

**THE ARC OF NORTHERN VIRGINIA, INC.**

**JUNE 30, 2019 AND 2018**

**These financial statements  
may be reproduced only  
in their entirety.**

THE ARC OF NORTHERN VIRGINIA, INC.

JUNE 30, 2019 AND 2018

TABLE OF CONTENTS

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INDEPENDENT AUDITOR'S REPORT	2-3
FINANCIAL STATEMENTS	
Statements of Financial Position June 30, 2019 and 2018	4
Statements of Activities For the Years Ended June 30, 2019 and 2018	5
Statements of Functional Expenses and Losses For the Years Ended June 30, 2019 and 2018	6
Statements of Cash Flows For the Years Ended June 30, 2019 and 2018	7
NOTES TO FINANCIAL STATEMENTS	8-17



## **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 statements of financial position as of June 30, 2019 and 2018, the related statements of activities, functional expenses and losses, and cash flows for the years 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 audits. We conducted our audits 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.

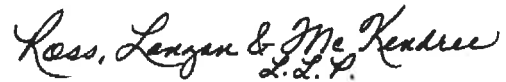
Board of Directors  
The Arc of Northern Virginia, Inc.  
Falls Church, Virginia

**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, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 12 to the financial statements, in the year ended June 30, 2019, the Arc adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.



CERTIFIED PUBLIC ACCOUNTANTS

February 19, 2020

THE ARC OF NORTHERN VIRGINIA, INC.

STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2019 AND 2018

ASSETS

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash	\$ 44,094	\$ 37,612
Accounts receivable, net	24,742	69,548
Contributions receivable	392,243	479,601
Beneficial interest in trusts	2,232,438	2,285,845
Other assets	<u>67,976</u>	<u>73,807</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 2,761,493</u></b>	<b><u>\$ 2,946,413</u></b>

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable	\$ 59,247	\$ 100,245
Accrued salary and benefits	76,986	91,281
Deferred rent	37,557	38,867
Other liabilities	<u>19,260</u>	<u>20,223</u>
<b>TOTAL LIABILITIES</b>	<b>.....193,050</b>	<b>.....250,616</b>
NET ASSETS (DEFICIT)		
Net deficit without donor restrictions	( 118,471)	( 145,604)
Net assets with donor restrictions	<u>2,686,914</u>	<u>2,841,401</u>
<b>TOTAL NET ASSETS</b>	<b><u>2,568,443</u></b>	<b><u>2,695,797</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 2,761,493</u></b>	<b><u>\$ 2,946,413</u></b>

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

THE ARC OF NORTHERN VIRGINIA, INC.

STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	Without Donor Restrictions	With Donor Restrictions	Total 2019	Without Donor Restrictions	With Donor Restrictions	Total 2018
<b>REVENUE AND SUPPORT</b>						
Contributions, grants, and memberships	\$ 356,044	\$ 555,441	\$ 911,485	\$ 221,722	\$ 616,484	\$ 838,206
Program service and other fees	634,181	-	634,181	672,921	-	672,921
Contributions from associated organization	-	30,216	30,216	-	29,352	29,352
Special events income, net of direct benefit to donors	146,419	16,895	163,314	76,209	6,655	82,864
Income from beneficial interest in trusts	-	40,315	40,315	-	410,013	410,013
Other income	141	2,614	2,755	7,666	3,160	10,826
Net assets released from restrictions	<u>799,968</u>	<u>( 799,968)</u>	<u>-</u>	<u>669,734</u>	<u>( 669,734)</u>	<u>-</u>
Total revenue and support	<u>1,936,753</u>	<u>( 154,487)</u>	<u>1,782,266</u>	<u>1,648,252</u>	<u>395,930</u>	<u>2,044,182</u>
<b>EXPENSES AND LOSSES</b>						
Program services:						
Advocacy and information and referral	384,361	-	384,361	563,226	-	563,226
Guardianship and case management	516,569	-	516,569	687,613	-	687,613
Personal support trusts	<u>169,638</u>	<u>-</u>	<u>169,638</u>	<u>356,358</u>	<u>-</u>	<u>356,358</u>
Total program expenses	<u>1,070,568</u>	<u>-</u>	<u>1,070,568</u>	<u>1,607,197</u>	<u>-</u>	<u>1,607,197</u>
Supporting services:						
Management and general	610,252	-	610,252	102,521	-	102,521
Fundraising	<u>106,400</u>	<u>-</u>	<u>106,400</u>	<u>230,005</u>	<u>-</u>	<u>230,005</u>
Total support services	<u>716,652</u>	<u>-</u>	<u>716,652</u>	<u>332,526</u>	<u>-</u>	<u>332,526</u>
Total expenses and losses	<u>1,787,220</u>	<u>-</u>	<u>1,787,220</u>	<u>1,939,723</u>	<u>-</u>	<u>1,939,723</u>
CHANGE IN NET ASSETS (DEFICIT) FROM OPERATIONS	149,533	( 154,487)	( 4,954)	( 291,471)	395,930	104,459
IN-KIND FUNDING STRATEGY PROJECT	<u>( 122,400)</u>	<u>-</u>	<u>( 122,400)</u>	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS (DEFICIT)	27,133	( 154,487)	( 127,354)	( 291,471)	395,930	104,459
NET ASSETS (DEFICIT), BEGINNING OF YEAR	<u>( 145,604)</u>	<u>2,841,401</u>	<u>2,695,797</u>	<u>145,867</u>	<u>2,445,471</u>	<u>2,591,338</u>
NET ASSETS (DEFICIT), END OF YEAR	<u>\$( 118,471)</u>	<u>\$ 2,686,914</u>	<u>\$ 2,568,443</u>	<u>\$( 145,604)</u>	<u>\$ 2,841,401</u>	<u>\$ 2,695,797</u>

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

THE ARC OF NORTHERN VIRGINIA, INC.

STATEMENTS OF FUNCTIONAL EXPENSES AND LOSSES  
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019						
	Program Services			Support Services			
	Advocacy and Information and Referral	Guardianship and Case Management	Personal Support Trusts	Total Program Services	Management and General	Total Support Services	
Salaries, benefits, and taxes	\$ 233,554	\$ 428,585	\$ 141,105	\$ 803,244	\$ 417,954	\$ 89,037	\$ 1,310,235
Professional fees	850	835	275	1,960	101,102	174	103,236
Rent, net	20,182	27,860	9,172	57,214	27,169	5,788	90,171
Expenses under grants	93,279	-	-	93,279	-	-	93,279
Technology and telecommunications	6,470	11,872	3,909	22,251	11,578	2,466	36,295
Other expenses	30,026	47,417	15,177	92,620	52,449	8,935	154,004
<b>TOTAL EXPENSES</b>	<b>\$ 384,361</b>	<b>\$ 516,569</b>	<b>\$ 169,638</b>	<b>\$ 1,070,568</b>	<b>\$ 610,252</b>	<b>\$ 106,400</b>	<b>\$ 1,787,220</b>

	2018						
	Program Services			Support Services			
	Advocacy and Information and Referral	Guardianship and Case Management	Personal Support Trusts	Total Program Services	Management and General	Total Support Services	
Salaries, benefits, and taxes	\$ 356,315	\$ 511,297	\$ 296,948	\$ 1,164,560	\$ 35,696	\$ 117,884	\$ 1,318,140
Professional fees	5,996	48,450	4,680	59,126	53,182	667	112,975
Rent, net	28,078	33,117	19,233	80,428	2,312	7,635	90,375
Expenses under grants	124,214	-	-	124,214	-	-	124,214
Technology and telecommunications	8,365	12,004	6,971	27,340	838	2,768	30,946
Other expenses	40,258	54,296	28,526	123,080	10,493	10,801	144,374
<b>TOTAL EXPENSES</b>	<b>563,226</b>	<b>659,164</b>	<b>356,358</b>	<b>1,578,748</b>	<b>102,521</b>	<b>139,755</b>	<b>1,821,024</b>
Bad debt losses	-	28,449	-	28,449	-	90,250	118,699
<b>TOTAL EXPENSES AND LOSSES</b>	<b>\$ 563,226</b>	<b>\$ 687,613</b>	<b>\$ 356,358</b>	<b>\$ 1,607,197</b>	<b>\$ 102,521</b>	<b>\$ 230,005</b>	<b>\$ 1,939,723</b>

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

THE ARC OF NORTHERN VIRGINIA, INC.

STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$( 127,354)	\$ 104,459
Adjustments to reconcile change in net assets to net change from operating activities:		
Depreciation and amortization	7,921	9,110
Income from beneficial interest in trusts	( 40,315)	( 410,013)
Trust distributions	93,722	114,147
Changes in assets and liabilities:		
Accounts receivable	44,806	( 10,608)
Contributions receivable	87,358	196,031
Other assets	( 2,090)	4,510
Accounts payable	( 40,998)	( 29,387)
Accrued salary and benefits	( 14,295)	43,842
Deferred rent	( 1,310)	1,514
Other liabilities	( 10,963)	( 1,879)
Net change in cash from operating activities	. (..... 3,518)	..... 21,726
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of equipment	..... -	. (..... 3,785)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds of loan from associated organization	-	265,469
Principal payments on loan from associated organization	-	( 258,709)
Drawings from line of credit	125,000	50,000
Payments on line of credit	( 115,000)	( 50,000)
Net change in cash from financing activities	<u>10,000</u>	<u>6,760</u>
<b>NET CHANGE IN CASH</b>	6,482	24,701
<b>CASH, BEGINNING OF YEAR</b>	<u>37,612</u>	<u>12,911</u>
<b>CASH, END OF YEAR</b>	<u>\$ 44,094</u>	<u>\$ 37,612</u>

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



THE ARC OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

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, and advocates for laws and policies that protect civil rights. The Arc also provides information and referral services for families by phone, e-mail, web-site, and in person. 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 webinars, including the transition series, other workshops, seminars, and webinars on a wide variety of topics. The Arc also trains self-advocates in advocacy and public speaking skills through A Life Like Yours Toastmasters and People First programs. 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 and aging of the caregiver.

**Case Management and Guardianship** - The Arc provides case management and support coordination 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 programs. The Arc also educates families to be successful while navigating complicated systems of care. In addition, the Arc 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 future financial support and 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 Accounting Standards Codification, 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 two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

THE ARC OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

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, 2019 and 2018, the Arc recorded \$24,742 and \$69,548, respectively, as accounts receivable in the accompanying statements of financial position, which is net of an allowance for doubtful accounts of \$1,196 and \$3,721, 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 with or without donor restrictions depending on the existence or nature of any donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

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, 2019, are due to be received as expenditures occur, which could be through the year ended June 30, 2021.

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, 2019 and 2018, 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 statements 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 statements of activities as increases or decreases in net assets without donor restrictions unless restricted by donor or by law.

THE ARC OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

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, 2019 and 2018, was \$1,230,375 and \$1,238,564, respectively, and is included in net assets with donor restrictions. For the years ended June 30, 2019 and 2018, the Arc recorded a change of \$65,533 and \$263,317, respectively, in the value of the Remainder/Lead Trust that included \$73,722 and \$61,534, 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, 2019 and 2018, was \$1,002,063 and \$1,047,281, respectively, and is included in net assets with donor restrictions. For the years ended June 30, 2019 and 2018, the Arc recorded a net gain/(loss) of \$(25,218) and \$146,696, respectively, that included \$20,000 and \$52,613, respectively, in cash payouts from the Perpetual Trust that are included in income from beneficial interest in trusts in the accompanying statements 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 statements of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited based on estimates of time and effort.

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, 2019 and 2018.

THE ARC OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes (continued)

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 19, 2020, 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, 2019, consisted of:

	Corporate Team Challenge	Gala	Other events	Total
Gross revenue	\$ 46,508	\$ 168,200	\$ 36,988	\$ 251,696
Direct benefit to donors	( 13,350)	( 65,428)	( 9,604)	( 88,382)
Total	<u>\$ 33,158</u>	<u>\$ 102,772</u>	<u>\$ 27,384</u>	<u>\$ 163,314</u>

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	( 16,163)	( 10,677)	( 1,381)	( 28,221)
Total	<u>\$ 48,529</u>	<u>\$ 26,062</u>	<u>\$ 8,273</u>	<u>\$ 82,864</u>

THE ARC OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

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>2019</u>	<u>2018</u>
Program service fees -		
Trust management fees	\$ 371,056	\$ 353,756
Foundation management fee	6,000	6,000
Contributions	30,216	29,352
Special events income	<u>15,000</u>	<u>-</u>
Total income from the Foundation	<u>\$ 422,272</u>	<u>\$ 389,108</u>

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

	<u>2019</u>	<u>2018</u>
Loans made from the Foundation to the Arc	\$ -	\$ 265,469
Loan repayments from the Arc to the Foundation	\$ -	\$ 258,709

NOTE 5 - LEASE COMMITMENTS

The Arc has an agreement for office space that began 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:

2020	\$ 99,881
2021	102,877
2022	105,964
2023	109,143
2024	<u>18,279</u>
Total	<u>\$ 436,144</u>

THE ARC OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

NOTE 5 - LEASE COMMITMENTS (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 net rent expense for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Minimum rentals	\$ 96,971	\$ 94,146
Deferred rent change	( 1,310)	1,514
Donated facilities	5,000	5,000
Less: sublease income	<u>( 10,490)</u>	<u>( 10,285)</u>
Total rent expense, net	<u>\$ 90,171</u>	<u>\$ 90,375</u>

NOTE 6 - CONTINGENCIES

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 7 - NET ASSETS

As of June 30, net assets with donor restrictions were available for the following purposes:

	<u>2019</u>	<u>2018</u>
Purpose restricted -		
Travel training project	\$ 33,767	\$ 53,873
Other advocacy and information and referral	<u>858</u>	<u>5,340</u>
Total purpose restricted	..... <u>34,625</u>	..... <u>59,213</u>
Time and purpose restricted -		
Transition POINTS project	5,000	61,282
Travel training project	254,070	397,329
Supported decision making	<u>130,000</u>	<u>-</u>
Total time and purpose restricted	389,070	458,611
Time restricted	1,233,198	1,249,555
Randall R. Burmester endowment	27,958	26,742
Perpetual Trust	<u>1,002,063</u>	<u>1,047,280</u>
Total net assets with donor restrictions	<u>\$ 2,686,914</u>	<u>\$ 2,841,401</u>

THE ARC OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

NOTE 7 - NET ASSETS (continued)

The composition of net assets released from restrictions for the years ended June 30, was:

	<u>2019</u>	<u>2018</u>
Satisfaction of program restrictions -		
Transition POINTS project	\$ 88,502	\$ 112,877
Travel training project	193,756	141,549
Other advocacy and information and referral	4,482	16,026
Satisfaction of time restrictions	491,831	345,260
Amounts appropriated from endowments	<u>21,397</u>	<u>54,022</u>
Total net assets released from restrictions	<u>\$ 799,968</u>	<u>\$ 669,734</u>

The Arc received an endowment from Randall R. Burmester that is classified as net assets with donor restrictions. 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. The Arc has interpreted the Virginia laws as allowing the Arc to appropriate for expenditure or accumulate as of an endowment fund as the Arc determines is prudent subject to the donor restrictions on withdrawals and use of funds.

The Arc is the beneficiary of the Perpetual Trust, the income from which can be used for the operations of the Arc. The Arc does not have discretion for the amount distributed each year. A summary of the activity in the Arc's endowments is as follows:

	<u>Randall R. Burmester</u>	<u>Perpetual Trust</u>	<u>Total</u>
Balance, as of June 30, 2017	\$ 24,990	\$ 953,197	\$ 978,187
Income on investments and trusts	3,160	199,310	202,470
Amount appropriated for operations	<u>( 1,408)</u>	<u>( 52,614)</u>	<u>( 54,022)</u>
Balance, as of June 30, 2018	26,742	1,099,893	1,126,635
Income on investments and trusts	2,613	( 25,217)	( 22,604)
Amount appropriated for operations	<u>( 1,397)</u>	<u>( 20,000)</u>	<u>( 21,397)</u>
Balance, as of June 30, 2019	<u>\$ 27,958</u>	<u>\$ 1,054,676</u>	<u>\$ 1,082,634</u>

THE ARC OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

NOTE 8 - BENEFICIAL INTEREST IN TRUSTS

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 following table summarizes the recorded value of the underlying trust assets by level as of June 30, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and money funds	\$ 98,850	\$ -	\$ -	\$ 98,850
Equities	1,648,144	-	-	1,648,144
Public, non-listed real estate investment trust - Cole Credit Property Trust IV	-	-	485,444	485,444
<b>Total</b>	<b><u>\$ 1,746,994</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 485,444</u></b>	<b><u>\$ 2,232,438</u></b>

The following table summarizes the recorded value of the underlying trust 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	-	-	603,143	603,143
<b>Total</b>	<b><u>\$ 1,682,702</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 603,143</u></b>	<b><u>\$ 2,285,845</u></b>

Because the valuation inputs are unobservable for the Level 3 assets, the estimated present value as of June 30, 2019 and 2018, 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>2019</u>	<u>2018</u>
Balance, beginning of year	\$ 603,143	\$ 763,808
Realized/unrealized change in fair value	( 57,513)	( 49,896)
Transfers to Level 1 assets	( 60,186)	( 110,769)
<b>Balance, end of year</b>	<b><u>\$ 485,444</u></b>	<b><u>\$ 603,143</u></b>



THE ARC OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

NOTE 9 - 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 statements of activities as of June 30, include the following:

	<u>2019</u>	<u>2018</u>
Professional fees for funding strategy project	\$ 122,400	\$ -
Special events income	-	7,850
Facilities	5,000	5,000
Other expenses	<u>2,310</u>	<u>2,550</u>
Total in-kind contributions revenue	<u>\$ 129,710</u>	<u>\$ 15,400</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 statements of activities. The Arc benefited from approximately 4,700 and 3,900 volunteer hours contributed during the years ended June 30, 2019 and 2018, respectively.

NOTE 10 - CONCENTRATION RISK

In the years ended June 30, 2019 and 2018, approximately 66 and 73 percent, respectively of total revenue and support was from five sources. Almost all of the accounts receivable balance is from one payer as of June 30, 2019 and 2018. Approximately 98 and 96 percent of contributions receivable as of June 30, 2019 and 2018, respectively, was due from two donors.

NOTE 11 - FINANCIAL ASSETS, LIQUIDITY, AND MANAGEMENT'S PLANS

Financial assets available within one year for operations that are not subject to restrictions that make them unavailable for general operations as of June 30, were as follows:

	<u>2019</u>	<u>2018</u>
Cash	\$ 44,094	\$ 37,612
Accounts receivable, net	24,742	69,548
Contributions receivable	392,243	479,601
Other current assets	18,291	17,416
Less: amounts unavailable for general operations	<u>( 426,518)</u>	<u>( 528,814)</u>
Total financial assets available within one year for operations	<u>\$ 52,852</u>	<u>\$ 75,363</u>

THE ARC OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

NOTE 11 - FINANCIAL ASSETS, LIQUIDITY, AND MANAGEMENT'S PLANS (continued)

The Arc establishes a budget each year for operations and uses that to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Arc has a line of credit agreement for up to \$100,000 that expired December 28, 2019, with an interest rate of prime rate minus 0.25 percent per annum, which was 5.25 percent as of June 30, 2019. As of June 30, 2019, the amount drawn on this line of credit was \$10,000. There was no amount drawn on this line of credit as of June 30, 2018.

The Arc had a deficit in net assets without donor restrictions as of June 30, 2019, of \$118,471 and a change in net assets in the year ended June 30, 2019, of \$(127,354). 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.

NOTE 12 - RETROSPECTIVE IMPLEMENTATION OF NEW STANDARD

In the year ended June 30, 2019, the Arc retrospectively implemented Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* on a modified basis. This standard is intended to improve the information presented in the financial statements and disclosures about a not-for-profit organization's liquidity, financial performance, net assets, cash flows, and expenses. The standard has changed the Arc's methodology for the allocation of expenses between programs and supporting services. As allowed for in ASU No. 2016-14, the Arc has not reallocated expenses for the year ended June 30, 2018, for this implementation. As a result of this implementation, the Arc restated its financial statement net asset classifications as of June 30, 2018, as follows:

	<u>ASU No. 2016-14 Classifications</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Net Assets</u>
Net asset classifications as previously presented:			
Unrestricted	\$( 145,604)	\$ -	\$( 145,604)
Temporarily restricted	-	1,767,379	1,767,379
Permanently restricted	-	<u>1,074,022</u>	<u>1,074,022</u>
Total net assets	<u>\$( 145,604)</u>	<u>\$ 2,841,401</u>	<u>\$ 2,695,797</u>