THE GREATER RICHMOND ARC

FINANCIAL STATEMENTS

As of and for the Year Ended December 31, 2016
(With Comparative Totals for 2015)

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, 2016, 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, 2016, 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 2015 financial statements, and our report dated April 12, 2016, 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, 2015, is consistent in all material respects with the audited financial statements from which it has been derived.

Cherry Bekaert LLP

Richmond, Virginia
May 17, 2017

THE GREATER RICHMOND ARC
STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2016
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2015)

	2016	2015
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 1,781,868	$ 2,474,500
Accounts receivable, net	1,752,601	1,565,982
Pledges receivable, current portion	38,614	32,343
Investments	775,341	321,088
Prepaid expenses and other current assets	115,754	129,285
Total Current Assets	4,464,178	4,523,198
Noncurrent Assets:		
Pledges receivable, net of current portion	31,000	58,615
Property and equipment, net	13,359,479	13,421,112
Total Assets	$ 17,854,657	$ 18,002,925
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	$ 172,191	$ 232,080
Accrued expenses	806,552	846,426
Deferred revenue	14,000	12,000
Loans payable, current portion	81,308	-
Bonds payable, current portion	148,137	143,762
Total Current Liabilities	1,222,188	1,234,268
Noncurrent Liabilities:		
Interest rate swap liability	184,367	253,365
Deferred compensation liability	107,762	96,156
Loans payable, net of current portion	340,007	-
Bonds payable, net of current portion and unamortized debt costs	3,794,425	3,920,525
Total Noncurrent Liabilities	4,426,561	4,270,046
Net Assets:		
Unrestricted	11,524,423	11,838,096
Temporarily restricted	569,894	557,751
Permanently restricted	111,591	102,764
Total Net Assets	12,205,908	12,498,611
Total Liabilities and Net Assets	$ 17,854,657	$ 18,002,925

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

THE GREATER RICHMOND ARC
STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2016
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2015)

	2016				2015
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenues:					
ARC Employment Services	$ 9,959,563	$ -	$ -	$ 9,959,563	$ 9,936,693
Day Support Services	2,058,405	-	-	2,058,405	2,174,573
Infant & Child Development Services	852,425	-	-	852,425	792,689
Respite & Summer Camp	668,278	-	-	668,278	684,334
Development	516,728	270,578	-	787,306	963,104
Interest and dividend income	5,475	-	-	5,475	13,128
Unrealized gain (loss) on interest rate swaps	68,998	-	-	68,998	(27,616)
Realized/unrealized gain (loss) on investments	13,434	-	-	13,434	(17,352)
Other income	14,014	-	-	14,014	21,819
Total Revenue	14,157,320	270,578	-	14,427,898	14,541,372
Net assets released from restrictions	258,435	(258,435)	-	-	-
Transfers	(8,827)	-	8,827	-	-
Total Revenues and Other Support and Reclassifications	14,406,928	12,143	8,827	14,427,898	14,541,372
Expenses:					
Program services	13,443,930	-	-	13,443,930	12,854,655
Fundraising	321,750	-	-	321,750	293,514
Management and general	954,921	-	-	954,921	1,200,932
Total Expenses	14,720,601	-	-	14,720,601	14,349,101
Change in net assets	(313,673)	12,143	8,827	(292,703)	192,271
Net assets, beginning of year	11,838,096	557,751	102,764	12,498,611	12,306,340
Net assets, end of year	$ 11,524,423	$ 569,894	$ 111,591	$ 12,205,908	$ 12,498,611

THE GREATER RICHMOND ARC
STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2016
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2015)

	2016	2015
Cash flows from operating activities:		
Change in net assets	$ (292,703)	$ 192,271
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Bad debt expense	121,141	222,279
Depreciation	809,471	720,152
Loan cost amortization	22,037	22,037
Realized/unrealized (gain) loss on investments	(29,495)	6,602
Unrealized (gain) loss on interest rate swaps	(68,998)	27,616
Change in operating assets and liabilities:		
Accounts receivable	(307,760)	(239,514)
Pledges receivable	21,344	734,167
Prepaid expenses and other current assets	13,531	(10,957)
Accounts payable	(59,889)	65,102
Accrued expenses	(39,874)	(517,597)
Deferred revenue	2,000	12,000
Deferred compensation liability	11,606	34,196
Net cash provided by operating activities	202,411	1,268,354
Cash flows from investing activities:		
Purchases of investments	(424,758)	(22,325)
Proceeds from sale of investments	-	23,134
Purchases of property and equipment	(747,838)	(3,265,334)
Net cash used in investing activities	(1,172,596)	(3,264,525)
Cash flows from financing activities:		
Payments on bonds payable	(143,762)	(139,521)
Payments on loans payable	(6,526)	-
Proceeds from loans payable	427,841	-
Net cash provided by (used in) financing activities	277,553	(139,521)
Net decrease in cash and cash equivalents	(692,632)	(2,135,692)
Cash and cash equivalents, beginning of year	2,474,500	4,610,192
Cash and cash equivalents, end of year	$ 1,781,868	$ 2,474,500
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 140,404	$ 142,335

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

THE GREATER RICHMOND ARC

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2016
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2015)

	2016				2015
	Program Services	Fundraising	Management and General	Total	Total
Compensation	$ 6,772,272	$ 176,016	$ 1,508,185	$ 8,456,473	$ 8,227,539
Employee benefits	1,632,786	30,749	273,438	1,936,973	1,821,937
Payroll taxes	536,181	14,028	114,501	664,710	658,204
Contract employees	103,778	2,416	16,626	122,820	124,742
Salaries and related expenses	9,045,017	223,209	1,912,750	11,180,976	10,832,422
Advertising and promotion	22,562	28,942	114,913	166,417	107,815
Bank fees and commissions	257,480	6,704	22,370	286,554	275,523
Information technology	6,117	1,195	147,276	154,588	214,104
Conferences and training	36,690	3,691	17,039	57,420	84,756
Contract expenses	127,338	-	-	127,338	123,245
Food and beverage	54,254	10,264	318	64,836	101,396
Insurance	148,923	2,127	147,155	298,205	203,700
Facilities	182,684	7,197	179,176	369,057	379,433
Equipment rental, maintenance, and supplies	190,435	5,061	36,244	231,740	200,400
Telephone	335	-	88,183	88,518	83,227
Travel and vehicles	128,578	1,021	10,101	139,700	135,899
Subcontracting expense	66,653	-	-	66,653	104,419
Professional and consulting fees	21,034	7,284	283,848	312,166	357,022
Interest expense	-	-	162,442	162,442	164,372
Depreciation and amortization	192,136	-	617,335	809,471	720,152
Miscellaneous	138,764	2,243	63,513	204,520	261,216
Allocation of pooled expenses	2,824,930	22,812	(2,847,742)	-	-
Total	$ 13,443,930	$ 321,750	$ 954,921	$ 14,720,601	$ 14,349,101

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 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, 2015, from which the summarized information was derived.

Investment Income - Investment income reported on ARC's financial statements for the year ended December 31, 2015 was reclassed to conform to the current presentation of the financial statements for the year ended December 31, 2016. The amount of the reclass is immaterial to the financial statements as a whole.

Note 2—Summary of significant accounting policies (continued)

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, 2016 and 2015, the balance of the valuation allowance was $74,007 and $159,511, respectively.

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, 2016, 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, 2016 and 2015, the allowance was $3,706 and $4,706, 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 $5,000. 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. 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 as follows:

	Years
Buildings	30 - 40
Leasehold improvements	10 - 20
Equipment	3 - 20

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 2016 and 2015 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.

Note 2—Summary of significant accounting policies (continued)

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. The expenses that are allocated include office and occupancy, which are allocated on a square-footage basis, as well as salaries and benefits, which are allocated on the basis of estimates of time and effort.

Debt Costs - In April 2015, the FASB issued Accounting Standards Update (ASU) 2015-03, "Interest – Imputation of Interest (Subtopic 835-30)." To simplify presentation of debt issuance costs, the amendments in this update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts.

Debt costs incurred in connection with ARC's bond payable have been deferred and are being amortized over the term of the respective loan agreement using the straight-line method, which approximates the effective interest methods and are recorded in Bonds payable, net of current portion and unamortized debt costs on the Statement of Financial Position. At December 31, 2016, and 2015, ARC had total unamortized debt costs of $54,821 and $76,858, respectively.

Advertising Costs - Advertising costs are expensed in the period they are incurred and amounted to $20,620 and $17,489 for the years ended December 31, 2016 and 2015, respectively.

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, 2016.

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, 2016, ARC had $1,679,322 which exceeded these insured amounts.

During 2016 and 2015, approximately 24% and 26%, respectively, of the fees for services provided were realizable through payments from a governmental insurance program, approximately 43% and 39%, respectively, of the fees were for the services provided under six governmental contracts secured through the AbilityOne Program, and approximately 11% and 12%, respectively, of the fees for services provided were from Henrico County.

Note 4—Investments

ARC's investments as of December 31, 2016 and 2015 are recorded at fair value based upon quoted market prices and consist of the following:

	2016		
	Cost	Unrealized Appreciation	Estimated Fair Value
Mutual funds	$ 597,846	$ 35,943	$ 633,789
Money market funds	131,021	-	131,021
Common stocks	2,863	7,668	10,531
	$ 731,730	$ 43,611	$ 775,341

	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

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended December 31, 2016 and 2015:

	2016	2015
Interest and dividends	$ 5,475	$ 13,128
Other investment income expense included in program services	10,586	(2,378)
Net unrealized gain (loss)	13,434	(17,352)
Net investment income (loss)	$ 29,495	$ (6,602)

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.

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, 2016 and 2015 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:

	2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Investments				
Common stocks	$ 10,531	$ -	$ -	$ 10,531
Mutual funds:				
Equity securities	140,666	-	-	140,666
Bond securities	207,756	-	-	207,756
Value and income securities	285,367	-	-	285,367
Total investments at fair value	644,320	-	-	644,320
Money market, carried at cost	-	-	-	131,021
Interest rate swap liability	-	(184,367)	-	(184,367)
	$ -	$ (184,367)	$ -	$ 590,974

	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
Total investments at fair value	319,936	-	-	319,936
Money market, carried at cost	-	-	-	1,152
Interest rate swap liability	-	(253,365)	-	(253,365)
	$ -	$ (253,365)	$ -	$ 67,723

Note 6—Promises to give

ARC records any unconditional promises to give as pledges receivable and income in the year the pledge is made. Pledges receivable at December 31, 2016 and 2015 are as follows:

	2016	2015
Due within one year	$ 42,320	$ 37,049
Due within two to five years	31,000	58,615
Total pledges	73,320	95,664
Allowance for doubtful accounts	(3,706)	(4,706)
Total pledges, net	$ 69,614	$ 90,958

Note 7—Property and equipment

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

	2016	2015
Land	$ 1,983,562	$ 1,983,562
Buildings	10,836,485	10,824,700
Leasehold improvements at Camp Baker	3,315,050	3,282,874
Equipment:		
Computers and related equipment	1,056,289	1,040,684
Office	1,061,777	916,143
Vehicles	1,499,747	1,226,677
Playground	1,590,440	1,484,746
Projects in progress	18,315	10,209
	21,361,665	20,769,595
Less accumulated depreciation	8,002,186	7,348,483
Total property and equipment	$ 13,359,479	$ 13,421,112

The leasehold improvements at Camp Baker were made to land leased from Chesterfield County. The lease was renewed in June 2016 for 5 years, with no monthly rental payments due. 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—Debt

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 $141,782 and $139,521 were made by ARC during the years ended December 31, 2016 and 2015, 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, 2016 and 2015.

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 2016 and 2015 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.

Notes Payable - In December 2016, ARC financed several equipment purchases for a total of $427,841. Principal outstanding under the notes bears interest at a fixed rate ranging from 0.00% to 3.39%. During 2016, scheduled principal payments commenced with final maturity from 2020 through 2021. Principal payments of $6,526 were made by ARC for the year ended December 31, 2016.

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

Years Ending December 31:	Bonds Payable	Notes Payable
2017	$ 148,137	$ 81,308
2018	152,611	86,807
2019	155,832	88,833
2020	160,732	88,183
2021	165,786	72,904
Thereafter	3,214,285	3,280
Total	$ 3,997,383	$ 421,315

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 2016 or 2015.

Note 10—Net assets

Net assets of $111,591 have been permanently restricted; however, earnings from investing those net assets are unrestricted.

Temporarily restricted net assets totaled $569,894 at the end of 2016 and $557,751 at the end of 2015. See summary as follows:

	2016	2015
Camp Baker Project Fund	$ 143,053	$ 269,227
Camp Baker Capital Fund	100,000	-
ARCpark Fund	253,768	253,352
CVS Operating Fund	11,336	-
DS Operating Fund	7,361	-
Grants Fund	54,376	35,172
	$ 569,894	$ 557,751

Management internally designated unrestricted net assets totaling $560,758 at the end of 2016 and $649,951 at the end of 2015. See summary as follows:

	2016	2015
Ladybug Fund	$ 392,092	$ 489,184
Camp Baker Operating Fund	168,666	160,767
	$ 560,758	$ 649,951

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 $160,980 and $144,026 during 2016 and 2015, 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 $18,000 and $34,196 for the years ended December 31, 2016 and 2015, respectively. The President’s status under the plan is solely that of an unsecured creditor. Distributions shall occur at the earliest of the President’s 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, 2016 was $4.27 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, 2016 and 2015, 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, and (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 $11,177 for the year ended December 31, 2016 and ($3,121) for the year ended December 31, 2015.

Endowment net assets at December 31, 2016 and 2015 consist of $111,591 and $102,764, respectively, of permanently restricted net assets, which included a transfer in during 2016 of $8,827 from unrestricted. The funds are maintained in an investment account consisting primarily of mutual funds.

Note 14—Endowments (continued)

In September 2016, ARC revised the Investment Policy for the Endowment Fund. The updated policy provides direction to ensure that the investments are managed consistently with the goals of ARC while allowing sufficient flexibility for organizational or market changes. The investment objective is to achieve the highest returns consistent with the asset allocation allowed. Fund balances that exceed the permanent Endowment Fund balance will be transferred to the ARC operating account annually.

Note 15—Subsequent events

ARC has evaluated subsequent events for potential recognition and/or disclosure in the December 31, 2016 financial statements through May 17, 2017 which was the date ARC's financial statements were available to be issued. No additional disclosures needed.