

**Hanover Arc, Inc.
Financial Statements
Years Ended
June 30, 2014 and 2013**

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Hanover Arc, Inc.

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Paul Wring CPA, LTD.


Report of Independent Auditor

Board of Directors
Hanover Arc, Inc.

I have audited the accompanying statement of financial position of Hanover Arc, Inc. (a nonprofit organization) as of June 30, 2014 and June 30, 2013, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my 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, 2014 and 2013, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.


Paul Wring, CPA, LTD.
Henrico, VA
September 2, 2014

Hanover Arc, Inc.
Statements of Financial Position

	<u>2014</u>	June 30, <u>2013</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 45,585	\$ 35,537
Unconditional Promises to Give	<u>11,000</u>	<u>11,000</u>
Total current assets	\$ 56,585	\$ 46,537
Property and equipment – net	0	0
Other assets		
Investments	121,836	118,560
Deposits	<u>350</u>	<u>350</u>
	<u>\$ 178,771</u>	<u>\$ 165,447</u>
Liabilities and Net Assets		
Current liabilities		
Accounts Payable	\$ <u>0</u>	\$ <u>900</u>
Net assets		
Unrestricted	\$ 167,771	\$ 153,547
Temporarily restricted	<u>11,000</u>	<u>11,000</u>
Total net assets	<u>\$ 178,771</u>	<u>\$ 164,547</u>
	<u>\$ 178,771</u>	<u>\$ 165,447</u>

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

Hanover Arc, Inc.
Statements of Activities

	2,014			2,013		
	Temporarily			Temporarily		
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
Revenue, support and other changes						
United Way and Grants	\$23,846	\$11,000	\$34,846	\$20,155	\$11,000	\$31,155
Contributions	51,503	0	51,503	38,362	0	38,362
Special events: (Note 9)						
Revenues	38,296	0	38,296	42,851	0	42,851
Expenses	(19,536)	0	(19,536)	(20,248)	0	(20,248)
	18,760	0	18,760	22,603	0	22,603
Membership dues	4,064	0	4,064	4,065	0	4,065
Interest and dividends	1,500	0	1,500	864	0	864
Grants	15,000	0	15,000	19,311	0	19,311
Net unrealized gain or (loss) on investments	1,781	0	1,781	1,505	0	1,505
	116,454	11,000	127,454	106,865	11,000	117,865
Net assets released from restrictions	11,000	(11,000)	0	11,000	(11,000)	0
Total revenue, support and other changes	127,454	0	127,454	117,865	0	117,865
Expenses						
Program services	99,435	0	99,435	97,508	0	97,508
Administrative	9,556	0	9,556	8,498	0	8,498
Fundraising	4,239	0	4,239	3,738	0	3,738
	113,230	0	113,230	109,744	0	109,744
Change in net assets	14,224	0	14,224	8,121	0	8,121
Prior Period Adjustments	0		0	(268)		(268)
Net assets - beginning of year	153,547	11,000	164,547	145,694	11,000	156,694
Net assets - end of year	\$167,771	\$11,000	\$178,771	\$153,547	\$11,000	\$164,547

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

Hanover Arc, Inc.
Statements of Functional Expenses

	2014				2013			
	Programs	Administrative	Fundraising	Total	Programs	Administrative	Fundraising	Total
Salaries and Benefits	\$40,785	\$4,798	\$2,399	\$47,982	\$34,747	\$4,088	\$2,044	\$40,879
Specific Assistance (Note 10)	25,144	0	0	25,144	31,333	0	0	31,333
Professional Fees	12,278	1,444	722	14,444	11,491	1,352	676	13,519
Supplies, Postage and Printing	6,379	751	375	7,505	5,134	604	302	6,040
Rent	5,100	600	300	6,000	5,180	610	305	6,095
Insurance	3,858	1,660	277	5,795	3,622	1,558	260	5,440
Membership Dues	1,464	0	0	1,464	1,493	0	0	1,493
Transportation	848	26	15	889	1,096	33	20	1,149
Telephone	1,625	202	151	1,978	1,414	176	131	1,721
Conferences & Meetings	1,954	75	0	2,029	1,998	77	0	2,075
	\$99,435	\$9,556	\$4,239	\$113,230	\$97,508	\$8,498	\$3,738	\$109,744

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

Hanover Arc, Inc.
Statements of Cash Flows

	June 30,	
	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
Change in net assets	\$ 14,224	\$ 7,853
Adjustments to reconcile to net cash from operating activities:		
Net unrealized (gains) loss on investments	(1,781)	(1,505)
Change in:		
Prepaid Insurance	0	3,200
Accrued Interest Receivable	0	268
Accounts Payable	<u>(900)</u>	<u>900</u>
Net cash from (to) operating activities	<u>11,543</u>	<u>10,716</u>
Cash flows from investing activities		
Investment income reinvested	<u>(1,495)</u>	<u>(860)</u>
Net cash from investing activities	<u>(1,495)</u>	<u>(860)</u>
Net change in cash and cash equivalents	10,048	9,856
Cash and cash equivalents – beginning of year	<u>35,537</u>	<u>25,681</u>
Cash and cash equivalents – end of year	<u>\$ 45,585</u>	<u>\$35,537</u>

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

Hanover Arc, Inc.
Notes to Financial Statements
June 30, 2014 and 2013

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.

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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 2014 and 2013, 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 27% and 26% of the Organization's support in 2014 and 2013, respectively, was funded by allocations and donor designations through United Way Services of Greater Richmond, Virginia.

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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, 2014 and 2013, 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, 2011 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.

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2. Property and Equipment

	June 30,	
	2014	2013
Vehicle	\$ 15,213	\$ 15,213
Office equipment	12,593	12,593
Lending library equipment	9,611	9,611
	37,417	37,417
Less – accumulated depreciation	37,417	37,417
	\$ 0	\$ 0

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.

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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>2014</u>	<u>2013</u>
Balance – beginning of year – Vanguard Funds	\$ 18,917	\$ 16,667
Earnings	1,422	745
Unrealized gain (loss)	<u>1,781</u>	<u>1,505</u>
Balance – end of year – Vanguard Funds	\$ 22,120	\$ 18,917
Balance – end of year – Certificates of Deposit	<u>99,716</u>	<u>99,643</u>
	<u>\$ 121,836</u>	<u>\$ 118,560</u>

The investment in Vanguard Mutual Funds has a total cost basis of \$18,333 and \$16,911 at June 30, 2014 and 2013, respectively.

4. Investments (Continued)

	June 30,	
	<u>2014</u>	<u>2013</u>
Vanguard investments consist of:		
Convertible Securities	\$ 8,387	\$ 7,160
Morgan Growth Fund	5,435	4,334
Wellesley Income Fund	<u>8,298</u>	<u>7,423</u>
<u>Total Vanguard Investments</u>	<u>\$ 22,120</u>	<u>\$ 18,917</u>

5. Temporarily Restricted net assets are available for Programs in the amounts of \$11,000 and \$11,000 at June 30, 2014 and 2013, respectively.

6. Net Assets Released from Restrictions

Net assets during 2014 and 2013 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>2014</u>	<u>2013</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, 2014 and 2013, contributions were made in the amounts of \$2,125 and \$1,812, respectively.

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8. Lease Commitment

The Organization's lease for office space is paid on a month to month basis. For the years ended June 30, 2014 and 2013 the Organization paid rent in the amount of \$6,000 and \$6,095, 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, 2014			June 30, 2013		
	Revenue	Expenses	Net	Revenue	Expenses	Net
Golf Tournament	0	0	0	10,615	4,654	5,961
A Taste of Hanover	35,808	18,299	17,509	23,307	12,787	10,520
Santa Breakfast	0	0	0	3,346	1,580	1,766
Pumpkin Chunk-A-Thon	1,518	271	1,247	3,102	327	2,775
Baseball	970	966	4	2,481	900	1,581
	<u>38,296</u>	<u>19,536</u>	<u>18,760</u>	<u>42,851</u>	<u>20,248</u>	<u>22,603</u>

10. Specific Assistance to Individuals

	June 30, 2014		June 30, 2013	
	People Helped	Amount	People Helped	Amount
Respite and Recreation	27	\$ 11,450	40	\$ 20,251
Adult Recreation	47	1,452	52	645
Family Support	5	4,933	7	5,304
Saturday Sitters	81	4,580	58	4,020
Adaptive Equip. Lending Library	4	1,182	0	0
Resource Navigation & Education	72	<u>1,547</u>	55	<u>1,113</u>
Totals		<u>\$ 25,144</u>		<u>\$ 31,333</u>

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10 Specific Assistance to Individuals (Continued)

Hanover Arc served a total of 175 individuals in the fiscal year ended June 30, 2014. 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 2, 2014, which is the date the financial statements were available to be issued.