

ELLIN & TUCKER

CONSOLIDATED FINANCIAL STATEMENTS

Fello, Inc. and Subsidiaries

June 30, 2025 and 2024

fello.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Fello, Inc.

OPINION

We audited the accompanying consolidated financial statements of Fello, Inc. and Subsidiaries (Organization) (a nonprofit organization), which comprise the Consolidated Statement of Financial Position as of June 30, 2025, the related Consolidated Statements of Activities, Functional Expenses, and Cash Flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2025 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

BASIS FOR OPINION

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated 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 audit. We believe the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion.

PRIOR PERIOD CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of the Organization as of June 30, 2024 were audited by other auditors, whose report dated January 9, 2025 expressed an unmodified opinion on those statements.

RESPONSIBILITIES OF MANAGEMENT FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated 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 matters 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.



ELLIN & TUCKER
Certified Public Accountants

Baltimore, Maryland
November 19, 2025

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Fello, Inc. and Subsidiaries

June 30, 2025 and 2024

	<u>ASSETS</u>	
	<u>2025</u>	<u>2024</u>
ASSETS		
Cash and Cash Equivalents	\$ 6,586,177	\$ 3,765,107
Investments	-	1,321,107
Beneficial Interest in Community Foundation of Anne Arundel County	98,040	25,000
Unconditional Promises to Give, Net	465,530	1,221,777
Due From State of Maryland	2,823,547	2,575,430
Accounts Receivable – Fiscal Management Service, Net of Allowance for Credit Losses of \$2,485,927 and \$1,285,927, Respectively	41,073,793	33,803,156
Grants Receivable	-	755,295
Right-of-Use Finance Lease Assets	3,431,845	2,834,962
Right-of-Use Operating Lease Asset	-	3,517,677
Prepaid Expenses, Security Deposits, and Escrow	1,725,719	1,028,929
Property and Equipment, Net	60,051,105	37,280,247
Total Assets	<u>\$ 116,255,756</u>	<u>\$ 88,128,687</u>
	<u>LIABILITIES</u>	
LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 2,741,069	\$ 1,567,865
Accrued Salaries and Related Expenses	33,217,015	21,772,422
Line of Credit	-	8,000,000
Due to State of Maryland	12,528,196	9,370,659
Finance Lease Obligations	4,372,029	3,390,164
Operating Lease Obligation	-	4,299,129
Participation Liability	94,629	87,523
Other Liabilities	253,659	14,076
Mortgages and Notes Payable, Net	32,025,784	19,677,345
Total Liabilities	<u>85,232,381</u>	<u>68,179,183</u>
NET ASSETS		
Without Donor Restrictions	30,454,800	18,581,932
With Donor Restrictions	568,575	1,367,572
Total Net Assets	<u>31,023,375</u>	<u>19,949,504</u>
Total Liabilities and Net Assets	<u>\$ 116,255,756</u>	<u>\$ 88,128,687</u>

(See Independent Auditors' Report and Accompanying Notes)

CONSOLIDATED STATEMENTS OF ACTIVITIES
Fello, Inc. and Subsidiaries
For the Year Ended June 30, 2025 (With Comparative Totals for 2024)

	2025			
	Without Donor Restrictions	With Donor Restrictions	Total	2024
SUPPORT AND REVENUE				
Self-Directed Waiver Revenue	\$ 410,534,726	\$ -	\$ 410,534,726	\$ 276,569,601
Program Service Fees	35,995,638	-	35,995,638	32,242,876
Contributions and Fundraising	72,092	63,500	135,592	4,214,594
Government and Private Grants	1,180,169	-	1,180,169	1,437,135
Rental Subsidy	889,359	-	889,359	758,325
Rental Income	603,328	-	603,328	-
Investment Income, Net	282,629	9,540	292,169	613,880
Contribution to Care Fees	547,563	-	547,563	408,350
Special Events, Net	159,155	-	159,155	134,454
Contributions – Nonfinancial Assets	45,325	-	45,325	68,255
Miscellaneous	184,807	-	184,807	25,469
Net Assets Released From Restrictions	872,037	(872,037)	-	-
Total Support and Revenue	451,366,828	(798,997)	450,567,831	316,472,939
Less: Direct Allocations for Self-Directed Services	(375,088,895)	-	(375,088,895)	(258,875,450)
Net Revenue	76,277,933	(798,997)	75,478,936	57,597,489
FUNCTIONAL EXPENSES				
Program Services	56,707,892	-	56,707,892	43,792,840
Supporting Services	7,791,241	-	7,791,241	6,481,972
Total Functional Expenses	64,499,133	-	64,499,133	50,274,812
Support and Revenue in Excess of Functional Expenses	11,778,800	(798,997)	10,979,803	7,322,677
GAIN ON DISPOSAL OF EQUIPMENT	94,068	-	94,068	27,421
Change in Net Assets	11,872,868	(798,997)	11,073,871	7,350,098
NET ASSETS – BEGINNING OF YEAR	18,581,932	1,367,572	19,949,504	12,599,406
NET ASSETS – END OF YEAR	\$ 30,454,800	\$ 568,575	\$ 31,023,375	\$ 19,949,504

(See Independent Auditors' Report and Accompanying Notes)

CONSOLIDATED STATEMENT OF ACTIVITIES
Fello, Inc. and Subsidiaries
For the Year Ended June 30, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Self-Directed Waiver Revenue	\$ 276,569,601	\$ -	\$ 276,569,601
Program Service Fees	32,242,876	-	32,242,876
Contributions and Fundraising	3,642,109	572,485	4,214,594
Government and Private Grants	1,437,135	-	1,437,135
Rental Subsidy	758,325	-	758,325
Investment Income, Net	613,880	-	613,880
Contribution to Care Fees	408,350	-	408,350
Special Events, Net	134,454	-	134,454
Contributions – Nonfinancial Assets	68,255	-	68,255
Miscellaneous	25,469	-	25,469
Net Assets Released From Restrictions	65,443	(65,443)	-
 Total Support and Revenue	 315,965,897	 507,042	 316,472,939
 Less: Direct Allocations for Self-Directed Services	 (258,875,450)	 -	 (258,875,450)
 Net Revenue	 57,090,447	 507,042	 57,597,489
FUNCTIONAL EXPENSES			
Program Services	43,792,840	-	43,792,840
Supporting Services	6,481,972	-	6,481,972
 Total Functional Expenses	 50,274,812	 -	 50,274,812
 Support and Revenue in Excess of Functional Expenses	 6,815,635	 507,042	 7,322,677
GAIN ON DISPOSAL OF EQUIPMENT			
	27,421	-	27,421
 Change in Net Assets	 6,843,056	 507,042	 7,350,098
 NET ASSETS – BEGINNING OF YEAR	 11,738,876	 860,530	 12,599,406
 NET ASSETS – END OF YEAR	 \$ 18,581,932	 \$ 1,367,572	 \$ 19,949,504

(See Independent Auditors' Report and Accompanying Notes)

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
Fello, Inc. and Subsidiaries
For the Year Ended June 30, 2025 (With Comparative Totals for 2024)

	Program Services					Supporting Services			2025 Total	2024 Total
	Fello-Facilitated Services	Self-Directed Services	Fello Housing	Fello Community Development	Total	Management and General	Fundraising	Total		
Salaries	\$ 23,999,326	\$ 6,997,663	\$ 622,103	\$ 644,215	\$ 32,263,307	\$ 2,361,957	\$ 91,582	\$ 2,453,539	\$ 34,716,846	\$ 27,969,264
Fringe Benefits	4,484,745	1,043,957	163,544	128,272	5,820,518	477,096	18,365	495,461	6,315,979	3,319,976
Payroll Taxes	1,768,843	505,978	45,539	13,324	2,333,684	166,496	6,623	173,119	2,506,803	2,048,933
Total Salaries and Related Expenses	30,252,914	8,547,598	831,186	785,811	40,417,509	3,005,549	116,570	3,122,119	43,539,628	33,338,173
Contract Services	1,336,541	1,542,824	98,303	84,185	3,061,853	1,533,999	30,106	1,564,105	4,625,958	2,134,257
Depreciation and Amortization	1,104,592	302,509	839,176	371,858	2,618,135	292,500	7,388	299,888	2,918,023	2,309,429
Program Expenses	914,235	1,223,441	799	570	2,139,045	6,215	135,994	142,209	2,281,254	1,433,754
Interest	269,639	143,168	735,327	565,084	1,713,218	116,042	-	116,042	1,829,260	2,661,904
Repairs and Maintenance	34,088	3,167	636,802	433,982	1,108,039	541,996	-	541,996	1,650,035	908,952
Bad Debt	4,592	1,200,000	-	-	1,204,592	-	32,406	32,406	1,236,998	800,977
Legal and Accounting	56,213	468,648	39,362	28,538	592,761	121,390	944	122,334	715,095	1,097,083
Insurance	236,939	36,760	184,887	44,925	503,511	122,395	-	122,395	625,906	487,605
Miscellaneous	267,468	95,692	36,499	74,885	474,544	132,543	7,852	140,395	614,939	286,480
Utilities	52,596	55,766	280,870	98,144	487,376	125,713	-	125,713	613,089	417,846
Small Equipment and Furniture	214,698	163,401	15,351	25,963	419,413	170,410	-	170,410	589,823	1,188,877
Travel, Lodging and Business Meals	226,055	121,155	34,861	9,900	391,971	166,597	2,992	169,589	561,560	395,149
Advertising	90,762	54,629	5,160	3,962	154,513	366,790	7,779	374,569	529,082	357,327
Supplies	119,041	95,926	9,982	21,895	246,844	171,503	5,915	177,418	424,262	321,187
Food and Housekeeping	416,113	11	25	1	416,150	36	-	36	416,186	413,986
Staff Development	132,827	75,851	5,156	5,256	219,090	114,575	145	114,720	333,810	336,089
Reimbursements	264,367	35,844	872	2,634	303,717	11,959	1,220	13,179	316,896	192,450
Rent	60,268	-	9,041	-	69,309	243,927	-	243,927	313,236	867,369
Dues and Subscriptions	24,001	13,817	6,930	1,558	46,306	196,615	-	196,615	242,921	300,912
Taxes and Assessments	231	231	27,359	92,175	119,996	1,176	-	1,176	121,172	25,006
Total Expenses	\$ 36,078,180	\$ 14,180,438	\$ 3,797,948	\$ 2,651,326	\$ 56,707,892	\$ 7,441,930	\$ 349,311	\$ 7,791,241	\$ 64,499,133	\$ 50,274,812

(See Independent Auditors' Report and Accompanying Notes)

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Fello, Inc. and Subsidiaries
For the Year Ended June 30, 2024

	Program Services				Supporting Services			
	Fello-Facilitated Services	Self-Directed Services	Fello Housing	Total	Management and General	Fundraising	Total	Total
Salaries	\$ 20,972,630	\$ 3,928,506	\$ 486,564	\$ 25,387,700	\$ 2,009,276	\$ 572,288	\$ 2,581,564	\$ 27,969,264
Fringe Benefits	2,500,210	294,862	73,730	2,868,802	394,965	56,209	451,174	3,319,976
Payroll Taxes	1,542,246	255,976	40,071	1,838,293	168,647	41,993	210,640	2,048,933
Total Salaries and Related Expenses	25,015,086	4,479,344	600,365	30,094,795	2,572,888	670,490	3,243,378	33,338,173
Interest	330,413	1,485,689	688,391	2,504,493	157,411	-	157,411	2,661,904
Depreciation and Amortization	1,114,382	256,572	728,196	2,099,150	210,279	-	210,279	2,309,429
Contract Services	759,460	836,170	178,555	1,774,185	239,124	120,948	360,072	2,134,257
Program Expenses	1,279,217	3,567	998	1,283,782	112,904	37,068	149,972	1,433,754
Small Equipment and Furniture	376,258	534,802	791	911,851	263,378	13,648	277,026	1,188,877
Legal and Accounting	81,682	921,787	27,563	1,031,032	65,929	122	66,051	1,097,083
Repairs and Maintenance	147,670	265	473,269	621,204	287,434	314	287,748	908,952
Rent	115,968	8,000	5,870	129,838	737,531	-	737,531	867,369
Bad Debt	977	800,000	-	800,977	-	-	-	800,977
Insurance	305,240	-	1,058	306,298	181,307	-	181,307	487,605
Utilities	38,655	10,779	262,242	311,676	106,170	-	106,170	417,846
Food and Housekeeping	412,778	83	-	412,861	1,083	42	1,125	413,986
Travel, Lodging and Business Meals	290,268	15,652	34,776	340,696	27,747	26,706	54,453	395,149
Advertising	179,183	1,276	8,167	188,626	85,663	83,038	168,701	357,327
Staff Development	294,673	6,608	1,414	302,695	16,932	16,462	33,394	336,089
Supplies	34,084	95,149	22,519	151,752	151,130	18,305	169,435	321,187
Dues and Subscriptions	58,314	36,082	9,708	104,104	170,264	26,544	196,808	300,912
Miscellaneous	168,425	24,239	29,385	222,049	64,309	122	64,431	286,480
Reimbursements	163,953	11,797	107	175,857	7,376	9,217	16,593	192,450
Taxes and Assessments	7,309	-	17,610	24,919	-	87	87	25,006
Total Expenses	\$ 31,173,995	\$ 9,527,861	\$ 3,090,984	\$ 43,792,840	\$ 5,458,859	\$ 1,023,113	\$ 6,481,972	\$ 50,274,812

(See Independent Auditors' Report and Accompanying Notes)

CONSOLIDATED STATEMENTS OF CASH FLOWS

Fello, Inc. and Subsidiaries

For the Years Ended June 30, 2025 and 2024

	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 11,073,871	\$ 7,350,098
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	1,800,837	1,369,627
Amortization of Finance Lease Right-of-Use Asset	1,117,186	939,802
Amortization of Debt Issuance Costs	22,612	15,180
Non-Cash Participant Liability and Discount	3,762	2,748
Non-Cash Operating Lease Expense	35,653	697,475
Increase in Allowance for Credit Loss	1,200,000	800,000
Decrease in Discount on Unconditional Promises to Give	(13,145)	(6,181)
Realized and Unrealized (Gain) Loss on Investments	(129)	48
Gain on Disposal of Equipment	(94,068)	(27,421)
Change in Beneficial Interest in Community Foundation of Anne Arundel County	(9,540)	-
Net Changes in:		
Accounts Receivable and Due From State of Maryland	(8,718,754)	(4,475,924)
Unconditional Promises to Give	769,392	(502,228)
Grants Receivable	755,295	(755,295)
Prepaid Expenses, Security Deposits, and Escrow	(696,790)	(177,596)
Accounts Payable, Accrued Expenses, and Due to State of Maryland	4,330,741	1,312,485
Accrued Salaries and Related Expenses	11,444,593	5,773,789
Other Liabilities	239,583	14,076
Net Cash Provided by Operating Activities	23,261,099	12,330,683
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments and Reinvested Savings	(27,622)	(66,091)
Proceeds From Sale of Investments	1,348,858	206,722
Investment in Beneficial Interest in Community Foundation of Anne Arundel County	(63,500)	(25,000)
Purchase of Property and Equipment	(25,388,800)	(2,819,027)
Proceeds From Sale of Property and Equipment	94,068	18,458
Net Cash Used in Investing Activities	(24,036,996)	(2,684,938)

(See Independent Auditors' Report and Accompanying Notes)

CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED

Fello, Inc. and Subsidiaries

For the Years Ended June 30, 2025 and 2024

	2025	2024
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Finance Lease	(732,204)	(620,349)
Net Payments on Line of Credit	(8,000,000)	(13,600,000)
Payment of Debt Issuance Costs	(14,950)	-
Proceeds From Mortgages and Notes Payable	13,579,918	-
Principal Payments on Mortgages and Notes Payable	(1,235,797)	(1,467,221)
Net Cash Provided by (Used in) Financing Activities	3,596,967	(15,687,570)
Net Change in Cash and Cash Equivalents	2,821,070	(6,041,825)
CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR	3,765,107	9,806,932
CASH AND CASH EQUIVALENTS – END OF YEAR	\$ 6,586,177	\$ 3,765,107

(See Independent Auditors' Report and Accompanying Notes)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Fello, Inc. and Subsidiaries (collectively referred to as the Organization) is a nonprofit association formed in 1961 whose mission is to support people with disabilities to live the lives they choose by creating opportunities, promoting respect and equity, and fostering inclusion in their communities. The Organization identifies critical needs and gaps in services and initiates programs to fill these needs. It stimulates other agencies to develop needed services and programs, and provides information and community education regarding developmental disabilities. The Organization serves people throughout the State of Maryland.

The Organization is also one of the State of Maryland's Financial Management and Counseling Services (FMCS) providers tasked with administering the self-directed funding for people with developmental disabilities and their families.

Name Change

During the year ended June 30, 2025, the Organization changed its legal name from The Arc of the Central Chesapeake Region, Inc. and is now doing business as Fello, Inc. This change does not affect the Organization's structure, operations, or mission. In addition, the Organization's two wholly owned subsidiaries, Chesapeake Neighbors, LLC and Chesapeake Community Development, LLC, also changed their names during the current year to align with the Organization's rebranding, and are now doing business as Fello Housing, LLC and Fello Community Development, LLC, respectively. All references to the Organization and its subsidiaries in these financial statements reflects their current names.

Principles of Consolidation

The accompanying consolidated financial statements of the Organization include the accounts of Fello Housing, LLC and Fello Community Development, LLC. Fello Community Development, LLC is the owner and operator of Silo Court, LLC, Easton Crossing, LLC, 999 Corporate Boulevard, LLC, and Fello at The Annapolis Mall, LLC. All significant intercompany accounts and transactions have been eliminated in consolidation.

Accounting Standards Codification

All references in the consolidated financial statements to the Codification refer to the ASC and the Hierarchy of Generally Accepted Accounting Principles (GAAP) issued by the FASB. The Codification is the single source of authoritative GAAP in the United States.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported

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amounts of revenues and expenses during the reporting period. Actual results may vary from those estimates.

Basis of Accounting and Presentation

The consolidated financial statements were prepared on the accrual basis of accounting in accordance with GAAP and are presented on the basis of net assets without donor restrictions and net assets with donor restrictions. Under the accrual basis of accounting, support and revenue are recorded when earned, and expenses are recorded when incurred. Net assets, revenues, and expenses are classified based on the existence or absence of donor-imposed restrictions. Net assets without donor-imposed restrictions are comprised of operating funds (resources available for support of operations). Net assets with donor restrictions consist of assets whose use is limited by donor-imposed time and/or purpose restrictions.

Revenue Recognition – Contributions and Grants

Contributions received are recorded as support with donor restrictions or support without donor restrictions, depending on the existence and/or nature of any donor-imposed restriction. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the Consolidated Statements of Activities as net assets released from restrictions.

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 Consolidated Statements 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 grantor 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 Consolidated Statements 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. Unexpended grant awards are classified as refundable advances until expended for the purposes of the grants since they are considered conditional promises to give. If funds are received prior to satisfying the condition, they are recorded as deferred revenue.

Revenue Recognition – Program Service Fees and Fees from People Served

The Organization offers a robust portfolio of services to people with intellectual and developmental disabilities. These services are funded primarily by the Maryland Department of Health Developmental Disabilities Administration (DDA). Program service revenue for DDA is reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing services. DDA 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 daily or

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quarter-hour basis, as prescribed by DDA program regulations. Revenue is recorded based on daily or quarter-hour reimbursement rates established and approved by DDA. Revenue under these services is paid on a reimbursement method, and is reimbursed by DDA approximately two to four weeks after billing.

The Organization acts as the fiscal agent for people receiving self-directed funding under Self-Directed Services. The Organization is paid an administrative fee to handle the accounting, payroll and accounts payable processing, Medicaid billing, and other related services on behalf of participants. The total Self-Directed Services revenue is netted with these expenses in the Consolidated Statements of Activities.

The Organization also receives monthly payments of Section 8 revenue through the Housing Commission of Anne Arundel County, Howard County Housing Commission, and the Housing Authority of the City of Annapolis. Revenue is recognized on a monthly basis based on the number of eligible consumers at rates established and approved by the U.S. Department of Housing and Urban Development (HUD).

The Organization collects fees for room and board and contribution to care from people served in a licensed group home. 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 person based on rates set by the State of Maryland.

Fee for service revenue recognized for DDA-related programs for the years ending June 30, 2025 and 2024 is as follows:

Service Type	Measurement Period for Performance Obligations	Revenue Recognized June 30, 2025	Revenue Recognized June 30, 2024
Self-Directed Waiver	Quarter Hour	\$ 410,534,726	\$ 276,569,601
DDA Services:			
Community Living Services	Daily/Quarter Hour	13,967,327	13,367,682
Day Services	Quarter Hour	153,640	171,650
Community Learning Services	Quarter Hour	6,571,393	5,530,395
Personal Support Services	Quarter Hour	6,211,177	4,987,580
Supported Employment Services	Quarter Hour	870,876	818,506
Supported Living Services	Daily/Quarter Hour	7,067,515	6,604,386
Behavioral Support Services	Quarter Hour	577,974	343,707
Supplemental	Quarter Hour	251,028	226,789
Shared Living	Monthly	324,708	192,181
Total DDA Services		<u>\$ 35,995,638</u>	<u>\$ 32,242,876</u>
Contributions to Care Fees	Monthly	\$ 547,563	\$ 408,350
Rental Subsidy	Monthly	889,359	758,325

(See Independent Auditors' Report)

Cash and Cash Equivalents

The Organization considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Dividends and interest generated from short-term certificates of deposits are recognized within investment income in the Consolidated Statements of Activities.

The Organization maintains its cash in bank deposit accounts, which at times may exceed federally insured limits. The Organization believes it is not exposed to any significant credit risk on cash and cash equivalents.

Investments

Investments are stated at fair value. Realized and unrealized gains are included in the change in net assets in the Consolidated Statements of Activities. See Note 2 for a discussion of fair value measurements. Earnings on investments from restricted contributions that are restricted for the same purpose as the original donor contributions are reported as increases to net assets with donor restrictions.

Beneficial Interest in Community Foundation of Anne Arundel County

Annual distributions from the Community Foundation Anne Arundel County (CFAAC) are reported as revenue and support that increase unrestricted net assets. The Organization measures its beneficial interest at fair value, using the same valuation technique that was used to measure the asset initially. Any adjustments are recognized as temporarily restricted gains and losses.

Unconditional Promises to Give

Unconditional promises to give are recognized as revenue in the period received. Unconditional promises to give receivable in a future period are discounted to their net present value at the time the revenue is recorded. Provisions are made for uncollectible accounts based on anticipated collection losses. Estimated losses are generally determined from historical collection experience and a review of outstanding unconditional promises to give. Unconditional promises to give are written off by management when, in their determination, all appropriate collection efforts have been taken. There was no allowance for uncollectible promises to give at June 30, 2025 and 2024 as management has deemed all balances to be collectible.

Accounts Receivable

Accounts receivable consist of amounts due from the State of Maryland, amounts due from people served for rent and medical supplies, and amounts due from people served for goods and services mainly provided by program activities. Management determines the allowance for credit losses based upon prior experience, current economic conditions, and its assessment of the collectibility of specific accounts. The Organization makes ongoing estimates related to the collectibility of accounts receivable and records an allowance for estimated losses expected from the inability of program recipients to make required

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payments. The Organization establishes expected credit losses by evaluating historical levels of credit loss, current economic conditions that may affect ability to pay, and credit worthiness of significant balances. At July 1, 2023, the opening balance of accounts receivable was \$32,702,662.

Property and Equipment

Property and equipment acquisitions in excess of \$10,000 are capitalized and recorded at cost. 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.

Income Taxes

The Organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. Income which is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. The Organization had no net unrelated business income for the years ended June 30, 2025 and 2024.

The Organization follows the provisions of Accounting for Uncertainty in Income Taxes under the Income Taxes Topic of the Codification. The Codification requires the Organization's evaluation of tax positions, which include maintaining its tax-exempt status and the taxability of any unrelated business income and does not allow recognition of tax positions which do not meet a "more-likely-than-not" threshold of being sustained by the applicable tax authority. Management does not believe it took any tax positions that would not meet this threshold.

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. Functional expenses are either charged directly to program services as incurred or allocated based on estimates of time and effort for items such as occupancy and depreciation and estimates of time and effort for administrative salaries.

Leases

The Organization determines if an arrangement is a lease at inception. Short-term leases are leases that, at lease commencement, have a lease term of 12 months or less and do not include an option to purchase the underlying asset that the Organization is reasonably certain to exercise. With the exception of short-term leases, operating and finance leases are included as right-of-use (ROU) assets and operating and finance lease liabilities in the Consolidated Statements of Financial Position. ROU assets represent the Organization's right to use an underlying asset for the lease term and lease liabilities represent its obligation to make lease payments arising from the lease. Lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most leases

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do not provide an implicit rate, the Organization uses a risk-free rate in determining the present value of lease payments for operating and finance leases. The lease ROU asset includes any lease payments made and excludes any lease incentives. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Advertising

The Organization's policy is to expense advertising costs when incurred. The Organization's advertising costs directly support the recruitment of direct support professionals, who provide services and supports to people with disabilities, as well as costs related to rebranding. Total advertising costs incurred for employee recruitment for the years ended June 30, 2025 and 2024 were \$529,082 and \$357,327, respectively.

Donated Goods and Services

Donated services are recognized as a contribution if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization.

Contributions of nonfinancial assets are recorded at fair value as of the date of donation and are included in revenues and assets or expenses in the accompanying consolidated financial statements. Fair value is determined by using estimated retail pricing of identical or similar products. The Organization's general practice is to utilize contributions of non-financial assets to support the Organization's program services and fundraising efforts. There were no donor restrictions for any contributed nonfinancial assets during the years ended June 30, 2025 and 2024.

Reclassifications

Certain prior year amounts were reclassified for comparative purposes to conform to the current year presentation.

Subsequent Events

The Organization evaluated subsequent events and transactions for potential recognition or disclosure in the consolidated financial statements through November 19, 2025, the date the consolidated financial statements were available to be issued.

NOTE 2 INVESTMENTS

During the year ended June 30, 2025, the Organization liquidated its investment portfolio, and proceeds were used for capital expenditures. As of June 30, 2025, the Organization held no investments. Investment income reported in the accompanying Consolidated Statement of Activities relates to earnings realized prior to the liquidation.

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Investments were stated at fair market value. A summary of the investments are as follows for year ending June 30, 2024:

	<u>Cost Basis</u>	<u>Fair Value</u>
Investments – Brokerage:		
Money Market Funds	\$ 1,321,107	\$ 1,321,107

NOTE 3 BENEFICIAL INTEREST IN COMMUNITY FOUNDATION OF ANNE ARUNDEL COUNTY

The Organization established the Fello Family Agency Fund Endowment (Fund) with the Community Foundation of Anne Arundel County (CFAAC). Since the Organization established the Fund for its benefit, the transfer of assets to CFAAC was considered a reciprocal transfer and an asset of the Organization despite the contractual variance power by CFAAC to administer the Fund. The funds used to establish the Fund were provided under restricted gifts from donors. Accordingly, the Organization classifies its beneficial interest in the Fund as permanently restricted net assets.

The following summarizes the Organization's beneficial interest at June 30, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Fair Value at Beginning of Year	\$ 25,000	\$ -
Contributions	63,500	25,000
Net Change in Fair Value	9,540	-
Fair Value at End of Year	\$ 98,040	\$ 25,000

NOTE 4 FAIR VALUE MEASUREMENTS

The Fair Value Measurements and Disclosures Topic of the Codification establishes a framework for measuring fair value. The framework provides 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 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 Inputs to the valuation methodology include:

Quoted prices for similar assets or liabilities in active markets;

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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 to the valuation methodology are unobservable and significant to the fair value measurement.

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

Below are descriptions of the valuation methodologies used for assets measured at fair value and classification in the valuation hierarchy. There were no changes in methodologies at June 30, 2025 and 2024.

Money Market Funds: Valued at the net asset value (NAV) of shares held by the Organization at year end. NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. NAV is a quoted price in an active market.

Beneficial Interest in CFAAC: The investment in CFAAC is part of a master investment account managed by an independent professional investment management firm. The master investment account is diversified among a variety of investment products.

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

The following table sets forth by level, within the fair value hierarchy, the Organization's investment securities at fair value as of June 30, 2025 and 2024:

	2025	2024
Level 1: Money Market Funds	\$ -	\$ 1,321,107
Level 3: Beneficial Interest in CFAAC	98,040	25,000
Total Investments	<u>\$ 98,040</u>	<u>\$ 1,346,107</u>

(See Independent Auditors' Report)

NOTE 5 UNCONDITIONAL PROMISES TO GIVE

The Organization has a lease agreement with the Maryland Department of Health for a residential home. The lease commenced on December 25, 2007 and has a term of five years with annual rent of \$1. The lease has been renewed multiple times, with two three-year terms remaining with annual rent of \$1 and a discount rate of 1.59%.

The Organization also has a lease with Anne Arundel County for its regional office building in Annapolis. This lease was renewed beginning March 1, 2020 with a 20-year term at annual rent of \$1 and a discount rate of 1.53%.

These leases provide the Organization with the free use of facilities, with the Organization assuming responsibility for all capital improvements and ongoing maintenance, and are recognized as unconditional promises to give. Unconditional promises to give are reflected at present value of estimated future cash flows, based on the date of the original promise to give.

Unconditional promises to give as of June 30, 2025 and 2024 were as follows:

	<u>2025</u>	<u>2024</u>
Capital Campaign	\$ 144,673	\$ 875,965
Donated Leases	<u>355,550</u>	<u>393,650</u>
	500,223	1,269,615
Less: Unamortized Discount	<u>(34,693)</u>	<u>(47,838)</u>
Unconditional Promises to Give, Net	<u><u>\$ 465,530</u></u>	<u><u>\$ 1,221,777</u></u>

Unconditional promises to give are expected to be received as follows as of June 30, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Receivable in Less Than One Year	\$ 91,083	\$ 695,322
Receivable in One to Five Years	214,840	360,196
Receivable in More Than Five Years	<u>194,300</u>	<u>214,097</u>
Unconditional Promises to Give, Gross	<u><u>\$ 500,223</u></u>	<u><u>\$ 1,269,615</u></u>

(See Independent Auditors' Report)

NOTE 6 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30, 2025 and 2024:

	Estimated Useful Lives	2025	2024
Land	-	\$ 11,001,110	\$ 8,001,106
Building and Improvements	5-40 Years	51,645,328	28,589,712
Leasehold Improvements	1-10 Years	165,759	688,884
Furniture, Fixtures, and Equipment	5-20 Years	2,789,948	2,557,410
Vehicles	2-7 years	664,412	664,412
Construction in Progress	-	5,926,227	7,119,565
Less: Accumulated Depreciation		(12,141,679)	(10,340,842)
		<u>\$ 60,051,105</u>	<u>\$ 37,280,247</u>

NOTE 7 MORTGAGES AND NOTES PAYABLE

The Maryland Department of Housing and Community Development (DHCD) has provided financing under the Maryland Group Home Acquisition Program (GHAP) enabling the Organization to purchase residences, which it utilizes as group homes or alternative living units for people served. All GHAP mortgages contain provisions which specify that if a GHAP mortgage is prepaid, defaulted on, refinanced, or if the property is sold, the State of Maryland is entitled to receive 50% of the net appreciation on the property securing that particular GHAP mortgage. At June 30, 2025 and 2024, the Organization recorded a participation liability of \$94,629 and \$87,523, respectively and a related mortgage loan discount of \$75,301 and \$71,957, respectively, in connection with these agreements.

The Organization entered into a 30-year loan with Arundel Community Development Services, Inc. (ACDS). The loan was used to purchase a residential home. If during the term of the loan, the property is sold, transferred, exchanged or otherwise disposed, the ACDS is entitled to receive 50% of the net proceeds in accordance with the Equity Participation Agreement. The associated participation liability is included above.

	2025	2024
Fello, Inc.		
Mortgages and notes payable to various financial institutions.		
The loans were obtained to acquire residential properties.		
Aggregate monthly payments of \$18,520 include principal and interest ranging from 3.42% to 5.25%. The mortgages range from 10 to 30 years and mature between September 2029 and April 2048. The mortgages are secured by residential properties.	\$ 2,784,907	\$ 2,898,191

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	<u>2025</u>	<u>2024</u>
(Continued)		
Fello Housing, LLC		
Mortgages and notes payable to various financial institutions. The loans were obtained to acquire residential properties. Aggregate monthly payments of \$35,204 include principal and interest ranging from 5.65% and 6.50%. The mortgages range from 10 to 30 years and mature between September 2030 and September 2053. The mortgages are secured by residential properties.	10,124,878	10,481,062
Howard County Home Investment Program Provided \$365,127 of funding for the purchase of a home. The mortgage bears 0% interest and is payable if the home is sold before the 30-year agreement.	365,127	365,127
999 Corporate Boulevard, LLC		
Note payable to a financial institution acquired for a residential property. Monthly payments of \$63,352 include principal and interest at 5.50%. The note matures on December 19, 2026, upon which payment will be due in full. The note is secured by commercial property.	9,022,853	-
Silo Court, LLC		
Note payable to a financial institution. The loan was obtained for the construction of the Silo Court property. Note bears interest at 5.95% and matures on February 26, 2026, upon which payment will be due in full. The note is secured by the property.	297,500	297,500
Fello Community Development, LLC		
Mortgages and notes payable to various financial institutions. The loans were obtained to acquire residential properties. Aggregate monthly payments of \$5,892 include principal and interest ranging between 0% to 8.65%. The mortgages range from 10 to 30 years and mature between June 2033 and October 2052. The mortgages are secured by residential properties.	938,863	954,492

(See Independent Auditors' Report)

NOTES TO FINANCIAL STATEMENTS
Fello, Inc. and Subsidiaries

	<u>2025</u>	<u>2024</u>
(Continued)		
Various notes payable to a financial institution. The loans were obtained for the construction of Port Street property. Aggregate monthly payments of \$78,607 include principal and interest ranging from 5.78% to 6.10%. The notes range from 3 to 15 years and mature between February 2028 and February 2040. The notes are secured by the property.	7,369,507	4,895,516
Note payable to a financial institution. The loan was obtained for the construction of Easton Crossing property. Note bears interest at 5.95% and matures on November 21, 2025. The note is secured by the property.	1,172,023	-
Construction loan, with available borrowings up to \$800,000 with a bank to finance the construction of the Brookletts property. Interest only at 6.40% per annum through December 26, 2025, and then monthly installments of principal and interest through maturity on November 26, 2030.	<u>160,351</u>	<u>-</u>
Total Mortgage and Notes Payable	<u>32,236,009</u>	<u>19,891,888</u>
Less: Debt Issuance Cost, Net of Amortization	(134,924)	(142,586)
Less: Discount	<u>(75,301)</u>	<u>(71,957)</u>
Long-Term Portion of Mortgages and Notes Payable	<u>\$ 32,025,784</u>	<u>\$ 19,677,345</u>

Mortgage and notes payable at June 30, 2025 and 2024 are shown net of unamortized debt issuance cost of \$134,924 and \$142,586, respectively. Amortization expense on debt issuance costs was \$22,612 and \$15,180 for years ended June 30, 2025 and 2024, respectively, and is included in interest expense.

Scheduled maturities of the above mortgages and notes payable are as follows:

Year Ending June 30,	2026	\$ 2,651,534
	2027	9,729,061
	2028	883,926
	2029	667,443
	2030	2,196,953
	Thereafter	<u>15,946,741</u>
		<u>\$ 32,075,658</u>

(See Independent Auditors' Report)

The Organization maintains a construction loan to finance the development of Brookletts property. As of June 30, 2025, the loan remained in its draw period, during which interest only payments are required, and principal maturities have not yet been established. The construction loan of \$160,351 is excluded in the schedule of maturities until completion of the draw period, in which it will then convert to a term note.

Interest expense, including amortization of debt issuance costs, for the years ended June 30, 2025 and 2024 was \$1,829,260 and \$2,661,904, respectively.

NOTE 8 LINE OF CREDIT

In 2023, the Organization obtained a line of credit with a bank, secured by the Organization's accounts receivable, with a maximum borrowing potential of \$23,000,000. The line bears interest at the bank's prime lending rate. Outstanding draws on the line of credit at June 30, 2025 and 2024 were \$0 and \$8,000,000, respectively.

NOTE 9 FINANCE LEASES

The Organization entered into finance lease agreements for various vehicles and office equipment. The weighted average remaining lease term on the leases was 3.22 and 3.28 years as of June 30, 2025 and 2024, respectively. The weighted average discount rate of the leases was 8.57% and 7.78% at June 30, 2025 and 2024, respectively.

Future minimum lease payments are as follows:

Year Ending June 30,	2026	\$ 1,285,150
	2027	1,133,080
	2028	1,172,306
	2029	793,846
	2030	888,000
		<u>5,272,382</u>
Total Undiscounted Cash Flows		5,272,382
Less: Present Value Discount		<u>(900,353)</u>
Total Finance Lease Liabilities		<u>\$ 4,372,029</u>

The components of lease expense for the years ended June 30, 2025 and 2024 were as follows:

	<u>2025</u>	<u>2024</u>
Finance Lease Expense:		
Amortization of Right-of-Use Assets	\$ 1,117,186	\$ 939,802
Interest Expense on Finance Lease Obligation	<u>333,036</u>	<u>232,687</u>
Net Finance Lease Expense	<u>\$ 1,450,222</u>	<u>\$ 1,172,489</u>

(See Independent Auditors' Report)

NOTE 10 OPERATING LEASES

The Organization leases residential homes that are utilized as alternative living units and group homes for people they support. Some of the homes are leased on a month-to-month basis, and some homes have leases with annual rent of \$1. The leases mature in fiscal years 2026 through 2040.

The Organization recognized an operating right-of-use asset in exchange for an operating lease liability, initially measured at the present value of the lease payments in the Consolidated Statements of Financial Position for the year ended June 30, 2024. The Organization used the risk-free rate of return (discount rate) at the adoption date of ASU 2016-02 to calculate present value of the lease payments. The weighted average of the remaining lease term was 108 months, and the weighted average interest rate was 5.8% at June 30, 2024. In December 2024, one of the Organization's wholly owned subsidiaries, 999 Corporate Boulevard, LLC, purchased the building previously leased by the Organization. As a result of the purchase, the lease agreement between the Organization and the subsidiary is now considered an intercompany lease. In consolidation, both the related asset and liability, as well as any associated intercompany rental income and expense, were eliminated. Rental expense prior to the related party lease is included in operating lease expense outlined below.

Under the intercompany lease with 999 Corporate Boulevard, LLC, the Organization leases the office space, which requires monthly payments starting at approximately \$46,500, increasing annually by 2.50%, and the lease expires in June 2033.

Future minimum lease payments under the related-party lease agreements are as follows:

Year Ending June 30,	2026	\$	571,934
	2027		586,232
	2028		600,888
	2029		615,910
	2030		631,308
	Thereafter		<u>1,990,207</u>
Total Undiscounted Cash Flows			4,996,479
Less: Present Value Discount			<u>(1,017,092)</u>
Total Operating Lease Liability		\$	<u><u>3,979,387</u></u>

(See Independent Auditors' Report)

The components of lease costs included in rent in the Consolidated Statements of Financial Position for the years ended June 30, 2025 and 2024 were as follows:

	<u>2025</u>	<u>2024</u>
Operating Lease Expense	\$ 156,776	\$ 530,335
Donated Lease Expense	38,100	38,100
Short-Term Operating Lease Expense	<u>84,484</u>	<u>291,008</u>
Total Lease Expense	<u>\$ 279,360</u>	<u>\$ 859,443</u>

NOTE 11 CONTRIBUTIONS OF NONFINANCIAL ASSETS

Contributions of nonfinancial assets consisted of \$45,325 and \$68,255 for donated services and auction items for the years ended June 30, 2025 and 2024, respectively.

The Organization's general practice is to utilize donated items to support the Organization's overall purpose. Donated vehicles are generally monetized, depending upon current market conditions. Donated nonfinancial assets had no donor restrictions for the years ended June 30, 2025 and 2024.

NOTE 12 RETIREMENT PLAN

The Organization maintains a tax deferred 403(b) retirement plan. Employees are eligible to participate in the plan starting on the day they are hired. In 2025, the Organization increased the maximum employer contribution from 4.5% to 6% of an eligible employee's compensation. The Organization contributed \$1,028,495 and \$641,123 for the years ended June 30, 2025 and 2024, respectively, which is included in fringe benefits in the Consolidated Statements of Functional Expenses.

NOTE 13 COMMITMENTS AND CONTINGENCIES

The Organization was awarded multiple capital project grants from the State of Maryland totaling \$975,000, which were recognized in fiscal year 2019 and used to build the administrative building on Donald Avenue. As long as the Organization owns the property, it may not sell, lease, exchange, give away, or otherwise transfer or dispose of any interest in the real or personal property acquired with grant funds unless the Board of Public Works gives prior written consent. The Organization may be required to repay the State the percentage of the proceeds allocable to the grant that was used to acquire the property as determined by the Board of Public Works in its sole discretion. The terms of the grant agreement are set to expire with the maturity of the State's general obligation bonds that were issued to provide funding for these grants in 2034.

The Organization received grants from Anne Arundel County for leasehold improvements to seven properties in the form of loans with Anne Arundel Community Development Services, Inc. The grant

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agreements total \$332,422 and specify that the Organization must repay the grants without interest or penalty if the properties are sold, transferred or conveyed prior to their maturity which ranges from March 9, 2030 to November 1, 2031. Upon maturity of the loans, the Organization is released from their principal obligation.

The Organization receives a substantial portion of its revenue from government fees and grants, which are subject to audits 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. As of June 30, 2025, management estimated a potential liability of approximately \$5,700,000, and it is included within the due to the State of Maryland in the Consolidated Statement of Financial Position.

NOTE 14 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were available for the following purposes for years ended June 30, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Subject to Expenditure for Specified Purposes:		
Donated Long-Term Leases	\$ 325,862	\$ 359,107
Capital Campaign	144,673	878,465
Professional Development	-	105,000
Subject to Organization's Spending Policy and Appropriation:		
Family Fund Endowment	9,540	-
Investment at Historical Value	88,500	25,000
	<u>\$ 568,575</u>	<u>\$ 1,367,572</u>

NOTE 15 RENTAL INCOME

During the year ended June 30, 2025, the Organization purchased its headquarters building located at Linthicum Heights, Maryland. Portions of the building not used in the Organization's operations are leased to unrelated tenants under operating lease agreements. Rental income from these tenants totaled approximately \$600,000 for the year ended June 30, 2025, and is reported as rental income in the accompanying Consolidated Statement of Activities.

The Organization's rental income consists principally of monthly rent payments received under non-cancelable operating leases expiring through 2041. The tenant leases typically provide for guaranteed minimum rent, percentage rent, and other tenant reimbursements for certain operating costs. The building is 100% occupied as of June 30, 2025.

(See Independent Auditors' Report)

Future minimum annual lease payments to be received on non-cancelable tenant leases are as follows:

Year Ending June 30,	2026	\$ 1,731,895
	2027	1,456,073
	2028	1,387,558
	2029	1,422,317
	2030	1,342,071
	Thereafter	4,012,155
		<u>\$ 11,352,069</u>

NOTE 16 SIGNIFICANT FUNDING SOURCE

The Organization receives a majority of its total revenue from the State of Maryland. The Organization is highly dependent upon government funding to continue its operations.

NOTE 17 LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Organization manages its liquid resources to ensure that sufficient cash is available to meet operating and other commitments as they come due. The Organization's goal is to maintain financial assets sufficient to cover at least three months of average operating expenses (approximately \$16.1 million and \$12.9 million at June 30, 2025 and 2024, respectively).

The following reflects the Organization's financial assets available within one year of the balance sheet date to meet general expenditures:

	<u>2025</u>	<u>2024</u>
Financial Assets at Year End:		
Cash and Cash Equivalents	\$ 6,586,177	\$ 3,765,107
Investments	-	1,321,107
Unconditional Promises to Give, Net	465,530	1,221,777
Accounts Receivable – Facilitated Services, Net	2,823,547	2,575,430
Grants Receivable	-	755,295
	<u>9,875,254</u>	<u>9,638,716</u>
Less: Amount Not Available to Be Used Within One Year:		
Net Assets With Donor Restrictions	568,575	1,367,572
Payee Funds	129,454	99,201
	<u>698,029</u>	<u>1,466,773</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u>\$ 9,177,225</u>	<u>\$ 8,171,943</u>

(See Independent Auditors' Report)

In addition to these financial assets, the Organization has access to a \$23 million revolving line of credit, which may be drawn upon as needed to manage liquidity and cash flow requirements. The Organization may also choose to access the available equity in real estate after all other options have been exhausted. Management monitors liquidity on an ongoing basis and anticipates that the combination of available financial assets and access to credit will be adequate to fund operations for the next twelve months.

NOTE 18 SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for interest during 2025 and 2024 was approximately \$1,806,648 and \$2,646,724, respectively.

A total of approximately \$1,715,000 and \$1,030,000 of right-of-use assets were acquired under finance leases during the years ended June 30, 2025 and 2024, respectively.

During the year ended June 30 2025, the Organization derecognized a right-of-use asset of approximately \$3,225,000 and the related lease liability of approximately \$4,040,000 in connection with the elimination of an intercompany lease upon consolidation. In addition, approximately \$815,000 of tenant improvements previously capitalized and associated with the lease space were removed as the improvements were under leasehold improvements and incentives prior to the purchase of the building.

(See Independent Auditors' Report)