*Financial Statements*

# THE ARC OF LOUDOUN

June 30, 2013

## 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

Meredith Lefforge, President
Brett Schoppert, Past President
Carol B. Mills, Vice President
Scott D. Billigmeier, Treasurer
Mary Pellicano, Secretary

### BOARD OF DIRECTORS

Rick Berry
Scott D. Billigmeier
Lisa Broyhill
Lisa Jett
Meredith Lefforge
Carol B. Mills
Teri Moy
Mary Pellicano
Brett Schoppert

### EXECUTIVE DIRECTOR

Jennifer Lassiter

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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, 2013, 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, 2013, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Leesburg, Virginia
October 23, 2013

Mitchell & Co., P.C.

**THE ARC OF LOUDOUN**

**STATEMENT OF FINANCIAL POSITION**
**JUNE 30, 2013**

| | |
|---|---|
| **ASSETS** | |
| Current assets | |
| Cash and cash equivalents | $ 282,741 |
| Accounts receivable | 191,934 |
| Program materials and supplies | 10,000 |
| Prepaid expenses | 16,592 |
| Total current assets | 501,267 |
| Furniture, equipment, and leasehold improvements, net of accumulated depreciation of $137,420 | 452,873 |
| **Total assets** | $ 954,140 |
| **LIABILITIES AND NET ASSETS** | |
| Current liabilities | |
| Accounts payable | $ 12,063 |
| Accrued liabilities | 122,779 |
| Prepaid tuition | 21,939 |
| **Total liabilities** | 156,781 |
| Net assets | |
| Unrestricted | 770,233 |
| Temporarily restricted | 27,126 |
| **Total net assets** | 797,359 |
| **Total liabilities and net assets** | $ 954,140 |

See Notes to Financial Statements.

**THE ARC OF LOUDOUN**

**STATEMENT OF ACTIVITIES**
**FOR THE YEAR ENDED JUNE 30, 2013**

| | Unrestricted | Temporarily Restricted | Total |
|---|---|---|---|
| **SUPPORT AND REVENUE** | | | |
| Public support | | | |
| Contributions (in-kind $66,210) | $ 165,961 | $ 284,055 | $ 450,016 |
| Fundraising events, net of expenses of $58,036 | 42,609 | - | 42,609 |
| Donated facilities use | 104,722 | - | 104,722 |
| Membership dues | 1,130 | - | 1,130 |
| Total public support | 314,422 | 284,055 | 598,477 |
| Revenue | | | |
| Tuition and fees | 2,797,010 | - | 2,797,010 |
| Training workshops | 4,670 | - | 4,670 |
| Miscellaneous | 3,522 | - | 3,522 |
| Total revenue | 2,805,202 | - | 2,805,202 |
| Net assets released from restrictions: | | | |
| Satisfaction of usage restrictions | 263,388 | (263,388) | - |
| **Total support and revenue** | 3,383,012 | 20,667 | 3,403,679 |
| **EXPENSES** | | | |
| Program services | 2,976,536 | - | 2,976,536 |
| Supportive services: | | | |
| Management and general | 98,346 | - | 98,346 |
| Fundraising | 20,340 | - | 20,340 |
| **Total expenses** | 3,095,222 | - | 3,095,222 |
| **Change in net assets** | 287,790 | 20,667 | 308,457 |
| **Net assets, beginning of year** | 482,443 | 6,459 | 488,902 |
| **Net assets, end of year** | $ 770,233 | $ 27,126 | $ 797,359 |

See Notes to Financial Statements.

**THE ARC OF LOUDOUN**

**STATEMENT OF FUNCTIONAL EXPENSES**
**FOR THE YEAR ENDED JUNE 30, 2013**

| | | Supporting Services | | |
|---|---|---|---|---|
| | Programs | Management & General | Fundraising | Total |
| Salaries | $ 2,089,120 | $ 22,061 | $ 10,362 | $ 2,121,543 |
| Fringe benefits | 221,976 | 1,061 | 452 | 223,489 |
| Payroll taxes | 173,823 | 1,466 | 937 | 176,226 |
| **Total salaries and related expenses** | 2,484,919 | 24,588 | 11,751 | 2,521,258 |
| Accredidation | 2,597 | - | - | 2,597 |
| Advertising | 19,741 | 810 | 381 | 20,932 |
| Occupancy | 102,590 | 485 | 228 | 103,303 |
| Professional fees | 5,731 | 69,243 | - | 74,974 |
| Office supplies | 23,423 | 129 | 61 | 23,613 |
| Equipment leasing | 8,986 | 14 | 7 | 9,007 |
| Education supplies and software | 18,785 | - | - | 18,785 |
| Family support | 58,985 | - | - | 58,985 |
| Insurance | 22,369 | 137 | 64 | 22,570 |
| Postage and printing | 3,335 | 11 | 5 | 3,351 |
| Telephone and internet | 30,483 | 317 | 148 | 30,948 |
| Utilities | 30,973 | 49 | 493 | 31,515 |
| Association memberships | 16,310 | 148 | 31 | 16,489 |
| Staff training | 28,256 | 23 | - | 28,279 |
| Travel | 3,965 | - | - | 3,965 |
| Maintenance | 62,879 | 1,377 | 647 | 64,903 |
| Depreciation | 44,444 | 64 | 6,175 | 50,683 |
| Other | 7,765 | 951 | 349 | 9,065 |
| | 491,617 | 73,758 | 8,589 | 573,964 |
| **Total expenses** | $ 2,976,536 | $ 98,346 | $ 20,340 | $ 3,095,222 |

See Notes to Financial Statements.

**THE ARC OF LOUDOUN**

**STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED JUNE 30, 2013**

| | |
|---|---|
| **Cash Flows From Operating Activities** | |
| Change in net assets | $ 308,457 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | |
| Depreciation | 50,683 |
| Loss on equipment sale | 169 |
| Donated capital fixed assets | (28,530) |
| Capital contribution | (248,498) |
| (Increase) decrease in assets: | |
| Accounts receivable | 40,571 |
| Program materials and supplies | 500 |
| Prepaid expenses | (3,252) |
| Increase (decrease) in liabilities: | |
| Accounts payable | (10,677) |
| Accrued liabilities | (6,259) |
| Unearned income | (12,089) |
| **Net cash provided by operating activities** | 91,075 |
| **Cash Flows From Investing Activities** | |
| Capital contribution | 248,498 |
| Purchase of property and equipment | (283,042) |
| **Net cash used in investing activities** | (34,544) |
| **Net increase in cash and equivalents** | 56,531 |
| **Cash and Cash Equivalents** | |
| Beginning of year | 226,210 |
| End of year | $ 282,741 |

See 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 2010, 2011, 2012, and 2013.

## 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, 2013, bank cash deposits and reported cash deposits consist of the following:

| Description | Bank Balance | Reported Cash Balances |
|---|---|---|
| TD Bank | $ 253,033 | $ 282,741 |

Individual bank combined cash account deposits up to $250,000 are insured by the Federal Deposit Insurance Corporation (FDIC). At June 30, 2013, $3,033 is in excess of deposits insured under FDIC.

## Note 3. Property and Equipment

The following is a summary of property and equipment at June 30, 2013:

| Description | Amount |
|---|---|
| Paxton leasehold improvements | $ 346,963 |
| Furniture and equipment | 243,330 |
| Less accumulated depreciation | (137,420) |
| | $ 452,873 |

## 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, 2013) plus 2.00%. There were no outstanding borrowings under the line of credit at June 30, 2013.

## Note 5. Accrued Liabilities

Accrued liabilities at June 30, 2013 consist of the following:

| Description | Amount |
|---|---|
| Accrued payroll and related payroll taxes | $ 53,293 |
| Accrued vacation leave | 62,740 |
| Other accrued operating expenses | 6,746 |
| | $ 122,779 |

## 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, 2013, 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, 2013 is estimated to be $103,303.

## Note 7. Operating Equipment Lease

The Arc leases office equipment under three operating equipment leases. The lease requires monthly payments of $230 through March 2014; monthly payments of $235 through June 2016; and monthly payments of $136 through November 2017. Minimum operating lease payments are as follows: 2014, $6,513; 2015, $4,445; 2016, $4,445; 2017, $1,627; and 2018, $678.

## Note 8. Fundraising

The Organization conducts fundraising events during the year. A summary of fundraising revenues and expenses follows:

| Special Events - Fundraising | Amount |
|---|---|
| Revenue | $ 100,645 |
| Expenses | (58,036) |
| | $ 42,609 |

## Note 9. Temporarily Restricted Net Assets

Temporarily restricted net assets are available at June 30, 2013 for the following purposes:

| Purpose | | Amount |
|---|---|---|
| Educational material | $ | 3,000 |
| Campus funds | | 18,976 |
| Family support | | 985 |
| Playground | | 4,165 |
| | $ | 27,126 |

## Note 10. 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, 2013, the Organization had no other significant concentrations of credit risk.

## Note 11. 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.

## Note 12. Subsequent Events

The Arc has evaluated subsequent events from June 30, 2013 through October 23, 2013, 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, 2013.