COMBINED FINANCIAL STATEMENTS

THE ARC OF THE UNITED STATES

THE FOUNDATION OF THE ARC OF THE UNITED STATES

FOR THE YEAR ENDED DECEMBER 31, 2016
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2015

THE ARC OF THE UNITED STATES
THE FOUNDATION OF THE ARC OF THE UNITED STATES

CONTENTS

GELMAN, ROSENBERG
& FREEDMAN
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Arc of the United States
The Foundation of The Arc of the United States
Washington, D.C.

Report on the Financial Statements

We have audited the accompanying combined financial statements of The Arc of the United States (The Arc) and The Foundation of The Arc of the United States (the Foundation), collectively the Organizations, which comprise the combined statement of financial position as of December 31, 2016, and the related combined statements of activities and change in net assets, functional expenses and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Organizations as of December 31, 2016, and the combined change in their net assets and their combined cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Report on Summarized Comparative Information

We have previously audited the Organizations' 2015 combined financial statements, and we expressed an unmodified audit opinion on those audited combined financial statements in our report dated April 10, 2016. 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 combined financial statements from which it has been derived.

Gelman Rozenberg & Freedman

April 10, 2017

THE ARC OF THE UNITED STATES
THE FOUNDATION OF THE ARC OF THE UNITED STATES

COMBINED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2016
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2015

ASSETS

	2016	2015
CURRENT ASSETS		
Cash and cash equivalents	$ 1,124,356	$ 1,479,811
Investments	11,709,874	11,565,473
Accounts receivable and advances, net of allowance for doubtful accounts of $85,000 and $85,606, for 2016 and 2015, respectively	415,619	310,201
Grants receivable	661,149	589,881
Prepaid expenses	75,929	49,268
Total current assets	13,986,927	13,994,634
FIXED ASSETS		
Land	238,755	657,600
Furniture and equipment	2,304,396	1,976,833
	2,543,151	2,634,433
Less: Accumulated depreciation and amortization	(1,262,040)	(1,023,674)
Net fixed assets	1,281,111	1,610,759
OTHER ASSETS		
Other assets	8,120	9,758
Investments held for beneficial interest in perpetual trust	1,143,446	1,125,664
Deferred compensation investments	91,508	67,924
Total other assets	1,243,074	1,203,346
TOTAL ASSETS	**$ 16,511,112**	**$ 16,808,739**

LIABILITIES AND NET ASSETS

	2016	2015
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 501,746	$ 629,308
Deferred revenue	10,695	5,000
Deferred rent, current	46,434	18,986
Due to related parties	20,958	57,257
Total current liabilities	579,833	710,551
LONG-TERM LIABILITIES		
Deferred rent, net of current portion	924,797	1,022,466
Deferred compensation	91,508	67,924
Total long-term liabilities	1,016,305	1,090,390
Total liabilities	1,596,138	1,800,941
NET ASSETS		
Unrestricted:		
Undesignated	1,859,631	1,704,454
Board-designated	609,682	609,682
Total unrestricted net assets	2,469,313	2,314,136
Temporarily restricted	10,310,119	10,575,902
Permanently restricted	2,135,542	2,117,760
Total net assets	14,914,974	15,007,798
TOTAL LIABILITIES AND NET ASSETS	**$ 16,511,112**	**$ 16,808,739**

See accompanying notes to combined financial statements.

THE ARC OF THE UNITED STATES
THE FOUNDATION OF THE ARC OF THE UNITED STATES

COMBINED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2016
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2015

	2016				2015
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
REVENUE					
Contributions	$ 1,136,072	$ 1,815,122	$ -	$ 2,951,194	$ 1,921,836
Grants	1,398,154	-	-	1,398,154	1,988,255
Investment income (loss)	514,869	295,409	-	810,278	(356,029)
Bequest income	19,911	-	-	19,911	1,083,365
Contributed services	1,352,789	-	-	1,352,789	1,554,061
Affiliation and chapter fees	2,574,771	-	-	2,574,771	2,541,056
Royalty income	66,977	-	-	66,977	88,652
Registration fees	830,094	-	-	830,094	663,492
Program service fees	232,071	-	-	232,071	216,506
Other (loss) income	(11,899)	6,425	-	(5,474)	9,766
Net gain (loss) in perpetual trust	-	-	17,782	17,782	(72,436)
Net assets released from donor restrictions	2,382,739	(2,382,739)	-	-	-
Total revenue	10,496,548	(265,783)	17,782	10,248,547	9,638,524
EXPENSES					
Program Services:					
Chapter Leadership and Development	1,320,076	-	-	1,320,076	1,461,057
Public Education	1,671,326	-	-	1,671,326	2,022,316
Public Policy	1,138,048	-	-	1,138,048	1,308,895
Program Innovation	4,221,059	-	-	4,221,059	3,605,062
Total program services	8,350,509	-	-	8,350,509	8,397,330
Supporting Services:					
Management and General	1,323,316	-	-	1,323,316	811,179
Fundraising	667,546	-	-	667,546	563,069
Total supporting services	1,990,862	-	-	1,990,862	1,374,248
Total expenses	10,341,371	-	-	10,341,371	9,771,578
Change in net assets	155,177	(265,783)	17,782	(92,824)	(133,054)
Net assets at beginning of year	2,314,136	10,575,902	2,117,760	15,007,798	15,140,852
NET ASSETS AT END OF YEAR	**$ 2,469,313**	**$ 10,310,119**	**$ 2,135,542**	**$ 14,914,974**	**$ 15,007,798**

See accompanying notes to combined financial statements.

THE ARC OF THE UNITED STATES
THE FOUNDATION OF THE ARC OF THE UNITED STATES

COMBINED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2015

	2016				
	Program Services				
	Chapter Leadership and Development	Public Education	Public Policy	Program Innovation	Total Program Services
Salaries	$ 483,914	$ 165,542	$ 519,114	$ 1,984,555	$ 3,153,125
Employee benefits	83,078	28,502	88,658	340,591	540,829
Payroll taxes	33,549	11,638	36,067	137,434	218,688
Professional fees	17,627	50,015	15,043	673,589	756,274
In-kind professional fees	-	1,101,129	111,850	-	1,212,979
Supplies	5,670	1,108	1,953	13,629	22,360
Telephone and internet	5,855	1,258	4,068	17,341	28,522
Postage and shipping	12,023	142,640	1,467	17,230	173,360
Insurance	4,698	1,156	3,452	8,330	17,636
Occupancy	92,981	23,409	48,624	317,611	482,625
Outside printing and design	36,650	51,676	14,566	18,342	121,234
Advertising expenses	13	2,007	10	123	2,153
Conferences, meetings and travel	397,596	14,515	154,704	98,716	665,531
Subscriptions and dues	13,567	17,907	78,882	27,710	138,066
Grants and sub-grants	42,438	34,350	-	396,400	473,188
Equipment/infrastructure repairs and maintenance	28,553	12,007	10,880	82,413	133,853
Depreciation and amortization	44,920	11,055	33,001	79,647	168,623
Bad debt	-	-	-	-	-
Miscellaneous	16,944	1,412	15,709	7,398	41,463
TOTAL	**$ 1,320,076**	**$ 1,671,326**	**$ 1,138,048**	**$ 4,221,059**	**$ 8,350,509**

See accompanying notes to combined financial statements.

Supporting Services				2015
Management and General	**Fundraising**	**Total Supporting Services**	**Total Expenses**	**Total Expenses**
$ 656,306	$ 336,364	$ 992,670	$ 4,145,795	$ 3,844,222
112,089	57,574	169,663	710,492	628,988
45,599	23,355	68,954	287,642	266,176
117,939	39,598	157,537	913,811	966,133
139,810	-	139,810	1,352,789	1,554,061
2,565	10,655	13,220	35,580	38,000
3,685	2,460	6,145	34,667	32,932
1,761	23,716	25,477	198,837	144,849
4,866	2,429	7,295	24,931	21,389
68,546	45,713	114,259	596,884	569,207
427	39,295	39,722	160,956	252,120
13	2,132	2,145	4,298	16,384
75,471	20,920	96,391	761,922	693,068
5,600	4,976	10,576	148,642	160,732
-	-	-	473,188	155,985
10,974	25,366	36,340	170,193	127,017
46,522	23,220	69,742	238,365	205,535
27,554	-	27,554	27,554	33,741
3,589	9,773	13,362	54,825	61,039
$ 1,323,316	**$ 667,546**	**$ 1,990,862**	**$ 10,341,371**	**$ 9,771,578**

See accompanying notes to combined financial statements.

THE ARC OF THE UNITED STATES
THE FOUNDATION OF THE ARC OF THE UNITED STATES

COMBINED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (92,824)	$ (133,054)
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation and amortization	238,366	205,535
Unrealized (gain) loss on investments	(553,493)	860,177
Realized gain on sale of investments	(23,795)	(176,243)
Loss on sale of land	3,155	-
Net (income) loss in perpetual trust	(17,782)	72,436
Change in allowance for doubtful accounts	606	(31,187)
Donated land	-	(657,600)
(Increase) decrease in:		
Accounts receivable and advances	(106,024)	(133,135)
Grants receivable	(71,268)	(189,166)
Due from related party	-	59,248
Prepaid expenses	(26,661)	(30,371)
Other assets	1,638	1,228
Increase (decrease) in:		
Accounts payable and accrued liabilities	(127,562)	171,366
Deferred revenue	5,695	(660)
Deferred rent	(70,221)	(29,337)
Due to related parties	(36,299)	57,257
Grants payable	-	(456)
Net cash (used) provided by operating activities	(876,469)	46,038
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furniture and equipment	(327,563)	(295,587)
Proceeds from sale of land	415,690	-
Purchase of investments	(117,113)	(607,673)
Proceeds from sale of investments	550,000	843,740
Net cash provided (used) by investing activities	521,014	(59,520)
Net decrease in cash and cash equivalents	(355,455)	(13,482)
Cash and cash equivalents at beginning of year	1,479,811	1,493,293
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 1,124,356	$ 1,479,811

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

The Arc of the United States (The Arc) is the national headquarters of the largest community-based organization of and for people with intellectual and developmental disabilities. The Arc promotes and protects the human rights of people with intellectual and developmental disabilities and actively supports their full inclusion and participation in the community throughout their lifetime.

The Arc provides an array of services and support for families and individuals and includes over 140,000 members affiliated through about 650 state and local chapters across the nation, including training and education assistance with employment and independent living. The Arc is devoted to promoting and improving supports and services for all people with intellectual and developmental disabilities. The Arc is primarily supported by affiliation fees, program revenue and support from the general public.

The Foundation of The Arc of the United States (the Foundation) was established to promote, support and further the interests and purposes of The Arc. The Foundation is primarily supported by contributions from the general public.

The Arc of the United States and The Foundation of The Arc of the United States will collectively be referred to as "the Organizations".

Basis of presentation -

The accompanying combined financial statements reflect the activity of The Arc and the Foundation and are presented on the accrual basis of accounting, and in accordance with FASB ASC 958-810, *Not-for-Profit Entities*, *Consolidation*, due to the common control of the two entities. All inter-company transactions have been eliminated.

The combined 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 the Organizations' combined financial statements for the year ended December 31, 2015, from which the summarized information was derived.

Cash and cash equivalents -

The Organizations consider all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

Bank deposit accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of $250,000. At times during the year, The Arc maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

Investments -

Investments are recorded at their readily determinable fair value. Realized and unrealized gains and losses are included in investment income in the Combined Statement of Activities and Change in Net Assets.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Accounts receivable, grants receivable and advances -

Accounts receivable and advances are stated at their fair value. The allowance for doubtful accounts is determined as a percentage of the total accounts receivables at year-end, including the age of the balance and the historical experience with the donor.

Grants receivable that are expected to be collected in future years are recorded at present value of their future cash flows, using an appropriate discount rate, which approximates fair value. All grants receivable are considered by management to be fully collectable within the next year.

Fixed assets -

Fixed assets are stated at cost. Land is recorded at the fair value at the date of the donation. Fixed assets are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three to five years. Equipment costing greater than $1,500 is capitalized. Computers costing greater than $2,000 are capitalized. The cost of maintenance and repairs is recorded as expenses are incurred.

Income taxes -

The Organizations are exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying combined financial statements. The Organizations are not private foundations.

Uncertain tax positions -

For the year ended December 31, 2016, the Organizations have documented their consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and have determined that no material uncertain tax positions qualify for either recognition or disclosure in the combined financial statements.

Net asset classification -

The net assets are reported in three self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of the Organizations and include both internally designated and undesignated resources.

- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of the Organizations and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Combined Statement of Activities and Change in Net Assets as net assets released from restrictions.

- **Permanently restricted net assets** represent funds restricted by the donor to be maintained in-perpetuity by the Organizations.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Contributions and grants -

Unrestricted and temporarily restricted contributions and grants are recorded as revenue in the year notification is received from the donor. Temporarily restricted contributions and grants are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Such funds in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying combined financial statements.

The Organizations receive funding under grants and contracts from the U.S. Government, and other grantors for direct and indirect program costs. This funding is subject to contractual restrictions, which must be met through incurring qualifying expenses for particular programs. Accordingly, such grants are considered exchange transactions and are recorded as unrestricted income to the extent that related expenses are incurred in compliance with the criteria stipulated in the grant agreements.

Affiliation and chapter fees, registration and program services fees -

Chapter fees, registrations and program services fees are recognized as revenue in the period that they are earned.

Use of estimates -

The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the combined financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Combined Statement of Activities and Change in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Risks and uncertainties -

The Organizations invest in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the combined financial statements.

Fair value measurement -

The Organizations adopted the provisions of FASB ASC 820, *Fair Value Measurement*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurement.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Fair value measurement (continued) -

The Organizations account for a significant portion of their financial instruments at fair value or considers fair value in their measurement.

New accounting pronouncements -

In 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-07, *Fair Value Measurement* (Topic 820). The ASU removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The ASU becomes effective for years beginning after December 31, 2016. Early adoption is permitted. The ASU should be applied on a retrospective basis in the year the ASU is first applied. While the ASU will remove those assets from the fair value hierarchy, it is not expected to alter the Organizations' reported investments within the Combined Statement of Financial Position.

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic) 958), intended to improve financial reporting for not-for-profit entity. The ASU will reduce the current three classes of net assets into two: with and without donor restrictions. The change in each of the classes of net assets must be reported on the Statement of Activities and Change in Net Assets. The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, functional classification of expenses, investment expenses, donor restrictions, and underwater endowments. The ASU is effective for years beginning after December 15, 2017. Early adoption is permitted. The ASU should be applied on a retrospective basis in the year that the ASU is first applied. While the ASU will change the presentation of the Organizations' combined financial statements, it is not expected to alter the Organizations' reported financial position activities.

Reclassification -

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. These reclassifications had no effect on the previously reported changes in net assets.

2. INVESTMENTS

Investments consisted of the following at December 31, 2016:

	Fair Value
Mutual Funds	$ 8,113,726
Stocks	1,339,896
Alternatives (Hedge Funds)	2,256,252
TOTAL INVESTMENTS	**$ 11,709,874**

2. INVESTMENTS (Continued)

Alternative investments are comprised of the following at December 31, 2016:

Investment Type	Amount	Liquidity
Hedge Funds and Funds of Hedge Funds	$ 913,457	No lock up, quarterly liquidity
Hedge Funds and Funds of Hedge Funds	446,476	No lock up, daily liquidity
Hedge Funds and Funds of Hedge Funds	896,319	No lock up but 2% termination fee if owned < 1 year, quarterly liquidity
ALTERNATIVE INVESTMENTS	**$ 2,256,252**	

Included in investment income are the following at December 31, 2016:

Interest and dividends, net of investment fees of $66,778	$ 186,858
Unrealized gain	553,493
Realized gain	23,795
Distributions from the beneficial interest in perpetual trusts	46,132
TOTAL INVESTMENT GAIN	**$ 810,278**

3. BENEFICIAL INTEREST IN PERPETUAL TRUST

The Arc is the beneficiary of certain perpetual trusts held and administered by a third party. The present value of the estimated future cash flows (as measured by the fair value of the underlying investments) is recognized as assets and contribution revenues at the dates the trusts are established. Distributions from the trust are recorded as unrestricted investment income.

The increase or decrease in the asset measured by the fair value of the asset contributed to the trust is recorded as a permanently restricted gain (loss) in perpetual trust in the Combined Statement of Activities and Change in Net Assets.

For the year ended December 31, 2016, The Arc recorded a net gain in perpetual trust of $17,782, due to the increase in fair value.

The Arc also received distributions from the beneficial interest in perpetual trusts in the amount of $46,132, which is included in unrestricted investment income in the Combined Statement of Activities and Change in Net Assets.

The value of The Arc's interest in the perpetual trusts at December 31, 2016 was $1,143,446.

4. BOARD-DESIGNATED

The Board of Directors has set aside certain unrestricted net assets for special purposes. Such funds are used to offset any operational loss incurred by The Arc or to fund any other special project of The Arc. As of December 31, 2016, Board-designated assets totaled $609,682.

5. TEMPORARILY RESTRICTED NET ASSETS

As of December 31, 2016, temporarily restricted net assets consisted of the following:

Donor-Imposed Restrictions:	
Chapter Financial Assistance and Support	$ 5,362,596
Down Syndrome New Mexico Fund	3,947,712
Tech Programs	410,948
Public Supported Research	131,496
Down Syndrome Research Fund	130,222
Individual and Family Support Programs	103,388
Prevention Fund	76,422
Special Education Advocacy Programs	45,120
Criminal Justice and Disability Programs	39,347
Disability Employment Programs	24,460
Paul Marchand Fellowship Fund for Public Policy	12,689
Health and Wellness Programs	8,868
Disaster Relief Fund	6,293
Accumulated investment earnings from Endowments	4,869
Give a Parent a Break	3,787
Mary Lou Meccariello Legacy Fund	1,877
Give a Kid a Job	25
TOTAL TEMPORARILY RESTRICTED NET ASSETS	**$ 10,310,119**

The following is a summary of net assets released from restrictions by satisfying program restrictions imposed by donors:

Donor-Imposed Restrictions:	
Tech Programs	$ 737,616
Individual and Family Support Programs	493,613
Down Syndrome New Mexico Fund	231,060
Disability Employment Programs	220,537
Chapter Financial Assistance and Support Programs	189,103
Special Education Advocacy Programs	129,326
Wings for Autism Program	108,928
Health and Wellness Programs	82,820
Accumulated investment earnings from Endowments	49,501
Autism Employment Programs	35,000
Health and Technology Programs	34,777
Public Supported Research	30,752
Criminal Justice and Disability Programs	13,116
Other programs - Foundation	11,666
Paul Marchand Fellowship Fund for Public Policy	8,919
Disaster Relief Fund	3,430
Public Policy Advocacy Fund	2,575
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS	**$ 2,382,739**

6. RELATED PARTY TRANSACTIONS

The Arc and the Foundation have separate governing Boards of Directors, but share five voting directors which control the Foundation's Board. At December 31, 2016, The Arc has a receivable from the Foundation amounting to $81,421, for expenses paid by The Arc on behalf of the Foundation. Inter-company transactions are eliminated in the combined report presented.

At December 31, 2016, The Arc had a net balance of $33,284 due to the National Conference of Executives of the Arc (NCE). The Arc and NCE have separate governing Boards of Directors and there is no economic control. Included in that balance is cash in the amount of $33,284 held on behalf of NCE.

7. MANAGEMENT SERVICES CONTRACT

The Arc entered into a management service agreement with The Arc of the District of Columbia, Inc. (The Arc of DC). The Arc of DC is a non-profit organization and is affiliated as a state chapter of The Arc. Both organizations do not share voting directors, and therefore, The Arc does not have an economic control over The Arc of DC and their financial activity is not combined. The Arc charged The Arc of DC $107,900 for the management fees.

8. COMMITMENTS - OPERATING LEASES

During fiscal year 2011, The Arc signed a 140-month lease, commencing on October 1, 2011 and terminating on May 31, 2023, with annual lease escalations of 2.5%. As part of the lease agreement, The Arc received three free months of rent at the commencement of the contract. Additionally, The Arc was only required to pay 50% of the rental installments for the 12 months following and received free rent for the month and a half after the year period.

Accounting principles generally accepted in the United States of America require that the total rent commitment should be recognized on a straight-line basis over the term of the lease. Consequently, the difference between the actual monthly payments and the rent expense being recognized for financial statement purposes will be recorded as a deferred rent liability.

Rent, which is included in occupancy, was $596,884 for the year ended December 31, 2016. Additionally, the deferred rent and lease incentive liability at year-end was $971,231.

In December 2013, The Arc amended the lease to include an additional 1,644 square feet of office space. The lease for the additional space commenced on May 15, 2014 and will maintain a termination date of May 31, 2023.

At December 31, 2016, minimum annual rental commitment under the lease is as follows:

Year Ending December 31,	
2017	$ 583,771
2018	599,836
2019	616,294
2020	633,178
2021	650,552
Thereafter	952,430
	$ 4,036,061

9. RETIREMENT PLAN

The Arc has a non-contributory pension plan (the Plan), covering substantially all of its regular employees. Total pension expense was $339,805 for the year ended December 31, 2016. The Plan, which provides for deferred annuity contracts, is a money-purchase defined contribution plan. The Arc's cost is limited to the contributions fixed under the Plan.

The Arc also has a 457(b) deferred compensation plan, effective August 9, 2009, limited to the top hat group of employees. Elective deferrals may be made to the Plan up to the maximum allowed by law. As of December 31, 2016, $91,508 was deferred under the Plan.

10. CONTRIBUTED SERVICES

During the year ended December 31, 2016, The Arc was the beneficiary of donated services in the amount of $1,352,789. The value of these services was estimated at fair market value, and has been included as revenue and expenses in the accompanying combined financial statements for the year ended December 31, 2016, as follows:

Donated Legal Services	$ 251,660
Donated Advertising	1,101,129
TOTAL CONTRIBUTED SERVICES	**$ 1,352,789**

11. CONTINGENCY

Beginning for fiscal year ended December 31, 2015, such grants are subject to audit under the provisions of *Title 2 U.S. Code of Federal Regulations (CFR) Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. The ultimate determination of amounts received under the United States Government grants is based upon the allowance of costs reported to and accepted by the United States Government as a result of the audits. Audits in accordance with the applicable provisions have been completed for all required fiscal years through 2016. Until such audits have been accepted by the United States Government, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

12. FAIR VALUE MEASUREMENT

In accordance with FASB ASC 820, *Fair Value Measurement*, the Organizations have categorized their financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

12. FAIR VALUE MEASUREMENT (Continued)

Investments recorded in the Combined Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market the Organizations have the ability to access.

Level 2. These are investments where values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full-term of the investments.

Level 3. These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used at December 31, 2016:

- *Mutual funds* - The fair value is equal to the reported net asset value of the fund, which is the price at which additional shares can be obtained.

- *Common stocks* - Valued at the closing price reported on the active market in which the individual securities are traded.

- *Interests in hedge funds, limited partnerships, private equity funds* - These instruments do not have a readily determinable fair value. The fair values used are generally determined by the general partner or management of the entity and are based on appraisals or other estimates that require varying degrees of judgment. Inputs used in determining fair value may include the cost and recent activity concerning the underlying investments in the funds or partnerships.

The table below summarizes, by level within the fair value hierarchy, the Organizations' investments as of December 31, 2016:

	Level 1	Level 2	Level 3	Total
Asset Class:				
Mutual Funds	$ 8,113,726	$ -	$ -	$ 8,113,726
Stocks	1,339,896	-	-	1,339,896
Alternatives (Hedge Funds)	-	-	2,256,252	2,256,252
TOTAL	**$ 9,453,622**	**$ -**	**$ 2,256,252**	**$ 11,709,874**
ASSETS HELD IN PERPETUAL TRUST	**$ -**	**$ -**	**$ 1,143,446**	**$ 1,143,446**
DEFERRED COMPENSATION ASSET	**$ 91,508**	**$ -**	**$ -**	**$ 91,508**

12. FAIR VALUE MEASUREMENT (Continued)

Level 3 Financial Assets

The following table provides a summary of changes in fair value of Organizations' financial assets for the year ended December 31, 2016:

	Alternatives (Hedge Funds)	Perpetual Trust
Beginning balance as of January 1, 2016	$ 2,310,025	$ 1,125,664
Unrealized and realized (losses) gains	(53,773)	47,412
Earned income	-	24,111
Sales	-	(53,741)
BALANCE AS OF DECEMBER 31, 2016	**$ 2,256,252**	**$ 1,143,446**

13. ENDOWMENT

The Organizations' endowment consists of donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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 stipulations to the contrary.

As a result of this interpretation, the Organizations classify as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts 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 remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organizations in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Organizations consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purpose of the organization and the donor-restricted endowment fund;
- General economic conditions and the possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments; and
- Investment policies of the organization.

13. ENDOWMENT (Continued)

The Organizations' endowment net asset composition by type of fund as of December 31, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	$ -	$ 4,869	$ 992,096	$ 996,965
Beneficial Interest in Perpetual Trusts	-	-	1,143,446	1,143,446
TOTAL FUNDS	**$ -**	**$ 4,869**	**$ 2,135,542**	**$ 2,140,411**

Changes in endowment net assets for the year ended December 31, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (4,221)	$ 13,491	$ 2,117,760	$ 2,127,030
Investment gain	4,221	40,879	-	45,100
Net investment gain in beneficial interest in perpetual trusts	-	-	17,782	17,782
Appropriations of expenditures in accordance with donor intent	-	(49,501)	-	(49,501)
ENDOWMENT NET ASSETS, END OF YEAR	**$ -**	**$ 4,869**	**$ 2,135,542**	**$ 2,140,411**

Funds with Deficiencies -

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organizations to retain as fund of perpetual duration. There was no deficiency as of December 31, 2016.

Return Objectives and Risk Parameters -

The Organizations have adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organizations must hold in-perpetuity or for a donor-specified period.

Strategies Employed for Achieving Objectives -

To satisfy their long-term rate-of-return objectives, the Organizations rely on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organizations target a diversified asset allocation that places a greater emphasis on equity-based investments to achieve their long-term return objectives within prudent risk constraints.

13. ENDOWMENT (Continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy -

The Organizations have a policy of appropriating for distribution the amount deemed allowable by the donor after determining the actual amount earned.

14. SUBSEQUENT EVENTS

In preparing these combined financial statements, the Organizations have evaluated events and transactions for potential recognition or disclosure through April 10, 2017, the date the combined financial statements were issued.