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Hanover Arc, Inc.  
Financial Statements  
Years Ended  
June 30, 2015 and 2014

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## Hanover Arc, Inc.

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Hanover Arc, Inc.  
Ashland, Virginia

I have audited the accompanying financial statements of Hanover Arc, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities 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**

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hanover Arc, Inc. as of June 30, 2015 and 2014, 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.

Firm's signature

Henrico, VA September 1, 2015

	<u>2015</u>	June 30, <u>2014</u>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 32,405	\$ 45,585
Unconditional Promises to Give	<u>11,000</u>	<u>11,000</u>
<b>Total current assets</b>	<b>\$ 43,405</b>	<b>\$ 56,585</b>
 <b>Property and equipment – net</b>	 0	 0
 <b>Other assets</b>		
Investments	124,816	121,836
Deposits	<u>350</u>	<u>350</u>
	<b><u>\$ 168,571</u></b>	<b><u>\$ 178,771</u></b>
 <b>Liabilities and Net Assets</b>		
 <b>Current liabilities</b>		
Accounts Payable	\$ <u>0</u>	\$ <u>0</u>
 <b>Net assets</b>		
Unrestricted	\$ 157,571	\$ 167,771
Temporarily restricted	<u>11,000</u>	<u>11,000</u>
<b>Total net assets</b>	<b><u>\$ 168,571</u></b>	<b><u>\$ 178,771</u></b>
	 <b><u>\$ 168,571</u></b>	 <b><u>\$ 178,771</u></b>

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



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Hanover Arc, Inc.  
Statements of Activities

	2,015			2,014		
	Temporarily		Total	Temporarily		Total
	Unrestricted	Restricted		Unrestricted	Restricted	
<b>Revenue, support and other changes</b>						
United Way and Grants	\$20,834	\$11,000	\$31,834	\$23,846	\$11,000	\$34,846
Contributions	42,121	0	42,121	51,503	0	51,503
Special events: (Note 9)						
Revenues	39,381	0	39,381	38,296	0	38,296
Expenses	(20,250)	0	(20,250)	(19,536)	0	(19,536)
	19,131	0	19,131	18,760	0	18,760
Membership dues	3,460	0	3,460	4,064	0	4,064
Interest and dividends	1,828	0	1,828	1,500	0	1,500
Grants	2,000	0	2,000	15,000	0	15,000
Net unrealized gain or (loss) on investments	(843)	0	(843)	1,781	0	1,781
	88,531	11,000	99,531	116,454	11,000	127,454
Net assets released from restrictions	11,000	(11,000)	0	11,000	(11,000)	0
<b>Total revenue, support and other changes</b>	99,531	0	99,531	127,454	0	127,454
<b>Expenses</b>						
Program services	95,498	0	95,498	99,435	0	99,435
Administrative	9,887	0	9,887	9,556	0	9,556
Fundraising	4,346	0	4,346	4,239	0	4,239
	109,731	0	109,731	113,230	0	113,230
<b>Change in net assets</b>	(10,200)	0	(10,200)	14,224	0	14,224
Prior Period Adjustments	0		0	0		0
<b>Net assets - beginning of year</b>	167,772	11,000	178,771	153,547	11,000	164,547
<b>Net assets - end of year</b>	\$157,572	\$11,000	\$168,772	\$167,771	\$11,000	\$178,771

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



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Hanover Arc, Inc.  
Statements of Functional Expenses

	2015				2014			
	Programs	Administrative	Fundraising	Total	Programs	Administrative	Fundraising	Total
Salaries and Benefits	\$39,444	\$4,641	\$2,320	\$46,405	\$40,785	\$4,798	\$2,399	\$47,982
Specific Assistance (Note 10)	21,290	0	0	21,290	25,144	0	0	25,144
Professional Fees	15,840	1,863	932	18,635	12,278	1,444	722	14,444
Supplies, Postage and Printing	5,246	617	309	6,172	6,379	751	375	7,505
Rent	6,029	709	355	7,093	5,100	600	300	6,000
Insurance	4,407	1,896	316	6,619	3,858	1,660	277	5,795
Membership Dues	1,463	0	0	1,463	1,464	0	0	1,464
Transportation	496	15	9	520	848	26	15	889
Telephone	1,124	140	105	1,369	1,625	202	151	1,978
Conferences & Meetings	159	6	0	165	1,954	75	0	2,029
	<u>\$95,498</u>	<u>\$9,887</u>	<u>\$4,346</u>	<u>\$109,731</u>	<u>\$99,435</u>	<u>\$9,556</u>	<u>\$4,239</u>	<u>\$113,230</u>

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

	<u>2015</u>	June 30, <u>2014</u>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (10,200)	\$ 14,224
Adjustments to reconcile to net cash from operating activities:		
Net unrealized (gains) loss on investments	843	(1,781)
Change in:		
Accounts Payable	<u>0</u>	<u>(900)</u>
<b>Net cash from (to) operating activities</b>	<u>(9,357)</u>	<u>11,543</u>
<b>Cash flows from investing activities</b>		
Invested in CD	(2,000)	
Investment income reinvested	<u>(1,823)</u>	<u>(1,495)</u>
<b>Net cash from investing activities</b>	<u>(3,823)</u>	<u>(1,495)</u>
<b>Net change in cash and cash equivalents</b>	(13,180)	10,048
<b>Cash and cash equivalents – beginning of year</b>	<u>45,585</u>	<u>35,537</u>
<b>Cash and cash equivalents – end of year</b>	<u>\$ 32,405</u>	<u>\$45,585</u>

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

Hanover Arc, Inc.  
NOTES to Financial Statements  
June 30, 2015 and 2014

1. Summary of Significant Accounting Policies

*Organization and Nature of Activities*

Hanover Arc, Inc. (Organization) was established in 1967, and incorporated under the laws of the Commonwealth of Virginia in 1974 as a nonprofit organization for the purpose of improving the lives of those with or at risk of intellectual and other developmental disabilities in Hanover County, Virginia.

*Basis of Accounting*

The accompanying financial statements are presented in accordance with the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when incurred.

*Classes of Net Assets*

The financial statements report amounts by class of net assets as follows:

**Unrestricted** amounts are those currently available at the discretion of the Board of Directors for use in the Organization's operations and those resources invested in property or equipment.

**Temporarily restricted** amounts are those which are stipulated by donors for specific purposes. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

**Permanently restricted** amounts are restricted to investments in perpetuity, the income from which is expendable in accordance with the conditions of each specific donation. The Organization had no permanently restricted net assets at June 30, 2014 or 2013.

*Cash and Cash Equivalents*

For purposes of reporting the statement of cash flows, the Organization includes all cash accounts, which are not subject to withdrawal restrictions or penalties, and all highly liquid debt instruments purchased with an original maturity of three months or less as cash equivalents.



### *Investments*

Investments in marketable securities with readily determinable fair values and all investments in debt securities are measured at fair value with gains and losses included in the change in net assets. Fair value is based on quoted market prices.

### *Property and Equipment*

Acquisitions of property and equipment are recorded at cost. Depreciation is recorded using the straight-line method over the estimated useful lives of the respective assets, generally five years. The cost of routine maintenance and repairs is expensed when incurred.

Equipment purchased and capitalized under the Thomas Stanley Memorial Adaptive Equipment Lending Library is available for the purpose of lending to individuals with special needs, but the equipment is required to be returned to the Organization's library.

### *Revenue Recognition, Membership Dues*

The Organization generates revenues from special fund-raising events and membership dues. Special event revenue is recognized when received or when an unconditional promise to contribute has been received in support of the event. Membership revenue is recognized during the applicable membership period.

### *Contributed Services*

For 2015 and 2014, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded. However, many individuals volunteer their time and perform a variety of tasks that assist the Organization in delivering services to its clients.

### *Funding Sources and Concentration of Risk*

Approximately 32% and 27% of the Organization's support in 2015 and 2014, respectively, was funded by allocations and donor designations through United Way Services of Greater Richmond, Virginia.

#### *Functional Allocation of Expenses*

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

#### *Income Taxes*

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and the tax statutes of the Commonwealth of Virginia. It is subject to income tax on any unrelated business income that it may generate.

#### *Uncertainty in Income Taxes*

Hanover Arc, Inc. evaluates uncertainty in income tax positions based on a more-likely-than-not recognition standard, effective July 1, 2011, with adoption of ASC 740-10. If that threshold is met, the tax position is then measured at the largest amount that is greater than 50% likely of being realized upon settlement.

There was no impact on the financial statements caused by the adoption of the revised standard for uncertain positions. As of June 30, 2015 and 2014, there are no accruals for uncertain tax positions. If applicable, Hanover Arc, Inc. records interest and penalty as a component of income tax expense. Tax years from June 30, 2012 remain open for examination by tax authorities.

#### *Estimates*

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of the contingent assets and liabilities at the date of the financial statements. Such estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated and assumptions.

#### *Reclassifications*

Certain reclassifications have been made due to the reversal of an accrual for interest income.

2. Property and Equipment

	June 30,	
	<u>2015</u>	<u>2014</u>
Vehicle	\$ 15,213	\$ 15,213
Office equipment	12,593	12,593
Lending library equipment	<u>9,611</u>	<u>9,611</u>
	37,417	37,417
Less accumulated depreciation	<u>37,417</u>	<u>37,417</u>
	<u>\$ 0</u>	<u>\$ 0</u>

3. Fair Value Measurements

Valuation techniques used to measure fair value are prioritized into the following hierarchy:

*Level 1*- Quoted prices in active markets for identical assets. Assets in this level typically include publicly traded equities, mutual fund investments, cash equivalents, and listed derivatives.

*Level 2*- Quoted prices for similar assets in active or inactive markets, or inputs derived from observable market data such as published interest rates and yield curves, over-the-counter derivatives, market modeling, or other valuation methodologies. Hanover Arc doesn't have any assets in this level.

*Level 3*- Unobservable inputs that reflect management's assumptions and best estimates based on available data. Assets in this level include alternative investments, real estate held for investment if measured using management estimates, investments in partnerships and limited liability companies, and beneficial interests in charitable remainder trusts. Hanover Arc doesn't have any assets in this level.

Realized and unrealized gains and losses from these assets are reported in the Statement of Activities as they occur. There have been no changes in valuation techniques and related inputs.

June 30, 2015 and 2014

4. Investments

Investments consist of shares of various Vanguard mutual funds and various certificates of deposit. All investments are Level 1 assets. See Note 3.

	June 30,	
	<u>2015</u>	<u>2014</u>
Balance ó beginning of year ó Vanguard Funds	\$ 22,120	\$ 18,917
Earnings	1,757	1,422
Unrealized gain (loss)	<u>(843)</u>	<u>1,781</u>
Balance ó end of year ó Vanguard Funds	\$ 23,034	\$ 22,120
Balance ó end of year ó Certificates of Deposit	<u>101,782</u>	<u>99,716</u>
	<u>\$ 124,816</u>	<u>\$ 121,836</u>

The investment in Vanguard Mutual Funds has a total cost basis of \$20,090 and \$18,333 at June 30, 2015 and 2014, respectively.

4. Investments (Continued)

	June 30,	
	<u>2015</u>	<u>2014</u>
Vanguard investments consist of:		
Convertible Securities	\$ 8,482	\$ 8,387
Morgan Growth Fund	5,122	5,435
Wellesley Income Fund	<u>8,430</u>	<u>8,298</u>
<u>Total Vanguard Investments</u>	<u>\$ 23,034</u>	<u>\$ 22,120</u>

5. Temporarily Restricted net assets are available for Programs in the amounts of \$11,000 and \$11,000 at June 30, 2015 and 2014, respectively.

6. Net Assets Released from Restrictions

Net assets during 2015 and 2014 were released from donor restrictions by incurring expenses satisfying the restricted purposes, by occurrence of other events specified by donors or the passage of time restrictions as follows:

	June 30,	
	<u>2015</u>	<u>2014</u>
Programs	<u>\$ 11,000</u>	<u>\$ 11,000</u>

7. Retirement Plan

The Organization maintains a defined contribution retirement plan for the Executive Director, the only full time employee. The Organization contributes approximately 5% of her salary to the plan. For the years ended June 30, 2015 and 2014, contributions were made in the amounts of \$2,125 and \$2,125, respectively.

8. Lease Commitment

The Organization's lease for office space is paid on a month to month basis. For the years ended June 30, 2015 and 2014 the Organization paid rent in the amount of \$7,093 and \$6,000, respectively.

Rental charges on facilities used for the program services are usually of a short duration and are paid as used.

9. Special Events

	June 30, 2015			June 30, 2014		
	Revenue	Expenses	Net	Revenue	Expenses	Net
Santa Breakfast	0	126	(126)	0	0	0
A Taste of Hanover	35,254	16,307	18,947	35,808	18,299	17,509
Bass Pro hot dogs	356	3,642	(3,286)	0	0	0
Pumpkin Chunk-A-Thon	3,771	175	3,596	1,518	271	1,247
Baseball	0	0	0	970	966	4
	<u>39,381</u>	<u>20,250</u>	<u>19,131</u>	<u>38,296</u>	<u>19,536</u>	<u>18,760</u>

10. Specific Assistance to Individuals

	June 30, 2015		June 30, 2014	
	People Helped	Amount	People Helped	Amount
Respite and Recreation	22	\$ 5,169	27	\$ 11,450
Adult Recreation	58	1,356	47	1,452
Family Support	13	9,716	5	4,933
Saturday Sitters	54	4,687	81	4,580
Adaptive Equip. Lending Library			4	1,182
Resource Navigation & Education	67	<u>362</u>	72	<u>1,547</u>
<u>Totals</u>		<u>\$ 21,290</u>		<u>\$ 25,144</u>

#### 10 Specific Assistance to Individuals (Continued)

Hanover Arc served a total of 173 individuals in the fiscal year ended June 30, 2015. What we are now identifying as "Resource Navigation" is the direct individualized assistance that Hanover Arc provides to individuals and families on the resources available, how to access services and supports and problem solving on all sorts of issues including financial, Medicaid, education, respite, behavioral challenges, recreation. Transportation, housing and legal and other issues important to individuals with developmental disabilities and their families.

The costs for "Resource Navigation" are primarily staff personnel and office rental and supplies and telephone. It is not practical to allocate these costs to Specific Help to Individuals but they help individuals.

#### 11. Subsequent Events

Subsequent events have been evaluated through September 1, 2015, which is the date the financial statements were available to be issued.