

FINANCIAL STATEMENTS

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

**FOR THE YEAR ENDED DECEMBER 31, 2008
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2007**

THE FOUNDATION OF THE ARC OF THE UNITED STATES

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GELMAN, ROSENBERG & FREEDMAN
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The Foundation of The Arc of the United States
Silver Spring, Maryland

We have audited the accompanying statement of financial position of The Foundation of The Arc of the United States (the Foundation) as of December 31, 2008, and the related statements of activities and change in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Foundation's 2007 financial statements and, in our report dated July 16, 2008, we expressed an unqualified opinion on those statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2008, and its change in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Gelman Rosenberg & Freedman

September 18, 2009

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THE FOUNDATION OF THE ARC OF THE UNITED STATES
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2008
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2007

ASSETS

	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 85,335	\$ 127,052
Cash held for endowment	<u>271,360</u>	<u>271,360</u>
TOTAL ASSETS	\$ <u>356,695</u>	\$ <u>398,412</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Due to related party (Note 3)	\$ <u>9,746</u>	\$ <u>5,323</u>
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NET ASSETS

Unrestricted	75,589	121,729
Permanently restricted	<u>271,360</u>	<u>271,360</u>
Total net assets	<u>346,949</u>	<u>393,089</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>356,695</u>	\$ <u>398,412</u>

THE FOUNDATION OF THE ARC OF THE UNITED STATES
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2008
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2007

	<u>2008</u>			<u>2007</u>	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Total</u>
REVENUE					
Interest income (Note 4)	\$ 1,982	\$ 6,301	\$ -	\$ 8,283	\$ 18,335
Net assets released from donor restrictions (Note 2)	<u>6,301</u>	<u>(6,301)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue	<u>8,283</u>	<u>-</u>	<u>-</u>	<u>8,283</u>	<u>18,335</u>
EXPENSES					
The Arc contribution (Note 3)	50,000	-	-	50,000	-
Audit expense	3,585	-	-	3,585	3,929
Other expense	<u>838</u>	<u>-</u>	<u>-</u>	<u>838</u>	<u>-</u>
Total expenses	<u>54,423</u>	<u>-</u>	<u>-</u>	<u>54,423</u>	<u>3,929</u>
Change in net assets	(46,140)	-	-	(46,140)	14,406
Net assets at beginning of year	<u>121,729</u>	<u>-</u>	<u>271,360</u>	<u>393,089</u>	<u>378,683</u>
NET ASSETS AT END OF YEAR	<u>\$ 75,589</u>	<u>\$ -</u>	<u>\$ 271,360</u>	<u>\$ 346,949</u>	<u>\$ 393,089</u>

See accompanying notes to financial statements.

THE FOUNDATION OF THE ARC OF THE UNITED STATES
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2008
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (46,140)	\$ 14,406
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Increase (decrease) in:		
Grants payable	-	(120,000)
Due to related party	<u>4,423</u>	<u>3,929</u>
Net cash used by operating activities	<u>(41,717)</u>	<u>(101,665)</u>
Net decrease in cash and cash equivalents	(41,717)	(101,665)
Cash and cash equivalents at beginning of year	<u>127,052</u>	<u>228,717</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 85,335</u>	<u>\$ 127,052</u>

THE FOUNDATION OF THE ARC OF THE UNITED STATES

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

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 of the United States (The Arc). The Foundation is primarily supported by contributions from the general public.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with Statement of Financial Accounting Standards No. 117, "Financial Statements of Not-for-Profit Organizations".

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2007, from which the summarized information was derived.

Net asset classification -

The net assets are reported in two 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 operations of the Foundation.
- **Permanently restricted net assets** represent funds restricted by the donor to be maintained in-perpetuity by the Foundation.

Contributions -

Contributions are recorded as revenue in the year notification is received from the donor. Contributions are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions.

Income taxes -

The Foundation is 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 financial statements. The Foundation is not a private foundation.

Uncertain tax positions -

In June 2006, the FASB released FASB Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes*. FIN 48 interprets the guidance in FASB Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes*.

THE FOUNDATION OF THE ARC OF THE UNITED STATES

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

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

Uncertain tax positions (continued) -

When FIN 48 is implemented, reporting entities utilize different recognition thresholds and measurement requirements when compared to prior technical literature. On December 30, 2008, the FASB Staff issued FASB Staff Position (FSP) FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*. As defined by the guidance in FSP FIN 48-3, the Foundation is not required to implement the provisions of FIN 48 until fiscal years beginning after December 15, 2008. As such, the Foundation has not implemented those provisions in the 2008 financial statements.

Since the provisions of FIN 48 have not been implemented in accounting for uncertain tax positions, the Foundation continues to utilize its prior policy of accounting for these positions, following the guidance in SFAS No. 5, *Accounting for Contingencies*. Disclosure is not required of a loss contingency involving an unasserted claim or assessment when there has been no manifestation by a potential claimant of an awareness of a possible claim or assessment unless it is considered probable that a claim will be asserted and there is a reasonable possibility that the outcome will be unfavorable. Using that guidance, as of December 31, 2008, the Foundation has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

Cash and cash equivalents -

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

At times during the year, the Foundation maintains cash balances at financial institutions in excess of the Federal Deposit Insurance Corporation (FDIC) limits. Management believes the risk in these situations to be minimal.

Use of estimates -

The preparation of 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 financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

2. **NET ASSETS RELEASED FROM RESTRICTIONS**

The following temporarily restricted net assets were released from donor restrictions by incurring expenses which satisfied the restricted purposes specified by the donors:

Endowment	\$ <u>6,301</u>
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THE FOUNDATION OF THE ARC OF THE UNITED STATES

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

3. RELATED PARTY

The Foundation and The Arc of the United States (The Arc) have separate governing Boards of Directors, but share two voting directors. The Arc provides the Foundation with administrative services and office space at no cost. At December 31, 2008, the Foundation owed The Arc \$9,746 for expenses paid by The Arc on behalf of the Foundation.

4. ENDOWMENT

The Foundation's 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 State Prudent Management of Institutional Funds Act (SPMIFA) 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 Foundation classifies 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 organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, The Foundation considers 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.

Endowment net asset composition by type of fund as of December 31, 2008:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Endowment Funds	\$ <u>-</u>	\$ <u>-</u>	\$ <u>271,360</u>	\$ <u>271,360</u>

THE FOUNDATION OF THE ARC OF THE UNITED STATES

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

5. ENDOWMENT (Continued)

Changes in endowment net assets for the year ended December 31, 2008:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ <u>-</u>	<u>-</u>	<u>271,360</u>	<u>271,360</u>
Investment income:				
Investment income	-	6,301	-	6,301
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(6,301)</u>	<u>-</u>	<u>(6,301)</u>
ENDOWMENT NET ASSETS, END OF YEAR	\$ <u>-</u>	\$ <u>-</u>	\$ <u>271,360</u>	\$ <u>271,360</u>

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 SPMIFA requires the organization to retain as fund of perpetual duration. There were no deficiencies of this nature as of December 31, 2008.

Return Objectives and Risk Parameters -

The Foundation has 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 organization must hold in-perpetuity or for a donor specified period.

Strategies Employed for Achieving Objectives -

To satisfy its long-term rate-of-return objectives, the Foundation relies 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 Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

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

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