

THE ARC OF NORTHERN VIRGINIA, INC.

JUNE 30, 2020 AND 2019

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in their entirety.**

THE ARC OF NORTHERN VIRGINIA, INC.

JUNE 30, 2020 AND 2019

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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 statements of financial position as of June 30, 2020 and 2019, 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 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.

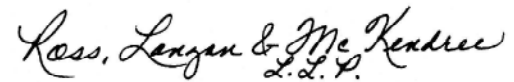
Board of Directors
The Arc of Northern Virginia, Inc.
Falls Church, Virginia

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, 2020 and 2019, 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, 2020, the Arc implemented Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* and ASU No. 2014-09, *Revenue from Contracts with Customers*. Our opinion is not modified with respect to these matters.



CERTIFIED PUBLIC ACCOUNTANTS

February 18, 2021

THE ARC OF NORTHERN VIRGINIA, INC.

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2020 AND 2019

ASSETS

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash	\$ 302,844	\$ 44,094
Accounts receivable	23,942	24,742
Contributions receivable	51,574	392,243
Beneficial interest in trusts	2,166,437	2,232,438
Other assets	<u>75,285</u>	<u>67,976</u>
 TOTAL ASSETS	 <u>\$ 2,620,082</u>	 <u>\$ 2,761,493</u>

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable	\$ 70,810	\$ 63,599
Accrued salary and benefits	89,517	76,986
Loan under the Paycheck Protection Program	194,800	-
Deferred rent	33,337	37,557
Other liabilities	<u>25,000</u>	<u>14,908</u>
 TOTAL LIABILITIES	 413,464	 193,050
 NET ASSETS (DEFICIT)		
Net deficit without donor restrictions	(41,639)	(118,471)
Net assets with donor restrictions	<u>2,248,257</u>	<u>2,686,914</u>
 TOTAL NET ASSETS	 <u>2,206,618</u>	 <u>2,568,443</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 2,620,082</u>	 <u>\$ 2,761,493</u>

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, 2020 AND 2019

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	Total <u>2020</u>	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	Total <u>2019</u>
REVENUE AND SUPPORT						
Contributions and memberships	\$ 340,270	\$(63,244)	\$ 277,026	\$ 104,286	\$ 555,441	\$ 659,727
Program service and other fees	905,960	-	905,960	885,939	-	885,939
Contributions from associated organization	-	30,216	30,216	-	30,216	30,216
Special events income, net of direct benefit to donors	106,451	5,450	111,901	146,419	16,895	163,314
Income from beneficial interest in trusts	-	41,267	41,267	-	40,315	40,315
Other income	1,562	2,220	3,782	141	2,614	2,755
Net assets released from restrictions	<u>454,566</u>	<u>(454,566)</u>	<u>-</u>	<u>799,968</u>	<u>(799,968)</u>	<u>-</u>
Total revenue and support	<u>1,808,809</u>	<u>(438,657)</u>	<u>1,370,152</u>	<u>1,936,753</u>	<u>(154,487)</u>	<u>1,782,266</u>
EXPENSES AND LOSSES						
Program services:						
Advocacy and information and referral	392,348	-	392,348	384,361	-	384,361
Guardianship and case management	526,957	-	526,957	516,569	-	516,569
Personal support trusts	<u>257,145</u>	<u>-</u>	<u>257,145</u>	<u>169,638</u>	<u>-</u>	<u>169,638</u>
Total program expenses	<u>1,176,450</u>	<u>-</u>	<u>1,176,450</u>	<u>1,070,568</u>	<u>-</u>	<u>1,070,568</u>
Supporting services:						
Management and general	422,232	-	422,232	610,252	-	610,252
Fundraising	<u>133,295</u>	<u>-</u>	<u>133,295</u>	<u>106,400</u>	<u>-</u>	<u>106,400</u>
Total support services	<u>555,527</u>	<u>-</u>	<u>555,527</u>	<u>716,652</u>	<u>-</u>	<u>716,652</u>
Total expenses and losses	<u>1,731,977</u>	<u>-</u>	<u>1,731,977</u>	<u>1,787,220</u>	<u>-</u>	<u>1,787,220</u>
CHANGE IN NET ASSETS (DEFICIT) FROM OPERATIONS	76,832	(438,657)	(361,825)	149,533	(154,487)	(4,954)
IN-KIND FUNDING STRATEGY PROJECT	<u>-</u>	<u>-</u>	<u>-</u>	<u>(122,400)</u>	<u>-</u>	<u>(122,400)</u>
CHANGE IN NET ASSETS (DEFICIT)	76,832	(438,657)	(361,825)	27,133	(154,487)	(127,354)
NET ASSETS (DEFICIT), BEGINNING 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>
NET ASSETS (DEFICIT), END OF YEAR	<u>\$(41,639)</u>	<u>\$ 2,248,257</u>	<u>\$ 2,206,618</u>	<u>\$(118,471)</u>	<u>\$ 2,686,914</u>	<u>\$ 2,568,443</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, 2020 AND 2019

	2020							
	Program Services				Support Services			
	Advocacy and Information and Referral	Guardianship and Case Management	Personal Support Trusts	Total Program Services	Management and General	Fundraising	Total Support Services	Total 2020
Salaries, benefits, and taxes	\$ 269,845	\$ 442,858	\$ 218,143	\$ 930,846	\$ 264,672	\$ 113,667	\$ 378,339	\$ 1,309,185
Professional fees	1,126	1,405	692	3,223	103,516	361	103,877	107,100
Rent, net	22,579	28,850	14,211	65,640	17,242	7,405	24,647	90,287
Expenses under grants	62,626	-	-	62,626	-	-	-	62,626
Technology and telecommunications	7,890	12,949	6,378	27,217	7,739	3,324	11,063	38,280
Other expenses	28,282	40,895	17,721	86,898	29,063	8,538	37,601	124,499
TOTAL EXPENSES AND LOSSES	\$ 392,348	\$ 526,957	\$ 257,145	\$ 1,176,450	\$ 422,232	\$ 133,295	\$ 555,527	\$ 1,731,977

	2019							
	Program Services				Support Services			
	Advocacy and Information and Referral	Guardianship and Case Management	Personal Support Trusts	Total Program Services	Management and General	Fundraising	Total Support Services	Total 2019
Salaries, benefits, and taxes	\$ 233,554	\$ 428,585	\$ 141,105	\$ 803,244	\$ 417,954	\$ 89,037	\$ 506,991	\$ 1,310,235
Professional fees	850	835	275	1,960	101,102	174	101,276	103,236
Rent, net	20,182	27,860	9,172	57,214	27,169	5,788	32,957	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	14,044	36,295
Other expenses	30,026	47,417	15,177	92,620	52,449	8,935	61,384	154,004
TOTAL EXPENSES AND LOSSES	\$ 384,361	\$ 516,569	\$ 169,638	\$ 1,070,568	\$ 610,252	\$ 106,400	\$ 716,652	\$ 1,787,220

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, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$(361,825)	\$(127,354)
Adjustments to reconcile change in net assets to net change from operating activities:		
Depreciation and amortization	9,790	7,921
Income from beneficial interest in trusts	(41,267)	(40,315)
Trust distributions	107,268	93,722
Changes in assets and liabilities:		
Accounts receivable	800	44,806
Contributions receivable	340,669	87,358
Other assets	(17,099)	(2,090)
Accounts payable	7,211	(40,998)
Accrued salary and benefits	12,531	(14,295)
Deferred rent	(4,220)	(1,310)
Other liabilities	<u>20,092</u>	<u>(10,963)</u>
Net change in cash from operating activities	-----73,950	-----3,518
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loan under Paycheck Protection Program	194,800	-
Drawings from line of credit	25,541	125,000
Payments on line of credit	<u>(35,541)</u>	<u>(115,000)</u>
Net change in cash from financing activities	<u>184,800</u>	<u>10,000</u>
NET CHANGE IN CASH	258,750	6,482
CASH, BEGINNING OF YEAR	<u>44,094</u>	<u>37,612</u>
CASH, END OF YEAR	<u>\$ 302,844</u>	<u>\$ 44,094</u>

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

THE ARC OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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 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 access to 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.

Guardianship and Case Management - The Arc provides case management and support coordination services for individuals with developmental disabilities and their families in the Northern Virginia area. The Arc contracts with the following community service boards: Fairfax, Falls Church, Arlington, Alexandria, Loudoun, Prince William, Rappahannock, and Rapidan. 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, 2020 AND 2019

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.

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, 2020 and 2019, was \$1,223,890 and \$1,230,375, respectively, and is included in net assets with donor restrictions. For the years ended June 30, 2020 and 2019, the Arc recorded a change of \$60,783 and \$65,533, respectively, in the value of the Remainder/Lead Trust that included \$67,268 and \$73,722, 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, 2020 and 2019, was \$942,547 and \$1,002,063, respectively, and is included in net assets with donor restrictions. For the years ended June 30, 2020 and 2019, the Arc recorded a net gain/(loss) of \$(19,516) and \$(25,218), respectively, that included \$40,000 and \$20,000, respectively, in cash payouts from the Perpetual Trust that are included in income from beneficial interest in trusts in the accompanying statements of activities.

Loan Under Paycheck Protection Program (PPP)

In the year ended June 30, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) a pandemic. As a result, the Arc cancelled some events and transitioned other events to online forums. On April 11, 2020, the Arc received a loan under the PPP, which was established to provide loans for certain businesses. The PPP loan matures on April 11, 2022, bears interest at a rate of one percent per annum, and is payable monthly in accordance with Small Business Administration (SBA) requirements. Funds from the PPP loan may only be used for specific costs as allowed by the CARES Act and subsequent laws and the PPP loan may be forgiven if used for qualifying expenses. As such, the Arc has recorded a conditional contribution of \$194,800 as a refundable advance as of June 30, 2020. The conditional contribution will be recognized as contribution income when the qualifying expenses are incurred and the forgiveness application is submitted. Subsequent to year end, the Arc applied for and received forgiveness for the \$194,800 PPP loan less a \$10,000 advance received under the Economic Injury Disaster Loan (EIDL) program from the SBA. No EIDL was obtained, however, all applicants are eligible to receive up to \$10,000 in a non-refundable advance under the EIDL program. The Arc received a \$10,000 non-refundable advance payment and recognized it as contribution revenue in the accompanying statements of activities in the year ended June 30, 2020. The Arc expects to apply for forgiveness on the \$10,000 advance pursuant to the change in the law in December 2020.

THE ARC OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

The Arc's primary sources of revenue are government contracts, fees earned in the conduct of programs, contributions from individuals, foundations, and corporations, income from special events, and trust income.

Program Service and Other Fees

The Arc contracts with the Virginia Department of Aging and Rehabilitative Services to provide a Guardianship of Last Resort (GOLR) program for eligible individuals. The annual contract calls for a monthly contractual amount and revenue is recognized each month as services are provided. The Arc provides community-based care services to individuals under the Individual and Family Developmental Disabilities Support Waiver (DD Waiver), which is a Medicaid program. Revenue is recorded as services are provided and billed at the contractual rates allowed under the program. The Arc provides management services for the Special Needs Trust program and records income monthly based on an agreed upon contractual rate. Other fees are recorded as the activity takes place.

A summary of program service and other fees is as follows:

	<u>2020</u>	<u>2019</u>
GOLR	\$ 247,839	\$ 252,083
DD waiver	265,107	254,164
Personal support trusts	385,574	371,056
Other fees	<u>7,440</u>	<u>8,636</u>
Total program service and other fees	<u>\$ 905,960</u>	<u>\$ 885,939</u>

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, 2020 and 2019, the Arc recorded \$23,942 and \$24,742, respectively, as accounts receivable in the accompanying statements of financial position. 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.

Special Events

The Arc receives contributions from its fundraising events that are recorded net of direct benefits to donors as the events occur.

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.

THE ARC OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (continued)

Contributions and Contributions Receivable (continued)

All contributions, including unconditional promises to give, are recorded as made. Conditional promises to give, including revocable estates and trusts and reimbursement basis grants, 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, 2020, are due to be received in the next fiscal year. As of June 30, 2020, the Arc had conditional pledges of \$210,022 that are conditioned upon the approved reimbursement of expenditure of the funds by the grantees. 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, 2020 and 2019, no allowance for uncollectible amounts is necessary.

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.

Subsequent Events

The Arc has evaluated subsequent events through February 18, 2021, which is the date the financial statements were available to be issued.

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, 2020 and 2019.

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.

THE ARC OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 3 - SPECIAL EVENTS

The special events net income for the year ended June 30, 2020, consisted of:

	Corporate Team Challenge	Arctoberfest	Benefit Breakfast	Other events	Total
Gross revenue	\$ 37,450	\$ 40,084	\$ 32,933	\$ 23,350	\$ 133,817
Direct benefit to donors	<u>-</u>	<u>(6,660)</u>	<u>(486)</u>	<u>(14,770)</u>	<u>(21,916)</u>
Total	<u>\$ 37,450</u>	<u>\$ 33,424</u>	<u>\$ 32,447</u>	<u>\$ 8,580</u>	<u>\$ 111,901</u>

The special events net income for the year ended June 30, 2019, consisted of:

	Corporate Team Challenge	Gala	Benefit Breakfast	Other events	Total
Gross revenue	\$ 46,508	\$ 168,200	\$ 25,397	\$ 11,591	\$ 251,696
Direct benefit to donors	<u>(13,350)</u>	<u>(65,428)</u>	<u>(9,285)</u>	<u>(319)</u>	<u>(88,382)</u>
Total	<u>\$ 33,158</u>	<u>\$ 102,772</u>	<u>\$ 16,112</u>	<u>\$ 11,272</u>	<u>\$ 163,314</u>

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 as follows:

	<u>2020</u>	<u>2019</u>
Program service fees:		
Trust management fees	\$ 385,574	\$ 371,056
Foundation management fee	6,000	6,000
Contributions	30,216	30,216
Special events income	<u>15,000</u>	<u>15,000</u>
Total income from the Foundation	<u>\$ 436,790</u>	<u>\$ 422,272</u>

THE ARC OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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:

2021	\$	102,877
2022		105,964
2023		109,143
2024		<u>18,279</u>
Total	\$	<u>336,263</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.

NOTE 7 - NET ASSETS

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

	<u>2020</u>	<u>2019</u>
Purpose restricted:		
Travel training project	\$ 5,000	\$ 33,767
Other advocacy and information and referral	2,001	858
Other	<u>5,000</u>	<u>-</u>
Total purpose restricted <u>12,001</u> <u>34,625</u>
Time and purpose restricted:		
Transition POINTS project	625	5,000
Travel training project	26,849	254,070
Supported decision making	<u>13,025</u>	<u>130,000</u>
Total time and purpose restricted	40,499	389,070
Time restricted	1,224,515	1,233,198
Randall R. Burmester endowment	28,695	27,958
Perpetual Trust	<u>942,547</u>	<u>1,002,063</u>
Total net assets with donor restrictions	<u>\$ 2,248,257</u>	<u>\$ 2,686,914</u>

THE ARC OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 7 - NET ASSETS (continued)

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

	<u>2020</u>	<u>2019</u>
Satisfaction of program restrictions:		
Transition POINTS project	\$ 28,582	\$ 88,502
Travel training project	230,739	193,756
Supported decision making	37,100	-
Other	11,030	4,482
Satisfaction of time restrictions	105,632	491,831
Amounts appropriated from endowments	<u>41,483</u>	<u>21,397</u>
Total net assets released from restrictions	<u>\$ 454,566</u>	<u>\$ 799,968</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 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, 2018	\$ 26,742	\$ 1,047,280	\$ 1,074,022
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	27,958	1,002,063	1,030,021
Income on investments and trusts	2,220	(19,516)	(17,296)
Amount appropriated for operations	<u>(1,483)</u>	<u>(40,000)</u>	<u>(41,483)</u>
Balance, as of June 30, 2020	<u>\$ 28,695</u>	<u>\$ 942,547</u>	<u>\$ 971,242</u>

THE ARC OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and money funds	\$ 49,815	\$ -	\$ -	\$ 49,815
Equities	1,731,248	-	-	1,731,248
Public, non-listed real estate investment trust - CIM Real Estate Finance Trust Inc	<u>-</u>	<u>-</u>	<u>385,374</u>	<u>385,374</u>
Total	<u>\$ 1,781,063</u>	<u>\$ -</u>	<u>\$ 385,374</u>	<u>\$ 2,166,437</u>

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	<u>-</u>	<u>-</u>	<u>485,444</u>	<u>485,444</u>
Total	<u>\$ 1,746,994</u>	<u>\$ -</u>	<u>\$ 485,444</u>	<u>\$ 2,232,438</u>

Because the valuation inputs are unobservable for the Level 3 assets, the estimated present value as of June 30, 2020 and 2019, 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>2020</u>	<u>2019</u>
Balance, beginning of year	\$ 485,444	\$ 603,143
Realized/unrealized change in fair value	(73,628)	(57,513)
Transfers to Level 1 assets	<u>(26,442)</u>	<u>(60,186)</u>
Balance, end of year	<u>\$ 385,374</u>	<u>\$ 485,444</u>

THE ARC OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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>2020</u>	<u>2019</u>
Professional fees for funding strategy project	\$ -	\$ 122,400
Facilities	10,000	5,000
Other expenses	<u>6,160</u>	<u>2,310</u>
Total in-kind contributions revenue	<u>\$ 16,160</u>	<u>\$ 129,710</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 3,500 and 4,700 volunteer hours contributed during the years ended June 30, 2020 and 2019, respectively.

NOTE 10 - 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>2020</u>	<u>2019</u>
Cash	\$ 302,844	\$ 44,094
Accounts receivable, net	23,942	24,742
Contributions receivable	51,574	392,243
Other current assets	36,601	30,222
Less: amounts unavailable for general operations	<u>(81,820)</u>	<u>(454,476)</u>
Total financial assets available within one year for operations	<u>\$ 333,141</u>	<u>\$ 36,825</u>

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 expires December 28, 2020, with an interest rate of the prime rate plus 1.50 percent per annum. As of June 30, 2020, there was no amount drawn on this line of credit. Subsequent to year end, a new line of credit agreement was signed for up to \$250,000 that expires January 27, 2022, with an interest rate of the prime rate plus 1.25 percent per annum.

The Arc had a deficit in net assets without donor restrictions as of June 30, 2020 and 2019, of \$41,639 and \$118,471, respectively, and a change in net assets in the year ended June 30, 2020, of \$(361,825). 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.

THE ARC OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 11 - CONCENTRATION RISK

In the year ended June 30, 2020, approximately 69 percent, respectively of total revenue and support was from three sources. Approximately 77 percent of contributions receivable as of June 30, 2020, was due from two donors.

The Arc maintains cash in federally insured banks and has credit risk on those amounts to the extent they exceed federal insurance limits. As of June 30, 2020, the Arc had \$28,924 in cash in federally insured banks in excess of Federal Deposit Insurance Corporation limits. The Arc believes its credit risk is not significant.

NOTE 12 - IMPLEMENTATION OF NEW STANDARDS

During the year ended June 30, 2020, the Arc implemented Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This guidance is intended to clarify and improve the scope and accounting guidance for contributions received and contributions made, including guidance to assist organizations to distinguish revenue as exchange transactions or contributions and to distinguish between conditional and unconditional contributions. The Arc applied the requirements of ASU No. 2018-08 on a modified prospective basis to agreements that either were not complete as of July 1, 2019, or were entered into after July 1, 2019. As a result of the implementation of ASU No. 2018-08, the Arc reduced contribution income as of July 1, 2019, by \$365,257 for amounts that had been recognized as income in prior years that will be earned as conditions are met.

The Arc also implemented ASU No. 2014-09, *Revenue from Contracts with Customers* in the year ended June 30, 2020. ASU No. 2014-09 provides the framework for recognizing revenue other than contributions and is intended to improve consistency of revenue recognition practices across for-profit and not-for-profit entities. The core principle of ASU No. 2014-09 is to recognize revenue to depict the transfer of goods or services to customers in an amount and at the time that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The Arc applied the requirements of ASU No. 2014-09 using the modified retrospective method and the implementation did not result in a modification to the financial statements.