believed the Organization had met the substantial requirements for partial forgiveness of the loan and recorded grant revenue totaling $837,250 during the year ending June 30, 2020. The remaining balance of the loan that did not meet the criteria for recognition as of June 30, 2020, amounted to $88,950 and was included in deferred revenue as of June 30, 2020. During the year ended June 30, 2021, the Organization spent the remaining funds consistent with the PPP loan terms and recognized grant revenue of $88,950 in the financial statements. Due to the unusual nature of the PPP funding, this revenue has been presented separately in the financial statements under other changes in net assets.

In December 2020, the Organization was notified by its lender that the SBA had forgiven the loan in the full amount of $926,200, including forgiven interest of $5,938.

Note 14 - Special Events Revenue

The direct costs of special events have been netted with special events revenue. There were no special events during the year ended June 30, 2020. Special events revenue and direct costs c consisted of the following at June 30, 2021:

Revenues	$ 14,770
Direct expenses	(1,688)
Total net revenues	$ 13,082

Note 15 - Contingencies

The Organization receives a substantial portion of its revenue from government grants and contracts, all of which are subject to audit by the government. Until such audits have been completed and final settlement reached, there exists a contingent liability to refund any amounts received in excess of allowable costs. Management of the Organization is of the opinion that no significant liability will result from audit adjustments, if any.

Note 15 - Contingencies (Cont.)

During the year ended June 30, 2006, the Organization received grant funds in the amount of $75,000 from the State of Maryland for residential renovations. If the property is sold or transferred within thirty years to a non-approved person, agency, or organization after the completion of the renovation project, the State is entitled to receive an amount bearing the same ratio to the then current fair market value of the property.

Note 16 - Significant Funding Source

The Organization receives a majority of its total revenues through the State of Maryland Department of Health. The Organization is highly dependent upon government funding to continue its operations.

Note 17 - Change in Accounting Estimate

Subsequent to the issuance of the June 30, 2020 financial statements, the Organization received additional guidance regarding the funding made available by the State of Maryland Department of Health, in response to the coronavirus pandemic (Appendix K funding). These changes necessitated by additional guidance had an effect on the estimate recorded by the Organization for program service fees for the year ended June 30, 2020. The impact of these changes was accounted for a change in accounting estimate during the year ended June 30, 2021. Accordingly, the Organization recorded a decrease in program services fees of approximately $30,750 during the year ended June 30, 2021. In addition, the amount due to the State of Maryland was increased by approximately $30,750 during the year ended June 30, 2021 related to these changes.

Note 18 - Subsequent Events

Subsequent events and transactions have been evaluated by the Organization for potential recognition or disclosure in the financial statements through August 15, 2022, the day the Organization’s financial statements were available to be issued. Except as described below, there have been no subsequent events that require recognition or disclosure in the financial statements.

On March 4, 2022 the Organization entered into a loan agreement with the Montgomery County Department of Housing and Community Affairs (DHCA). The DHCA has approved an amount not to exceed $211,393 to assist with renovations to one of the Organization’s residential homes. The funds are made available through a 0% interest loan for a period of ten years from the date the work is completed. The loan is secured by a promissory note only, and may be forgivable at the end of the ten year period if the Organization meets all of the conditions of the loan. The work must be completed by September 1, 2022.

On April 5, 2022 the Organization was notified from the Montgomery County Department of Housing and Community Affairs (DHCA) that three of the Organizations rehabilitation loans with DHCA totaling $165,110 were forgiven.