

THE ARC OF NORTHERN VIRGINIA, INC.

JUNE 30, 2017

With Summarized Financial Information

For the Year Ended June 30, 2016

**These financial statements
may be reproduced only
in their entirety.**

THE ARC OF NORTHERN VIRGINIA, INC.

JUNE 30, 2017
With Summarized Financial Information
For the Year Ended June 30, 2016

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
The Arc of Northern Virginia, Inc.
Falls Church, Virginia

Scope

We have audited the accompanying financial statements of The Arc of Northern Virginia, Inc. (the Arc) (a not-for-profit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors
The Arc of Northern Virginia, Inc.
Falls Church, Virginia

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Arc as of June 30, 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 the Arc's June 30, 2016, financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 21, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Ross, Langan & McKeandree
L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

February 27, 2018

THE ARC OF NORTHERN VIRGINIA, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017
With Comparative Financial Information as of June 30, 2016

ASSETS

	June 30,	
	2017	2016
ASSETS		
Cash	\$ 12,911	\$ 39,097
Receivable from associated organization, net	-	6,350
Accounts receivable, net	58,940	44,510
Contributions receivable	675,632	357,568
Investments	27,189	25,305
Beneficial interest in trusts	1,989,979	1,903,722
Other assets	<u>56,453</u>	<u>50,007</u>
TOTAL ASSETS	<u><u>\$ 2,821,104</u></u>	<u><u>\$ 2,426,559</u></u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 128,917	\$ 27,350
Accrued salary and benefits	47,439	34,382
Payable to associated organization	7,325	-
Other liabilities	<u>46,085</u>	<u>54,046</u>
TOTAL LIABILITIES <u>229,766</u> <u>115,778</u>
NET ASSETS		
Unrestricted	145,867	16,423
Temporarily restricted	1,467,284	1,354,445
Permanently restricted	<u>978,187</u>	<u>939,913</u>
TOTAL NET ASSETS	<u>2,591,338</u>	<u>2,310,781</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 2,821,104</u></u>	<u><u>\$ 2,426,559</u></u>

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

THE ARC OF NORTHERN VIRGINIA, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017
With Summarized Financial Information For the Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2017	2016
REVENUE AND SUPPORT					
Contributions, grants, and memberships	\$ 199,066	\$ 664,416	\$ -	\$ 863,482	\$ 783,653
Program service fees and other	686,477	-	-	686,477	532,265
Contributions from associated organization	-	29,135	-	29,135	25,400
Special events income, net of direct benefit to donors	119,081	31,500	-	150,581	48,586
Investment income	30	-	3,162	3,192	(3,461)
Income from beneficial interest in trusts	-	102,410	84,724	187,134	33,829
In-kind contributions	121,845	-	-	121,845	177,957
Net assets released from restrictions	<u>764,234</u>	<u>(714,622)</u>	<u>(49,612)</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>1,890,733</u>	<u>112,839</u>	<u>38,274</u>	<u>2,041,846</u>	<u>1,598,229</u>
EXPENSES					
Program services:					
Advocacy and information and referral	501,951	-	-	501,951	443,567
Guardianship and case management	673,241	-	-	673,241	504,735
Personal support trusts	<u>348,364</u>	<u>-</u>	<u>-</u>	<u>348,364</u>	<u>483,126</u>
Total program expenses	<u>1,523,556</u>	<u>-</u>	<u>-</u>	<u>1,523,556</u>	<u>1,431,428</u>
Supporting Services:					
Management and general	97,139	-	-	97,139	91,812
Fundraising	<u>140,594</u>	<u>-</u>	<u>-</u>	<u>140,594</u>	<u>131,610</u>
Total support services	<u>237,733</u>	<u>-</u>	<u>-</u>	<u>237,733</u>	<u>223,422</u>
Total expenses	<u>1,761,289</u>	<u>-</u>	<u>-</u>	<u>1,761,289</u>	<u>1,654,850</u>
CHANGE IN NET ASSETS	129,444	112,839	38,274	280,557	(56,621)
NET ASSETS, BEGINNING OF YEAR	<u>16,423</u>	<u>1,354,445</u>	<u>939,913</u>	<u>2,310,781</u>	<u>2,367,402</u>
NET ASSETS, END OF YEAR	<u>\$ 145,867</u>	<u>\$ 1,467,284</u>	<u>\$ 978,187</u>	<u>\$ 2,591,338</u>	<u>\$ 2,310,781</u>

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

THE ARC OF NORTHERN VIRGINIA, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

With Summarized Financial Information For the Year Ended June 30, 2016

	Program Services				Support Services			Total 2017	Total 2016
	Advocacy and Information and Referral	Guardianship and Case Management	Personal Support Trusts	Total Program Services	Management		Total Support Services		
					General	Fundraising			
Donation to associated organization	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 153,000	
Dues and support to affiliates	5,605	5,605	1,246	12,456	-	-	12,456	11,873	
Expenses under grants	64,734	-	-	64,734	-	-	64,734	33,656	
Expenses under grants in-kind	-	-	-	-	-	-	-	14,904	
Marketing/membership	7,257	11,467	6,373	25,097	511	2,775	28,383	10,314	
Marketing/membership in-kind	545	-	-	545	-	-	545	3,210	
Office expenses	17,748	29,524	14,496	61,768	11,530	6,313	79,611	73,040	
Professional fees	7,769	46,501	3,835	58,105	49,967	401	108,473	105,425	
Professional fees in-kind	32,042	47,093	26,172	105,307	11,397	2,097	118,801	153,838	
Rent, net	23,134	34,000	18,896	76,030	1,514	8,229	85,773	86,013	
Rent, net in-kind	2,500	-	-	2,500	-	-	2,500	-	
Salaries, benefits, and taxes	325,385	478,229	265,775	1,069,389	21,293	115,740	1,206,422	961,960	
Technology	7,641	11,231	6,241	25,113	500	2,718	28,331	24,894	
Travel	7,591	9,591	5,330	22,512	427	2,321	25,260	22,723	
TOTAL	\$ 501,951	\$ 673,241	\$ 348,364	\$ 1,523,556	\$ 97,139	\$ 140,594	\$ 1,761,289	\$ 1,654,850	

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

THE ARC OF NORTHERN VIRGINIA, INC.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017

With Comparative Financial Information For the Year Ended June 30, 2016

	June 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 280,557	\$(56,621)
Adjustments to reconcile change in net assets to net change from operating activities:		
Depreciation and amortization	8,803	6,050
Realized and unrealized (gains)/losses on investments	(2,630)	3,791
Income from beneficial interest in trusts	(187,134)	(33,829)
Trust distributions	100,877	99,998
Changes in assets and liabilities:		
Due to/from associated organization	6,350	27,136
Accounts receivable	(14,430)	(7,918)
Contributions receivable	(318,064)	24,393
Other assets	(2,412)	(14,204)
Accounts payable	101,567	(13,100)
Accrued salary and benefits	13,057	(6,471)
Other liabilities	(7,961)	13,416
	(21,420)	42,641
Net change in cash from operating activities	(21,420)	42,641
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(12,837)	(22,054)
Purchase of investments	(534)	(316)
Proceeds from sales and maturities of investments	1,280	10,675
	(12,091)	(11,695)
Net change in cash from investing activities	(12,091)	(11,695)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds of loan from associated organization	200,000	-
Principal payments on loan from associated organization	(192,675)	-
	7,325	-
Net change in cash from financing activities	7,325	-
NET CHANGE IN CASH	(26,186)	30,946
CASH, BEGINNING OF YEAR	39,097	8,151
CASH, END OF YEAR	\$ 12,911	\$ 39,097

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

THE ARC OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 1 - THE ORGANIZATION

The Arc of Northern Virginia, Inc. (the Arc) is a not-for-profit organization incorporated in Virginia in 1962. The Arc's mission is to promote and protect the human rights of people with intellectual and developmental disabilities and actively support their full inclusion and participation in the community throughout their lifetime. The Arc's primary sources of revenue are government contracts, fees earned in the conduct of programs, contributions from individuals, foundations, and corporations, and investment income. The Arc's program areas are:

Advocacy and Information and Referral - The Arc provides advocacy and information and referral services for individuals with intellectual and developmental disabilities and their families. The Arc educates the community on the state and local levels to ensure quality community-based services, including housing and employment programs, as well as laws and policies that protect civil rights and change attitudes. The Arc also provides information and referral services for families by phone, e-mail, web-site and in person during Lunch Bunch. In addition, the Arc helps youth and families with the transition from school to adult life in the community by offering top-notch professionals at workshops and seminars, including the transition series and life planning tools, along with approximately 70 other half-day workshops, seminars, and webinars on a wide variety of critical topics. The Arc's umbrella program is called Transition POINTS (Providing Opportunities, Information, Networking and Transition Support), a comprehensive program to help families with realistic actionable information with which they can make a wide range of decisions over the life span of their loved one with intellectual and developmental disabilities. Transition POINTS focuses on the following key decision points: receiving a diagnosis and having a child enter an early intervention program, starting school and navigating special education and related services, transitioning out of the school system, finding a place to live outside the caregiver's home, entering the world of work and employment, and aging with a disability.

Case Management and Guardianship - The Arc provides case management and service facilitation services for individuals with developmental disabilities and their families in the Northern Virginia area. The Arc coordinates services in the community through the Virginia Medicaid Developmental Disabilities Waiver program. The Arc also educates families to be successful while navigating complicated systems of care. In addition, the Arc watches over and cares for those who cannot care for themselves through the Virginia Guardianship of Last Resort program through a contract with the Virginia Department of Aging and Rehabilitation Services and has the capacity to serve 30 individuals. The Arc also serves as representative payee for four guardian/conservator clients who require assistance managing their finances and paying their bills.

Personal Support Trusts - The Arc provides financial planning options for individuals and families to ensure the needs of individuals with disabilities are adequately provided for. The Arc helps families plan for a secure financial future with a Special Needs Trust program and provides professional management and support services.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), which is the sole source of authoritative accounting principles generally accepted in the United States of America (GAAP).

THE ARC OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Statement Presentation (continued)

The financial statements of the Arc have been prepared on the accrual basis of accounting. The significant accounting policies are described below. The Arc reports information regarding its activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Accounts Receivable

Government agencies and others contract with the Arc to provide services on their behalf to eligible clients. Generally, the contracts are paid for on a reimbursement basis with amounts earned but not yet collected, recorded as due from contracting agencies. As of June 30, 2017 and 2016, the Arc recorded \$58,940 and \$44,510, respectively, as accounts receivable in the accompanying statement of financial position, which is net of an allowance for doubtful accounts of \$2,851 and \$1,842, respectively. Management has established an allowance in the amount deemed to be appropriate based upon historical collections and current negotiations. The Arc writes off uncollectible receivables when management determines the receivable is unlikely to be collected. Changes to the allowance are recorded as bad debt expense.

Contributions and Contributions Receivable

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

All contributions, including unconditional promises to give, are recorded as made. Conditional promises to give, including revocable estates and trusts, are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in the next year are reported at their net present realizable value. Unconditional promises to give due in subsequent years are reported at their net present realizable value, using risk-free interest rates applicable to the years in which the promises are to be received. The contributions receivable as of June 30, 2017, are all due to be received within one year.

Contributions receivable are charged to bad debt expense as they are deemed uncollectible. Due to the nature of contributions receivable, management has determined that as of June 30, 2017 and 2016, no allowance for uncollectible amounts is necessary.

The Arc receives contributions from its fundraising events that are recorded net of direct benefits to donors. Contributions for future events are recorded as refundable advances until the event occurs since contributions would likely be returned if the event were cancelled.

Statement of Cash Flows

For purposes of the statement of cash flows, the Arc considers cash and money market balances held by the Arc's investment managers to be investments.

THE ARC OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Beneficial Interest in Trusts

The Arc is a beneficiary of two related irrevocable trusts: one where the Arc will receive an annual payout for 25 years and the remainder of the assets on August 1, 2036 (Remainder/Lead Trust), and another that is established to provide income in perpetuity (Perpetual Trust):

Remainder/Lead Trust - The trust was recorded as restricted contributions, grants, and memberships revenue at present value when the Arc was first notified that it was irrevocable. The beneficial interest in trusts is adjusted each year based on the present value of future cash flows, which is the estimated current worth of the future expected cash flows. The estimated present value of the Remainder/Lead Trust recorded as of June 30, 2017 and 2016, was \$1,036,781 and \$986,917, respectively, and is included in temporarily restricted net assets. For the years ended June 30, 2017 and 2016, the Arc recorded a decrease of \$102,410 and \$28,309, respectively, in the value of the Remainder/Lead Trust and also received \$52,545 and \$52,788, respectively in cash payouts that reduced the value of the beneficial interest in trusts. The trust has been valued using a seven percent discount rate and expected rate of return on the assets based on the estimated annual return on the assets.

Perpetual Trust - The trust was recorded as restricted contributions, grants, and memberships revenue when the trust became irrevocable. The beneficial interest in trusts is adjusted each year based on the estimated fair market value of the assets based on quoted third-party values. The estimated fair market value of the Perpetual Trust recorded as of June 30, 2017 and 2016, was \$953,198 and \$916,805, respectively, and is included in permanently restricted net assets. For the years ended June 30, 2017 and 2016, the Arc recorded a net gain of \$36,392 and \$14,928, respectively, and received \$48,332 and \$47,210, respectively, in cash payouts from the Perpetual Trust that are included in income from beneficial interest in trusts in the accompanying statement of activities.

Investments

Investments in debt and equity securities are reported at their estimated fair market values based on quoted market prices. Investment gains and losses are recognized as of the trade date and are included with investment income in the accompanying statement of activities as increases or decreases in unrestricted net assets unless restricted by donor or by law.

Functional Allocation of Expenses

The costs of providing the program and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Marketing/Membership Expenses

Marketing/membership expenses are expensed as incurred.

Summarized Financial Statements

The financial statements include certain prior year summarized comparative information in total but not by separate 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 the Arc's financial statements for the year ended June 30, 2016, from which the summarized information, was derived.

THE ARC OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

The Arc received a determination letter from the Internal Revenue Service (IRS) that it has been granted an exemption from federal income taxes and that it qualifies as a publicly supported organization under Section 501(c)(3) and 170(b)(1)(A)(vi) of the Internal Revenue Code (IRC). The Arc has also been classified as an entity that is not a private foundation within the meaning of Section 509(a)(2) of the IRC. The Arc believes that its operations are consistent with the nature of their exemption granted by the IRS. There is no current liability for income taxes and no temporary differences resulting in deferred taxes as of June 30, 2017 and 2016.

The Arc is required to measure, recognize, present, and disclose in its financial statements uncertain income tax positions the Arc has taken in the tax years that remain subject to examination or expects to take on an income tax return. The Arc recognizes the tax benefits from uncertain income tax positions only if it is more likely than not the tax position will be sustained on examination by tax authorities. The Arc recorded no liability for uncertain income tax positions for any open tax years.

Subsequent Events

The Arc has evaluated subsequent events through February 27, 2018, which is the date the financial statements were available to be issued.

NOTE 3 - SPECIAL EVENTS

The special events net income for the year ended June 30, 2017, consisted of:

	Corporate Team Challenge	Gala	Other events	Total
Gross revenue	\$ 60,414	\$ 155,992	\$ 3,397	\$ 219,803
Direct benefit to donors	(13,855)	(54,419)	(948)	(69,222)
Total	<u>\$ 46,559</u>	<u>\$ 101,573</u>	<u>\$ 2,449</u>	<u>\$ 150,581</u>

The special events net income for the year ended June 30, 2016, consisted of:

	Corporate Team Challenge	Arctoberfest	Other events	Total
Gross revenue	\$ 53,807	\$ 16,398	\$ 2,674	\$ 72,879
Direct benefit to donors	(14,204)	(7,554)	(2,535)	(24,293)
Total	<u>\$ 39,603</u>	<u>\$ 8,844</u>	<u>\$ 139</u>	<u>\$ 48,586</u>

THE ARC OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 4 - RELATED PARTY TRANSACTIONS

The Arc is affiliated with the Foundation of the Arc of Northern Virginia (the Foundation), a 501(c)(3) organization that was created to promote lifelong opportunities for all individuals with developmental disabilities and to support the Arc. The Arc and the Foundation share common management and officers. The Arc has an economic interest in the Foundation, but does not control its operations. Therefore, the Arc does not consolidate the activities of the Foundation into its financial statements.

Income recorded by the Arc from the Foundation for the years ended June 30 was:

	<u>2017</u>	<u>2016</u>
Program service fees -		
Trust management fees	\$ 332,771	\$ 287,543
Foundation management fee	6,000	6,000
Contributions	29,135	25,400
Special events income	<u>6,500</u>	<u>-</u>
Total income from the Foundation	<u>\$ 374,406</u>	<u>\$ 318,943</u>

As of June 30, 2017, the Arc owed the Foundation \$7,325 for amounts loaned. As of June 30, 2016, the Foundation owed the Arc a pledge of \$6,350. The following other activity occurred between the Arc and the Foundation during the years ended June 30:

	<u>2017</u>	<u>2016</u>
Income, net of fees, collected by the Arc on behalf of the Foundation	\$ 15,090	\$ 7,679
Donation from the Arc to the Foundation	\$ -	\$ 153,000
Expenses paid by the Arc on behalf of the Foundation	\$ 1,069	\$ 937
Receipt of 2016 Gala refundable advance from the Foundation	\$ -	\$ 6,500
Loans made from the Foundation to the Arc	\$ 200,000	\$ -
Loan repayments from the Arc to the Foundation	\$ 192,675	\$ -

NOTE 5 - COMMITMENTS

During the year ended June 30, 2013, the Arc entered into an agreement for office space effective September 1, 2013. The lease expires August 31, 2023, and includes annual rent escalations, abatement of the first months rent, and a deposit of \$7,005. Future minimum rentals under this lease are as follows for the years ended June 30:

2018	\$ 94,146
2019	96,971
2020	99,881
2021	102,877
2022	105,964
Thereafter	<u>127,422</u>
Total	<u>\$ 627,261</u>

THE ARC OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 5 - COMMITMENTS (continued)

The Arc subleased a portion of its office space to unrelated organizations under month-to-month leases. The following schedule shows the composition of total rent expense for the years ended June 30:

	<u>2017</u>	<u>2016</u>
Minimum rentals	\$ 91,404	\$ 88,742
Deferred rent change	4,256	6,919
Donated facilities	2,500	-
Less: sublease income	<u>(9,887)</u>	<u>(9,648)</u>
Total	<u>\$ 88,273</u>	<u>\$ 86,013</u>

The Arc has a line of credit agreement for up to \$50,000 that expired October 1, 2017, with an interest rate of the prime rate minus 0.25 percent per annum. On February 17, 2017, the agreement was extended to February 17, 2018. The terms of the agreement were changed to increase the principal amount of the line of credit to \$100,000 and to extend the maturity date to September 28, 2018.

NOTE 6 - NET ASSETS

As of June 30, temporarily restricted net assets were available for the following purposes:

	<u>2017</u>	<u>2016</u>
Purpose restricted -		
Travel training project	\$ 38,507	\$ -
Spotlight movie ad campaign	13,750	-
Other advocacy and information and referral	2,615	1,511
Personal support trusts	<u>-</u>	<u>8,450</u>
Total purpose restricted <u>54,872</u> <u>9,961</u>
Time and purpose restricted -		
Transition points project	130,114	15,000
Travel training project	229,278	-
Capacity building	<u>-</u>	<u>30,000</u>
Total time and purpose restricted	359,392	45,000
Time restricted	<u>1,053,020</u>	<u>1,299,484</u>
Total temporarily restricted net assets	<u>\$ 1,467,284</u>	<u>\$ 1,354,445</u>

THE ARC OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 6 - NET ASSETS (continued)

The Arc received an endowment from Randall R. Burmester that is classified as permanently restricted net assets. These funds are maintained in a separate investment account. The grantor has restricted the use of the endowment subject to the following terms:

- Five percent of the fair market value on February 25 of each year may be withdrawn on that date.
- Any withdrawals from the endowment must be used in a manner that causes, rewards or encourages the professional development of the staff.
- The Executive Director of the Arc has full discretion in applying the distribution amounts within the terms of the endowment.

As previously described, the Arc is the beneficiary of the Perpetual Trust, the income from which can be used for operating of the Arc. The Arc does not have discretion for the amount distributed each year. A summary of the activity in the Arc's endowment for the years ended June 30, is as follows:

	<u>Randall R. Burmester</u>	<u>Perpetual Trust</u>	<u>Total</u>
Balance, as of June 30, 2015	\$ 27,590	\$ 901,877	\$ 929,467
Income/(loss) on investments and trusts	(3,307)	62,138	58,831
Amount appropriated for operations	<u>(1,175)</u>	<u>(47,210)</u>	<u>(48,385)</u>
Balance, as of June 30, 2016	23,108	916,805	939,913
Income on investments and trusts	3,162	84,724	87,886
Amount appropriated for operations	<u>(1,280)</u>	<u>(48,332)</u>	<u>(49,612)</u>
Balance, as of June 30, 2017	<u>\$ 24,990</u>	<u>\$ 953,197</u>	<u>\$ 978,187</u>

NOTE 7 - INVESTMENTS, TRUSTS, AND FAIR VALUE MEASUREMENT

The Arc measures and reports financial assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair market value can fluctuate in times of market turmoil. GAAP establishes a three-level disclosure hierarchy to indicate the level of judgment used to estimate fair value measurements:

- Level 1 - quoted prices in active market for identical assets or liabilities as of the reporting date;
- Level 2 - quoted prices for similar assets or liabilities in active markets or for identical or similar assets in markets that are not active and inputs other than quoted prices (such as interest rate and yield curves); and
- Level 3 - uses inputs that are unobservable, supported by little or no market activity, and reflect significant management judgment.

THE ARC OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 7 - INVESTMENTS, TRUSTS, AND FAIR VALUE MEASUREMENT (continued)

Investments

All of the Arc's investments were considered Level 1 as of June 30, 2017 and 2016. The tables below summarize investments for items measured at fair value on a recurring basis as of June 30:

	<u>2017</u>	<u>2016</u>
Cash	\$ 2,199	\$ 2,197
Equity mutual fund	<u>24,990</u>	<u>23,108</u>
Total investments	<u>\$ 27,189</u>	<u>\$ 25,305</u>

Net investment income consists of the following for the years ended June 30:

	<u>2017</u>	<u>2016</u>
Net realized and unrealized gains/(losses) in fair value	\$ 2,630	\$(3,791)
Dividends and interest	<u>562</u>	<u>330</u>
Total	<u>\$ 3,192</u>	<u>\$(3,461)</u>

The Arc's overall investment objective is to manage its assets in such a way as to ensure long-term appreciation. While growth in the value of endowment assets is the primary investment objective, the Arc is also concerned with the conservation of its capital.

Beneficial Interest in Trusts

The following table summarizes the recorded value of the underlying assets by level as of June 30, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and money funds	\$ 73,015	\$ -	\$ -	\$ 73,015
Equities	1,153,156	-	-	1,153,156
Public, non-listed real estate investment trust - Cole Credit Property Trust IV	<u>-</u>	<u>-</u>	<u>763,808</u>	<u>763,808</u>
Total	<u>\$ 1,226,171</u>	<u>\$ -</u>	<u>\$ 763,808</u>	<u>\$ 1,989,979</u>

THE ARC OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 7 - INVESTMENTS, TRUSTS, AND FAIR VALUE MEASUREMENT (continued)

Beneficial Interest in Trusts (continued)

The following table summarizes the present value of the underlying assets by level as of June 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and money funds	\$ 26,283	\$ -	\$ -	\$ 26,283
Equity mutual fund	42,912	-	-	42,912
Balanced mutual funds	856,685	-	-	856,685
Public, non-listed real estate investment trust - Cole Credit Property Trust IV	<u>-</u>	<u>-</u>	<u>977,842</u>	<u>977,842</u>
Total	<u>\$ 925,880</u>	<u>\$ -</u>	<u>\$ 977,842</u>	<u>\$ 1,903,722</u>

Because the valuation inputs are unobservable for the Level 3 assets, the estimated present value as of June 30, 2017 and 2016, is calculated using the revaluation of the value per share provided by the trustee. A summary of income from the Arc's Level 3 assets for the years ended June 30, is as follows:

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 977,842	\$ 953,535
Realized/unrealized change in fair value	20,986	16,091
Transfers to Level 1 assets	(243,574)	-
Dividends	<u>8,554</u>	<u>8,216</u>
Balance, end of year	<u>\$ 763,808</u>	<u>\$ 977,842</u>

NOTE 8 - IN-KIND CONTRIBUTIONS

The Arc recognizes contribution revenue for certain services, facilities, supplies, and equipment received at their fair value. The amounts recorded in the accompanying statement of activities as of June 30, include the following:

	<u>2017</u>	<u>2016</u>
Software	\$ -	\$ 14,904
Special events expenses	-	6,005
Guardianship and case management legal fees	-	3,838
Marketing strategy consulting	-	150,000
Technology consulting	118,800	-
Facilities	2,500	-
Marketing/membership expenses	<u>545</u>	<u>3,210</u>
Total in-kind contributions revenue	<u>\$ 121,845</u>	<u>\$ 177,957</u>

THE ARC OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 8 - IN-KIND CONTRIBUTIONS (continued)

The Arc receives a significant amount of donated services from unpaid volunteers that do not meet the criteria for recognition in accordance with GAAP and is therefore not recorded in the accompanying statement of activities. The Arc benefited from approximately 2,445 and 2,324 volunteer hours contributed during the years ended June 30, 2017 and 2016, respectively.

NOTE 9 - CONCENTRATION RISK

In the year ended June 30, 2017, approximately 55 percent of total revenue was from four sources.