THE GREATER RICHMOND ARC

FINANCIAL STATEMENTS

As of and for the Year Ended December 31, 2017
(With Comparative Totals for 2016)

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

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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, 2017, 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, 2017, 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 2016 financial statements, and our report, dated May 17, 2017, 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, 2016, is consistent in all material respects with the audited financial statements from which it has been derived.

Cherry Bekaert LLP

Richmond, Virginia
June 11, 2018

THE GREATER RICHMOND ARC

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2017
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2016)

	2017	2016
ASSETS		
Currrent Assets:		
Cash and cash equivalents	$ 2,220,640	$ 1,781,868
Accounts receivable, net	1,562,658	1,752,601
Pledges receivable, current portion	1,407,175	38,614
Investments	1,251,204	775,341
Prepaid expenses and other current assets	144,538	115,754
Total Current Assets	6,586,215	4,464,178
Noncurrent Assets:		
Pledges receivable, net of current portion	256,000	31,000
Property and equipment, net	13,036,498	13,359,479
Total Assets	$ 19,878,713	$ 17,854,657
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	$ 196,097	$ 172,191
Accrued expenses	1,553,094	806,552
Deferred revenue	-	14,000
Loans payable, current portion	121,508	81,308
Bonds payable, current portion	152,611	148,137
Total Current Liabilities	2,023,310	1,222,188
Noncurrent Liabilities:		
Interest rate swap liability	116,449	184,367
Deferred compensation liability	123,130	107,762
Loans payable, net of current portion	384,452	340,007
Bonds payable, net of current portion and unamoritized debt costs	3,663,852	3,794,425
Total Noncurrent Liabilities	4,287,883	4,426,561
Net Assets:		
Unrestricted net assets	10,960,496	11,524,423
Temporarily restricted	2,495,433	569,894
Permanently restricted	111,591	111,591
Total Net Assets	13,567,520	12,205,908
Total Liabilities and Net Assets	$ 19,878,713	$ 17,854,657

THE GREATER RICHMOND ARC

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2017
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2016)

	2017				2016
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenues:					
ARC Employment Services	$ 10,625,068	$ -	$ -	$ 10,625,068	$ 9,959,563
Day Support Services	2,095,568	-	-	2,095,568	2,058,405
Infant & Child Development Services	1,160,265	-	-	1,160,265	852,425
Respite & Summer Camp	674,514	-	-	674,514	668,278
Development	360,140	2,429,940	-	2,790,080	776,689
Interest and dividend income	16,245	-	-	16,245	7,846
Realized/unrealized gain on investments	72,489	-	-	72,489	21,680
Unrealized gain on interest rate swaps	67,918	-	-	67,918	68,998
Other income	18,580	-	-	18,580	14,014
Other loss	(855,259)	-	-	(855,259)	-
Total Revenue	14,235,528	2,429,940	-	16,665,468	14,427,898
Net assets released from restrictions	533,291	(533,291)	-	-	-
Transfers	(28,890)	28,890	-	-	-
Total Revenues and Other Support and Reclassifications	14,739,929	1,925,539	-	16,665,468	14,427,898
Expenses:					
Program services	13,844,545	-	-	13,844,545	13,443,930
Fundraising	438,040	-	-	438,040	321,750
Management and general	1,021,271	-	-	1,021,271	954,921
Total Expenses	15,303,856	-	-	15,303,856	14,720,601
Change in net assets	(563,927)	1,925,539	-	1,361,612	(292,703)
Net assets, beginning of year	11,524,423	569,894	111,591	12,205,908	12,498,611
Net assets, end of year	$ 10,960,496	$ 2,495,433	$ 111,591	$ 13,567,520	$ 12,205,908

THE GREATER RICHMOND ARC

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2017
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2016)

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ 1,361,612	$ (292,703)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Bad debt expense	22,289	121,141
Depreciation	947,894	809,471
Loan cost amortization	22,037	22,037
Realized/unrealized (gain) loss on investments	(88,134)	(29,882)
Unrealized (gain) on intererst rate swaps	(67,918)	(68,998)
Change in operating assets and liabilities:		
Accounts receivable	167,654	(307,760)
Pledges receivable	(1,593,561)	21,344
Prepaid expenses and other current assets	(28,784)	13,531
Accounts payable	23,906	(59,889)
Accrued expenses	746,542	(39,874)
Deferred revenue	(14,000)	2,000
Deferred compensation liability	15,368	11,606
Net cash provided by operating activities	1,514,905	202,024
Cash flows from investing activities:		
Purchases of investments	(387,729)	(424,371)
Purchases of property and equipment	(624,913)	(747,838)
Net cash used in investing activities	(1,012,642)	(1,172,209)
Cash flows from financing activities:		
Payments on bonds payable	(148,137)	(143,762)
Payments on loans payable	(99,330)	(6,526)
Proceeds from loans payable	183,976	427,841
Net cash (used in) provided by financing activities	(63,491)	277,553
Net increase (decrease) in cash and cash equivalents	438,772	(692,632)
Cash and cash equivalents, beginning of year	1,781,868	2,474,500
Cash and cash equivalents, end of year	$ 2,220,640	$ 1,781,868
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 145,893	$ 140,404

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, 2017
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2016)

	2017				2016
	Program Services	Fundraising	Management and General	Total	Total
Compensation	$ 6,910,162	$ 206,198	$ 1,712,030	$ 8,828,390	$ 8,456,473
Employee benefits	1,571,301	32,768	494,763	2,098,832	1,936,005
Payroll taxes	534,337	15,267	123,844	673,448	664,710
Contract employees	68,822	-	4,707	73,529	122,820
Salaries and related expenses	9,084,622	254,233	2,335,344	11,674,199	11,180,008
Advertising and promotion	29,689	31,310	108,654	169,653	166,626
Bank fees and commissions	274,986	5,755	26,335	307,076	286,554
Information technology	4,270	3,688	296,104	304,062	243,865
Conferences and training	56,172	10,226	27,445	93,843	57,420
Contract expenses	105,478	-	11,667	117,145	127,338
Food and beverage	55,905	15,443	2,769	74,117	64,836
Insurance	150,505	3,082	163,189	316,776	298,205
Facilities	233,336	11,070	89,878	334,284	369,057
Equipment rental, maintenance and supplies	188,457	5,608	42,473	236,538	231,740
Travel and vehicles	153,565	787	9,990	164,342	139,700
Subcontracting expense	69,385	-	-	69,385	66,653
Professional and consulting fees	19,049	30,732	226,175	275,956	312,166
Interest expense	-	-	167,930	167,930	162,442
Depreciation	307,657	-	640,237	947,894	809,471
Miscellaneous	26,277	5,606	18,773	50,656	204,520
Allocation of pooled expenses	3,085,192	60,500	(3,145,692)	-	-
Total	$ 13,844,545	$ 438,040	$ 1,021,271	$ 15,303,856	$ 14,720,601

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 GAAP. Accordingly, such information should be read in conjunction with ARC's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

Note 2—Summary of significant accounting policies (continued)

Investment Income - Investment income reported on ARC's financial statements for the year ended December 31, 2016 was reclassed to conform to the current presentation of the financial statements for the year ended December 31, 2017. The amount of the reclass is immaterial to the financial statements as a whole.

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, 2017 and 2016, the balance of the valuation allowance was $28,352 and $74,007, 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, 2017 and 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, 2017 and 2016, the allowance was $0 and $3,706, 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.

Note 2—Summary of significant accounting policies (continued)

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 2017 and 2016 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. 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, 2017 and 2016, ARC had total unamortized debt costs of $32,783 and $54,821, respectively.

Advertising Costs - Advertising costs are expensed in the period they are incurred and amounted to $17,198 and $20,620 for the years ended December 31, 2017 and 2016, 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, 2017.

Note 2—Summary of significant accounting policies (continued)

Upcoming Accounting Pronouncements – In August 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements for Not-for-Profit Entities*, which simplifies certain aspects of reporting required by not-for-profit organizations and increases disclosures with a goal to improve the usefulness of not-for-profit financial statements to various stakeholders, including management, directors, lenders, and donors. Key changes include the following:

- Replaces the existing three classes of net assets (unrestricted, temporarily restricted, and permanently restricted) with two new classes of net assets (net assets without donor restrictions and net assets with donor restrictions).
- Changes the net asset classification of the underwater amounts of donor-restricted endowment funds to be shown as a component of net assets with donor restrictions and requires additional disclosures for underwater endowment funds.
- Requires all not-for-profit entities to provide expenses by both nature and function.
- Requires expansive disclosures, both qualitative and quantitative, of information about liquidity and the availability of resources.

The amendments of this ASU are effective for fiscal years beginning after December 15, 2017. The ASU requires the provisions to be applied on a retrospective transaction approach and early adoption is permitted. Management is still evaluating the impact of ASU 2016-14.

In November 2016, FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230) *Restricted Cash*, which requires that a statement of cash flows explain the statement of cash flows change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments of this ASU are effective for fiscal years beginning after December 15, 2017. The ASU requires the provisions to be applied on a retrospective transaction approach and early adoption is permitted. Management is still evaluating of the impact of ASU 2016-18.

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, 2017, ARC had $2,146,984 which exceeded these insured amounts.

During 2017 and 2016, approximately 20% and 24%, respectively, of the fees for services provided were realizable through payments from a governmental insurance program, and approximately 42% and 43%, respectively, of the fees were for the services provided under six governmental contracts secured through the AbilityOne Program. Approximately 11% of the fees for services provided were from Henrico County each year.

Note 4—Investments

ARC's investments as of December 31, 2017 and 2016 are recorded at fair value based upon quoted market prices except for money market funds and certificates of deposit, which are recorded at cost, and consist of the following:

	2017		
	Cost	**Unrealized Appreciation**	**Estimated Fair Value**
Mutual funds	$ 600,712	$ 108,107	$ 708,819
Money market funds	161,658	-	161,658
Common stocks	5,727	-	5,727
Certificates of deposit	375,000	-	375,000
	$ 1,143,097	$ 108,107	$ 1,251,204

	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

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended December 31, 2017 and 2016:

	2017	**2016**
Interest and dividends	$ 16,245	$ 7,846
Other investment income included in program services	175	356
Net unrealized gain	72,489	21,680
Net investment income	$ 88,909	$ 29,882

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, 2017 and 2016 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:

	2017			
	Level 1	Level 2	Level 3	Total
Investments				
Common stocks	$ 5,727	$ -	$ -	$ 5,727
Mutual funds:				
Equity securities	169,909	-	-	169,909
Bond securities	200,080	-	-	200,080
Value and income securities	338,830	-	-	338,830
Total investments at fair value	714,546	-	-	714,546
Money market, carried at cost	-	-	-	161,658
Certificates of deposit, carried at cost	-	-	-	375,000
Interest rate swap liability	-	(116,449)	-	(116,449)
	$ 714,546	$ (116,449)	$ -	$ 1,134,755

	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)
	$ 644,320	$ (184,367)	$ -	$ 590,974

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, 2017 and 2016 are as follows:

	2017	2016
Due within one year	$ 1,407,175	$ 42,320
Due within two to five years	256,000	31,000
Total pledges	1,663,175	73,320
Allowance for doubtful accounts	-	(3,706)
Total pledges, net	$ 1,663,175	$ 69,614

Note 7—Property and equipment

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

	2017	2016
Land	$ 1,983,562	$ 1,983,562
Buildings	10,849,235	10,836,485
Leasehold improvements at Camp Baker	3,323,021	3,315,050
Equipment:		
Computers and related equipment	1,074,758	1,056,289
Office	1,265,981	1,061,777
Vehicles	1,668,750	1,499,747
Playground	1,590,440	1,590,440
Projects in progress	168,971	18,315
	21,924,718	21,361,665
Less accumulated depreciation	8,888,220	8,002,186
Total property and equipment	$ 13,036,498	$ 13,359,479

The leasehold improvements at Camp Baker were made to land leased from Chesterfield County. The lease was renewed in June 2016 for five 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 0.98%. 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 $148,137 and $143,762 were made by ARC during the years ended December 31, 2017 and 2016, 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; however, ARC failed to meet the debt service coverage as of December 31, 2017 due to one transaction referred to in Note 15. The bank has granted ARC a waiver of the covenant violation as of the year ended December 31, 2017. Management believes it will meet this covenant for the year ended December 31, 2018.

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 0.98% 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 0.98% 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 2017 and 2016 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 2017 and 2016, ARC financed several equipment purchases for a total of $611,816. Principal outstanding under the notes bears interest at a fixed rate ranging from 0.00% to 4.01%. Scheduled principal payments commenced in 2016 with final maturity from 2020 through 2022. Principal payments of $99,330 and $6,526 were made by ARC for the years ended December 31, 2017 and 2016, respectively.

Note 8—Debt (continued)

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

Years Ending December 31:	Bonds Payable	Notes Payable
2018	$ 152,611	$ 121,508
2019	155,832	124,936
2020	160,732	125,733
2021	165,786	111,980
2022	170,599	21,803
Thereafter	3,043,686	-
	3,849,246	505,960
Unamortized Loan Costs	(32,783)	-
Total	$ 3,816,463	$ 505,960

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 2017 or 2016.

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 $2,495,433 at the end of 2017 and $569,894 at the end of 2016. See summary as follows:

	2017	2016
Camp Baker Project Fund	$ 179,214	$ 143,053
Camp Baker Capital Fund	1,915,371	100,000
ARCpark Fund	253,768	253,768
AES Operating Fund	-	11,336
Day Support Operating Fund	-	7,361
Grants Fund	147,080	54,376
	$ 2,495,433	$ 569,894

Note 10—Net assets (continued)

Management internally designated unrestricted net assets totaling $457,135 at the end of 2017 and $560,758 at the end of 2016. See summary as follows:

	2017	2016
Ladybug Fund	$ 316,358	$ 392,092
Camp Baker Operating Fund	140,777	168,666
	$ 457,135	$ 560,758

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 retirement benefits expense as $178,267 and $160,980 during 2017 and 2016, 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 for the years ended December 31, 2017 and 2016. 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, 2017 ranged from $4.13 to $4.39 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, 2017 and 2016, 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 $21,012 and $11,177 for the years ended December 31, 2017 and 2016, respectively.

Endowment net assets at December 31, 2017 and 2016 consist of $111,591 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 15—Contingent liability

A portion of program revenues come from Medicaid, where there are stringent documentation requirements for reimbursement. ARC determined that certain documentation requirements were not met for service periods 2014 through 2016 and self-reported the issue to the Department of Medical Assistance Services. Management believes a settlement of $855,259 will be reached on this matter, where $351,095 was paid in 2017 and $504,164 is recorded in accrued expenses.

Note 16—Subsequent events

ARC has evaluated subsequent events for potential recognition and/or disclosure in the December 31, 2017 financial statements through June 11, 2018 which was the date ARC's financial statements were available to be issued. No additional disclosures needed.