

THE ARC OF NORTHERN VIRGINIA, INC.

JUNE 30, 2018
With Summarized Financial Information
For the Year Ended June 30, 2017

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in their entirety.**



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With Summarized Financial Information
For the Year Ended June 30, 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
The Arc of Northern Virginia, Inc.
Falls Church, Virginia

Scope

We have audited the accompanying financial statements of The Arc of Northern Virginia, Inc. (the Arc) (a not-for-profit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses and losses, 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.

Board of Directors
The Arc of Northern Virginia, Inc.
Falls Church, Virginia

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Arc 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.

Report on Summarized Comparative Information

We have previously audited the Arc's June 30, 2017, financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 27, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Ross, Langan & McKeedree
L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

February 28, 2019

THE ARC OF NORTHERN VIRGINIA, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2018

With Comparative Financial Information as of June 30, 2017

ASSETS

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash	\$ 37,612	\$ 12,911
Accounts receivable, net	69,548	58,940
Contributions receivable	479,601	675,632
Investments	28,965	27,189
Other assets	44,842	56,453
Beneficial interest in trusts	<u>2,285,845</u>	<u>1,989,979</u>
TOTAL ASSETS	<u>\$ 2,946,413</u>	<u>\$ 2,821,104</u>

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable	\$ 99,530	\$ 128,917
Accrued salary and benefits	91,281	47,439
Other liabilities	<u>59,805</u>	<u>53,410</u>
TOTAL LIABILITIES250,616229,766
NET ASSETS (DEFICIT)		
Unrestricted	(145,604)	145,867
Temporarily restricted	1,767,379	1,467,284
Permanently restricted	<u>1,074,022</u>	<u>978,187</u>
TOTAL NET ASSETS	<u>2,695,797</u>	<u>2,591,338</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,946,413</u>	<u>\$ 2,821,104</u>

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

THE ARC OF NORTHERN VIRGINIA, INC.

STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2018
 With Summarized Financial Information For the Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2018	2017
REVENUE AND SUPPORT					
Contributions, grants, and memberships	\$ 221,722	\$ 616,484	\$ -	\$ 838,206	\$ 863,482
Program service fees and other	672,921	-	-	672,921	686,477
Contributions from associated organization	-	29,352	-	29,352	29,135
Special events income, net of direct benefit to donors	76,209	6,655	-	82,864	150,581
Investment income	116	-	3,160	3,276	3,192
Income from beneficial interest in trusts	-	263,316	146,697	410,013	187,134
In-kind contributions	7,550	-	-	7,550	121,845
Net assets released from restrictions	<u>669,734</u>	<u>(615,712)</u>	<u>(54,022)</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>1,648,252</u>	<u>300,095</u>	<u>95,835</u>	<u>2,044,182</u>	<u>2,041,846</u>
EXPENSES AND LOSSES					
Program services:					
Advocacy and information and referral	563,226	-	-	563,226	501,951
Guardianship and case management	687,613	-	-	687,613	673,241
Personal support trusts	<u>356,358</u>	<u>-</u>	<u>-</u>	<u>356,358</u>	<u>348,364</u>
Total program expenses	<u>1,607,197</u>	<u>-</u>	<u>-</u>	<u>1,607,197</u>	<u>1,523,556</u>
Supporting Services:					
Management and general	102,521	-	-	102,521	97,139
Fundraising	<u>230,005</u>	<u>-</u>	<u>-</u>	<u>230,005</u>	<u>140,594</u>
Total support services	<u>332,526</u>	<u>-</u>	<u>-</u>	<u>332,526</u>	<u>237,733</u>
Total expenses and losses	<u>1,939,723</u>	<u>-</u>	<u>-</u>	<u>1,939,723</u>	<u>1,761,289</u>
CHANGE IN NET ASSETS (DEFICIT)	(291,471)	300,095	95,835	104,459	280,557
NET ASSETS, BEGINNING OF YEAR	<u>145,867</u>	<u>1,467,284</u>	<u>978,187</u>	<u>2,591,338</u>	<u>2,310,781</u>
NET ASSETS (DEFICIT), END OF YEAR	<u>\$(145,604)</u>	<u>\$ 1,767,379</u>	<u>\$ 1,074,022</u>	<u>\$ 2,695,797</u>	<u>\$ 2,591,338</u>

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

THE ARC OF NORTHERN VIRGINIA, INC.

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

With Summarized Financial Information For the Year Ended June 30, 2017

	Program Services				Support Services			Total
	Advocacy and Information and Referral	Guardianship and Case Management	Personal Support Trusts	Total Program Services	Management and General	Fundraising	Total Support Services	
Dues and support to affiliates	\$ 5,929	\$ 5,929	\$ 1,318	\$ 13,176	\$ -	\$ -	\$ -	\$ 13,176
Expenses under grants	124,214	-	-	124,214	-	-	-	124,214
Marketing/membership	5,346	7,672	4,456	17,474	535	1,768	2,303	19,777
Marketing/membership in-kind	730	-	-	730	-	-	-	730
Office expenses	21,204	31,474	17,397	70,075	9,314	6,907	16,221	86,296
Professional fees	5,996	48,450	4,680	59,126	51,362	667	52,029	111,155
Professional fees in-kind	-	-	-	-	1,820	-	1,820	1,820
Rent, net	23,078	33,117	19,233	75,428	2,312	7,635	9,947	85,375
Rent, net in-kind	5,000	-	-	5,000	-	-	-	5,000
Salaries, benefits, and taxes	356,315	511,297	296,948	1,164,560	35,696	117,884	153,580	1,318,140
Technology	8,365	12,004	6,971	27,340	838	2,768	3,606	30,946
Travel	7,049	9,221	5,355	21,625	644	2,126	2,770	24,395
TOTAL EXPENSES	563,226	659,164	356,358	1,578,748	102,521	139,755	242,276	1,821,024
Bad debt losses	-	28,449	-	28,449	-	90,250	90,250	118,699
TOTAL EXPENSES AND LOSSES	<u>\$ 563,226</u>	<u>\$ 687,613</u>	<u>\$ 356,358</u>	<u>\$ 1,607,197</u>	<u>\$ 102,521</u>	<u>\$ 230,005</u>	<u>\$ 332,526</u>	<u>\$ 1,939,723</u>
								<u>\$ 1,761,289</u>

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

THE ARC OF NORTHERN VIRGINIA, INC.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018
With Comparative Financial Information For the Year Ended June 30, 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 104,459	\$ 280,557
Adjustments to reconcile change in net assets to net change from operating activities:		
Depreciation and amortization	9,110	8,803
Realized and unrealized (gains)/losses on investments	(2,676)	(2,630)
Income from beneficial interest in trusts	(410,013)	(187,134)
Trust distributions	114,147	100,877
Changes in assets and liabilities:		
Accounts receivable	(10,608)	(14,430)
Contributions receivable	196,031	(318,064)
Other assets	6,286	(2,412)
Accounts payable	(29,387)	101,567
Accrued salary and benefits	43,842	13,057
Other liabilities	<u>(365)</u>	<u>(1,611)</u>
Net change in cash from operating activities <u>20,826</u> <u>(21,420)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(3,785)	(12,837)
Purchase of investments	(508)	(534)
Proceeds from sales and maturities of investments	<u>1,408</u>	<u>1,280</u>
Net change in cash from investing activities <u>(2,885)</u> <u>(12,091)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds of loan from associated organization	265,469	200,000
Principal payments on loan from associated organization	(258,709)	(192,675)
Drawings from line of credit	50,000	-
Payments on line of credit	<u>(50,000)</u>	<u>-</u>
Net change in cash from financing activities	<u>6,760</u>	<u>7,325</u>
NET CHANGE IN CASH	24,701	(26,186)
CASH, BEGINNING OF YEAR	<u>12,911</u>	<u>39,097</u>
CASH, END OF YEAR	<u>\$ 37,612</u>	<u>\$ 12,911</u>

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

THE ARC OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 - THE ORGANIZATION

The Arc of Northern Virginia, Inc. (the Arc) is a not-for-profit organization incorporated in Virginia in 1962. The Arc's mission is to promote and protect the human rights of people with intellectual and developmental disabilities and actively support their full inclusion and participation in the community throughout their lifetime. The Arc's primary sources of revenue are government contracts, fees earned in the conduct of programs, contributions from individuals, foundations, and corporations, and investment income. The Arc's program areas are:

Advocacy and Information and Referral - The Arc provides advocacy and information and referral services for individuals with intellectual and developmental disabilities and their families. The Arc educates the community on the state and local levels to ensure quality community-based services, including housing and employment programs, as well as laws and policies that protect civil rights and change attitudes. The Arc also provides information and referral services for families by phone, e-mail, web-site and in person during Lunch Bunch. In addition, the Arc helps youth and families with the transition from school to adult life in the community by offering professionals at workshops and seminars, including the transition series and life planning tools, along with other half-day workshops, seminars, and webinars on a wide variety of topics. The Arc's umbrella program is called Transition POINTS (Providing Opportunities, Information, Networking and Transition Support), a comprehensive program to help families with realistic actionable information with which they can make a wide range of decisions over the life span of their loved one with intellectual and developmental disabilities. Transition POINTS focuses on the following key decision points: receiving a diagnosis and having a child enter an early intervention program, starting school and navigating special education and related services, transitioning out of the school system, finding a place to live outside the caregiver's home, entering the world of work and employment, and aging with a disability.

Case Management and Guardianship - The Arc provides case management and service facilitation services for individuals with developmental disabilities and their families in the Northern Virginia area. The Arc coordinates services in the community through the Virginia Medicaid Developmental Disabilities Waiver program. The Arc also educates families to be successful while navigating complicated systems of care. In addition, the Arc watches over and cares for those who cannot care for themselves through the Virginia Guardianship of Last Resort program through a contract with the Virginia Department of Aging and Rehabilitation Services. The Arc also serves as representative payee for guardian/conservator clients who require assistance managing their finances and paying their bills.

Personal Support Trusts - The Arc provides financial planning options for individuals and families to ensure the needs of individuals with disabilities are adequately provided for. The Arc helps families plan for a secure financial future with a Special Needs Trust program and provides professional management and support services.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), which is the sole source of authoritative accounting principles generally accepted in the United States of America (GAAP). Therefore, the financial statements of the Arc have been prepared on the accrual basis of accounting. The Arc reports information regarding its activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

THE ARC OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

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

Accounts Receivable

Government agencies and others contract with the Arc to provide services on their behalf to eligible clients. Generally, the contracts are paid for on a reimbursement basis with amounts earned but not yet collected, recorded as due from contracting agencies. As of June 30, 2018 and 2017, the Arc recorded \$69,548 and \$58,940, respectively, as accounts receivable in the accompanying statement of financial position, which is net of an allowance for doubtful accounts of \$3,721 and \$2,851, respectively. Management has established an allowance in the amount deemed to be appropriate based upon historical collections and current negotiations. The Arc writes off uncollectible receivables when management determines the receivable is unlikely to be collected. Changes to the allowance are recorded as bad debt loss.

Contributions and Contributions Receivable

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

All contributions, including unconditional promises to give, are recorded as made. Conditional promises to give, including revocable estates and trusts, are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in more than one year are reported at their net present realizable value, using risk-free interest rates applicable to the years in which the promises are to be received. The contributions receivable as of June 30, 2018, are all due to be received within one year.

Contributions receivable are charged to bad debt loss as they are deemed uncollectible. Due to the nature of contributions receivable, management has determined that as of June 30, 2018 and 2017, no allowance for uncollectible amounts is necessary.

The Arc receives contributions from its fundraising events that are recorded net of direct benefits to donors. Contributions for future events are recorded as refundable advances until the event occurs since contributions would likely be returned if the event were cancelled.

Statement of Cash Flows

For purposes of the statement of cash flows, the Arc considers cash and money market balances held by the Arc's investment managers to be investments.

Investments

Investments in debt and equity securities are reported at their estimated fair market values based on quoted market prices. Investment gains and losses are recognized as of the trade date and are included with investment income in the accompanying statement of activities as increases or decreases in unrestricted net assets unless restricted by donor or by law.

THE ARC OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Beneficial Interest in Trusts

The Arc is a beneficiary of two related irrevocable trusts: one where the Arc will receive an annual payout for 25 years and the remainder of the assets on August 1, 2036 (Remainder/Lead Trust), and another that is established to provide income in perpetuity (Perpetual Trust):

Remainder/Lead Trust - The trust was recorded as restricted contributions, grants, and memberships revenue at present value when the Arc was first notified it was irrevocable. The beneficial interest in trusts is adjusted each year based on the present value of future cash flows, which is the estimated current worth of the future expected cash flows. The estimated present value of the Remainder/Lead Trust recorded as of June 30, 2018 and 2017, was \$1,238,564 and \$1,036,781, respectively, and is included in temporarily restricted net assets. For the years ended June 30, 2018 and 2017, the Arc recorded a change of \$263,317 and \$102,410, respectively, in the value of the Remainder/Lead Trust and also received \$61,534 and \$52,545, respectively in cash payouts that reduced the value of the beneficial interest in trusts. The trust has been valued using a seven percent discount rate and expected rate of return on the assets based on the estimated annual return on the assets.

Perpetual Trust - The trust was recorded as restricted contributions, grants, and memberships revenue when the trust became irrevocable. The beneficial interest in trusts is adjusted each year based on the estimated fair market value of the assets based on quoted third-party values. The estimated fair market value of the Perpetual Trust recorded as of June 30, 2018 and 2017, was \$1,047,281 and \$953,198, respectively, and is included in permanently restricted net assets. For the years ended June 30, 2018 and 2017, the Arc recorded a net gain of \$94,083 and \$36,392, respectively, and received \$52,613 and \$48,332, respectively, in cash payouts from the Perpetual Trust that are included in income from beneficial interest in trusts in the accompanying statement of activities.

Special Events

Special events income is presented net of direct benefits to donors. The Arc considers amounts received in advance of the events to be conditioned upon the occurrence of the event and therefore, the Arc defers the income as deferred income and refundable advance.

Functional Allocation of Expenses

The costs of providing the program and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Marketing/Membership Expenses

Marketing/membership expenses are expensed as incurred.

Summarized Financial Statements

The financial statements include certain prior year summarized comparative information in total but not by separate net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Arc's financial statements for the year ended June 30, 2017, from which the summarized information, was derived.

THE ARC OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

The Arc received a determination letter from the Internal Revenue Service (IRS) that it has been granted an exemption from federal income taxes and that it qualifies as a publicly supported organization under Section 501(c)(3) and 170(b)(1)(A)(vi) of the Internal Revenue Code (IRC). The Arc has also been classified as an entity that is not a private foundation within the meaning of Section 509(a)(2) of the IRC. The Arc believes that its operations are consistent with the nature of their exemption granted by the IRS. There is no current liability for income taxes and no temporary differences resulting in deferred taxes as of June 30, 2018 and 2017.

The Arc is required to measure, recognize, present, and disclose in its financial statements uncertain income tax positions the Arc has taken in the tax years that remain subject to examination or expects to take on an income tax return. The Arc recognizes the tax benefits from uncertain income tax positions only if it is more likely than not the tax position will be sustained on examination by tax authorities. The Arc recorded no liability for uncertain income tax positions for any open tax years.

Reclassifications

Certain prior year amounts have been reclassified to conform with current year presentation.

Subsequent Events

The Arc has evaluated subsequent events through February 28, 2019, which is the date the financial statements were available to be issued.

NOTE 3 - SPECIAL EVENTS

The special events net income for the year ended June 30, 2018, consisted of:

	Corporate Team Challenge	Arctoberfest	Other events	Total
Gross revenue	\$ 64,692	\$ 36,739	\$ 9,654	\$ 111,085
Direct benefit to donors	<u>(16,163)</u>	<u>(10,677)</u>	<u>(1,381)</u>	<u>(28,221)</u>
Total	<u>\$ 48,529</u>	<u>\$ 26,062</u>	<u>\$ 8,273</u>	<u>\$ 82,864</u>

The special events net income for the year ended June 30, 2017, consisted of:

	Corporate Team Challenge	Gala	Other events	Total
Gross revenue	\$ 60,414	\$ 155,992	\$ 3,397	\$ 219,803
Direct benefit to donors	<u>(13,855)</u>	<u>(54,419)</u>	<u>(948)</u>	<u>(69,222)</u>
Total	<u>\$ 46,559</u>	<u>\$ 101,573</u>	<u>\$ 2,449</u>	<u>\$ 150,581</u>

THE ARC OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 4 - RELATED PARTY TRANSACTIONS

The Arc is affiliated with the Foundation of the Arc of Northern Virginia (the Foundation), a 501(c)(3) organization that was created to promote lifelong opportunities for all individuals with developmental disabilities and to support the Arc. The Arc and the Foundation share common management and officers. The Arc has an economic interest in the Foundation, but does not control its operations. Therefore, the Arc does not consolidate the activities of the Foundation into its financial statements.

Income recorded by the Arc from the Foundation for the years ended June 30 was:

	<u>2018</u>	<u>2017</u>
Program service fees -		
Trust management fees	\$ 353,756	\$ 332,771
Foundation management fee	6,000	6,000
Contributions	29,352	29,135
Special events income	<u>-</u>	<u>6,500</u>
Total income from the Foundation	<u>\$ 389,108</u>	<u>\$ 374,406</u>

The following other activity occurred between the Arc and the Foundation during the years ended June 30:

	<u>2018</u>	<u>2017</u>
Income, net of fees, collected by the Arc on behalf of the Foundation	\$ 11,875	\$ 15,090
Receipt of Gala refundable advance from the Foundation	\$ 15,000	-
Loans made from the Foundation to the Arc	\$ 265,469	\$ 200,000
Loan repayments from the Arc to the Foundation	\$ 258,709	\$ 192,675

NOTE 5 - COMMITMENTS AND CONTINGENCIES

During the year ended June 30, 2013, the Arc entered into an agreement for office space effective September 1, 2013. The lease expires August 31, 2023, and includes annual rent escalations, abatement of the first months rent, and a deposit of \$7,005. Future minimum rentals under this lease are as follows for the years ended June 30:

2019	\$ 96,971
2020	99,881
2021	102,877
2022	105,964
2023	109,143
Thereafter	<u>18,279</u>
Total	<u>\$ 533,115</u>

THE ARC OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 5 - COMMITMENTS AND CONTINGENCIES (continued)

The Arc subleased a portion of its office space to unrelated organizations under month-to-month leases. The following schedule shows the composition of total rent expense for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Minimum rentals	\$ 94,146	\$ 91,404
Deferred rent change	1,514	4,256
Donated facilities	5,000	2,500
Less: sublease income	<u>(10,285)</u>	<u>(9,887)</u>
Total	<u>\$ 90,375</u>	<u>\$ 88,273</u>

The Arc has a line of credit agreement for up to \$100,000 that expires September 28, 2019, with an interest rate of the prime rate minus 0.25 percent per annum. As of June 30, 2018 and 2017, no amounts were drawn on this line of credit.

The Arc receives a significant portion of its revenue as grants and contracts with government agencies. The ultimate determination of the revenue from these programs is based on units of service provided or allowable costs reported to the granting agency. Should the granting agency audit the Arc's books and records, they could disallow certain units of service or costs. The reimbursement for units or costs subsequently disallowed during an audit or differences from the estimates would be charged against current operations.

The Arc's operations include the delivery of services to the public by employees. The Arc is insured for the risk of loss associated with serving the public. While the Arc has been named in legal proceedings, management has employed measures to mitigate any potential material loss. Management believes the risk of material loss is remote.

NOTE 6 - NET ASSETS

As of June 30, temporarily restricted net assets were available for the following purposes:

	<u>2018</u>	<u>2017</u>
Purpose restricted -		
Travel training project	\$ 53,873	\$ 38,507
Spotlight movie ad campaign	-	13,750
Other advocacy and information and referral	<u>5,340</u>	<u>2,615</u>
Total purpose restricted	<u>59,213</u>	<u>54,872</u>
Time and purpose restricted -		
Transition points project	61,282	130,114
Travel training project	<u>397,329</u>	<u>229,278</u>
Total time and purpose restricted	458,611	359,392
Time restricted	<u>1,249,555</u>	<u>1,053,020</u>
Total temporarily restricted net assets	<u>\$ 1,767,379</u>	<u>\$ 1,467,284</u>

THE ARC OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 6 - NET ASSETS (continued)

The Arc received an endowment from Randall R. Burmester that is classified as permanently restricted net assets. These funds are maintained in a separate investment account. The grantor has restricted the use of the endowment subject to the following terms:

- Five percent of the fair market value on February 25 of each year may be withdrawn on that date.
- Any withdrawals from the endowment must be used in a manner that causes, rewards or encourages the professional development of the staff.
- The Executive Director of the Arc has full discretion in applying the distribution amounts within the terms of the endowment.

As previously described, the Arc is the beneficiary of the Perpetual Trust, the income from which can be used for operating of the Arc. The Arc does not have discretion for the amount distributed each year. A summary of the activity in the Arc's endowment for the years ended June 30, is as follows:

	<u>Randall R. Burmester</u>	<u>Perpetual Trust</u>	<u>Total</u>
Balance, as of June 30, 2016	\$ 23,108	\$ 916,805	\$ 939,913
Income on investments and trusts	3,162	84,724	87,886
Amount appropriated for operations	<u>(1,280)</u>	<u>(48,332)</u>	<u>(49,612)</u>
Balance, as of June 30, 2017	24,990	953,197	978,187
Income on investments and trusts	3,160	146,697	149,857
Amount appropriated for operations	<u>(1,408)</u>	<u>(52,614)</u>	<u>(54,022)</u>
Balance, as of June 30, 2018	<u>\$ 26,742</u>	<u>\$ 1,047,280</u>	<u>\$ 1,074,022</u>

NOTE 7 - INVESTMENTS, TRUSTS, AND FAIR VALUE MEASUREMENT

The Arc measures and reports financial assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair market value can fluctuate in times of market turmoil. GAAP establishes a three-level disclosure hierarchy to indicate the level of judgment used to estimate fair value measurements:

- Level 1 - quoted prices in active market for identical assets or liabilities as of the reporting date;
- Level 2 - quoted prices for similar assets or liabilities in active markets or for identical or similar assets in markets that are not active and inputs other than quoted prices (such as interest rate and yield curves); and
- Level 3 - uses inputs that are unobservable, supported by little or no market activity, and reflect significant management judgment.

THE ARC OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 7 - INVESTMENTS, TRUSTS, AND FAIR VALUE MEASUREMENT (continued)

Investments

All of the Arc's investments were considered Level 1 as of June 30, 2018 and 2017. The tables below summarize investments for items measured at fair value on a recurring basis as of June 30:

	<u>2018</u>	<u>2017</u>
Cash	\$ 2,223	\$ 2,199
Equity mutual fund	<u>26,742</u>	<u>24,990</u>
Total investments	<u>\$ 28,965</u>	<u>\$ 27,189</u>

Net investment income consists of the following for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Net realized and unrealized gains in fair value	\$ 2,676	\$ 2,630
Dividends and interest	<u>600</u>	<u>562</u>
Total	<u>\$ 3,276</u>	<u>\$ 3,192</u>

The Arc's overall investment objective is to manage its assets in such a way as to ensure long-term appreciation. While growth in the value of endowment assets is the primary investment objective, the Arc is also concerned with the conservation of its capital.

Beneficial Interest in Trusts

The following table summarizes the recorded value of the underlying assets by level as of June 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and money funds	\$ 64,631	\$ -	\$ -	\$ 64,631
Equities	1,618,071	-	-	1,618,071
Public, non-listed real estate investment trust - Cole Credit Property Trust IV	<u>-</u>	<u>-</u>	<u>603,143</u>	<u>603,143</u>
Total	<u>\$ 1,682,702</u>	<u>\$ -</u>	<u>\$ 603,143</u>	<u>\$ 2,285,845</u>

THE ARC OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 7 - INVESTMENTS, TRUSTS, AND FAIR VALUE MEASUREMENT (continued)

Beneficial Interest in Trusts (continued)

The following table summarizes the present value of the underlying assets by level as of June 30, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and money funds	\$ 73,015	\$ -	\$ -	\$ 73,015
Equities	1,153,156	-	-	1,153,156
Public, non-listed real estate investment trust - Cole Credit Property Trust IV	<u>-</u>	<u>-</u>	<u>763,808</u>	<u>763,808</u>
Total	<u>\$ 1,226,171</u>	<u>\$ -</u>	<u>\$ 763,808</u>	<u>\$ 1,989,979</u>

Because the valuation inputs are unobservable for the Level 3 assets, the estimated present value as of June 30, 2018 and 2017, is calculated using the revaluation of the value per share provided by the trustee. A summary of income from the Arc's Level 3 assets for the years ended June 30, is as follows:

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 763,808	\$ 977,842
Realized/unrealized change in fair value	(49,896)	29,540
Transfers to Level 1 assets	<u>(110,769)</u>	<u>(243,574)</u>
Balance, end of year	<u>\$ 603,143</u>	<u>\$ 763,808</u>

NOTE 8 - IN-KIND CONTRIBUTIONS

The Arc recognizes contribution revenue for certain services, facilities, supplies, and equipment received at their fair value. The amounts recorded in the accompanying statement of activities as of June 30, include the following:

	<u>2018</u>	<u>2017</u>
Professional fees	\$ 1,820	\$ -
Technology consulting	-	118,800
Facilities	5,000	2,500
Marketing/membership expenses	<u>730</u>	<u>545</u>
Total in-kind contributions revenue	<u>\$ 7,550</u>	<u>\$ 121,845</u>
In-kind contributions in special events income	<u>\$ 7,850</u>	<u>\$ -</u>

The Arc receives a significant amount of donated services from unpaid volunteers that do not meet the criteria for recognition in accordance with GAAP and is therefore not recorded in the accompanying statement of activities. The Arc benefited from approximately 3,900 and 2,400 volunteer hours contributed during the years ended June 30, 2018 and 2017, respectively.

THE ARC OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 9 - CONCENTRATION RISK

In the years ended June 30, 2018 and 2017, approximately 80 and 65 percent, respectively of total revenue was from six sources. Almost all of the accounts receivable balance is from one payer as of June 30, 2018 and 2017. Approximately 98 and 94 percent of contributions receivable as of June 30, 2018 and 2017, respectively, was due from three donors.

NOTE 10 - BUSINESS CONDITIONS

The Arc had temporarily restricted net assets in excess of the corresponding assets and a deficit in unrestricted net assets as of June 30, 2018 of \$9,378 and \$145,604, respectively. Management is seeking new funding sources and has been renegotiating vendor contracts. If management's plans are not successful, other means will be utilized to preserve asset value.