

**THE ARC GATEWAY, INC.
(A NONPROFIT ORGANIZATION)**

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

JUNE 30, 2025

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT 1

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Financial Position 4

Consolidated Statement of Activities..... 6

Consolidated Statement of Functional Expenses 8

Consolidated Statement of Cash Flows 12

Notes to Consolidated Financial Statements..... 14

SUPPLEMENTARY INFORMATION

Consolidating Financial Schedules 24

Schedule of Expenditures of State Financial Assistance 28

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PRESENTED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*..... 29

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR STATE PROJECT AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY SECTION 215.97, *FLORIDA STATUTES*, AND CHAPTER 10.650, *RULES OF THE AUDITOR GENERAL* 30

SCHEDULE OF FINDINGS AND QUESTIONED COSTS 3

Independent Auditors' Report

To the Management and the Board of Directors
The Arc Gateway, Inc.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of The Arc Gateway, Inc. (a nonprofit organization) and its affiliates, which comprise the consolidated statement of financial position as of June 30, 2025, and 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 accompanying consolidated financial statements present fairly, in all material respects, the financial position of The Arc Gateway, Inc. as of June 30, 2025, and the changes in its consolidated net assets and its consolidated 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 (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of The Arc Gateway, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibility of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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 Arc Gateway, Inc.'s ability to continue as a going concern for one year after the date that the consolidated financial statements are 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 GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government 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 Arc Gateway, Inc.'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 Arc Gateway, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Schedule of Expenditures of State Financial Assistance as required by Chapter 10.650, *Rules of the Auditor General of the State of Florida*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The consolidating financial schedules are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual affiliates and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the

audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2026, on our consideration of The Arc Gateway, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of The Arc Gateway, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Arc Gateway, Inc.'s internal control over financial reporting and compliance.

January 19, 2026

Frazier & Deeter, LLC

THE ARC GATEWAY, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2025

ASSETS

Current Assets

Cash	\$ 464,558
Investments without donor restrictions	153,212
Investments with donor restrictions	31,545
Accounts receivable, net	940,776
Inventories	17,178
Prepaid expenses	49,247
Other current assets	<u>464</u>

Total Current Assets 1,656,980

Property and Equipment

Without donor restrictions	8,696,538
With donor restrictions	<u>441,502</u>
	9,138,040
Less accumulated depreciation	<u>5,717,505</u>

Total Property and Equipment, net 3,420,535

Other Assets

Cash with donor restrictions	252,769
Investments with donor restrictions	38,500
Deposits	10,198
Right of use asset, operating and finance leases	<u>750,749</u>

Total Other Assets 1,052,216

Total Assets \$ 6,129,731

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

THE ARC GATEWAY, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION - CONTINUED
AS OF JUNE 30, 2025

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts payable	\$ 421,546
Accrued payroll and compensated absences	533,312
Refundable advances	67,536
Current portion of operating and finance lease liabilities	<u>133,581</u>
Total Current Liabilities	<u>1,155,975</u>
Long-Term Liabilities	
Operating and finance lease liabilities, net of current portion	<u>639,690</u>
Total Long-Term Liabilities	<u>639,690</u>
Total Liabilities	<u>1,795,665</u>
Net Assets	
Without donor restrictions	3,569,750
With donor restrictions	<u>764,316</u>
Total Net Assets	<u>4,334,066</u>
Total Liabilities and Net Assets	<u>\$ 6,129,731</u>

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

THE ARC GATEWAY, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2025

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating Activities			
Revenue and support:			
Medicaid	\$ 3,660,246	\$ -	\$ 3,660,246
State and local grants/contracts	2,792,391	-	2,792,391
Department of Transportation contracts	1,153,646	-	1,153,646
Other contracts and financial assistance	379,629	-	379,629
Private insurance	280,820	-	280,820
Program income	189,180	-	189,180
Sales to public, net direct costs of \$72,960	450,984	-	450,984
United Way	44,000	-	44,000
Public support contributions	161,752	-	161,752
Contributions of nonfinancial assets	8,000	-	8,000
Special events	371,296	-	371,296
Miscellaneous	81,143	-	81,143
Net assets released from restrictions	205,727	(205,727)	-
Total Operating Revenue and Support	<u>9,778,814</u>	<u>(205,727)</u>	<u>9,573,087</u>
Operating Expenses:			
Program Services -			
Pollak Training Center	757,828	-	757,828
Pollak Industries	606,522	-	606,522
Community Based Employment	1,342,670	-	1,342,670
Employment Services	65,108	-	65,108
Pearl Nelson Child Development Center	1,989,623	-	1,989,623
Group Homes	2,266,217	-	2,266,217
Senior Adult Program	260,895	-	260,895
Transportation	671,116	-	671,116
Program for Adult Learning and Support	969,049	-	969,049
South Santa Rosa	181,450	-	181,450
Total program services	<u>9,110,478</u>	<u>-</u>	<u>9,110,478</u>
Supporting Services -			
Fund raising	106,363	-	106,363
General and administrative	334,146	-	334,146
Total supporting services	<u>440,509</u>	<u>-</u>	<u>440,509</u>
Total Operating Expenses	<u>9,550,987</u>	<u>-</u>	<u>9,550,987</u>
Change in Net Assets from Operating Activities	<u>227,827</u>	<u>(205,727)</u>	<u>22,100</u>

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

THE ARC GATEWAY, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2025

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Nonoperating Activities			
Employee retention credit income	470,517	-	470,517
Gain on disposal of property and equipment	9,772	-	9,772
Interest income	48,665	-	48,665
Interest expense	(31,600)	-	(31,600)
Total Nonoperating Activity	<u>497,354</u>	<u>-</u>	<u>497,354</u>
Change in Net Assets	725,181	(205,727)	519,454
Net Assets, Beginning of Year	<u>2,844,569</u>	<u>970,043</u>	<u>3,814,612</u>
Net Assets, End of Year	<u>\$ 3,569,750</u>	<u>\$ 764,316</u>	<u>\$ 4,334,066</u>

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

THE ARC GATEWAY, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2025

PROGRAM SERVICES

	Pollak Training Center	Pollak Industries	Community Based Employment	Employment Services	Pearl Nelson Child Development Center	Group Homes
Salaries	\$ 409,811	\$ 341,840	\$ 859,844	\$ 36,581	\$ 852,733	\$ 1,365,638
Employee benefits	34,521	16,558	50,247	7,963	62,703	96,783
Payroll taxes and workers compensation	37,262	29,156	77,915	3,505	72,144	127,867
Professional fees	6,103	3,003	7,160	286	515,054	13,820
Supplies and small equipment	20,457	31,329	62,916	-	21,957	118,347
Occupancy	54,984	39,486	12,187	21	42,865	65,632
Telephone	7,951	7,021	5,225	1,061	15,529	32,075
Equipment maintenance and rental	38,094	29,021	7,416	-	25,123	30,213
Printing and publication	643	12	279	-	38,935	734
Travel	25	-	603	53	24,382	187
Vehicle expense	11,335	10,443	37,801	5,290	-	45,144
Special events	-	-	407	-	402	-
Client assistance	611	1,039	386	-	-	1,878
Dues and memberships	510	110	-	-	610	641
Miscellaneous	704	1,982	-	118	9,810	83
Depreciation and amortization	19,991	1,200	10,170	-	880	12,834
Total Direct Expenses	643,002	512,200	1,132,556	54,878	1,683,127	1,911,876
Allocation of general and administration expenses	114,826	94,322	210,114	10,230	306,496	354,341
Total Expenses	<u>\$ 757,828</u>	<u>\$ 606,522</u>	<u>\$ 1,342,670</u>	<u>\$ 65,108</u>	<u>\$ 1,989,623</u>	<u>\$ 2,266,217</u>

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

THE ARC GATEWAY, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2025

PROGRAM SERVICES

	<u>Senior Adult Program</u>	<u>Transportation</u>	<u>Program For Adult Learning and Support</u>	<u>South Santa Rosa</u>	<u>Program Service Total</u>
Salaries	\$ 168,618	\$ 265,796	\$ 434,825	\$ 78,890	\$ 4,814,576
Employee benefits	4,225	14,639	63,179	5,973	356,791
Payroll taxes and workers compensation	15,719	25,017	38,012	6,962	433,559
Professional fees	1,642	2,185	6,288	570	556,111
Supplies and small equipment	7,843	1,524	4,823	4,692	273,888
Occupancy	13,518	3,256	114,243	41,940	388,132
Telephone	3,470	4,342	7,751	3,721	88,146
Equipment maintenance and rental	4,686	2,842	14,431	1,060	152,886
Printing and publication	35	237	702	-	41,577
Travel	356	760	1,432	301	28,099
Vehicle expense	-	234,541	92,565	8,217	445,336
Special events	100	116	-	-	1,025
Client assistance	54	226	-	23	4,217
Dues and memberships	-	-	110	-	1,981
Miscellaneous	1	-	100	146	12,944
Depreciation and amortization	-	12,091	42,542	-	99,708
Total Direct Expenses	<u>220,267</u>	<u>567,572</u>	<u>821,003</u>	<u>152,495</u>	<u>7,698,976</u>
Allocation of general and administration expenses	<u>40,628</u>	<u>103,544</u>	<u>148,046</u>	<u>28,955</u>	<u>1,411,502</u>
Total Expenses	<u>\$ 260,895</u>	<u>\$ 671,116</u>	<u>\$ 969,049</u>	<u>\$ 181,450</u>	<u>\$ 9,110,478</u>

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

THE ARC GATEWAY, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2025

	SUPPORTING SERVICES				
	<u>Fund Raising</u>	<u>General & Administrative</u>			<u>Total Supporting Services</u>
	<u>Special Events</u>	<u>General</u>	<u>Maintenance</u>	<u>General & Administrative Total</u>	
Salaries	\$ -	\$ 743,969	\$ 106,210	\$ 850,179	
Employee benefits	-	62,646	8,159	70,805	70,805
Payroll taxes and workers compensation	-	64,678	9,375	74,053	74,053
Professional fees	6,000	281,050	1,140	282,190	288,190
Supplies and small equipment	-	15,473	5,778	21,251	21,251
Occupancy	5,938	36,372	7,217	43,589	49,527
Telephone	433	10,177	1,717	11,894	12,327
Equipment maintenance and rental	-	106,444	3,038	109,482	109,482
Printing and publication	71	7,364	127	7,491	7,562
Travel	-	11,104	1,305	12,409	12,409
Vehicle expense	-	88	8,992	9,080	9,080
Special events	85,971	5,798	-	5,798	91,769
Client assistance	-	8,430	-	8,430	8,430
Dues and memberships	500	31,328	-	31,328	31,828
Miscellaneous	7,450	11,587	-	11,587	19,037
Depreciation and amortization	-	187,872	8,210	196,082	196,082
Total Direct Expenses	<u>106,363</u>	<u>1,584,380</u>	<u>161,268</u>	<u>1,745,648</u>	<u>1,852,011</u>
Allocation of general and administration expenses	<u>-</u>	<u>(1,255,296)</u>	<u>(156,206)</u>	<u>(1,411,502)</u>	<u>(1,411,502)</u>
Total Expenses	<u>\$ 106,363</u>	<u>\$ 329,084</u>	<u>\$ 5,062</u>	<u>\$ 334,146</u>	<u>\$ 440,509</u>

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

**THE ARC GATEWAY, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2025**

	The Arc Gateway, Inc. Subtotal	The Arc Gateway Foundation, Inc.	Pollak Rehabilitation Center, Inc.	Trust	2025 Total
Salaries	\$ 5,664,755	\$ -	\$ -	\$ -	\$ 5,664,755
Employee benefits	427,596	-	-	-	427,596
Payroll taxes and workers compensation	507,612	-	-	-	507,612
Professional fees	838,301	6,000	-	-	844,301
Supplies and small equipment	295,139	-	-	-	295,139
Occupancy	431,721	5,938	-	-	437,659
Telephone	100,040	433	-	-	100,473
Equipment maintenance and rental	262,368	-	-	-	262,368
Printing and publication	49,139	-	-	-	49,139
Travel	40,508	-	-	-	40,508
Vehicle expense	454,416	-	-	-	454,416
Special events	9,248	83,546	-	-	92,794
Client assistance	12,647	-	-	-	12,647
Dues and memberships	33,309	500	-	-	33,809
Miscellaneous	19,221	12,670	70	20	31,981
Depreciation and amortization	295,790	-	-	-	295,790
Total Direct Expenses	<u>9,441,810</u>	<u>109,087</u>	<u>70</u>	<u>20</u>	<u>9,550,987</u>
Allocation of general and administration expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenses	<u>\$ 9,441,810</u>	<u>\$ 109,087</u>	<u>\$ 70</u>	<u>\$ 20</u>	<u>\$ 9,550,987</u>

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

THE ARC GATEWAY, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2025

Cash Flows from Operating Activities	
Change in net assets	\$ 519,454
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization of ROU asset	385,770
(Gain) loss on disposal of property and equipment	(9,772)
Unrealized gain on investments	(9,748)
Changes in operating asset and liability accounts:	
Accounts receivable	(295,825)
Inventories	8,935
Prepaid expenses	49,057
Other assets	(464)
Accounts payable	266,475
Accrued payroll and compensated absences	(42,122)
Refundable advances	2,486
Lease liability	(88,356)
Net Cash Provided by Operating Activities	<u>785,890</u>
Cash Flows from Investing Activities	
Proceeds from disposal of property, plant, and equipment	29,863
Purchases of property, plant, and equipment	(426,418)
Purchases of investments, including reinvested earnings	(61,076)
Proceeds from sale of investments	58,731
Net Cash Used in Investing Activities	<u>(398,901)</u>
Cash Flows from Financing Activities	
Draws on line of credit	1,356,471
Payments on line of credit	(1,482,942)
Net Cash Used in Financing Activities	<u>(126,471)</u>
Net Change in Cash	260,518
Cash, Beginning of Year	<u>456,809</u>
Cash, End of Year	<u>\$ 717,327</u>

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

THE ARC GATEWAY, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2025

**Cash Displayed as the following on Statement of Financial
Position:**

Cash	\$ 464,558
Cash with donor restrictions	<u>252,769</u>
	<u>\$ 717,327</u>

Supplemental Information:

Cash paid for interest	<u>\$ 31,600</u>
Recognition of right-of-use asset in exchange for lease liability - operating leases	<u>\$ 586,633</u>
Recognition of right-of-use asset in exchange for lease liability - finance lease	<u>\$ 71,191</u>

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

THE ARC GATEWAY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2025

Note 1 - Summary of Significant Accounting Policies

Nature of Activities

The Arc Gateway, Inc.. (The Arc) was formed for the purpose of providing assistance to and enhancing the social welfare of people with developmental disabilities in the community. The accompanying consolidated financial statements include the assets, liabilities, net assets, and financial activities of three related entities: the Escambia County Association for Retarded Citizens Trust (the Trust), Pollak Rehabilitation Center, Inc. (PRC, Inc.), and The Arc Gateway Foundation, Inc. (the Foundation).

The Trust is a perpetual, public charitable trust, which distributes its investment income annually to The Arc. Contributions received by the Trust are permanently restricted and become part of the Trust corpus.

PRC, Inc. is a title holding company whose function is to own and lease-back real property to The Arc.

The Foundation is a support organization whose sole purpose is to raise, invest, and manage funds specifically to support programs and services of The Arc. Contributions without donor restrictions received by the Foundation may be disbursed to The Arc with approval of the Foundation's Board of Directors. Contributions with donor restrictions received by the Foundation are held until the time restrictions have ended.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of The Arc and its related entities, the Trust, PRC, Inc., and the Foundation as those entities are controlled by the same management and share economic interests. All inter-entity transactions have been eliminated in consolidation.

Basis of Accounting

The consolidated financial statements of The Arc have been prepared using the accrual basis of accounting, which recognizes revenue when earned and expenses as incurred.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) in its Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. Under FASB ASC 958, net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed stipulations. Accordingly, net assets of The Arc and changes therein are classified and reported as follows:

Net assets without donor restrictions - Net assets that are not subject to donor-imposed stipulations. Net assets without restrictions may be designated for specific purposes or locations by action of the Board of Directors.

Net assets with donor restrictions - Net assets subject to donor-imposed stipulations that will be met either by actions of The Arc and/or the passage of time.

Revenue and Support Recognition

Contributions - Contributions are recognized as revenue when they are received or unconditionally pledged. Donor-restricted contributions are reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends, or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

THE ARC GATEWAY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2025

Note 1 - Summary of Significant Accounting Policies - Continued

Revenue and Support Recognition - Continued

Grants and Contracts - The Arc Gateway, Inc. records reimbursements of direct and indirect costs (administrative costs) from grants and contracts as operating revenues. Revenue from grants and contracts with purpose restrictions is recognized when the funds have been expended on activities stipulated in the grant or contract agreement. For unconditional grants and contracts, revenue is recognized as contribution revenue that increases net assets with donor restrictions at the time the grant is received or pledged, and the funds are released from restriction when the qualifying expenses have been incurred.

Services - Revenue from services is recognized when persuasive evidence of an arrangement exists, services are substantially complete, the sales price is fixed or determinable, and collectability is probable. Generally, these criteria are met at the time the services are provided to and/or invoiced to the customer. This method is used because of the short-term nature of the services (provision of services subject to reimbursement from Medicaid, sales to public and other miscellaneous projects), and financial position and results of operations do not vary significantly from alternative methods.

The Arc receives a substantial amount of its support from the Agency for Persons with Disabilities (APD) under the Developmental Disabilities Individual Budgeting waivers (DDIB). The DDIB waivers provide services to individuals with developmental disabilities to assist them to live in their home or the community. Medicaid reimbursement for DDIB waiver services is based on rates incorporated into rule. Services included under the DDIB waivers include adult day training, respite, supported living coaching, supported employment, and transportation. The DDIB waivers also provide residential habilitation and companion services.

The Arc accounts for services and service contracts after they have been approved by all parties to the arrangement, the rights of the parties are identified, payment terms identified, the contract has commercial substance and collectability of consideration is probable.

Each contract is assessed at inception to determine whether it should be combined with other contracts. When making this determination, factors such as whether two or more contracts were negotiated or executed at or near the same time or were negotiated with an overall profit objective are considered. If combined, The Arc treats the combined contracts as a single contract for revenue recognition purposes.

The Arc evaluates the services promised in each contract at inception to determine whether the contract should be accounted for as having one or more performance obligations. The services in the contracts are typically not distinct from one another due to the requirements to perform under the contract. Accordingly, the contracts are typically accounted for as one performance obligation.

The Arc determines the transaction price for each contract based on the consideration expected to be received for the services being provided under the contract. For contracts where a portion of the price may vary, The Arc estimates variable consideration at the most likely amount, which is included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur. The Arc analyzes the risk of a significant reversal and if necessary, constrains the amount of variable consideration recognized in order to mitigate the risk.

At inception of a contract, the transaction price is estimated based on current rights and does not contemplate future modifications (including unexercised options) or follow-on contracts until they become legally enforceable. Depending on the nature of the modification, The Arc considers whether to account for the modification as an adjustment to the existing contract or as a separate contract.

THE ARC GATEWAY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2025

Note 1 - Summary of Significant Accounting Policies - Continued

Revenue and Support Recognition - Continued

For contracts with multiple performance obligations, the transaction price is allocated to each performance obligation based on the estimated standalone selling price of the service underlying each performance obligation. Revenue is recognized as performance obligations are satisfied and the customer obtains control of the service. Substantially all of the revenue is recognized over time using the input method as The Arc Gateway, Inc. performs under the contract because control of the work in process transfers continuously to the customer. For performance obligations in which control does not continuously transfer to the customer, revenue is recognized at the point in time that each performance obligation is fully satisfied.

Various economic factors affect revenues and cash flows.

In-Kind Contributions and Contribution of Non-Financial Assets

The Arc records and recognizes in-kind contributions at fair market value of the received service and in accordance with FASB ASC 958. This pronouncement requires recognition of professional services received if those services (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically be purchased if not provided by donation. Donated services and materials of \$8,000 for the year ended June 30, 2025, were recorded at fair value at the date of donation, and have been included in revenue and expenses.

Use of Estimates

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

Cash

Cash includes cash held in readily available checking and money market accounts. Interest income on cash is recorded as income when earned. The Arc's cash held at financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to certain limits. At June 30, 2025. The Arc's cash balances exceeded FDIC insurance limits.

Investments

In accordance with FASB ASC 958, investments in equity and debt securities are recorded at their fair values. Investments consist of certificates of deposit that mature within one to three years of purchase, equity securities and exchange traded funds. Equities and exchange traded funds are stated at fair value. Interest income, dividends, and realized and unrealized gains and losses are included in investment income without donor restrictions in the consolidated statement of activities.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined on the first-in, first-out (FIFO) method.

THE ARC GATEWAY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2025

Note 1 - Summary of Significant Accounting Policies - Continued

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for expected credit losses and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

The Arc has established an allowance for contractual adjustments that result from differences between the amounts billed and the expected realizable amounts. Actual adjustments between the amounts billed and the amounts received are charged against the allowance. Revenues are reported net of estimated contractual adjustments in the period services are rendered.

Refundable Advances

Refundable advances represent contributions received for special events that have not yet taken place. These amounts are potential refunds should The Arc default on the contractual arrangements.

Property and Equipment

Property and equipment are carried at cost. Donated property is valued at the estimated fair value on the date of the donation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period. The cost of maintenance and repairs is charged to expense as incurred; renewals and betterments exceeding \$5,000 are capitalized. Estimated useful lives of property and equipment range as follows:

Buildings	3 - 45 years
Equipment, furniture and fixtures	3 - 20 years
Vehicles	3 - 10 years

Leases

The Arc's accounts for leases under ASC 842, *Leases*, which requires lessee to recognize a right-of-use (ROU) asset and a lease liability for all leases with a term greater than 12 months on its consolidated statement of financial position regardless of whether the lease is classified as financing or operating. The Arc made an accounting policy election not to recognize right-of-use assets and lease liabilities that arise from short-term leases, as defined as leases with a term of twelve months or less, for any class of underlying assets.

General and Administrative Expenses

General and administrative expenses, net of general and administrative revenue, are allocated to the various programs based on each program's percentage of direct expenses to total direct expenses.

THE ARC GATEWAY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2025

Note 1 - Summary of Significant Accounting Policies - Continued

Fundraising Expense

Total fundraising expense related to special fundraising events for the year ended June 30, 2025, was \$92,794. Fundraising expenses related to The Arc's special events were 25% of the related revenue from special fundraising events for the year ended June 30, 2025. The ratio of expenses to amounts raised is computed using actual expenses and related special event income on an accrual basis.

Income Taxes

The Arc, the Trust, and the Foundation are not-for-profit organizations exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). PRC, Inc. is a not-for-profit organization exempt from federal income taxes under Internal Revenue Code Section 501(c)(2). The Arc follows accounting standards generally accepted in the United States of America for uncertain tax positions. The Arc evaluates its tax positions, including its exempt status and the positions taken on its Forms 990, in accordance with ASC 740-10, *Accounting for Uncertainty in Income Taxes*. Management is required to determine whether a tax position is more likely than not to be sustained upon examination by the applicable taxing authority, based on the technical merits of the position. Income from certain activities not directly related to The Arc's tax-exempt purpose is subject to taxation as unrelated business income. For the year ended June 30, 2025, The Arc incurred no income tax for such unrelated business income.

Functional Reporting of Expenses

Inc. allocates its expenses on a functional basis for its various programs and other activities. Direct costs associated with the various Arc programs have been summarized on a functional basis in the consolidated statement of activities. The Arc general and administrative expenses have been allocated among the programs benefited based on a proportionate share of direct expenses.

Date of Management's Review

Management has evaluated subsequent events through January 19, 2026, the date which the consolidated financial statements were available to be issued.

Note 2 - Liquidity and Availability of Financial Assets

Financial assets available within one year of the statement of financial position date for general expenditures is as follows:

Financial assets, at year end	\$ 1,881,360
Less those unavailable for general expenditures within one year due to donor imposed restrictions:	
Restricted by donor with purpose restrictions (restricted cash)	(252,769)
Restricted by donor with purpose restrictions (restricted investments)	(31,545)
Restricted by donor with purpose restrictions (Noncurrent portion of restricted investments)	(38,500)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,558,546</u>

Financial assets have been reduced by amounts which are not available for general use because of donor imposed restrictions within one year of the statement of financial position date.

THE ARC GATEWAY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2025

Note 3 - Investments

The composition of investments at June 30, 2025 is as follows:

	<u>Cost</u>	<u>Carrying Amount</u>
Without donor restrictions:		
Certificates of deposit	\$ 29,311	\$ 29,311
Exchange traded funds	<u>111,998</u>	<u>123,901</u>
	<u>141,309</u>	<u>153,212</u>
With donor restrictions:		
Certificates of deposit	<u>70,045</u>	<u>70,045</u>
Total investments	<u>\$ 211,354</u>	<u>\$ 223,257</u>

Investment income is summarized as follows:

Without donor restrictions:	
Interest and dividends	\$ 6,636
Realized loss	(2,122)
Unrealized gain	<u>9,358</u>
Total investment income	<u>\$ 13,872</u>

Note 4 - Fair Value Measurements

FASB ASC 820 establishes a framework for measuring fair value. That 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 under FASB ASC 820 are described below:

Level 1 - Quoted prices in active markets for identical securities;

Level 2 - Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.);

Level 3 - Significant unobservable inputs (including The Arc's own assumptions used to determine the fair value of investments).

THE ARC GATEWAY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2025

Note 4 - Fair Value Measurements - Continued

The following is a description of the valuation methodologies used for assets measured at fair value.

There have been no changes in the methodologies used at June 30, 2025.

- *Exchange traded funds* - classified as Level 1 as they are traded in an active market for which closing prices are readily available.
- *Certificates of deposit* - classified as level 2 as they are valued using quoted market prices for similar assets in active markets, or other inputs that are observable for the asset, either directly or indirectly. Valued at negotiated interest rate monthly.

The fair value measurements and levels within the fair value hierarchy of those measurements for the assets reported at fair value on a recurring basis are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Exchange traded funds:				
U.S. Equities	\$ 65,739	\$ -	\$ -	\$ 65,739
Non-U.S. Developing				
Market Equity	14,732	-	-	14,732
Fixed Income	39,808	-	-	39,808
Cash and Cash Alternatives	3,622	-	-	3,622
Certificates of Deposit	-	<u>99,356</u>	-	<u>99,356</u>
As of June 30, 2025	<u>\$ 123,901</u>	<u>\$ 99,356</u>	<u>\$ -</u>	<u>\$ 223,257</u>

Note 5 - Accounts Receivable

Accounts receivable are summarized as follows:

Funding agencies	\$ 827,869
Private insurance, net of contractual allowance of \$887,517	18,946
Trade, net of allowance for uncollectible amounts of \$13,851	<u>93,961</u>
Total	<u>\$ 940,776</u>

THE ARC GATEWAY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2025

Note 6 - Property and Equipment

Property and equipment are summarized as follows:

Land	\$	606,589
Buildings		5,818,560
Equipment, furniture and fixtures		743,217
Capital lease		51,357
Software		107,118
Vehicles		1,811,199
		<u>9,138,040</u>
Less accumulated depreciation		<u>5,717,505</u>
Total property and equipment	\$	<u>3,420,535</u>

Depreciation expense was \$260,073 for the year ended June 30, 2025.

Note 7 - Line of Credit

The Arc has a \$500,000 available line of credit with a financial institution. There is no balance on the line at June 30, 2025. The line bears interest at a variable rate equal to the current prime rate, which was 7.50% at June 30, 2025, and is secured by accounts held at the financial institution.

Note 8 - Leases

The Arc Gateway, Inc. has leases for two facilities which expire in December 2027 and December 2031 and a lease for office equipment that expires in February 2030. As of June 30, 2025, the right-of-use asset related to operating leases (facilities) totaled \$686,334 and the related lease liability totaled \$708,110. The right-of-use asset related to the finance lease (office equipment) totaled \$64,415 and the related lease liability totaled \$65,161. Operating lease expense totaled \$131,337 and financing lease expense totaled \$9,676. The following presents supplemental information pertaining to operating and finance leases for the year ended June 30, 2025:

Weighted-average remaining lease term in years for finance leases	4.75
Weighted-average remaining lease term in years for operating leases	5.92
Weighted-average discount rate for finance leases	4.09%
Weighted-average discount rate for operating leases	3.02%

The following table presents the maturities of The Arc's operating and finance lease liabilities and the present value discount as of June 30, 2025:

	Finance	Operating
2026	\$ 15,309	\$ 140,102
2027	15,309	142,035
2028	15,309	122,300
2029	15,309	102,605
2030	10,208	104,657
Thereafter	-	160,653
Total undiscounted cash flows	<u>71,444</u>	<u>772,352</u>
Less: present value discount	<u>(6,283)</u>	<u>(64,242)</u>
Total lease liabilities	<u>\$ 65,161</u>	<u>\$ 708,110</u>

THE ARC GATEWAY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2025

Note 9 - Net Assets

Net assets with donor restrictions include contributions that are restricted by a trust agreement for the relief of human suffering, but cannot be used for certain administrative expenses, and various other contributions restricted for specific program uses. Net assets with donor restrictions also include contributions that are restricted for dental and medical needs of clients of The Arc but can be used for general operations of The Arc if deemed necessary. Annual distributions of these funds for dental and medical needs of clients of The Arc are limited to 6% of the account's value. These restrictions may be met by the passage of time and actions of The Arc.

In October 1994, The Arc received a Community Development Block Grant (CDBG) for \$300,000 which funded a new building for The Arc's Infant-Toddler Program. The grant indefinitely restricts the use of the building to educational training and therapy of infants and toddlers, unless an alternate purpose is approved by CDBG administrators. During 2003, approval was received to utilize the building for alternative needs.

Certain vehicles and other buildings acquired or renovated with grantor funds have limitations imposed on their use for specified periods of time and are included in net assets with donor restrictions. The contributions used for this property and equipment are amortized over the time restriction and released to net assets without donor restrictions. Should the vehicles and buildings be used for an unapproved purpose, grant funds must be returned to the grantor. To date, The Arc has used the vehicles and buildings for approved purposes.

Net assets with donor restrictions, other than endowments, are available for the following purposes:

ARC mission - relief of human suffering - restricted to non-administrative expenses	\$ 28,639
Physical security of facilities	2,906
Time restricted property and equipment	<u>441,502</u>
	<u>\$ 473,047</u>

For the year ended June 30, 2025, net assets were released from restrictions for the following purpose:

Expiration of time restriction - restricted property and equipment	<u>\$ 205,727</u>
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Net assets with donor restrictions also consist of endowment funds with donor-imposed restrictions and contributions restricted within the Trust. These restrictions require the principal donation be kept intact permanently and maintained in separate deposit accounts. Income generated from The Arc's endowment funds is not restricted by the donor for specific purposes. Income generated from the Trust's assets is transferred to The Arc's net assets without donor restrictions each year. At June 20, 2025, net appreciation for all endowments since original principal donation is \$15,153.

The following is a summary of endowment net assets with donor related restrictions, categorized by the purpose for which earnings are expendable:

Repair, maintenance, furnishing and operation of Pollak Training Center	\$ 18,500
Scholarships	20,000
Escambia County Association for Retarded Citizens Trust - ARC mission	<u>252,769</u>
	<u>\$ 291,269</u>

THE ARC GATEWAY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2025

Note 9 - Net Assets - Continued

Changes in the total endowment funds (principal donation plus accumulated earnings) for year ended June 30, 2025 are as follows:

Balance at July 1, 2024	\$	306,028
Endowment donations		-
Interest income		394
Balance at June 30, 2025	\$	<u>306,422</u>

All restricted monies received by The Arc shall be deposited only in federally insured financial institutions or in United States government obligations guaranteed by the full faith and credit of the United States government. The Arc invests the endowments in certificates of deposit. The Trust shall invest assets solely in interest-bearing savings accounts or interest-bearing bonds, either and all of which shall be insured investments secured by the full faith and credit of the United States government or an agency thereof. The Trust invests its funds in certificates of deposit. The Foundation has no endowments or similar restrictions on investments. These restricted endowment monies are included in noncurrent assets in the accompanying statement of financial position at June 30, 2025.

Note 10 - Retirement Plans

The Arc sponsors a 403(b) and profit-sharing plan covering substantially all employees. Employees may contribute up to 100% of their annual compensation to the plan, limited to a maximum annual amount as set periodically by the Internal Revenue Service. The Arc's matching and profit-sharing contributions are discretionary. No matching or profit-sharing contributions were made during the year ended June 30, 2025.

Note 11 - Related Party Transactions

Various members of The Arc's Board of Directors hold key positions with vendors used by The Arc. Total expenditures to these vendors, which consists of professional and utility services, were \$182,182 for the year ended June 30, 2025.

Note 12 - Commitments and Contingencies

The Arc receives Medicaid funding which is subject to review by various regulatory agencies to determine program compliance. Subsequent to such review, The Arc is potentially liable for repayment of claims and reimbursements made pursuant to the program which are found to be in violation of policy. Management has not been notified of any significant pending claims.

The Arc receives a substantial amount of its support from the APD. A significant reduction in the level of this support, if this were to occur, may have an adverse effect on The Arc's programs.

Grants require the fulfillment of certain conditions as set forth in the grant agreements. Failure to fulfill the conditions could result in the return of funds to grantors. Although that is a possibility, The Arc's Board of Directors deems the contingency remote, since by acceptance of the grants and their terms, it has structured the objectives of The Arc to meet the provisions of the grants.

Note 13 - Concentrations of Credit Risk

The Arc receives revenue from various sources. Primary revenue providers and their approximate percentage of funding are as follows: Medicaid 38%, State and Local agencies 29% and other contracts and grants 16%.

Amounts due from these providers comprised 88% of total accounts receivable as of June 30, 2025.

SUPPLEMENTARY INFORMATION

**THE ARC GATEWAY, INC.
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
JUNE 30, 2025**

	ASSETS					
	The Arc Gateway, Inc.	The Arc Gateway Foundation, Inc.	Pollak Rehabilitation Center, Inc.	Escambia County Arc Charitable Trust	Intercompany Eliminating Entries	2025 Consolidated Total
Current Assets						
Cash	\$ 446,007	\$ 17,158	\$ 653	\$ 740	\$ -	\$ 464,558
Investments without donor restrictions	29,311	123,901	-	-	-	153,212
Investments with donor restrictions	31,545	-	-	-	-	31,545
Accounts receivable, net	918,666	22,110	-	-	-	940,776
Accounts receivable-intercompany	278,354	-	703,682	79	(982,115)	-
Inventories	17,178	-	-	-	-	17,178
Prepaid expenses	48,435	812	-	-	-	49,247
Other current assets	-	464	-	-	-	464
Total Current Assets	<u>1,769,496</u>	<u>164,445</u>	<u>704,335</u>	<u>819</u>	<u>(982,115)</u>	<u>1,656,980</u>
Property and Equipment, net						
Without donor restrictions	5,010,973	-	3,685,565	-	-	8,696,538
With donor restrictions	441,502	-	-	-	-	441,502
	<u>5,452,475</u>	<u>-</u>	<u>3,685,565</u>	<u>-</u>	<u>-</u>	<u>9,138,040</u>
Less accumulated depreciation	3,402,631	-	2,314,874	-	-	5,717,505
Total Property and Equipment, net	<u>2,049,844</u>	<u>-</u>	<u>1,370,691</u>	<u>-</u>	<u>-</u>	<u>3,420,535</u>
Other Assets						
Cash with donor restrictions	-	-	-	252,769	-	252,769
Investments with donor restrictions	38,500	-	-	-	-	38,500
Deposits	10,198	-	-	-	-	10,198
Right of use asset, operating and finance leases	750,749	-	-	-	-	750,749
Total Other Assets	<u>799,447</u>	<u>-</u>	<u>-</u>	<u>252,769</u>	<u>-</u>	<u>1,052,216</u>
Total Assets	<u>\$ 4,618,787</u>	<u>\$ 164,445</u>	<u>\$ 2,075,026</u>	<u>\$ 253,588</u>	<u>\$ (982,115)</u>	<u>\$ 6,129,731</u>

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

THE ARC GATEWAY, INC.
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION - CONTINUED
JUNE 30, 2025

LIABILITIES AND NET ASSETS

	The Arc Gateway, Inc.	The Arc Gateway Foundation, Inc.	Pollak Rehabilitation Center, Inc.	Escambia County Arc Charitable Trust	Intercompany Eliminating Entries	2025 Consolidated Total
Current Liabilities						
Accounts payable	\$ 421,522	\$ 24	\$ -	\$ -	\$ -	\$ 421,546
Accounts payable-intercompany	703,761	28,616	249,738	-	(982,115)	-
Accrued payroll and compensated absences	533,312	-	-	-	-	533,312
Refundable advances	25,644	41,892	-	-	-	67,536
Current portion of lease liabilities, operating and finance	133,581	-	-	-	-	133,581
Total Current Liabilities	1,817,820	70,532	249,738	-	(982,115)	1,155,975
Long-Term Liabilities						
Operating lease liabilities, net of current portion	639,690	-	-	-	-	639,690
Total Long-Term Liabilities	639,690	-	-	-	-	639,690
Total Liabilities	2,457,510	70,532	249,738	-	(982,115)	1,795,665
Net Assets						
Without donor restrictions	1,649,730	93,913	1,825,288	819	-	3,569,750
With donor restrictions	511,547	-	-	252,769	-	764,316
Total Net Assets	2,161,277	93,913	1,825,288	253,588	-	4,334,066
Total Liabilities and Net Assets	\$ 4,618,787	\$ 164,445	\$ 2,075,026	\$ 253,588	\$ (982,115)	\$ 6,129,731

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

**THE ARC GATEWAY, INC.
CONSOLIDATING SCHEDULE OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2025**

	<u>The Arc Gateway, Inc.</u>	<u>The Arc Gateway Foundation, Inc.</u>	<u>Pollak Rehabilitation Center, Inc.</u>	<u>Escambia County Arc Charitable Trust</u>	<u>Intercompany Eliminating Entries</u>	<u>2025 Consolidated Total</u>
Operating Activities						
Revenue and support:						
Medicaid	\$ 3,660,246	\$ -	\$ -	\$ -	\$ -	\$ 3,660,246
State and local grants/contracts	2,692,391	-	100,000	-	-	2,792,391
Department of Transportation contracts	1,153,646	-	-	-	-	1,153,646
Other contracts and financial assistance	379,629	-	-	-	-	379,629
Private insurance	280,820	-	-	-	-	280,820
Program income	189,180	-	-	-	-	189,180
Sales to public, net direct costs of \$72,960	450,984	-	-	-	-	450,984
United Way	44,000	-	-	-	-	44,000
Public support contributions	151,253	10,499	-	-	-	161,752
Contributions of nonfinancial assets	-	8,000	-	-	-	8,000
Special events	3,275	368,021	-	-	-	371,296
Miscellaneous	70,588	10,555	-	-	-	81,143
Staff reimbursements-intercompany	100,000	-	-	-	(100,000)	-
Contributions-intercompany	184,685	-	-	-	(184,685)	-
Total Operating Revenue and Support	<u>9,360,697</u>	<u>397,075</u>	<u>100,000</u>	<u>-</u>	<u>(284,685)</u>	<u>9,573,087</u>
Operating Expenses:						
Salaries	5,664,755	-	-	-	-	5,664,755
Employee benefits	427,596	-	-	-	-	427,596
Payroll taxes and workers compensation	507,612	-	-	-	-	507,612
Professional fees	838,301	6,000	-	-	-	844,301
Supplies and small equipment	295,139	-	-	-	-	295,139
Occupancy	431,721	5,938	-	-	-	437,659
Telephone	100,040	433	-	-	-	100,473
Equipment maintenance and rental	262,368	-	-	-	-	262,368
Printing and publication	49,139	-	-	-	-	49,139

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

**THE ARC GATEWAY, INC.
CONSOLIDATING SCHEDULE OF ACTIVITIES - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2025**

	The Arc Gateway, Inc.	The Arc Gateway Foundation, Inc.	Pollak Rehabilitation Center, Inc.	Escambia County Arc Charitable Trust	Intercompany Eliminating Entries	2025 Consolidated Total
Operating Expenses (Continued):						
Travel	40,508	-	-	-	-	40,508
Vehicle expense	454,416	-	-	-	-	454,416
Special events	9,248	83,546	-	-	-	92,794
Client assistance	12,647	-	-	-	-	12,647
Dues and memberships	33,309	500	-	-	-	33,809
Depreciation and amortization	295,790	-	-	-	-	295,790
Miscellaneous	19,221	12,670	70	20	-	31,981
Staff reimbursements-intercompany	-	100,000	-	-	(100,000)	-
Contributions-intercompany	-	184,685	-	-	(184,685)	-
Total Operating Expenses	9,441,810	393,772	70	20	(284,685)	9,550,987
Change in Net Assets from Operating Activities	(81,113)	3,303	99,930	(20)	-	22,100
Nonoperating Activities						
Employee retention credit income	470,517	-	-	-	-	470,517
Gain on disposal of property and equipment	9,772	-	-	-	-	9,772
Interest income	48,529	-	-	136	-	48,665
Interest expense	(31,600)	-	-	-	-	(31,600)
Total Nonoperating Activities	497,218	-	-	136	-	497,354
Change in Net Assets	416,105	3,303	99,930	116	-	519,454
Net Assets, Beginning of Year	1,745,172	90,610	1,725,358	253,472	-	3,814,612
Net Assets, End of Year	\$ 2,161,277	\$ 93,913	\$ 1,825,288	\$ 253,588	\$ -	\$ 4,334,066

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

THE ARC GATEWAY, INC.
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2025

<u>State Grantor/Pass-through Grantor, Project Title</u>	<u>Contract/Grant Number</u>	<u>Expenditures</u>
<u>State of Florida</u>		
Passed through Pensacola State College- Program for Adult Learning and Support	2024263	<u>\$ 900,515</u>

Note: Expenditures reported on the schedule of expenditures of state financial assistance are on the accrual basis of accounting.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Management and the Board of Directors
The Arc Gateway, Inc.

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of The Arc Gateway, Inc., and its affiliates, which comprise the consolidated statement of financial position as of June 30, 2025, and 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 and have issued our report thereon dated January 19, 2026.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered The Arc Gateway, Inc.'s internal control over financial reporting (internal control) as a basis for designing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Arc Gateway, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of The Arc Gateway, Inc.'s internal control.

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Arc Gateway, Inc.'s consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

January 19, 2026
Frazier & Deeter, LLC



*INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR STATE PROJECT AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY SECTION 215.97, FLORIDA STATUTES AND
CHAPTER 10.650, RULES OF THE AUDITOR GENERAL*

To the Management and the Board of Directors
The Arc Gateway, Inc.

Report on Compliance for Each Major State Project

Opinion on Each Major State Project

We have audited The Arc Gateway, Inc.'s compliance with the types of compliance requirements described in the *Florida Department of Financial Services State Projects Compliance Supplement* that could have a direct and material effect on The Arc Gateway, Inc.'s major state project for the year ended June 30, 2025. The Arc Gateway, Inc.'s major state project is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, The Arc Gateway, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major state project for the year ended June 30, 2025.

Basis for Opinion on Each Major State Project

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Section 215.97, *Florida Statutes*; and Chapter 10.650, *Rules of the Auditor General*. Our responsibilities under those standards, Section 215.97, *Florida Statutes*; and Chapter 10.650, *Rules of the Auditor General* are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of The Arc Gateway, Inc. and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major state project. Our audit does not provide a legal determination of The Arc Gateway, Inc.'s compliance with the compliance requirements referred to above.

Management's Responsibilities for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to The Arc Gateway, Inc.'s to its major state project.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on The Arc Gateway, Inc.'s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, Section 215.97, *Florida Statutes*; and Chapter 10.650, *Rules of the Auditor General* will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or

the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about The Arc Gateway, Inc.'s compliance with the requirements of its major state project as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, Section 215.97, *Florida Statutes*; and Chapter 10.650, *Rules of the Auditor General*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Arc Gateway, Inc.'s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of The Arc Gateway, Inc.'s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with Section 215.97, *Florida Statutes* and Chapter 10.650, *Rules of the Auditor General*, but not for the purpose of expressing an opinion on the effectiveness of The Arc Gateway, Inc.'s internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on requirements of Section 215.97, *Florida Statutes*; and Chapter 10.650, *Rules of the Auditor General*. Accordingly, this report is not suitable for any other purpose.

January 19, 2026

Frazier & Deeter, LLC

**THE ARC GATEWAY, INC.
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2025**

Section I: Summary of Auditors' Results

Financial Statements

The type of report issued on the consolidated financial statements: **Unmodified opinion**

Internal control over financial reporting:		
• Material weakness(es) identified?	___ Yes	<u>X</u> No
• Significant deficiency(ies) identified?	___ Yes	<u>X</u> None Reported
Noncompliance material to financial statements noted?	___ Yes	<u>X</u> No

State Projects

Internal control over major state projects:		
• Material weakness(es) identified?	___ Yes	<u>X</u> No
• Significant deficiency(ies) identified?	___ Yes	<u>X</u> None reported
Type of auditor's report issued on compliance for major state projects: Unmodified Opinion		
Any audit findings disclosed that are required to be reported in accordance with Section 215.97, <i>Florida Statutes</i> and Chapter 10.650, <i>Rules of the Auditor General</i> ?		
	___ Yes	<u>X</u> No
Identification of major state project tested:		
Program for Adult Learning and Support (CSFA 67.036)		
Dollar threshold used to distinguish Type A programs:	\$750,000	

Section II: Financial Statement Findings

There were no findings related to the consolidated financial statements which are required to be reported in accordance with *Government Auditing Standards*.

Section III: State Project Findings

There were no findings and questioned costs related to the major state project which are required to be reported in accordance with Section 215.97, *Florida Statutes*, and Chapter 10.650, *Rules of the Auditor General*. In accordance with *Rules of the Auditor General*, Section 10.656(3)(e), no management letter is required because there were no findings required to be reported in the management letter.

Section IV: Summary Schedule of Prior Audit Findings

In accordance with Rules of the Auditor General, Section 10.656(3)(e), no summary schedule of prior audit findings is required because there were no prior audit findings related to the major state project.