

Financial Statements

THE ARC OF LOUDOUN

June 30, 2020

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

Ara Bagdasarian, President
Stacy Cleveland, Vice President
Ellie Addae, Treasurer
Scott Billigmeier, Secretary
George Pellicano, Ex-officio President
Lisa Kimball, Chief Executive Officer

BOARD OF DIRECTORS

Ara Bagdasarian
Ellie Addae
Jennifer Bickerstaff
Scott Billigmeier
Stacy Cleveland
Diane Culp
Michael Fischetti
Bonnie Hoffman
Beatriz McNelly
Dianne Murphy
George Pellicano
Vicki Phillos
John Stine
Sonny Swann

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MITCHELL & Co., P.C.

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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, 2020, 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, 2020, 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
November 19, 2020

Mitchell & Co., P.C.

THE ARC OF LOUDOUN

**STATEMENT OF FINANCIAL POSITION
JUNE 30, 2020**

ASSETS

Cash and cash equivalents	\$ 1,282,450
Tuition receivable, net of allowance \$6,081	339,894
Grants and other receivables	14,921
Prepaid expenses and other assets	36,652
Beneficial interest in assets held by others	3,044
Property and equipment, net of accumulated depreciation of \$664,558	<u>1,194,618</u>

Total assets

\$ 2,871,579

LIABILITIES AND NET ASSETS

Accounts payable and accrued expenses	40,722
Accrued payroll	372,329
Payroll liabilities	29,859
Advance from Margaret Paxton Memorial for Convalescent Children	39,446
Prepaid tuition	<u>18,695</u>
Total liabilities	<u>501,051</u>

Net assets

Without donor restriction:

Undesignated 869,086

Invested in capital assets 1,194,618

With donor restriction 306,824

Total net assets 2,370,528

Total liabilities and net assets

\$ 2,871,579

See Notes to Financial Statements.

THE ARC OF LOUDOUN

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020**

	Without Donor Restriction			With Donor Restriction	Total
	Operations	Capital/ Non-operating	Total		
SUPPORT AND REVENUE					
Public support					
Contributions	\$ 44,285	\$ 22,412	\$ 66,697	\$ 71,467	\$ 138,164
Grants	133,729	-	133,729	328,905	462,634
CARES Act PPP funding	-	-	-	854,302	854,302
Fundraising events, net of expenses of \$224,902	413,782	-	413,782	-	413,782
Donated facilities use and services	716,269	-	716,269	-	716,269
Total public support	1,308,065	22,412	1,330,477	1,254,674	2,585,151
Revenue					
Tuition and fees	4,036,233	-	4,036,233	-	4,036,233
Training workshops	260,785	-	260,785	-	260,785
Miscellaneous	377	-	377	-	377
Total revenue	4,297,395	-	4,297,395	-	4,297,395
Net assets released from restrictions:					
Satisfaction of usage restrictions	985,686	-	985,686	(985,686)	-
Total support and revenue	6,591,146	22,412	6,613,558	268,988	6,882,546
EXPENSES					
Program services	5,160,231	134,252	5,294,483	-	5,294,483
Supportive services:					
Management and general	626,541	115	626,656	-	626,656
Fundraising	312,390	6,118	318,508	-	318,508
Total expenses	6,099,162	140,485	6,239,647	-	6,239,647
Change in net assets	491,984	(118,073)	373,911	268,988	642,899
Net asset reclassification	(39,867)	39,867	-	-	-
Net assets, beginning of year	416,969	1,272,824	1,689,793	37,836	1,727,629
Net assets, end of year	\$ 869,086	\$ 1,194,618	\$ 2,063,704	\$ 306,824	\$ 2,370,528

See Notes to Financial Statements.

THE ARC OF LOUDOUN

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020**

	<u>Supporting Services</u>			Total
	Programs	Management & General	Fundraising	
Salaries	\$ 3,509,601	\$ 391,143	\$ 220,840	\$ 4,121,584
Fringe benefits	334,315	19,953	13,730	367,998
Payroll taxes	259,555	26,563	15,477	301,595
Total salaries and related expenses	4,103,471	437,659	250,047	4,791,177
Advertising (in-kind \$39,297)	44,047	2,883	11,136	58,066
Occupancy (in-kind \$598,217)	572,117	888	25,212	598,217
Professional fees (in-kind \$51,380))	3,500	169,995	1,750	175,245
Office supplies (in-kind \$1,500)	27,003	442	1,300	28,745
Equipment leasing	20,850	100	338	21,288
Education supplies and software	37,346	39	130	37,515
Scholarships	24,158	-	-	24,158
Family support (in-kind \$1,408)	57,341	-	-	57,341
Insurance	74,686	960	3,217	78,863
Postage and printing	2,175	21	199	2,395
Technology	52,138	745	2,961	55,844
Utilities	38,961	293	2,841	42,095
Association memberships	21,165	243	3,014	24,422
Staff training	13,786	11	85	13,882
Travel	6,527	29	493	7,049
Maintenance	59,961	691	3,517	64,169
Depreciation	134,252	115	6,118	140,485
Interest	12	2,741	-	2,753
Bank and other fees	-	2,552	6,129	8,681
Payroll processing	-	4,638	-	4,638
Bad Debt Expense	497	-	-	497
Other (in-kind \$1,830)	490	1,611	21	2,122
	1,191,012	188,997	68,461	1,448,470
Total expenses	\$ 5,294,483	\$ 626,656	\$ 318,508	\$ 6,239,647

See Notes to Financial Statements.

THE ARC OF LOUDOUN

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020**

Cash Flows From Operating Activities

Change in net assets	\$ 642,899
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	140,485
Donated capital items	(22,412)
(Increase) decrease in assets:	
Tuition receivable	114,813
Grants and other receivables	3,976
Prepaid expenses	(7,856)
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	112,616
Accrued payroll	29,859
Unearned income	(1,277)
Net cash provided by operating activities	<u>1,013,103</u>

Cash Flows From Investing Activities

Purchase of property and equipment	(39,867)
Beneficial interest in assets held by others	(3,044)
Net cash used in investing activities	<u>(42,911)</u>

Net increase in cash and equivalents 970,192

Cash and Cash Equivalents

Beginning of year	312,258
End of year	<u>\$ 1,282,450</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 statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) as defined in the FASB Accounting Standards Codification (ASC) Topic 958 dated August 2016, *Not-For-Profit Entities*, and the provisions of the American Institute of Certified Public Accountants (AICPA) “Audit and Accounting Guide for Not-for-Profit Organizations”. (ASC) 9588-205 was effective January 1, 2018. Under ASC Topic 958, the Organization is required to report information regarding its financial position and activities according to two classes of net assets:

Net Assets Without Donor Restriction: Net assets not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Organization’s board may designate assets without restrictions for specific operational purposes from time to time.

Net Assets With Donor Restriction: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Non-Profit Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity

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.

Property, Equipment, 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.

THE ARC OF LOUDOUN

NOTES TO FINANCIAL STATEMENTS

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

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 2017, 2018, 2019, and 2020.

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 Expense: The cost of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses that are allocated include the following:

Description	Method
Personnel costs	Time and effort
Administrative costs	Salaries percentage
Professional fees and other	Direct

THE ARC OF LOUDOUN

NOTES TO FINANCIAL STATEMENTS

Note 2. Cash

At June 30, 2020, bank cash deposits and reported cash deposits consist of the following:

Description	Bank Balance	Reported Cash Balances
TD Bank	\$ 1,071,491	\$ 1,067,380
Bank of Charles Town	213,770	213,770
US Bank	500	500
Cash on hand	-	800
	<u>\$ 1,285,761</u>	<u>\$ 1,282,450</u>

Individual bank combined cash account deposits up to \$250,000 are insured by the Federal Deposit Insurance Corporation (FDIC). At June 30, 2020, TD bank balances were in excess of deposits insured under FDIC by \$821,491.

Note 3. Beneficial Interest in Assets Held by Others

The ARC of Loudoun (ARC) established an agency beneficial interest endowment fund with Community Foundation for Loudoun and Northern Fauquier Counties (CFLNFC). ARC provided these funds to CFLNFC to hold, invest and distribute back to ARC as specific needs arise and disbursement requests are made. All funds held by CFLNFC are dedicated for charitable purposes and directed disbursements are done under the CFLNFC distribution policy. The funds held are subject to the terms and provisions of the articles of incorporation and bylaws of the Foundation including the ability of the Foundation Board of Directors to modify any restriction or condition on the distribution of funds for any specified charitable purpose or to a specified charitable organization if in the sole judgment of the Foundation Board, such restriction or condition becomes unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community or area served.

A 2020 summary of beneficial interest assets held by Community Foundation for Loudoun and Northern Fauquier Counties for the benefit of The ARC of Loudoun at June 30, 2020 is as follows:

Summary of Activity	Amount
Reported estimated fair value July 1, 2019	\$ -
Contributions	3,000
Net investment return	44
Reported estimated fair value June 30, 2020	<u>\$ 3,044</u>

Note 4. Property and Equipment

The following is a summary of property and equipment at June 30, 2020:

Description	Amount
Paxton leasehold improvements	\$ 1,495,836
Furniture and equipment	363,340
Less accumulated depreciation	(664,558)
	<u>\$ 1,194,618</u>

THE ARC OF LOUDOUN

NOTES TO FINANCIAL STATEMENTS

Note 5. 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 7%. There were no outstanding borrowings under the line of credit at June 30, 2020.

Note 6. Accrued Payroll

Accrued payroll at June 30, 2020 consist of the following:

Description	Amount
Accrued payroll and related payroll taxes	\$ 199,875
Accrued vacation leave	172,454
	<u>\$ 372,329</u>

Note 7. Net Assets with Donor Restriction

Net assets with donor restriction are available at June 30, 2020 for the following purposes:

Purpose	6/30/2019			6/30/2020
	Balance	Additions	Deletions	Balance
Aurora School	\$ 500	\$ 6,462	\$ (6,962)	\$ -
Scholarship support	4,965	43,020	(27,757)	20,228
Advocacy services	27,371	11,747	(28,868)	10,250
Facility development & improvements	-	250,000		250,000
Administrative services	-	54,145	(54,145)	-
Fundraising	-	10,000	(10,000)	-
Equipment	5,000	9,998	-	14,998
CARES Act PPP funding	-	854,302	(854,302)	-
Client future COVID-19 need	-	15,000	(3,652)	11,348
	<u>\$ 37,836</u>	<u>\$ 1,254,674</u>	<u>\$ (985,686)</u>	<u>\$ 306,824</u>

All net assets with donor restriction were restricted for a specific purpose at June 30, 2020.

Note 8. 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, 2020, 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, 2020 is estimated to be \$598,217.

THE ARC OF LOUDOUN

NOTES TO FINANCIAL STATEMENTS

Note 9. Operating Equipment Lease

The Arc leases office equipment under five operating equipment leases. The lease requires monthly payments of \$457 through June 2020; and monthly payments of \$202 through February 2021. Minimum operating lease payments are \$1,615 in 2021.

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, 2020, 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	\$ -	\$ 598,217	\$ 598,217
Advertising	-	39,297	39,297
Paxton Campus improvements/maintenance	-	18,106	18,106
Legal services	-	49,630	49,630
Consulting fees	-	1,750	1,750
Office supplies/equipment	-	1,500	1,500
Program enrichment	-	1,408	1,408
Exercise equipment	-	3,500	3,500
Shocktober	1,031	-	1,031
Other	-	1,830	1,830
	<u>\$ 1,031</u>	<u>\$ 715,238</u>	<u>\$ 716,269</u>

Note 13. CARES Act PPP Funding

ARC was granted on April 14, 2020, an \$854,302 loan from the Bank of Charles Town pursuant to the paycheck protection program of the Cares Act. The loan bears interest at 1.00% with payments commencing November 2020 and matures April 2022. The loan and accrued interest are forgivable after eight (8) weeks provided ARC uses the funds to support eligible expenses including payroll, employee benefits, rent, utilities, and maintains its payroll level.

ARC determined that it has incurred eligible expenses through June 30, 2020 for loan forgiveness and anticipates complete forgiveness of the loan once the application is completed during fiscal year ending June 30, 2021. ARC expects to meet the PPP eligibility criteria and has concluded that the PPP loan represents, in substance, a grant that is expected to be forgiven and has accounted for such PPP loan in accordance with FASB ASC 958-605 as a conditional contribution.

THE ARC OF LOUDOUN

NOTES TO FINANCIAL STATEMENTS

Note 14. Related Party Transactions

During fiscal year ended 2020, The Arc procured the following service from a related party board member business:

Related Party	Provided	Amount
Dinamic Communications, LLC	PR Services	<u>\$ 13,000</u>

The Arc board of directors reviews and discloses any service provided by a related party board member to verify and determine services provided and fees charged are reasonable and customary.

Note 15. Liquidity

The Organization's financial assets available within one year of the balance sheet date for general expenditure are as follows:

Description	Amount
Cash and cash equivalents	\$ 1,282,450
Less: Amounts restricted for specific purpose	(306,824)
	<u>\$ 975,626</u>

Note 16. Risks and Uncertainties

COVID-19: The extent of the impact of COVID-19 on ARC's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, as well as the impact on ARC's customers, employees, and vendors, all of which are uncertain and cannot be reasonably predicted.

Note 17. Subsequent Events

The Arc has evaluated subsequent events from June 30, 2020 through November 19, 2020, 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, 2020.