

Audited Financial Statements

The Arc of Midland, Inc.

*Years Ended December 31, 2019 and 2018
with Report of Independent Auditors*



The Arc of Midland, Inc.
Audited Financial Statements
Years Ended December 31, 2019 and 2018

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Report of Independent Auditors

Board of Directors
The Arc of Midland, Inc.
Midland, Michigan

We have audited the accompanying financial statements of The Arc of Midland, Inc., as of December 31, 2019 and 2018, and the related statements of activities, functional expenses, 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.

Auditors' 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 of 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Arc of Midland, Inc., as of December 31, 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.

Andrews Hooper Paulik PLC

Midland, Michigan
September 21, 2020

The Arc of Midland, Inc.

Statements of Financial Position

| | December 31 | |
|--|--------------------|-------------------|
| | 2019 | 2018 |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 602,806 | \$ 74,358 |
| Accounts receivable - funding sources | 10,518 | 6,082 |
| Accounts receivable - clients | 11,188 | 121 |
| Accounts receivable - officer | - | 1,313 |
| Program supplies inventory | - | 300 |
| Grants receivable | 25,000 | 50,000 |
| Prepaid expenses and other current assets | - | 2,945 |
| Total current assets | <u>649,512</u> | 135,119 |
| Property and equipment, net | - | 1,050 |
| Beneficial interest in assets held by others | 5,020 | 4,282 |
| Cash held for clients | 183,574 | 205,231 |
| Total assets | <u>\$ 838,106</u> | <u>\$ 345,682</u> |
| Liabilities and net assets | | |
| Current liabilities: | | |
| Accounts payable | 20,916 | 11,015 |
| Accrued payroll and related expenses | 26,125 | 19,343 |
| Line of credit | - | 516 |
| Total current liabilities | <u>47,041</u> | 30,874 |
| Cash held for clients | 183,574 | 205,231 |
| Total liabilities | <u>230,615</u> | <u>236,105</u> |
| Net assets: | | |
| Net assets without donor restrictions: | | |
| Undesignated | 522,471 | 58,591 |
| Board designated | 5,020 | 4,282 |
| Total net assets without donor restrictions | <u>527,491</u> | 62,873 |
| Net assets with donor restrictions | 80,000 | 46,704 |
| Total net assets | <u>607,491</u> | 109,577 |
| Total liabilities and net assets | <u>\$ 838,106</u> | <u>\$ 345,682</u> |

The Arc of Midland, Inc.

Statements of Activities

| | Year Ended December 31 | |
|---|-------------------------------|-------------------|
| | 2019 | 2018 |
| Net assets without donor restrictions | | |
| Revenue and support: | | |
| Program services | \$ 303,479 | \$ 319,258 |
| United Way allocation | 90,500 | 94,095 |
| Contributions and grants | 659,264 | 231,309 |
| Special event revenue | 96,375 | 101,619 |
| Appreciation (depreciation) of beneficial interest in assets held by others, net | 738 | (643) |
| Interest income | 469 | 267 |
| Net assets released from restrictions: | | |
| Satisfaction of purpose restrictions | 87,474 | 93,087 |
| Total revenue and support | <u>1,238,299</u> | <u>838,992</u> |
| Expenses: | | |
| Program services: | | |
| Family/individual support services | 418,626 | 398,876 |
| Community development | 170,672 | 119,604 |
| Total program services | <u>589,298</u> | <u>518,480</u> |
| Supporting services: | | |
| Management and general | 139,564 | 184,923 |
| Fundraising | 44,819 | 50,399 |
| Total supporting services | <u>184,383</u> | <u>235,322</u> |
| Total expenses | <u>773,681</u> | <u>753,802</u> |
| Change in net assets without donor restrictions | <u>464,618</u> | <u>85,190</u> |
| Net assets with donor restrictions | | |
| Contributions and grants restricted for programs | 120,770 | 39,791 |
| Net assets released from restrictions | (87,474) | (93,087) |
| Change in net assets with donor restrictions | <u>33,296</u> | <u>(53,296)</u> |
| Change in net assets | 497,914 | 31,894 |
| Net assets at beginning of year | 109,577 | 77,683 |
| Net assets at end of year | <u>\$ 607,491</u> | <u>\$ 109,577</u> |

See accompanying notes.

The Arc of Midland, Inc.

Statements of Cash Flows

| | Year Ended December 31 | |
|--|-------------------------------|------------------|
| | 2019 | 2018 |
| Operating activities | | |
| Change in net assets | \$ 497,914 | \$ 31,894 |
| Adjustments to reconcile change in net assets to net cash from operating activities: | | |
| Loss on disposal of assets | 1,050 | - |
| Change in value of investments | - | 344 |
| Change in value of beneficial interest | (738) | 1,011 |
| Change in operating assets and liabilities: | | |
| Accounts receivable - funding sources | (4,436) | 51,048 |
| Accounts receivable - clients | (11,067) | 684 |
| Accounts receivable - officer | 1,313 | (1,313) |
| Grants receivable | 25,000 | 50,000 |
| Program supplies inventory | 300 | 300 |
| Prepaid expenses and other current assets | 2,945 | 1,130 |
| Accounts payable | 9,901 | (58,684) |
| Accrued payroll and related expenses | 6,782 | 1,056 |
| Net cash from operating activities | <u>528,964</u> | <u>77,470</u> |
| Investing activities | | |
| Acquisition of property | - | (1,050) |
| Net cash used in investing activities | <u>-</u> | <u>(1,050)</u> |
| Financing activities | | |
| Repayment of short-term borrowings | (516) | (19,601) |
| Net cash used in financing activities | <u>(516)</u> | <u>(19,601)</u> |
| Net change in cash and cash equivalents | 528,448 | 56,819 |
| Cash and cash equivalents at beginning of year | 74,358 | 17,539 |
| Cash and cash equivalents at end of year | <u>\$ 602,806</u> | <u>\$ 74,358</u> |

The Arc of Midland, Inc.

Statement of Functional Expenses

Year Ended December 31, 2019

| | Personal Representation | Community Development | Total Program Services | Management and General | Fundraising | Total Expenses |
|----------------------------------|----------------------------|--------------------------|------------------------------|------------------------------|-------------|-------------------|
| Salaries and wages | \$ 287,767 | \$ 109,819 | \$ 397,586 | \$ 61,174 | \$ - | \$ 458,760 |
| Benefits | 1,238 | 653 | 1,891 | 17,817 | - | 19,708 |
| Workers compensation insurance | 1,394 | 532 | 1,926 | 293 | - | 2,219 |
| Payroll taxes | 22,278 | 8,303 | 30,581 | 4,069 | - | 34,650 |
| Rent | 24,012 | 5,568 | 29,580 | 2,784 | 2,436 | 34,800 |
| Telephone and internet | 1,802 | 1,818 | 3,620 | 2,267 | - | 5,887 |
| Property and liability insurance | 1,860 | 1,685 | 3,545 | - | - | 3,545 |
| Maintenance and repairs | 5,948 | 4,347 | 10,295 | 3,287 | - | 13,582 |
| Printing and stationery | 747 | 1,589 | 2,336 | 838 | - | 3,174 |
| Office supplies | 158 | 43 | 201 | 14,495 | - | 14,696 |
| Postage | 289 | 260 | 549 | 1,110 | 920 | 2,579 |
| Travel | 9,946 | 397 | 10,343 | 1,298 | - | 11,641 |
| Meetings | - | 767 | 767 | 11,708 | - | 12,475 |
| Dues | - | 375 | 375 | 727 | - | 1,102 |
| Advertising | - | 281 | 281 | 351 | 150 | 782 |
| Affiliation expense | 5,860 | - | 5,860 | - | - | 5,860 |
| Professional fees | 12,553 | 7,489 | 20,042 | 13,861 | - | 33,903 |
| Activities | 42,489 | 26,675 | 69,164 | 950 | - | 70,114 |
| Miscellaneous | 11 | 71 | 82 | 1,019 | - | 1,101 |
| Interest | - | - | - | 82 | - | 82 |
| Bank charges | 274 | - | 274 | 1,434 | - | 1,708 |
| Fundraising | - | - | - | - | 41,313 | 41,313 |
| | \$ 418,626 | \$ 170,672 | \$ 589,298 | \$ 139,564 | \$ 44,819 | \$ 773,681 |

See accompanying notes.

The Arc of Midland, Inc.

Statement of Functional Expenses

Year Ended December 31, 2018

| | Personal Representation | Community Development | Total Program Services | Management and General | Fundraising | Total Expenses |
|----------------------------------|------------------------------------|----------------------------------|---------------------------------------|---------------------------------------|--------------------|---------------------------|
| Salaries and wages | \$ 312,281 | \$ 72,923 | \$ 385,204 | \$ 66,199 | \$ - | \$ 451,403 |
| Benefits | 613 | 965 | 1,578 | 8,289 | - | 9,867 |
| Workers compensation insurance | 1,222 | 252 | 1,474 | 598 | - | 2,072 |
| Payroll taxes | 23,783 | 5,556 | 29,339 | 4,719 | - | 34,058 |
| Rent | 24,715 | 5,573 | 30,288 | 5,287 | - | 35,575 |
| Telephone and internet | 2,105 | 908 | 3,013 | 1,468 | - | 4,481 |
| Property and liability insurance | 2,620 | 415 | 3,035 | 635 | - | 3,670 |
| Maintenance and repairs | 6,174 | 2,256 | 8,430 | 14,250 | - | 22,680 |
| Printing and stationery | 654 | 512 | 1,166 | 1,691 | - | 2,857 |
| Office supplies | 213 | 316 | 529 | 14,690 | - | 15,219 |
| Postage | - | 254 | 254 | 1,894 | - | 2,148 |
| Travel | 11,428 | 1,170 | 12,598 | 2,362 | - | 14,960 |
| Meetings | - | 3,455 | 3,455 | 7,979 | - | 11,434 |
| Dues | - | - | - | 512 | - | 512 |
| Advertising | - | 13 | 13 | 122 | 68 | 203 |
| Affiliation expense | - | - | - | 6,508 | - | 6,508 |
| Professional fees | 1,750 | - | 1,750 | 29,178 | - | 30,928 |
| Activities | 10,966 | 25,036 | 36,002 | 13,132 | 50,331 | 99,465 |
| Miscellaneous | - | - | - | 937 | - | 937 |
| Interest | - | - | - | 1,363 | - | 1,363 |
| Bank charges | 352 | - | 352 | 3,110 | - | 3,462 |
| | \$ 398,876 | \$ 119,604 | \$ 518,480 | \$ 184,923 | \$ 50,399 | \$ 753,802 |

See accompanying notes.

The Arc of Midland, Inc.

Notes to Financial Statements

December 31, 2019

1. Mission of the Organization

The Arc of Midland, Inc. (Association) is an association for citizens with developmental disabilities. The Association's activities consist of programs to assist individuals with developmental disabilities to integrate into independent lifestyles and to raise public awareness of the special needs of these individuals. These programs are substantially funded by allocations from the United Way of Midland County, Inc. (United Way).

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Association have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP), which require the Association to report information regarding its financial position and activities according to the following mutually exclusive net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Association's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Association or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Accordingly, actual results could differ from those estimates.

The Arc of Midland, Inc.

Notes to Financial Statements

December 31, 2019

2. Summary of Significant Accounting Policies (continued)

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. In determining fair value, the Association uses various methods, including market, income, and cost approaches. Based on these approaches, the Association often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Association utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Association is required to provide the following information according to the fair value hierarchy.

The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quotes prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In determining the appropriate levels, the Association performs a detailed analysis of the assets and liabilities that are subject to the fair value standard. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

For the years ended December 31, 2019 and 2018, the application of valuation techniques applied to similar assets and liabilities has been consistent.

The Arc of Midland, Inc.

Notes to Financial Statements

December 31, 2019

2. Summary of Significant Accounting Policies (continued)

Contributions and Grants

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

| Expense | Method of Allocation |
|----------------------------------|-----------------------------|
| Property and Liability Insurance | Square footage |
| Telephone and internet | Square footage |
| Rent | Square footage |
| Professional services | Time and effort |

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits and money market accounts held at local banks.

Program Supplies Inventory

Inventory consists of supplies used in program and supporting services. Inventory is valued at the lower of cost or market, if purchased, or fair market value at the date of donation, if the item was donated.

The Arc of Midland, Inc.

Notes to Financial Statements

December 31, 2019

2. Summary of Significant Accounting Policies (continued)

Property and Equipment and Depreciation

Property and equipment are stated at cost at the time of purchase or, if donated, at estimated fair market value at the date of donation. Major improvements are capitalized while ordinary maintenance and repairs are expensed. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets which range from five to ten years.

Endowment

The Association's endowment funds consist of a beneficial interest in assets transferred to and held by the Midland Area Community Foundation (Foundation) to establish an agency endowment fund. The endowment fund includes funds designated by the Board of Directors to function as endowments. Net assets associated with the endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Association has interpreted Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring preservation of the fair value of the original gift, as of the gift date, of donor-restricted endowment funds absent explicit donor stipulations to the contrary. The Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds and board-designated endowment funds:

1. Duration and preservation of the fund.
2. Purposes of the Association and the donor-restricted endowment fund.
3. General economic conditions.
4. Possible effect of inflation and deflation.
5. Expected total return from income and the appreciation or depreciation of investments.
6. Other resources of the Association.
7. Investment policies of the Association.

Funds with Deficiencies

From time to time, the fair value of investment assets associated with the donor-restricted endowment fund may fall below the level that the donor or UPMIFA requires the Association to retain as a fund of perpetual duration. In accordance with accounting policies generally accepted in the United States of America, deficiencies of this nature are reported in net assets without donor restrictions.

The Arc of Midland, Inc.

Notes to Financial Statements

December 31, 2019

2. Summary of Significant Accounting Policies (continued)

Endowment (continued)

Funds with Deficiencies (continued)

The fair value of the Association's investment assets as of December 31, 2019 and 2018, associated with the endowment portion of its funds exceeded the level required by the donor or UPMIFA to be retained as a fund of perpetual duration.

Return Objectives and Risk Parameters

As approved by the Board of Directors, endowment assets are invested in an agency endowment fund of the Foundation. The Association's investment and spending policies follow such policies adopted by the Foundation for agency funds. In the Association's opinion, such policies will provide a predictable stream of funding to programs supported by the agency endowment fund while seeking to maintain the purchasing power of the underlying investments of the fund. The investment policies of the Foundation generally require the assets to be invested in a manner that is intended to increase the purchasing power of the Association's agency fund after inflation, while also generating returns to cover administrative costs and make a meaningful contribution to the spendable portion of the fund.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Association relies on the Foundation's investment policies. Generally, those policies rely on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Association does not have information regarding the specific investments held by the Foundation.

Spending Policy and How the Investment Objectives Relate to Spending Policy

Endowment fund spending policy is governed by the agency agreement with the Foundation. The amount of money available for distribution from the fund for appropriation and administrative costs is computed annually under the Foundation's spending policy. The Foundation's current spending policy is to distribute 5.0% of the average fair value over the prior 20 quarters, determined as of September 30, of the year preceding the planned distributions. Over the long term, the Association expects current investment and spending policy to allow its endowment assets to grow at an average rate of 3.0% annually. This is consistent with the Association's objectives to maintain the purchasing power of the endowment assets and to provide additional real growth through new gifts and investment return.

The Arc of Midland, Inc.

Notes to Financial Statements

December 31, 2019

2. Summary of Significant Accounting Policies (continued)

Income Tax Status

The Association qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is exempt from similar state and local taxes. Therefore, no provision for federal income taxes has been made in the accompanying financial statements.

Donated Services

No amounts have been recognized in the statements of activities for the value of volunteer services because the criteria for recognition have not been satisfied.

Reclassifications

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

Subsequent Events

Management has evaluated subsequent events as of September 21, 2020 which is the date the financial statements were available to be issued.

3. Liquidity and Availability

The Arc has \$649,512 of financial assets available within 1 year of the balance sheet date to meet cash needs for general expenditure consisting of cash of \$602,806, receivables from funding sources of \$10,518, receivables from clients of \$11,188, and grants receivable of \$25,000. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. The grant receivable is subject to an implied time restriction, but is expected to be collected within one year. The Arc has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. As more fully described in Note 9, the Arc also has committed lines of credit in the amount of \$25,000, which it could draw upon in the event of an unanticipated liquidity need.

4. Concentration Risks

The Association maintains its cash accounts at Chemical Bank and Members First Credit Union. The cash balances are insured by the Federal Deposit Insurance Corporation and the National Credit Union Association up to \$250,000. Of the Association's total bank balances, \$345,629 was uninsured as of December 31, 2019 and there were no uninsured balances as of December 31, 2018.

The Arc of Midland, Inc.

Notes to Financial Statements

December 31, 2019

4. Concentration Risks (continued)

Allocations from the United Way of Midland County were 7% of revenue and support for the year ended December 31, 2019, and 12% of total revenue and support during the year ended December 31, 2018.

5. Beneficial Interest in Assets Held by Others

Beneficial interest in assets held by others represents assets transferred to the Foundation to establish an agency endowment fund plus accumulated investment earnings. Under the terms of the agreement with the Foundation, the Board of Directors of the Association may recommend or request distributions from the fund or recommend distributions to a named nonprofit organization in amounts limited by the spending policies of the Foundation. At the time of the transfer of assets, the Association granted variance power to the Foundation. The Foundation expects to follow the recommendations but reserves the right to accept or reject the Association's recommendations. Variance power also gives the Foundation the right to distribute the spendable portion of the fund to another nonprofit organization of its choice if the Association ceases to exist or if the board of the Foundation determines that support of the Association is no longer necessary or is inconsistent with the mission or purpose of the fund or the needs of the community.

The beneficial interest is reported at the fair market value of the fund as determined by the Foundation. Investment income of the fund, net of expenses is recognized in the change in net assets.

6. Midland Area Community Foundation Endowed Fund

The Foundation also maintains an endowed fund to promote the general welfare of people with developmental disabilities. The fund name is Jon Barckholtz Endowed Fund to Benefit the Arc of Midland and its net assets as of December 31, 2019 were \$113,124, and as of December 31, 2018 were \$94,245. The bylaws of the Foundation and related gift instruments provide a variance provision that allows the Foundation to vary the use of the fund's assets. Grants from this fund must be approved by the Board of Directors of the Foundation and are subject to the Foundation's spending policy. Grants received from the fund were \$4,000 during the year ended December 31, 2019, and \$3,415 during the year ended December 31, 2018.

The Arc of Midland, Inc.

Notes to Financial Statements

December 31, 2019

7. Property and Equipment

Property and equipment consisted of the following as of December 31:

| | <u>2019</u> | <u>2018</u> |
|--------------------------|-----------------|-----------------|
| Cemetery plots | \$ - | \$ 1,050 |
| Property and equipment | 20,040 | 20,040 |
| Accumulated depreciation | (20,040) | (20,040) |
| | <u>\$ -</u> | <u>\$ 1,050</u> |

8. Restricted Client Funds

Cash held for clients represents amounts held by the Association for its clients. The funds are deposited in bank accounts under the Association's name and are restricted for the needs of specific clients.

9. Line of Credit

The Association has a \$25,000 revolving line of credit with a local financial institution. The line of credit is due July 5, 2020 and bears a variable interest rate which is prime plus 1%, currently 5.25%. The line of credit is secured by the Association's personal property. The balance on the line of credit at December 31, 2019 and 2018 was \$0 and \$516, respectively.

10. Net Assets

Designated Net Assets

Designated net assets represent net assets without donor restrictions that have been designated by the Board of Directors to function as an endowment fund.

Net Assets with Donor Restrictions – Purpose Restrictions

Net assets with donor restrictions – purpose restrictions were available for the following purposes as of December 31:

| | <u>2019</u> | <u>2018</u> |
|---------------------------|------------------|------------------|
| Individual/family support | \$ - | \$ 46,704 |
| Community development | 80,000 | - |
| | <u>\$ 80,000</u> | <u>\$ 46,704</u> |

The Arc of Midland, Inc.

Notes to Financial Statements

December 31, 2019

11. Commitments

Lease Agreements

In 2018, the Association leased its office facilities located from TCP Development, Midland, Michigan, under a five-year lease agreement. Rent expense was \$34,800 for 2019 and \$35,575 for 2018. Future minimum lease payments required under this lease is \$34,800 for 2020. This lease began in March 2018.

Effective April 1, 2018, the Association entered into a 5-year lease agreement. Annual expense under the 5-year lease term is \$34,800 per year. The Association has the option to renew the lease for one additional lease term on the same terms and conditions provided Lessee provides the lessor with written notice of its intent to renew not less than 90 days prior to the expiration of this lease.

The Association's remaining lease commitments are:

| | |
|--------------|---------------------------------|
| 2020 | \$ 34,800 |
| 2021 | 34,800 |
| 2022 | 34,800 |
| 2023 | <u>8,700</u> |
| Total | <u><u>\$ 113,100</u></u> |

12. Endowment Funds and Changes Therein

The Association's board-designated endowment net asset composition as of December 31, 2019, was as follows:

| | With Donor Restrictions | | | |
|----------------------------------|-----------------------------------|-----------------------------|-------------------------------|------------------------|
| | Without Donor Restrictions | Purpose Restrictions | Perpetual Restrictions | Total |
| Board-designated endowment funds | <u>\$ 5,020</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 5,020</u> |

The Arc of Midland, Inc.

Notes to Financial Statements

December 31, 2019

12. Endowment Funds and Changes Therein (continued)

Changes in board-designated endowment funds during the year ended December 31, 2019, were as follows:

| | With Donor Restrictions | | | |
|-------------------------------|---|---------------------------------|-----------------------------------|-----------------|
| | Without Donor Restrictions | Purpose Restrictions | Perpetual Restrictions | Total |
| Balance, December 31, 2018 | \$ 4,282 | \$ - | \$ - | \$ 4,282 |
| Investment income | 103 | - | - | 103 |
| Realized and unrealized gains | 740 | - | - | 740 |
| Withdrawals | - | - | - | - |
| Fees and expenses | (105) | - | - | (105) |
| Balance, December 31, 2019 | \$ 5,020 | \$ - | \$ - | \$ 5,020 |

The Association's board-designated endowment net asset composition as of December 31, 2018, was as follows:

| | With Donor Restrictions | | | |
|----------------------------------|---|---------------------------------|-----------------------------------|--------------|
| | Without Donor Restrictions | Purpose Restrictions | Perpetual Restrictions | Total |
| Board-designated endowment funds | \$ 4,282 | \$ - | \$ - | \$ 4,282 |

Changes in board-designated endowment funds during the year ended December 31, 2018, were as follows:

| | With Donor Restrictions | | | |
|-------------------------------|---|---------------------------------|-----------------------------------|-----------------|
| | Without Donor Restrictions | Purpose Restrictions | Perpetual Restrictions | Total |
| Balance, December 31, 2017 | \$ 5,293 | \$ - | \$ - | \$ 5,293 |
| Investment income | 106 | - | - | 106 |
| Realized and unrealized gains | (427) | - | - | (427) |
| Withdrawals | (585) | - | - | (585) |
| Fees and expenses | (105) | - | - | (105) |
| Balance, December 31, 2018 | \$ 4,282 | \$ - | \$ - | \$ 4,282 |

The Arc of Midland, Inc.

Notes to Financial Statements

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13. Fair Value

The Association utilizes fair value measurements to record fair value adjustments of certain assets and liabilities and to determine fair value disclosures. The Association values its beneficial interest in assets held by the Foundation at fair value on a recurring basis based on information provided by the Foundation. This methodology assumes the value of future distributions from the endowment fund are commensurate with the value of the assets held by the Foundation. However, the future value of distributions may not be commensurate with the value of the assets because the fund could experience negative investment returns, the Association could cease to exist, or payments could be terminated under the variance power of the Foundation. As a result, the Organization classifies the beneficial interest in the agency endowment fund as a Level 3 asset.

Fair value measurements for the investments were as follows as of December 31, 2019:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---------------------|----------------|----------------|----------------|--------------|
| Beneficial interest | \$ - | \$ - | \$ 5,020 | \$ 5,020 |

Fair value measurements for the investments were as follows as of December 31, 2018:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---------------------|----------------|----------------|----------------|--------------|
| Beneficial interest | \$ - | \$ - | \$ 4,282 | \$ 4,282 |

14. Program Descriptions

Descriptions of the Association's current programs follow:

Personal Representation Services

The Association serves as advocates, assisting individuals with intellectual and developmental disabilities and their families in managing their finances. Together, The Arc of Midland and the individual develop a budget to manage their monthly SSI, SSDI payments and earned income. Such work includes assisting them with paying their bills, budgeting, and planning for achievement of personal goals such as purchasing a house, living independently, or having the funds for a vacation or special class. This support allows those with intellectual and developmental disabilities to live independently, but also insures the unbiased support and guidance of an intermediary as necessary. In addition, through this service program we serve as guardian of person, guardian of estate, conservator or payee for individuals with intellectual and developmental disabilities as requested or required by law.

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14. Program Descriptions (continued)

Community Building

The Association advocates for individuals of all ages with intellectual and developmental disabilities so their voice can be heard. This program area allows for collaboration with partner agencies and businesses to create opportunities for individuals to be contributing members of our local community. The local programs evolve based on the current needs of the people with intellectual and developmental disabilities and their families within the community.

Programs may include: People First, Public policy advocacy, Sibling groups, healthy relationships, direct support professional trainings, iCan Bike, Everyone in Education, Count Me In, TEAM, Circle gatherings, and Voters education.

15. Subsequent Event

The current Coronavirus pandemic has had an economic impact on the United States and the international community. While the Organization has not experienced a material adverse impact as of the date of these financial statements, the future impact, if any, cannot be determined.