Financial Statements

THE ARC OF LOUDOUN

June 30, 2017

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
Lisa Broyhill, Ex-officio

BOARD OF DIRECTORS

Jennifer Bickerstaff
Dawn Billow
Lisa Broyhill
Curt Carlson
Diane Culp
Scott Billigmeier
Michael Kosin
Ara Bagdasarah
Dianne Murphy
George Pellicano
Rev. Daniel Vélez-Rivera

EXECUTIVE DIRECTOR

Melissa Heifetz

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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, 2017, 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, 2017, 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
January 22, 2018

Mitchell & Co., P.C.

THE ARC OF LOUDOUN

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017

ASSETS	
Current assets	
Cash and cash equivalents	$ 411,121
Tuition receivable	304,996
Grants and other receivables	540,467
Prepaid expenses	21,630
Total current assets	1,278,214
Furniture, equipment, and leasehold improvements, net of accumulated depreciation of $400,307	851,682
Total assets	$ 2,129,896
LIABILITIES AND NET ASSETS	
Current liabilities	
Accounts payable	$ 39,348
Accrued liabilities	255,960
Advances	39,446
Prepaid tuition	29,554
Total liabilities	364,308
Net assets	
Unrestricted	
Undesignated	329,382
Designated for capital assets	851,682
Temporarily restricted	584,524
Total net assets	1,765,588
Total liabilities and net assets	$ 2,129,896

See Notes to Financial Statements.

THE ARC OF LOUDOUN

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Public support			
Contributions (in-kind $58,182)	$ 143,766	$ 33,568	$ 177,334
Grants	17,220	657,493	674,713
Fundraising events, net of expenses of $110,951	320,194	-	320,194
Donated facilities use and services	593,886	-	593,886
Membership dues	4,491	-	4,491
Total public support	1,079,557	691,061	1,770,618
Revenue			
Tuition and fees	4,233,317	-	4,233,317
Training workshops	4,506	-	4,506
Miscellaneous	4,926	-	4,926
Total revenue	4,242,749	-	4,242,749
Net assets released from restrictions:			
Satisfaction of usage restrictions	167,370	(167,370)	-
Total support and revenue	5,489,676	523,691	6,013,367
EXPENSES			
Program services	5,103,588	-	5,103,588
Supportive services:			
Management and general	137,189	-	137,189
Fundraising	147,595	-	147,595
Total expenses	5,388,372	-	5,388,372
Change in net assets	101,304	523,691	624,995
Net assets, beginning of year	1,079,760	60,833	1,140,593
Net assets, end of year	$ 1,181,064	$ 584,524	$ 1,765,588

See Notes to Financial Statements.

THE ARC OF LOUDOUN

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

		Supporting Services		
	Programs	Management & General	Fundraising	Total
Salaries	$ 3,284,862	$ 33,297	$ 95,741	$ 3,413,900
Fringe benefits	400,905	983	6,934	408,822
Payroll taxes	255,601	2,772	7,205	265,578
Total salaries and related expenses	3,941,368	37,052	109,880	4,088,300
Accreditation	2,682	-	-	2,682
Advertising	13,418	11	349	13,778
Occupancy (in-kind $543,750)	521,416	582	21,752	543,750
Professional fees (in-kind $39,066)	119,139	91,856	1,652	212,647
Office supplies (in-kind $8,182)	36,079	847	1,749	38,675
Equipment leasing	17,452	228	139	17,819
Education supplies and software	35,092	-	-	35,092
Family support (in-kind $50,000)	102,454	128	9	102,591
Insurance	60,562	677	1,820	63,059
Postage and printing	6,299	74	306	6,679
Telephone and internet	16,921	220	592	17,733
Utilities	37,611	91	1,068	38,770
Association memberships	19,522	265	739	20,526
Staff training	10,098	301	703	11,102
Travel	7,769	-	-	7,769
Maintenance	69,765	735	1,826	72,326
Depreciation	72,406	141	2,659	75,206
Other (in-kind $1,100)	13,535	3,981	2,352	19,868
	1,162,220	100,137	37,715	1,300,072
Total expenses	$ 5,103,588	$ 137,189	$ 147,595	$ 5,388,372

See Notes to Financial Statements.

THE ARC OF LOUDOUN

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017

Cash Flows From Operating Activities	
Change in net assets	$ 624,995
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	75,206
Loss on disposition of assets	2,119
(Increase) decrease in assets:	
Tuition receivable	20,158
Grants and other receivables	(540,467)
Program materials and supplies	10,000
Prepaid expenses	91
Increase (decrease) in liabilities:	
Accounts payable	915
Accrued liabilities	32,284
Unearned income	2,233
Net cash provided by operating activities	227,534
Cash Flows From Investing Activities	
Purchase of property and equipment	(61,124)
Net cash used in investing activities	(61,124)
Net increase in cash and equivalents	166,410
Cash and Cash Equivalents	
Beginning of year	244,711
End of year	$ 411,121

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 2014, 2015, 2016, and 2017.

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, 2017, bank cash deposits and reported cash deposits consist of the following:

Description	Bank Balance	Reported Cash Balances
TD Bank	$ 400,296	$ 411,121

Individual bank combined cash account deposits up to $250,000 are insured by the Federal Deposit Insurance Corporation (FDIC). At June 30, 2017, the balance was $150,251 in excess of deposits insured under FDIC.

Note 3. Property and Equipment

The following is a summary of property and equipment at June 30, 2017:

Description	Amount
Paxton leasehold improvements	$ 936,355
Furniture and equipment	315,764
Less accumulated depreciation	(400,437)
	$ 851,682

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, 2017) plus 2.00%. There were no outstanding borrowings under the line of credit at June 30, 2017.

Note 5. Accrued Liabilities

Accrued liabilities at June 30, 2017 consist of the following:

Description		Amount
Accrued payroll and related payroll taxes	$	164,236
Accrued vacation leave		71,316
Other accrued operating expenses		20,408
	$	255,960

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, 2017, 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, 2017 is estimated to be $543,750.

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: 2018, $9,778; 2019, $5,781; 2020, $3,031 and 2021, $1,615.

Note 8. Fundraising

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

Special Events - Fundraising		Amount
Revenue	$	431,145
Expenses		(110,951)
	$	320,194

Note 9. Temporarily Restricted Net Assets

Temporarily restricted net assets are available at June 30, 2017 for the following purposes:

Purpose	Amount
Van	$ 5,000
ODLC	10,000
Facility development - Behavior Clinic	501,136
Shocktober	15,200
Printing services	1,104
Emergency support	16,334
Ability Fitness	35,000
Therapy	750
	$ 584,524

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, 2017, 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. In-Kind Contributions and Donations

In-kind contributions and donations include the following:

Type	Fundraising	Capital and Operating	Total
Occupancy	$ -	$ 543,750	$ 543,750
Professional fees	-	39,066	39,066
Office supplies	-	8,182	8,182
Family support	-	50,000	50,000
Other	-	1,100	1,100
Capital improvements	-	9,970	9,970
Shocktober	3,900	-	3,900
50th anniversary	675	-	675
	$ 4,575	$ 652,068	$ 656,643

Note 13. Related Party Transactions

During 2017, The Arc procured the following service from the related party:

Related Party	Services Provided	Amount
Dinamic Communications (Dianne Murphy - board member)	PR Services	$ 5,025

Note 14. Subsequent Events

The Arc has evaluated subsequent events from June 30, 2017 through January 22, 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, 2017.