FINANCIAL STATEMENTS

THE ARC OF THE UNITED STATES

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

THE ARC OF THE UNITED STATES

CONTENTS

GELMAN, ROSENBERG & FREEDMAN
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of financial position of The Arc of the United States (The Arc) as of December 31, 2008, and the related statements of activities and change in net assets, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of The Arc'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 Arc'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 Arc 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

July 18, 2009

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THE ARC OF THE UNITED STATES

STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2008
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2007

ASSETS

	2008	2007
CURRENT ASSETS		
Cash and cash equivalents (Note 6)	$ 671,861	$ 386,808
Investments (Notes 2 and 9)	1,601,386	2,196,017
Accounts receivable and advances, net of allowance for doubtful accounts of $175,580 and $206,367 for 2008 and 2007, respectively (Note 6)	146,169	117,511
Grants receivable	55,702	235,545
Inventory	3,618	14,268
Prepaid expenses	48,928	57,369
Total current assets	2,527,664	3,007,518
FURNITURE AND EQUIPMENT		
Furniture and equipment	915,345	907,229
Less: Accumulated depreciation	(824,124)	(759,506)
Net furniture and equipment	91,221	147,723
OTHER ASSETS		
Deposits	10,020	10,020
Investment held for beneficial interest in perpetual trust (Notes 3 and 10)	925,834	1,032,273
Total other assets	935,854	1,042,293
TOTAL ASSETS	**$ 3,554,739**	**$ 4,197,534**

LIABILITIES AND NET ASSETS

	2008	2007
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 270,950	$ 454,909
Grants payable	6,456	6,456
Accrued vacation	106,222	111,031
Due to related parties (Note 6)	28,775	204,203
Deferred revenue	71,900	1,400
Total current liabilities	484,303	777,999
NET ASSETS		
Unrestricted net assets:		
Undesignated	35,407	47,451
Board designated (Note 4)	740,457	829,613
Total unrestricted net assets	775,864	877,064
Temporarily restricted (Note 5)	648,002	789,462
Permanently restricted (Note 10)	1,646,570	1,753,009
Total net assets	3,070,436	3,419,535
TOTAL LIABILITIES AND NET ASSETS	**$ 3,554,739**	**$ 4,197,534**

See accompanying notes to financial statements.

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

	2008				2007
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
REVENUE					
Contributions (Note 3)	$ 445,366	$ 73,790	$ 218,017	$ 737,173	$ 519,034
Grants from governmental agencies	133,725	-	-	133,725	454,725
Affiliation and chapter fees	2,056,192	-	-	2,056,192	1,927,542
Registration fees	366,946	-	-	366,946	319,761
Program service fees	334,489	-	-	334,489	300,742
Investment income (Notes 2 and 10)	38,082	21,007	-	59,089	122,549
Net gain (loss) in perpetual trust (Note 3)	-	-	(324,456)	(324,456)	46,696
Sub-contract revenue	7,140	-	-	7,140	(23,019)
Advertising	18,300	-	-	18,300	22,760
Royalty income	95,844	-	-	95,844	73,697
Other (loss) income	(2,069)	-	-	(2,069)	19,135
Net assets released from donor restrictions (Note 5)	236,257	(236,257)	-	-	-
Total revenue	3,730,272	(141,460)	(106,439)	3,482,373	3,783,622
EXPENSES					
Program Services:					
Chapter Excellence	1,083,638	-	-	1,083,638	359,189
Public Education	658,724	-	-	658,724	457,475
Public Policy	992,144	-	-	992,144	2,341,980
Total program services	2,734,506	-	-	2,734,506	3,158,644
Supporting Services:					
Management and General	815,157	-	-	815,157	846,692
Fundraising	281,809	-	-	281,809	446,476
Total supporting services	1,096,966	-	-	1,096,966	1,293,168
Total expenses	3,831,472	-	-	3,831,472	4,451,812
Change in net assets	(101,200)	(141,460)	(106,439)	(349,099)	(668,190)
Net assets at beginning of year	877,064	789,462	1,753,009	3,419,535	4,087,725
NET ASSETS AT END OF YEAR	$ 775,864	$ 648,002	$ 1,646,570	$ 3,070,436	$ 3,419,535

See accompanying notes to financial statements.

THE ARC OF THE UNITED STATES

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2008
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2007

	2008			
	Program Services			
	Chapter Excellence	Public Education	Public Policy	Total Program Services
Salaries	$ 322,033	$ 138,706	$ 544,638	$ 1,005,377
Employee benefits (Note 8)	53,023	22,838	94,827	170,688
Payroll taxes	23,894	10,292	42,733	76,919
Professional fees	143,376	27,314	91,862	262,552
Supplies	6,333	1,504	4,010	11,847
Telephone and internet	8,590	2,559	15,044	26,193
Postage and shipping	8,377	2,555	3,610	14,542
Insurance	52,000	-	-	52,000
Occupancy (Note 7)	83,342	18,143	61,017	162,502
Outside printing and artwork	21,276	142,270	3,446	166,992
Conferences, meetings and travel	276,682	4,417	82,019	363,118
Subscriptions and dues	3,490	760	10,044	14,294
Grants and sub-grants	31,110	268,334	-	299,444
Equipment/infrastructure repairs and maintenance	22,344	7,498	18,877	48,719
Depreciation	20,574	4,479	15,063	40,116
Miscellaneous and bad debt	7,194	7,055	4,954	19,203
	$ 1,083,638	**$ 658,724**	**$ 992,144**	**$ 2,734,506**

Supporting Services				2007
Management and General	**Fundraising**	**Total Supporting Services**	**Total Expenses**	**Total Expenses**
$ 315,321	$ 101,660	$ 416,981	$ 1,422,358	$ 1,560,077
51,918	16,738	68,656	239,344	264,450
23,396	7,543	30,939	107,858	109,833
158,315	53,675	211,990	474,542	301,940
1,594	2,910	4,504	16,351	15,177
3,200	5,298	8,498	34,691	54,687
739	11,311	12,050	26,592	30,562
16,378	-	16,378	68,378	68,312
81,807	17,451	99,258	261,760	246,600
501	41,338	41,839	208,831	247,046
126,722	995	127,717	490,835	623,529
3,426	1,234	4,660	18,954	35,215
-	1,000	1,000	300,444	526,963
6,737	12,894	19,631	68,350	61,536
20,194	4,308	24,502	64,618	72,812
4,909	3,454	8,363	27,566	233,073
$ 815,157	**$ 281,809**	**$ 1,096,966**	**$ 3,831,472**	**$ 4,451,812**

THE ARC OF THE UNITED STATES

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

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (349,099)	$ (668,190)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	64,618	72,812
Net depreciation (appreciation) of investments	49,682	(7,571)
Net loss (gain) in beneficial interest in perpetual trusts	106,439	(39,125)
Permanently restricted contribution from beneficial interest in perpetual trust	(218,017)	-
(Increase) decrease in:		
Accounts receivable and advances	(28,658)	156,179
Grants receivable	179,843	(112,901)
Inventory	10,650	(1,723)
Prepaid expenses	8,441	18,701
Due from related parties	-	129,031
Deposits	-	15,636
Increase (decrease) in:		
Accounts payable and accrued expenses	(183,959)	307,956
Accrued vacation	(4,809)	(27,861)
Due to related parties	(175,428)	140,081
Deferred revenue	70,500	(20,100)
Net cash used by operating activities	(469,797)	(37,075)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furniture and equipment	(8,116)	(41,099)
Net proceeds from (purchases of) investments	544,949	(1,875,514)
Net cash provided (used) by investing activities	536,833	(1,916,613)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for long-term investments	218,017	-
Net cash provided by financing activities	218,017	-
Net increase (decrease) in cash and cash equivalents	285,053	(1,953,688)
Cash and cash equivalents at beginning of year	386,808	2,340,496
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 671,861**	**$ 386,808**

See accompanying notes to financial statements.

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 advocates for the rights and full participation of all children and adults with intellectual and developmental disabilities. Together with its network of affiliated chapters and members, The Arc improves systems of support and services; connects families; inspires communities and influences public policy.

The Arc provides an array of services and support for families and individuals and includes over 132,000 members affiliated through more than 785 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.

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 Arc's financial statements for the year ended December 31, 2007, from which the summarized information was derived.

Cash and cash equivalents -

The Arc 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 Arc 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.

Investments -

Investments are recorded at market value. Net appreciation (depreciation) of investments is included in the Statement of Activities and Change in Net Assets.

Furniture and equipment -

Furniture and equipment are stated at cost. Furniture and equipment 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.

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

Income taxes -

The Arc 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 Arc is not a private foundation.

Uncertain tax positions -

In June 2006, the Financial Accounting Standards Board (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*. 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 deferred by the guidance in FSP FIN 48-3, The Arc is not required to implement the provisions of FIN 48 until fiscal years beginning after December 15, 2008. As such, The Arc 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 Arc 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 Arc has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

Inventory -

Inventory consists of publications and log merchandise, which are recorded at the lower of cost or market value using the first-in, first-out method of inventory.

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 Arc 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 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 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 Arc.

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

Contributions and grants -

Contributions and grants are recorded as revenue in the year notification is received from the donor. 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. Contributions and grants received in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying financial statements.

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.

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 and Change in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Fair value measurements -

The Arc adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 157, entitled *Fair Value Measurements.*

SFAS No. 157 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 measurements. The Arc accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

2. INVESTMENTS

Investments consisted of the following at December 31, 2008:

	Market Value
Fixed income	$ 1,451,209
Equities	7,109
Mutual funds	143,068
	$ 1,601,386

2. INVESTMENTS (Continued)

Included in investment income are the following at December 31, 2008:

Interest and dividends	$ 71,767
Net depreciation of investments	(49,682)
Distributions from the beneficial interest in perpetual trusts	37,004
TOTAL INVESTMENT INCOME	**$ 59,089**

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. Distribution of the trusts is 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 on the Statement of Activities and Change in Net Assets.

During the year ended December 31, 2008, The Arc was named the beneficiary in a new perpetual trust in the amount of $218,017. Accordingly, this contribution was recorded as a permanently restricted contribution. For the year ended December 31, 2008, The Arc recorded a net loss held in perpetual trust of $324,456 due to the decline in fair value. The Arc also received distributions from the beneficial interest in perpetual trusts in the amount $37,004 which is included in unrestricted investment income on the Statement of Activities and Change in Net Assets.

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, 2008, Board designated assets totaled $740,457.

5. TEMPORARILY RESTRICTED NET ASSETS

As of December 31, 2008, temporarily restricted net assets consisted of the following:

Direct Assistance and Services	$ 81,674
Public Supported Research	504,556
Samuelson Endowment for Children	50,000
Disaster Relief Fund	2,635
E-waiting List Campaign	1,044
Endowment	8,093
TOTAL TEMPORARILY RESTRICTED NET ASSETS	**$ 648,002**

5. TEMPORARILY RESTRICTED NET ASSETS (Continued)

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

Donor Imposed Restrictions:	
Public Supported Research	$ 200,000
Disaster Relief Fund	20,110
Direct Assistance and Services	7,109
Public Health Education	2,095
Endowment	403
Other	6,540
	$ 236,257

6. RELATED PARTY TRANSACTIONS

During 2008, The Arc received payment of grants received from the Foundation of The Arc of the United States (the Foundation) that were made in prior years. The amount of the payment was $50,000. The Arc and the Foundation have separate governing Boards of Directors, but share two voting directors. At December 31, 2008, The Arc has a receivable from the Foundation amounting to $13,471, for expenses paid by The Arc on behalf of the Foundation.

On January 1, 2002, The Arc entered into an agreement with the National Conference of Executives of the Arc (NCE) in which The Arc would perform all accounting procedures and related financial statements. The Arc and NCE have separate governing Boards of Directors, but share common directors. At December 31, 2008, The Arc held cash in the amount of $42,246 on behalf of NCE.

The net amount due to related parties is $28,775 at December 31, 2008.

7. COMMITMENTS - OPERATING LEASES

The Arc occupies office facilities under non-cancelable operating leases, having an original term of more than one-year, expiring on various dates through 2009. Rental expense was $261,760 for the year ended December 31, 2008.

At December 31, 2008, minimum annual rental commitments under such leases are as follows:

2009	**$ 189,153**

8. RETIREMENT PLAN

The Arc has a fully insured non-contributory pension plan (the Plan), covering substantially all of its regular employees. Total pension expense was $112,508 for the year ended December 31, 2008. 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.

9. FAIR VALUE MEASUREMENTS

In accordance with Statement of Financial Accounting Standards (SFAS) No. 157, The Arc has categorized its 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. Investments recorded in the 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 Arc has 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 values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect assumptions of management about assumptions market participants would use in pricing the investments. These investments include non-readily marketable securities that do not have an active market.

Financial assets recorded in the Statement of Financial Position are categorized based on the inputs to the valuation technique as follows for the year ended December 31, 2008:

	Level 1	Level 2	Level 3	Total December 31, 2008
Asset Category:				
Fixed Income	$ 1,451,209	$ -	$ -	$ 1,451,209
Equities	7,109	-	-	7,109
Mutual Funds	143,068	-	-	143,068
TOTAL INVESTMENTS	**$ 1,601,386**	**$ -**	**$ -**	**$ 1,601,386**
INVESTMENTS HELD FOR BENEFICIAL INTEREST IN PERPETUAL TRUST	**$ -**	**$ -**	**$ 925,834**	**$ 925,834**

Level 3 Financial Assets

The following table provides a summary of changes in fair value of The Arc's financial assets for the year ended December 31, 2008:

	Perpetual Trust
Beginning balance as of January 1, 2008	$ 1,032,273
Investment held for beneficial interest in perpetual trust	218,017
Loss on fair value	(282,719)
Distributions	(41,737)
BALANCE AS OF DECEMBER 31, 2008	**$ 925,834**

10. ENDOWMENT

The Arc'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 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 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 Arc 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:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	$ -	$ 8,093	$ 720,736	$ 728,829
Beneficial Interest in Perpetual Trust	-	-	925,834	925,834
TOTAL FUNDS	**$ -**	**$ 8,093**	**$ 1,646,570**	**$ 1,654,663**

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 8,418	$ 1,753,009	$ 1,761,427
Investment income:				
Investment income	-	7,618	-	7,618
Contribution from a beneficial interest in perpetual trust	-	-	218,017	218,017
Loss in beneficial interest in perpetual trusts	-	-	(324,456)	(324,456)
Appropriations of expenditures in accordance with donor intent	-	(7,943)	-	(7,943)
ENDOWMENT NET ASSETS, END OF YEAR	**$ -**	**$ 8,093**	**$ 1,646,570**	**$ 1,654,663**

10. ENDOWMENT (Continued)

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

GELMAN, ROSENBERG & FREEDMAN
CERTIFIED PUBLIC ACCOUNTANTS

July 18, 2009

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

We have audited the financial statements of The Arc of the United States (The Arc) for the year ended December 31, 2008 and have issued our report thereon dated July 18, 2009. Professional standards require that we provide you with the following information related to our audit.

- **Our Responsibility under Generally Accepted Auditing Standards**

  As stated in our engagement letter dated October 31, 2007, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

  Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of The Arc. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters. We are also responsible for communicating particular matters required by law, regulation, agreement or other requirements applicable to the engagement.

  Our responsibility for other information in documents containing The Arc's financial statements and report does not extend beyond the financial information identified in the report. We do not have an obligation to perform any procedures to corroborate other information contained in these documents (such as reading the information). However, if such procedures were performed, nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation in the financial statements.

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- **Discussions Prior to Retention**

  We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as The Arc's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

- **Difficulties Encountered in Performing the Audit**

  There were no difficulties encountered while performing and completing our audit.

- **Planned Scope and Timing of the Audit**

  We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated October 31, 2007.

- **Management Representations**

  We have requested certain representations from management that are included in the management representation letter dated July 18, 2009.

- **Accounting Policies, Estimates and Disclosures**

  Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by The Arc are described in Note 1 to the financial statements. During the year ended December 31, 2008, The Arc adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 157, entitled *Fair Value Measurements*. SFAS No. 157 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 measurements.

  SFAS No. 159 provides a fair value option election that allows organizations to irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and liabilities. The Arc has not elected the fair value option for any instruments in the current year.

  We noted no transactions entered into by The Arc during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

  Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the financial statements were:

- Management's estimate of the allocation of expenses to programs, which is based on the allocation of actual time spent on each program. We evaluated the key factors and assumptions used to develop the allocation in determining that it is reasonable in relation to the financial statements taken as a whole.

- Management's estimate of the allowance for bad debt, which is based on historical collections and aging of the receivable. We evaluated the key factors and assumptions used to develop the allowance for bad debt in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

The most sensitive disclosure affecting the financial statements was the disclosure of net assets released from restrictions in Note 5 to the financial statements.

- **Corrected and Uncorrected Misstatements**

  Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

- **Disagreements with Management**

  For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

- **Management Consultations with Other Independent Accountants**

  In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to The Arc's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

- **Non-Audit Services Provided by Audit Firm**

  In accordance with professional standards, during the fiscal year and currently, all members of our firm were independent with respect to The Arc. During the year under audit, we provided corporate tax preparation services (IRS Form 990). All other time and expenses incurred by us were in connection with our annual audit.

This information is intended solely for the use of the Audit Committee, Board of Directors and management of The Arc of the United States and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

GELMAN, ROSENBERG & FREEDMAN

Terri McKnight
Certified Public Accountant

GELMAN, ROSENBERG & FREEDMAN
CERTIFIED PUBLIC ACCOUNTANTS

July 18, 2009

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

With the issuance of Statement on Auditing Standards (SAS) No. 112, *Communicating Internal Control Related Matters Identified in an Audit,* issued by the American Institute of Certified Public Accountants (AICPA) in May 2006, internal control findings are to be reported as either "Significant Deficiencies" or "Material Weaknesses". Accordingly, the following paragraphs will define "Significant Deficiency" and "Material Weakness". However, because we do not believe that all matters raised in our communication are easily categorized into the two aforementioned titles, we have added a section titled "Best Practices".

In planning and performing our audit of the financial statements of The Arc of the United States (The Arc) as of and for the year ended December 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered The Arc's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Arc's internal control. Accordingly, we do not express an opinion on the effectiveness of The Arc's internal control.

Our consideration of The Arc's internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in The Arc's internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects The Arc's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of The Arc's financial statements that is more than inconsequential will not be prevented or detected by The Arc's internal control.

A material weakness is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by The Arc's internal control. We did not identify any deficiencies in The Arc's internal control that we consider to be material weaknesses, as defined above.

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PRIOR YEAR COMMENTS AND CURRENT YEAR'S STATUS

BEST PRACTICES

Bank Reconciliation

2005 Comment: We noted that outstanding items remain on the reconciliation longer than one year. To ensure cash is fairly stated, we recommend that management review the reconciliation for amounts that have been outstanding for a significant period of time. All amounts noted should be investigated and treated in the appropriate manner.

2006 and 2007 Comment: Currently, the accounting department is taking steps to ensure that stale outstanding checks are being investigated and treated in the appropriate manner.

Additionally, we noted that there is no indication of approval on the monthly bank reconciliations. We recommend that following review and approval, the reviewer sign or initial the reconciliation indicating that it was reviewed and approved.

Current Year Status: The bank reconciliations are being reviewed and approved. Management has implemented a process to identify checks that have been outstanding for a significant period of time and appropriately adjust The Arc's books for those checks. However, one check in the amount of $162,390 payable to Robert Silverstein remains outstanding and was not resolved prior to the start of our audit fieldwork. Per discussion with management, the vendor is returning the check back to The ARC; therefore, we posted an adjusting journal entry to properly reflect the amount as accounts payable. We recommend management institute policies to ensure that unusual items of this nature are resolved timely.

Accounts Receivable

2007 Comment: At the start of our audit, there were receivables from 2006 present on the aged receivable schedule. It was determined that The Arc would remove these during the 2007 audit. The Arc will continue to pursue these collections in 2008. If they are collected, they will be recorded as revenue.

Current Year Status: Management implemented controls to establish an allowance for doubtful accounts. During the year, management reviewed the aging of the receivable and history of the client to determine collectability.

Financial Reporting

2007 Comment: The Arc did not submit SF Forms 269 and 272 in a timely manner during 2007. While they did not spend over $500,000 and are not required to have an OMB Circular A-133 audit completed, it did prevent them from drawing down approximately $232,000 from the Federal government. We highly recommend that quarterly reports be prepared and submitted within a timely manner following each quarter-end.

Current Year Status: During our review of grant accounts, we noted that management had submitted the SF Forms 269 and 272 in a timely manner.

Authorized Signer

2007 Comment: Our audit revealed that the former Chief Financial Officer remains an authorized signatory. We recommend that The Arc update all signatories on all accounts. Additionally, the interim Chief Executive Officer was a check signer, but was not listed as such by the bank.

Current Year Status: Management updated its purchase authorization and check signing policy; thus, addressing the comment identified in the prior year.

Employee Retirement Contributions

2007 Comment: We noted instances where The Arc did not remit withheld employee retirement contributions in a timely manner. Per discussions with management, this was due to administrative limitations during staff transition. To comply with U.S. Labor Laws and ERISA regulations, we recommend that management remit employee retirement contributions as soon as possible; no longer than 15 days from the date withheld.

Current Year Status: During the course of our audit, we noted that this type of liability was not present during the year and that management had remitted its retirement contributions in a timely fashion.

This communication is intended solely for the information and use of management, audit committee, others within the organization, and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

GELMAN, ROSENBERG & FREEDMAN

Terri McKnight

Terri McKnight
Certified Public Accountant