

Financial Statements

THE ARC OF LOUDOUN

June 30, 2018

GENERAL ORGANIZATIONAL DATA

ORGANIZATION AND PURPOSE

The Arc of Loudoun (The Arc) was incorporated under the laws of the Commonwealth of Virginia on September 1, 1967, to operate a non-stock, nonprofit organization. The organization changed its name from Loudoun Association for Retarded Citizens to The Arc of Loudoun effective January 31, 2008. The Arc also operates under its registered doing business name as Margaret Paxton Memorial Learning and Resource Campus.

The Arc was organized to advocate for persons with disabilities by promoting individual support and equitable participation with their non-disabled peers in all aspects of community life, including education, residence, vocation and healthcare. Our goal is to secure the full range of human and civil rights for children and adults with disabilities.

The Arc was granted exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code on November 21, 1977.

OFFICERS AND BOARD OF DIRECTORS

OFFICERS

George Pellicano, President
Curt Carlson, Vice President
Michael Kosin, Treasurer
Dianne Murphy, Secretary

BOARD OF DIRECTORS

Ara Bagdasarian
Jennifer Bickerstaff
Scott Billigmeier
Curt Carlson
Diane Culp
Bonnie Hoffman
Michael Kosin
Dianne Murphy
George Pellicano
Vicki Phillos
Sonny Swann
Rev. Daniel Vélez-Rivera

INTERIM EXECUTIVE DIRECTOR

YaTonya Abdullah

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Arc of Loudoun
Leesburg, Virginia

We have audited the accompanying financial statements of The Arc of Loudoun (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Arc of Loudoun as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Leesburg, Virginia
December 17, 2018

Mitchell & Co., P.C.

THE ARC OF LOUDOUN

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2018

ASSETS

Current assets

Cash and cash equivalents	\$ 224,706
Tuition receivable	396,340
Grants and other receivables	154,664
Prepaid expenses	32,391
Total current assets	<u>808,101</u>

Furniture, equipment, and leasehold improvements, net of accumulated depreciation of \$454,595	<u>1,339,511</u>
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Total assets \$ 2,147,612

LIABILITIES AND NET ASSETS

Current liabilities

Accounts payable	\$ 42,177
Accrued liabilities	241,640
Advance from Margaret Paxton Memorial for Convalescent Children	39,446
Prepaid tuition	36,607
Line of credit	75,000
Total liabilities	<u>434,870</u>

Net assets

Unrestricted	
Undesignated	263,489
Invested in capital assets	1,339,511
Temporarily restricted	109,742
Total net assets	<u>1,712,742</u>

Total liabilities and net assets \$ 2,147,612

See Notes to Financial Statements.

THE ARC OF LOUDOUN

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

	Unrestricted			Temporarily Restricted	Total
	Operations	Capital/ Non-operating	Total		
SUPPORT AND REVENUE					
Public support					
Contributions (in-kind \$17,243)	\$ 97,882	\$ -	\$ 97,882	\$ 121,098	\$ 218,980
Grants	30,000	-	30,000	76,376	106,376
Fundraising events, net of expenses of \$197,870	322,511	-	322,511	-	322,511
Donated facilities use and services	569,163	-	569,163	-	569,163
Membership dues	821	-	821	-	821
Total public support	1,020,377	-	1,020,377	197,474	1,217,851
Revenue					
Tuition and fees	3,893,085	-	3,893,085	-	3,893,085
Training workshops	128,523	-	128,523	-	128,523
Miscellaneous	1,237	-	1,237	-	1,237
Total revenue	4,022,845	-	4,022,845	-	4,022,845
Net assets released from restrictions:					
Satisfaction of usage restrictions	265,333	406,923	672,256	(672,256)	-
Total support and revenue	5,308,555	406,923	5,715,478	(474,782)	5,240,696
EXPENSES					
Program services	4,900,646	53,799	4,954,445	-	4,954,445
Supportive services:					
Management and general	139,519	116	139,635	-	139,635
Fundraising	197,359	2,103	199,462	-	199,462
Total expenses	5,237,524	56,018	5,293,542	-	5,293,542
Change in net assets	71,031	350,905	421,936	(474,782)	(52,846)
Net asset reclassification	(133,924)	133,924	-	-	-
Net assets, beginning of year	329,382	851,682	1,181,064	584,524	1,765,588
Net assets, end of year	\$ 266,489	\$ 1,336,511	\$ 1,603,000	\$ 109,742	\$ 1,712,742

See Notes to Financial Statements.

THE ARC OF LOUDOUN

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Supporting Services</u>			Total
	Programs	Management		
		& General	Fundraising	
Salaries	\$ 3,192,654	\$ 35,883	\$ 138,098	\$ 3,366,635
Fringe benefits	356,106	2,231	9,264	367,601
Payroll taxes	239,773	2,773	10,325	252,871
Total salaries and related expenses	3,788,533	40,887	157,687	3,987,107
Accreditation	2,069	-	-	2,069
Advertising	11,101	76	293	11,470
Occupancy (in-kind \$566,367)	540,267	888	25,212	566,367
Professional fees (in-kind \$796)	148,949	91,349	832	241,130
Office supplies (in-kind \$3,218)	34,494	613	1,921	37,028
Equipment leasing	19,387	186	653	20,226
Education supplies and software	30,253	15	50	30,318
Family support (in-kind \$4,550)	46,382	80	304	46,766
Insurance	68,295	750	2,594	71,639
Postage and printing	5,432	627	352	6,411
Telephone and internet	28,023	284	985	29,292
Utilities	37,961	144	1,559	39,664
Association memberships	19,928	230	796	20,954
Staff training	11,171	96	334	11,601
Travel	4,214	-	-	4,214
Maintenance	87,298	807	2,963	91,068
Depreciation	53,799	116	2,103	56,018
Other (in-kind \$3,455)	16,889	2,487	824	20,200
	1,165,912	98,748	41,775	1,306,435
Total expenses	\$ 4,954,445	\$ 139,635	\$ 199,462	\$ 5,293,542

See Notes to Financial Statements.

THE ARC OF LOUDOUN

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018**

Cash Flows From Operating Activities

Change in net assets	\$ (52,846)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	56,018
Capital grant	(406,923)
Loss on fixed asset disposal	1,860
(Increase) decrease in assets:	
Tuition receivable	(91,344)
Grants and other receivables	385,803
Prepaid expenses	(10,761)
Increase (decrease) in liabilities:	
Accounts payable	2,829
Accrued liabilities	(14,320)
Unearned income	7,053
Net cash used in operating activities	<u>(122,631)</u>

Cash Flows From Investing Activities

Purchase of property and equipment	(545,707)
Capital grant	406,923
Net cash used in investing activities	<u>(138,784)</u>

Cash Flows From Financing Activities

Bank line of credit	75,000
Net cash provided by financing activities	<u>75,000</u>

Net decrease in cash and equivalents (186,415)

Cash and Cash Equivalents

Beginning of year	411,121
End of year	<u>\$ 224,706</u>

See Notes to Financial Statements.

THE ARC OF LOUDOUN

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Activities and Significant Accounting Policies

Nature of Organization

The Arc of Loudoun (The Arc) was organized to advocate for persons with disabilities by promoting individual support and equitable participation with their non-disabled peers in all aspects of community life, including education, residence, vocation and healthcare. Our goal is to secure the full range of human and civil rights for children and adults with disabilities.

Significant Accounting Policies

The accounting and reporting policies of The Arc conform to generally accepted accounting principles and the reporting practices appropriate for nonprofit and voluntary health and welfare organizations. The nature of business and significant accounting principles are summarized below:

Basis of Accounting: The financial statements of The Arc have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation: Financial statements presentation follows the recommendations of the Financial Accounting Standards Board (FASB) as defined in the FASB Accounting Standards Codification (ASC) Topic 958, *Not-For-Profit Entities*. Under ASC Topic 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and Cash Equivalents: For purposes of reporting cash flows, The Arc considers all funds in banks and highly liquid investments with a maturity of three months or less to be cash equivalents.

Plant Assets and Depreciation: Furniture and equipment is recorded at cost or at estimated fair value at the date of gift. Donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Depreciation is computed on a straight-line basis over the estimated useful lives. Cost of major equipment additions are capitalized while normal repairs and maintenance are expensed as incurred.

Contributions: Contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in the next year are recorded at their net realized value.

Income Taxes: The Arc was granted exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code November 21, 1977. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

The Organization has adopted the guidance under ASC Topic 740, *Income Taxes*. Management has evaluated the Organization's tax positions and concluded that the Organization has taken no uncertain tax provisions that would require adjustment to, or disclosure in, the financial statements to comply with the provisions of the guidance. Income tax reporting years open for IRS audit include 2015, 2016, 2017, and 2018.

THE ARC OF LOUDOUN

NOTES TO FINANCIAL STATEMENTS

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

Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Revenue Recognition: Program fees and grants are reported as income as the income is earned. Funds received in advance of participation and for future periods are reported as unearned or deferred.

Donated In-kind Goods and Services: Donated services are recognized as contributions in accordance with FASB ASC, 958-605, *Not-for-Profit Entities*, 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.

A substantial number of unpaid volunteers have made significant contributions of their time in Organization's administrative and operating activities. The value of this donated time is not reflected in these financial statements in as much as no objective basis is available to measure the value of such services.

Functional Allocation of Expenses: The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among program and supportive services.

Note 2. Cash

At June 30, 2018, bank cash deposits and reported cash deposits consist of the following:

Description	Bank Balance	Reported Cash Balances
TD Bank	\$ 142,458	\$ 224,706

Individual bank combined cash account deposits up to \$250,000 are insured by the Federal Deposit Insurance Corporation (FDIC). At June 30, 2018, there were no balances in excess of deposits insured under FDIC.

Note 3. Property and Equipment

The following is a summary of property and equipment at June 30, 2018:

Description	Amount
Paxton leasehold improvements	\$ 1,429,356
Furniture and equipment	364,750
Less accumulated depreciation	(454,595)
	<u>\$ 1,339,511</u>

THE ARC OF LOUDOUN

NOTES TO FINANCIAL STATEMENTS

Note 4. Line of Credit

The Arc has a \$200,000 line of credit with TD Bank which automatically renews annually. Interest accrues and is payable monthly on the unpaid balance at the bank's Prime Rate (3.25% at June 30, 2018) plus 2.00%. The outstanding borrowings under the line of credit at June 30, 2018 was \$75,000.

Note 5. Accrued Liabilities

Accrued liabilities at June 30, 2018 consist of the following:

Description	Amount
Accrued payroll and related payroll taxes	\$ 148,820
Accrued vacation leave	82,498
Other accrued operating expenses	10,322
	<u>\$ 241,640</u>

Note 6. Operating Leases

Paxton Property Lease: The Arc entered into a property lease for the Paxton facility located in Leesburg, Virginia including the building facilities and specific designated grounds. The Arc operates the Aurora School and administrative offices from this facility. The lease commenced on December 1, 2009 upon obtaining occupancy use permits and is for ten years with additional renewal options totaling an additional ten years. The lease terms states no monthly rent is due; however, The Arc is responsible for property renovations and continued maintenance and upkeep. Through June 30, 2018, major renovations to the facility are substantially complete. Property renovations will be amortized over the projected lease period. Other than the facility renovations, maintenance and upkeep, there is no monthly rental lease obligation. The donated in-kind value of the facility use of the Paxton Property for the year ended June 30, 2018 is estimated to be \$566,367.

Note 7. Operating Equipment Lease

The Arc leases office equipment under five operating equipment leases. The lease requires monthly payments of \$894 through June 2018; monthly payments of \$758 through June 2019; monthly payments of \$457 through June 2020; and monthly payments of \$202 through February 2021. Minimum operating lease payments are as follows: 2019, \$5,781; 2020, \$3,031 and 2021, \$1,615.

Note 8. Concentration of Credit Risk

Financial instruments that potentially subject The Arc to concentrations of credit risk consist principally of accounts receivable. Concentrations of credit risk with respect to trade receivables are limited due to the large portion of receivables due from local government entities through contract agreements. As of June 30, 2018, the Organization had no other significant concentrations of credit risk.

Note 9. Fair Value of Instruments

The Arc's financial instruments are cash and cash equivalents, accounts receivable, and accounts payable, the recorded values of which approximate their fair values based on their short-term nature.

THE ARC OF LOUDOUN

NOTES TO FINANCIAL STATEMENTS

Note 10. Temporarily Restricted Net Assets

Temporarily restricted net assets are available at June 30, 2018 for the following purposes:

Purpose	6/30/2017			6/30/2018	
	Balance	Additions	Deletions	Balance	
Aurora School	\$ 20,592	\$ 21,456	\$ (42,048)	\$ -	
Ability Fitness Center	35,000	104,958	(136,958)	3,000	
Open Door Learning Center	5,000	14,141	(19,141)	-	
Advocacy services	17,084	56,419	(50,382)	23,121	
Facility development - Behavior Clinic	485,544	-	(406,923)	78,621	
Administrative services	1,104	500	(1,604)	-	
Fundraising	15,200	-	(15,200)	-	
Equipment	5,000	-	-	5,000	
	<u>\$ 584,524</u>	<u>\$ 197,474</u>	<u>\$ (672,256)</u>	<u>\$ 109,742</u>	

Note 11. In-Kind Contributions and Donations

In-kind contributions and donations include the following:

Type	Fundraising	Capital and Operating	Total
Occupancy	\$ -	\$ 566,367	\$ 566,367
Professional fees	-	796	796
Office supplies	-	3,218	3,218
Program Enrichment	-	4,550	4,550
Other	-	3,455	3,455
Capital improvements	-	8,020	8,020
Shocktober	17,737	-	17,737
	<u>\$ 17,737</u>	<u>\$ 586,406</u>	<u>\$ 604,143</u>

Note 12. Related Party Transactions

During 2018, The Arc procured the following service from the related party board members:

Related Party	Services Provided	Amount
Dinamic Communications	PR Services	\$ 1,250
Climatic Heating & Cooling	HVAC Services	263
		<u>\$ 1,513</u>

THE ARC OF LOUDOUN

NOTES TO FINANCIAL STATEMENTS

Note 13. Subsequent Events

The Arc has evaluated subsequent events from June 30, 2018 through December 17, 2018, the date these financial statements were available to be issued, and determined that there were no material subsequent events requiring adjustment to, or disclosure in, the financial statements for the year ended June 30, 2018.