THE GREATER RICHMOND ARC

FINANCIAL STATEMENTS

As of and for the Year Ended December 31, 2015 with Comparative Totals for 2014

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

THE GREATER RICHMOND ARC

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Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

The Board of Directors
The Greater Richmond ARC
Richmond, Virginia

We have audited the accompanying financial statements of Richmond Area Association for Retarded Citizens operating as the Greater Richmond ARC ("ARC"), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities, cash flows, and functional expenses for the year 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 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 Richmond Area Association for Retarded Citizens as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited ARC's 2014 financial statements, and our report dated May 12, 2015, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent in all material respects with the audited financial statements from which it has been derived.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 12, 2016, on our consideration of ARC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ARC's internal control over financial reporting and compliance.

Emphasis of Matter

As discussed in Note 15, net assets at December 31, 2013 have been restated to correct an overstatement of revenue that occurred during the years ended December 31, 2009, 2010, 2011, and 2012. We audited the adjustment necessary to restate the December 31, 2013 net assets, and in our opinion such adjustment is appropriate and has been properly applied. Our opinion is not modified with respect to this matter.

Cherry Bekaert LLP

Richmond, Virginia
April 12, 2016

THE GREATER RICHMOND ARC

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2015

(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2014)

	2015	2014 (As Restated)
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 2,474,500	$ 4,610,192
Accounts receivable, net	1,565,982	1,548,747
Pledges receivable, net	90,958	825,125
Investments	321,088	328,499
Prepaid expenses and other current assets	129,285	118,328
Total Current Assets	4,581,813	7,430,891
Noncurrent Assets:		
Property and equipment, net	13,421,112	10,875,930
Deferred financing costs, net	76,858	98,895
Total Assets	$ 18,079,783	$ 18,405,716
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	$ 232,080	$ 166,978
Accrued expenses	846,426	1,364,023
Deferred revenue	12,000	-
Bonds payable, current portion	143,762	139,521
Total Current Liabilities	1,234,268	1,670,522
Noncurrent Liabilities:		
Interest rate swap liability	253,365	225,749
Deferred compensation liability	96,156	61,960
Bonds payable, net of current portion	3,997,383	4,141,145
Total Noncurrent Liabilities	4,346,904	4,428,854
Net Assets:		
Unrestricted	11,838,096	8,772,512
Temporarily restricted	557,751	3,431,064
Permanently restricted	102,764	102,764
Total Net Assets	12,498,611	12,306,340
Total Liabilities and Net Assets	$ 18,079,783	$ 18,405,716

THE GREATER RICHMOND ARC

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2015
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2014)

	2015				2014 (As Restated)
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenues:					
ARC Employment Services	$ 9,936,693	$ -	$ -	$ 9,936,693	$ 8,884,876
Day Support Services	2,174,573	-	-	2,174,573	2,139,612
Infant & Child Development Services	792,689	-	-	792,689	808,180
Respite & Summer Camp	684,334	-	-	684,334	759,565
Development	658,443	304,661	-	963,104	1,195,322
Interest and dividend income	23,128	-	-	23,128	21,438
Unrealized gain (loss) on interest rate swaps	(27,616)	-	-	(27,616)	29,898
Realized/unrealized gain (loss) on investments	(29,736)	-	-	(29,736)	8,769
Other income (expense)	24,203	-	-	24,203	(3,429)
Total Revenue	14,236,711	304,661	-	14,541,372	13,844,231
Net assets released from restrictions	3,177,974	(3,177,974)	-	-	-
Total Revenues and Other Support and Reclassifications	17,414,685	(2,873,313)	-	14,541,372	13,844,231
Expenses:					
Program services	12,854,655	-	-	12,854,655	11,794,358
Fundraising	293,514	-	-	293,514	356,345
Management and general	1,200,932	-	-	1,200,932	778,335
Total Expenses	14,349,101	-	-	14,349,101	12,929,038
Change in net assets	3,065,584	(2,873,313)	-	192,271	915,193
Net assets, beginning of year	8,772,512	3,431,064	102,764	12,306,340	11,678,769
Restatement of net assets	-	-	-	-	(287,622)
Beginning, as restated	8,772,512	3,431,064	102,764	12,306,340	11,391,147
Net assets, end of year	$ 11,838,096	$ 557,751	$ 102,764	$ 12,498,611	$ 12,306,340

THE GREATER RICHMOND ARC

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2015
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2014)

	2015	2014
Cash flows from operating activities:		
Change in total net assets	$ 192,271	$ 915,193
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Bad debt expense	222,279	180,967
Depreciation	720,152	646,606
Loan cost amortization	22,037	22,037
Unrealized loss (gain) on investments	29,736	(8,769)
Unrealized loss (gain) on interest rate swaps	27,616	(29,898)
Changes in operating assets and liabilities:		
Accounts receivable	(239,514)	66,320
Pledges receivable	734,167	850,288
Prepaid expenses and other current assets	(10,957)	13,468
Accounts payable	65,102	44,367
Accrued expenses	(517,597)	37,158
Deferred compensation liability	34,196	24,910
Net cash provided by operating activities	1,291,488	2,762,647
Cash flows from investing activities:		
Purchases of investments	(22,325)	(119,468)
Purchases of property and equipment	(3,265,334)	(338,940)
Net cash used in investing activities	(3,287,659)	(458,408)
Cash flows from financing activities:		
Payments on bonds payable	(139,521)	(135,402)
Payments for deferred financing costs	-	(30,947)
Net cash used in financing activities	(139,521)	(166,349)
Net increase (decrease) in cash and cash equivalents	(2,135,692)	2,137,890
Cash and cash equivalents, beginning of the year	4,610,192	2,472,302
Cash and cash equivalents, end of the year	$ 2,474,500	$ 4,610,192
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 142,335	$ 146,096
Noncash investing activities:		
Construction in progress included in accounts payable	$ -	$ 1,784

THE GREATER RICHMOND ARC
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2015
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2014)

	Program Services	Fundraising	Management and General	2015 Total	2014 Total
Compensation	$ 7,699,754	$ 146,469	$ 415,509	$ 8,261,732	$ 7,587,363
Employee benefits	1,568,304	33,391	186,044	1,787,739	1,647,118
Payroll taxes	618,903	13,067	26,235	658,205	607,131
Contract employees	31,201	890	55,064	87,155	55,788
Salaries and related expenses	9,918,162	193,817	682,852	10,794,831	9,897,400
Advertising	300	11,353	5,836	17,489	10,317
Affiliated organizations	17,727	-	2,215	19,942	14,895
Bad debt expense	222,279	-	-	222,279	180,967
Building rental expense	11,712	11,710	-	23,422	11,407
Commissions and fees	275,723	6,652	15,184	297,559	243,704
Computer services	87,771	1,468	125,473	214,712	145,319
Conferences and training	65,453	7,237	12,066	84,756	40,205
Consulting fees	14,771	4,500	45,540	64,811	72,195
Contract expenses	221,390	48	6,225	227,663	153,314
Depreciation and amortization	606,723	1,978	111,451	720,152	646,606
Food	74,526	12,966	13,905	101,397	99,352
Insurance	176,296	1,530	25,882	203,708	249,381
Interest expense	106,751	-	35,584	142,335	146,096
Local travel	41,318	590	3,775	45,683	39,628
Miscellaneous	96	-	971	1,067	231
Occupancy	310,526	-	40,775	351,301	337,958
Postage and shipping	5,983	3,297	988	10,268	11,628
Printing	1,778	8,350	23,761	33,889	34,683
Professional fees	35,235	3,424	253,552	292,211	109,529
Promotions	4,164	7,509	44,157	55,830	58,266
Recruiting	49,075	16	865	49,956	43,845
Rental and maintenance	69,531	4,403	8,149	82,083	86,458
Supplies	97,549	1,324	19,442	118,315	113,589
Telephone	70,477	-	12,750	83,227	82,360
Vehicles maintenance	71,123	-	19,092	90,215	99,705
Allocation of pooled expenses	298,216	11,342	(309,558)	-	-
Total	$ 12,854,655	$ 293,514	$ 1,200,932	$ 14,349,101	$ 12,929,038

The accompanying notes to the financial statements are an integral part of this statement.

Note 1—Nature of operations

The Greater Richmond ARC ("ARC"), legally known as the Richmond Area Association for Retarded Citizens, is a non-profit corporation organized in 1954. ARC is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

In partnership with families, ARC creates life-fulfilling opportunities for individuals with development disabilities in Central Virginia.

Note 2—Summary of significant accounting policies

Basis of Presentation - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the ARC and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of ARC and/or the passage of time. When a 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 Assets - Net assets subject to donor-imposed stipulations that must be maintained permanently by ARC. Generally, the donors of these assets permit ARC to use all or part of the income earned on any related investments for general or specific purposes.

Cash and Cash Equivalents - ARC considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Use of Estimates - Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Summarized Comparative Information - The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with ARC's financial statements for the year ended December 31, 2014, from which the summarized information was derived.

Accounts Receivable - Accounts receivable consists of fees due for services provided and are reported at the amount management expects to collect from balances outstanding. Differences between the balances outstanding and the amounts management expects to collect are reported as a reduction of net assets in the year in which those differences are determined, with an offsetting entry to valuation allowance. Balances that are still outstanding after management has used reasonable collection efforts are written off through charges to the valuation allowance and credits to the balances outstanding. As of December 31, 2015 and 2014, the balance of the valuation allowance was $159,511 and $241,974, respectively.

Note 2—Summary of significant accounting policies (continued)

Pledges Receivable - Unconditional pledges receivable are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses, depending on the form of the benefits received. Conditional pledges receivable are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. As of December 31, 2015, the expected collections have not been discounted for the time value of money because the majority of pledges are due within two years. An allowance for uncollectible contributions receivable is provided based on management's judgment of potential defaults. The determination includes such factors as prior collection history, type of contribution, and nature of fundraising activity. As of December 31, 2015 and 2014, the allowance was $4,706 and $36,555, respectively.

Investments - Investments are recorded at fair value under the provisions of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification. Donated securities are recorded at their estimated fair value at the date contributed.

Property and Equipment - Property and equipment are recorded at cost if purchased or at fair value on the day of receipt if contributed. ARC capitalizes all equipment purchases exceeding $1,000. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the respective assets, with leasehold improvements depreciated over the lesser of the term of the lease or useful life. The cost of routine maintenance and repairs is charged to operations as incurred. When property and equipment are sold or otherwise disposed, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in the current year's operations.

Fees for Services Provided - ARC recognizes fee revenue when the service is performed and records the gross fee in the financial statements. Amounts that are unlikely to be received from third parties based on certain contractual limitations are recorded as an offset to revenue at the time the service is performed.

Contributions - Contributions are recognized in the year the donor either makes a contribution or makes a promise to give that is in substance unconditional. Contributions of services are recognized only if the services either create or enhance nonfinancial assets, or if they require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not contributed. The fair values of those services provided during 2015 and 2014 were not material, and accordingly they were not recognized. All contributions recognized are initially measured at their fair value at the date of the contribution.

Contributions that are not subject to donor-imposed restrictions are reported as an increase in unrestricted net assets. If the donor restricts how the contribution is used but the restriction is met in the year the contribution is recognized, the contribution is reported as an increase in unrestricted net assets. If the restriction will be met in a later year, however, the contribution is reported as an increase in temporarily restricted net assets, and, in the year the restriction is met, the contribution is reclassified as an unrestricted net asset. Contributions that are required by the donor to be maintained permanently are reported as an increase in permanently restricted net assets.

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

Advertising Costs - Advertising costs are expensed in the period they are incurred and amounted to $17,489 and $10,317 for the years ended December 31, 2015 and 2014, respectfully.

Note 2—Summary of significant accounting policies (continued)

Income Taxes - The Internal Revenue Service has determined that ARC is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Contributions to ARC are tax deductible as defined by Section 170 of the Code. Management has evaluated tax positions that could have a significant effect on the financial statements and determined that ARC had no uncertain income tax positions at December 31, 2015.

Note 3—Concentration of credit risk

ARC places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation ("FDIC") covers $250,000 for substantially all depository accounts. ARC from time to time may have amounts on deposit in excess of the insured limits. As of December 31, 2015, ARC had $2,380,129 which exceeded these insured amounts.

During 2015 and 2014, approximately 26% and 28%, respectively, of the fees for services provided were realizable through payments from a governmental insurance program, and approximately 39% and 40%, respectively, of the fees were for the services provided under six governmental contracts secured through the AbilityOne Program.

Note 4—Investments

ARC's investments as of December 31, 2015 and 2014 are recorded at fair value based upon quoted market prices and consist of the following:

	2015		
	Cost	Unrealized Appreciation	Estimated Fair Value
Mutual funds	$ 294,986	$ 16,725	$ 311,711
Money market funds	1,152	-	1,152
Common stocks	2,863	5,362	8,225
	$ 299,001	$ 22,087	$ 321,088

	2014		
	Cost	Unrealized Appreciation	Estimated Fair Value
Mutual funds	$ 280,277	$ 39,457	$ 319,734
Money market funds	720	-	720
Common stocks	2,863	5,182	8,045
	$ 283,860	$ 44,639	$ 328,499

Note 4—Investments (continued)

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended December 31, 2015 and 2014:

	2015	2014
Interest and dividends	$ 23,128	$ 21,438
Net realized loss	-	(201)
Net unrealized gain (loss)	(29,736)	8,970
Net investment income (loss)	$ (6,608)	$ 30,207

Note 5—Fair value measurements

Current accounting standards establish a three-level hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The levels of the hierarchy are defined as follows:

Level 1 - Inputs to the valuation methodology are quoted prices, unadjusted, for identical assets or liabilities traded in active markets.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and market-corroborated inputs.

Level 3 - Inputs to the valuation methodology are unobservable for the asset or liability and are significant to the fair value measurement.

ARC determines fair value based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, ARC uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

ARC has evaluated its financial assets and liabilities to determine an appropriate fair value hierarchy level based on trading activity and the observability of market inputs. Following is a description of the valuation methodologies used for assets and liabilities measured at fair value.

Common Stocks and Mutual Funds - Valued at the closing trading price per share as of the measurement date and evaluated as Level 1 investments.

Money Market Funds - These investments are public investment vehicles valued using the net asset value (“NAV”) provided by the administrator of the fund. The underlying assets are generally comprised of short-term securities representing high-quality, liquid debt, and monetary assets. These investments are reported within Level 1 of the valuation hierarchy.

Interest Rate Swap - Value determined based upon observable market data at year end, and evaluated as a Level 2 liability.

Note 5—Fair value measurements (continued)

Required disclosures concerning the estimated fair value of financial instruments are presented below. The estimated fair value amounts have been determined based on ARC's assessment of available market information and appropriate valuation methodologies. The following table summarizes required fair value disclosures and measurements at December 31, 2015 and 2014 for assets measured on a recurring basis under ASC 820, *Fair Value Measurements and Disclosures*. The assets measured at fair value in the table below use only one of three levels for defining their fair value:

	2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Investments				
Common stocks	$ 8,225	$ -	$ -	$ 8,225
Mutual funds:				
Equity securities	91,474	-	-	91,474
Bond securities	30,789	-	-	30,789
Value and income securities	189,448	-	-	189,448
Money market funds	1,152	-	-	1,152
Investments carried at fair value	321,088	-	-	321,088
Interest rate swap liability	-	(253,365)	-	(253,365)
	$ 321,088	$ (253,365)	$ -	$ 67,723

	2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Investments				
Common stocks	$ 8,045	$ -	$ -	$ 8,045
Mutual funds:				
Equity securities	97,243	-	-	97,243
Bond securities	31,050	-	-	31,050
Value and income securities	191,441	-	-	191,441
Money market funds	720	-	-	720
Investments carried at fair value	328,499	-	-	328,499
Interest rate swap liability	-	(225,749)	-	(225,749)
	$ 328,499	$ (225,749)	$ -	$ 102,750

Note 6—Promises to give

ARC records any unconditional promise to give as pledges receivable and income in the year the pledge is made. Pledges receivable at December 31, 2015 and 2014 are as follows:

	2015	2014
Due within one year	$ 37,049	$ 687,101
Due within two to five years	58,615	136,993
Due after five years	-	37,586
Total pledges	95,664	861,680
Allowance for doubtful accounts	(4,706)	(36,555)
Total pledges, net	$ 90,958	$ 825,125

During 2014, ARC received a pass-through federal grant totaling $140,000 that contained donor conditions. Since this grant represents a conditional promise to give, it is not recorded as contribution revenue until donor conditions are met. Funds received from the donor in advance of the conditions being met were to be held in escrow and revenue recognition was contingent upon meeting certain donor stipulations following the opening of the Greater Richmond ARCpark. During 2015, the donor stipulations were met by ARC and the grant was recognized as revenue.

Note 7—Property and equipment

The carrying amount of property and equipment consists of the following at December 31:

	2015	2014
Land	$ 1,983,562	$ 1,075,000
Buildings	10,824,700	10,059,730
Leasehold improvements at Camp Baker	3,282,874	3,253,109
Equipment:		
Computers and related equipment	1,040,684	796,753
Office	916,143	884,393
Vehicles	1,226,677	1,075,150
Playground	1,484,746	-
Projects in progress	10,209	376,523
	20,769,595	17,520,658
Less accumulated depreciation	7,348,483	6,644,728
Total property and equipment	$ 13,421,112	$ 10,875,930

The leasehold improvements at Camp Baker were made to land leased from Chesterfield County. The lease was renewed in June 2006 for ten years, requiring a one-time rental payment of $10. The lease is renewable automatically through June 2031 unless ARC or Chesterfield County decides not to renew it at specified times. The lease agreement restricts use of the land and imposes certain operating requirements on ARC. The excess of the estimated fair value of the rental over the rental payment required is not material and accordingly has not been recognized in the financial statements.

ARC also leases equipment under a variety of leases. However, the lease periods are relatively short, and the payments required are not material.

Note 8—Bonds payable

In December 2008, a $6,600,000 bank-qualified tax-exempt note was issued by the Industrial Development Authority of the City of Manassas, Virginia and immediately assigned to BB&T for the construction of the Saunders Avenue property. Principal outstanding under the note bears interest at a variable rate that is reset monthly at 68% of one month LIBOR plus .98%. Interest payments began in January 2009. During 2010 ARC prepaid the 2011 principal installment of $275,000. During 2012 scheduled principal payments commenced with final maturity in 2018. Principal payments of $139,521 and $135,402 were made by ARC during the years ended December 31, 2015 and 2014, respectively. The note is secured primarily by the Saunders Avenue building and related equipment, and requires compliance with prescribed operating covenants. ARC has complied with all covenants as of December 31, 2015 and 2014.

Under the financing arrangement, ARC was required to enter into an interest rate swap contract with BB&T in December 2008 under which ARC receives interest at 68% of LIBOR plus .98% and pays interest at 2.866% on a notional amount of $2,400,000 until the contract expires at the end of 2018. During 2009, ARC entered into an additional swap contract with a notional amount of $2,275,000 on which it pays interest at 3.751% and receives interest at a variable rate that is reset monthly at 68% of LIBOR plus .98% beginning in early 2010 until the contract expires at the end of 2018.

In September 2015, the financing agreement was modified to extend the maturity date of the agreement to December 5, 2023, and to change the interest rate to a variable rate that is reset monthly at 68% of one month LIBOR plus 1.05%. Along with the note modification, ARC entered into an additional swap contract with BB&T in September 2015, under which ARC receives interest at 68% of LIBOR plus 1.05% and pays interest at 3.03% on a notional amount of $3,696,634, beginning in December 2018 and ending in December 2023.

The carrying amounts of the swaps have been adjusted to their fair value, which, because of changes in forecasted levels of LIBOR, resulted in a liability at the end of 2015 and 2014 for the fair value of the future net payments forecasted under the swaps. Unrealized changes in the fair value of the swaps are recognized as a change in net assets in the year they occur.

ARC completed construction on the Saunders Avenue project in early 2010. When construction was completed, the value of the project transferred to property and equipment totaled $9.6 million, which included the $868,000 of land that was purchased for the project. While that carrying amount likely exceeds the fair value of the property, GAAP would require reducing the carrying amount to the fair value of the property only if the carrying amount is not recoverable through future cash flows. Since the property does not have identifiable cash flows that are largely independent of the cash flows of other assets and liabilities of ARC, recoverability would be evaluated based on the future cash flows of all of ARC’s assets and liabilities over a term consistent with the useful life of the building. The carrying amount of the property would be reduced to its fair value only if the undiscounted cash flows expected to result from the use of all of ARC’s assets and liabilities are less than their carrying amounts. Management believes a reduction is not required.

Note 8—Bonds payable (continued)

Bond repayment requirements in the succeeding five years and thereafter are as follows:

Years Ending December 31:		
2016	$	143,762
2017		148,137
2018		152,611
2019		155,832
2020		160,732
Thereafter		3,380,071
	$	4,141,145

Note 9—Line of credit

ARC has a $1,000,000 revolving line of credit with Union Bank and Trust that is renewed annually. The line bears interest at prime but with a minimum of 5.0% and is secured by fees due for services provided. The line of credit was not used in 2015 or 2014.

Note 10—Net assets

Net assets of $102,764 have been permanently restricted; however, earnings from investing those net assets are unrestricted.

Temporarily restricted net assets totaled $557,751 at the end of 2015 and $3,431,064 at the end of 2014. See summary as follows:

	2015	2014
Camp Baker Project Fund	$ 269,227	$ 167,750
ARCpark Fund	253,352	3,263,289
CVS Operating Fund	-	25
Grants Fund	35,172	-
	$ 557,751	$ 3,431,064

Management internally designated unrestricted net assets totaling $649,951 at the end of 2015 and $585,882 at the end of 2014. See summary as follows:

	2015	2014
Ladybug Fund	$ 489,184	$ 453,423
Camp Baker Operating Fund	160,767	132,459
	$ 649,951	$ 585,882

Note 11—Retirement plan

ARC has a defined contribution retirement plan that covers substantially all of its employees. Employees are permitted to make contributions to the plan based on their compensation. ARC matches a portion of those contributions and has the option of making additional contributions. ARC recognized as retirement benefits expense $144,026 and $155,399 during 2015 and 2014, respectively, for the costs associated with the plan.

Note 12—Deferred compensation plan

In December 2012, ARC established an unfunded, nonqualified deferred compensation 457(b) plan for the President of ARC. ARC has filed with the Department of Labor for a “top-hat” exemption. ARC has created a Notional Account to be credited annually with the Annual Applicable Dollar Amount under Code Section 457(e)(15). Default earnings on the Notional Account are to be determined by the Finance Committee annually. The total plan expense was $34,196 and $24,910 for the years ended December 31, 2015 and 2014, respectively. The President’s status under the plan is solely that of an unsecured creditor. Distributions shall occur at the earliest of his separation from service or at which time a minimum distribution is required under Code Section 401(a)(9). The distribution will be made in the form of an actuarially determined lifetime annuity based on the amounts credited to the President’s Notional Account at the time of separation from service.

Note 13—Health and welfare trust

ARC has numerous contracts with the Federal government which are covered by the Services Contract Act (“SCA”). The Labor Standards for the SCA requires that a health and welfare (“H&W’) benefit be provided to each employee working on a contract. The H&W benefit as of December 31, 2015 was $4.02 for every hour paid up to 40 hours per week. ARC may discharge the obligation by providing fringe benefits or paying the employee in cash. ARC elected to discharge the obligation by providing fringe benefits. When the H&W payments exceed the actual fringe benefit cost for each employee, the excess is held in a Dismissal Unemployment Benefit (“DUB”) account. This excess is paid out to the employee as wages upon termination of employment. At December 31, 2015 and 2014, there was no DUB balance due to be paid to employees.

Note 14—Endowments

ARC’s permanently restricted net assets consist of one donor-restricted endowment fund established for furthering the mission of ARC. There are no other funds designated by the Board of Directors to function as endowments.

The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act as requiring the preservation of the fair value of the original gift, as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulation to the contrary. As a result of this interpretation, ARC classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts donated to the permanent endowment, (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The income received from investing the donor-restricted endowment fund is classified as unrestricted net assets. Total investment income (loss) received from the endowment was ($3,121) for the year ended December 31, 2015 and $15,148 for the year ended December 31, 2014.

Note 14—Endowments (continued)

Endowment net assets at December 31, 2015 and 2014 consist of $102,764 permanently restricted net assets. The funds are maintained in an investment account consisting primarily of mutual funds.

In January 2011, ARC formally adopted investment and spending policies in conjunction with a comprehensive review of the returns and risks associated with various investment strategies in relation to current and projected financial requirements. In summary, the investment objective for the Endowment Fund is to invest for the long term and to accept a level of portfolio risk that is consistent with achieving long-term growth and the preservation of capital.

Note 15—Restatement

Net assets at December 31, 2013 have been restated, which resulted in a decrease of $287,622 because of program revenue that was recognized by ARC during the years ended December 31, 2009 through 2012; but, lacked the proper documentation.

Note 16—Subsequent events

ARC has evaluated subsequent events for potential recognition and/or disclosure in the December 31, 2015 financial statements through April 12, 2016 which was the date ARC's financial statements were available to be issued. No additional disclosures needed.

COMPLIANCE REPORTS

Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors of
The Greater Richmond ARC
Richmond, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Greater Richmond ARC ("ARC") (a nonprofit organization), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 12, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered ARC's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of ARC's internal control. Accordingly, we do not express an opinion on the effectiveness of ARC's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2015-01, which we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ARC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Greater Richmond ARC's Response to Findings

ARC's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. ARC's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of ARC's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ARC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cherry Bekaert LLP

Richmond, Virginia
April 12, 2016

Report of Independent Auditor on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

The Board of Directors of
The Greater Richmond ARC
Richmond, Virginia

Report on Compliance for Each Major Federal Program

We have audited the Greater Richmond ARC's ("ARC") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of ARC's major federal programs for the year ended December 31, 2015. ARC's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of ARC's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about ARC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of ARC's compliance.

Opinion on Major Federal Program

In our opinion, ARC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2015.

Report on Internal Control over Compliance

Management of ARC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered ARC's internal control over compliance with the types of requirements that could have a direct and material effect on the federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of ARC's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency or a combination of deficiencies in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2015-01, which we consider to be material weaknesses.

ARC's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. ARC 's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Cherry Bekaert LLP

Richmond, Virginia
April 12, 2016

Section I – Summary of Auditor's Results

Type of auditor's report issued*: Unmodified*

Internal control over financial reporting:

• Material weakness(es) identified?	__x__ yes	______ no
• Significant deficiency(ies) identified?	______ yes	__X__ none reported
• Noncompliance material to financial statements noted?	______ yes	__X__ no

Federal Award

Internal control over major federal program:

• Material weakness(es) identified?	______ yes	__X__ no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	______ yes	__X__ none reported
• Noncompliance material to consolidated financial statements noted?	______ yes	__X__ no

Type of auditor's report issued on compliance for major program: *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	______ yes	__X__ no

Identification of major program:

Federal Project/CFDA Number	Program Name
Department of Housing and Urban Development 14.218	Community Block Development Grant

Dollar threshold used to distinguish between type A and type B programs:	$ 300,000	
Auditee qualified as low-risk auditee?	______ yes	__X__ no

Section II – Findings Relating to the Financial Statements which Are Required to Be Reported in Accordance with *Government Auditing Standards*

2015-01 Revenue

Criteria:
Accurate and complete patient records must be maintained and the Greater Richmond ARC's ("ARC") policies must be defined that allows for accurate documentation of services provided to patients.

Condition:
$287,622 in program revenue during the period of 2009- 2012 lacked the proper documentation to support the revenue reimbursed by the government during those four years.

Cause:
A policy for review of the related transactions was not in place.

Effect:
A restatement occurred, where the balance of net assets at December 31, 2013 was decreased by $287,622, and expense for the year ended December 31, 2015 was decreased by $287,622.

Recommendation:
We recommend that compliance be emphasized to ensure the accuracy and completeness of revenue.

Management Response:
Management is in agreement with the recommendation and has revised its procedures to minimize the opportunity for similar errors in the future, including the creation of a Consumer & Support Services department, to ensure regulatory and reimbursement requirements are met.

Section III - Findings and Questioned Costs Relating to Federal Awards

None reported

SUPPLEMENTAL INFORMATION

THE GREATER RICHMOND ARC

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2015

Federal Grantor/Pass-through Grantor	CFDA Number	Identifying Number	Federal Expenditures
Department of Housing and Urban Development			
City of Richmond	14.218	0301-03610-SV0909-1184	$ 140,000
			$ 140,000

The accompanying notes to the schedule of expenditures of federal awards
are an integral part of this statement.

Note 1—Basis of presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Greater Richmond ARC and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of *Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

Note 2—Subrecipients

There were no amounts of federal expenditures presented in the schedule that were provided to subrecipients.