

**COMBINED FINANCIAL STATEMENTS**

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

**FOR THE YEAR ENDED DECEMBER 31, 2011  
WITH SUMMARIZED FINANCIAL  
INFORMATION FOR 2010**

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

**CONTENTS**

|   | <b>PAGE NO.</b> |
|---|-----------------|
| INDEPENDENT AUDITORS' REPORT  | 2 - 3           |
| EXHIBIT A - Combined Statement of Financial Position, as of December 31, 2011,<br>with Summarized Financial Information for 2010                                  | 4 - 5           |
| EXHIBIT B - Combined Statement of Activities and Change in Net Assets, for the<br>Year Ended December 31, 2011, with Summarized Financial<br>Information for 2010 | 6               |
| EXHIBIT C - Combined Statement of Functional Expenses, for the Year Ended<br>December 31, 2011, with Summarized Financial Information for 2010                    | 7 - 8           |
| EXHIBIT D - Combined Statement of Cash Flows, for the Year Ended December 31,<br>2011, with Summarized Financial Information for 2010                             | 9               |
| NOTES TO COMBINED FINANCIAL STATEMENTS  | 10 - 19         |



**GELMAN, ROSENBERG & FREEDMAN**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying combined statement of financial position of The Arc of the United States (The Arc) and The Foundation of the Arc of the United States (the Foundation), collectively the Organizations, as of December 31, 2011, and the related combined statements of activities and change in net assets, functional expenses and cash flows for the year then ended. These combined financial statements are the responsibility of the Organizations' management. Our responsibility is to express an opinion on these combined financial statements based on our audit. The prior year summarized comparative information has been derived from the Organizations' combined financial statements for the year ended December 31, 2010 and, in our report dated April 30, 2011, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organizations' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011, and their combined change in net assets and their combined cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**4550 MONTGOMERY AVENUE · SUITE 650 NORTH · BETHESDA, MARYLAND 20814**  
**(301) 951-9090 · FAX (301) 951-3570 · WWW.GRFCPA.COM**

---

**MEMBER OF CPAMERICA INTERNATIONAL, AN AFFILIATE OF HORWATH INTERNATIONAL**  
**MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 14, 2012 on our consideration of The Arc's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

A handwritten signature in cursive script that reads "Gelman Rosenberg & Friedman".

April 14, 2012

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

**COMBINED STATEMENT OF FINANCIAL POSITION  
AS OF DECEMBER 31, 2011  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2010**

**ASSETS**

|  | <b>2011</b>          | <b>2010</b>         |
|--|----------------------|---------------------|
| <b>CURRENT ASSETS</b>  |                      |                     |
| Cash and cash equivalents  | \$ 761,843           | \$ 3,001,293        |
| Investments (Notes 2 and 10)   | 7,152,065            | 4,842,647           |
| Accounts receivable and advances, net of allowance for doubtful accounts of \$131,009 and \$143,454, for 2011 and 2010, respectively | 258,247              | 150,221             |
| Grants receivable  | 198,997              | 301,928             |
| Prepaid expenses   | 74,429               | 16,302              |
| Total current assets   | <b>8,445,581</b>     | <b>8,312,391</b>    |
| <b>FIXED ASSETS</b>  |                      |                     |
| Furniture and equipment  | 743,422              | 998,719             |
| Less: Accumulated depreciation and amortization  | (325,386)            | (915,665)           |
| Net fixed assets   | <b>418,036</b>       | <b>83,054</b>       |
| <b>OTHER ASSETS</b>  |                      |                     |
| Other assets   | 88,891               | 22,373              |
| Investments held for beneficial interest in perpetual trust (Notes 3 and 10)   | 1,057,228            | 1,122,497           |
| Total other assets   | <b>1,146,119</b>     | <b>1,144,870</b>    |
| <b>TOTAL ASSETS</b>  | <b>\$ 10,009,736</b> | <b>\$ 9,540,315</b> |

See accompanying notes to combined financial statements.

## LIABILITIES AND NET ASSETS

|  | <u>2011</u>                 | <u>2010</u>                |
|--|-----------------------------|----------------------------|
| <b>CURRENT LIABILITIES</b>               |                             |                            |
| Accounts payable and accrued liabilities | \$ 380,868                  | \$ 406,942                 |
| Deferred revenue                         | 5,000                       | 33,075                     |
| Due to related parties (Note 6)          | 33,086                      | 33,284                     |
| Grants payable                           | <u>4,456</u>                | <u>6,456</u>               |
| Total current liabilities                | <u>423,410</u>              | <u>479,757</u>             |
| <b>LONG-TERM LIABILITIES</b>             |                             |                            |
| Deferred rent (Note 7)                   | <u>130,848</u>              | <u>-</u>                   |
| Total liabilities                        | <u>554,258</u>              | <u>479,757</u>             |
| <b>NET ASSETS</b>                        |                             |                            |
| Unrestricted:                            |                             |                            |
| Undesignated                             | 446,932                     | 446,932                    |
| Board-designated (Note 4)                | <u>609,682</u>              | <u>740,457</u>             |
| Total unrestricted net assets            | 1,056,614                   | 1,187,389                  |
| Temporarily restricted (Note 5)          | 6,349,540                   | 5,758,576                  |
| Permanently restricted (Note 11)         | <u>2,049,324</u>            | <u>2,114,593</u>           |
| Total net assets                         | <u>9,455,478</u>            | <u>9,060,558</u>           |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>  | <b><u>\$ 10,009,736</u></b> | <b><u>\$ 9,540,315</u></b> |

**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, 2011  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2010**

|   | 2011                       |                            |                            | 2010                       |                            |
|---|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
|   | Unrestricted               | Temporarily<br>Restricted  | Permanently<br>Restricted  | Total                      | Total                      |
| <b>REVENUE</b>  |                            |                            |                            |                            |                            |
| Contributions   | \$ 602,596                 | \$ 247,330                 | \$ -                       | \$ 849,926                 | \$ 796,633                 |
| Government grants                                       | 2,031,477                  | -                          | -                          | 2,031,477                  | 251,037                    |
| Sub-contract revenue                                    | 101,140                    | -                          | -                          | 101,140                    | -                          |
| Investment income (Notes 2 and 3)                       | 98,750                     | (70,223)                   | -                          | 28,527                     | 641,191                    |
| Bequest income  | 11,500                     | 1,627,145                  | -                          | 1,638,645                  | 154,303                    |
| Advertising   | 2,725                      | -                          | -                          | 2,725                      | 2,000                      |
| Contributed services (Note 9)                           | 129,077                    | -                          | -                          | 129,077                    | 197,563                    |
| Affiliation and chapter fees                            | 2,375,194                  | 80,520                     | -                          | 2,455,714                  | 2,246,059                  |
| Royalty income  | 64,531                     | -                          | -                          | 64,531                     | 64,803                     |
| Registration fees                                       | 427,742                    | -                          | -                          | 427,742                    | 469,450                    |
| Program service fees                                    | 121,275                    | -                          | -                          | 121,275                    | 317,887                    |
| Other income  | 4,791                      | -                          | -                          | 4,791                      | 26,763                     |
| Other   | -                          | -                          | -                          | -                          | 73,200                     |
| Net (loss) gain in perpetual trust<br>(Note 3)          | -                          | -                          | (65,269)                   | (65,269)                   | 96,108                     |
| Net assets released from donor<br>restrictions (Note 5) | <u>1,293,808</u>           | <u>(1,293,808)</u>         | <u>-</u>                   | <u>-</u>                   | <u>-</u>                   |
| Total revenue   | <u>7,264,606</u>           | <u>590,964</u>             | <u>(65,269)</u>            | <u>7,790,301</u>           | <u>5,336,997</u>           |
| <b>EXPENSES</b>   |                            |                            |                            |                            |                            |
| Program Services:                                       |                            |                            |                            |                            |                            |
| Chapter Excellence                                      | 1,850,193                  | -                          | -                          | 1,850,193                  | 2,768,279                  |
| Public Education  | 588,331                    | -                          | -                          | 588,331                    | 1,297,116                  |
| Public Policy   | 1,206,983                  | -                          | -                          | 1,206,983                  | 1,244,981                  |
| National Initiatives                                    | 2,453,195                  | -                          | -                          | 2,453,195                  | -                          |
| Chapter Organizing and<br>Advocacy                      | <u>265,874</u>             | <u>-</u>                   | <u>-</u>                   | <u>265,874</u>             | <u>-</u>                   |
| Total program services                                  | <u>6,364,576</u>           | <u>-</u>                   | <u>-</u>                   | <u>6,364,576</u>           | <u>5,310,376</u>           |
| Supporting Services:                                    |                            |                            |                            |                            |                            |
| Management and General                                  | 433,087                    | -                          | -                          | 433,087                    | 520,255                    |
| Fundraising   | <u>597,718</u>             | <u>-</u>                   | <u>-</u>                   | <u>597,718</u>             | <u>475,290</u>             |
| Total supporting services                               | <u>1,030,805</u>           | <u>-</u>                   | <u>-</u>                   | <u>1,030,805</u>           | <u>995,545</u>             |
| Total expenses  | <u>7,395,381</u>           | <u>-</u>                   | <u>-</u>                   | <u>7,395,381</u>           | <u>6,305,921</u>           |
| Change in net assets                                    | (130,775)                  | 590,964                    | (65,269)                   | 394,920                    | (968,924)                  |
| Net assets at beginning of year                         | <u>1,187,389</u>           | <u>5,758,576</u>           | <u>2,114,593</u>           | <u>9,060,558</u>           | <u>10,029,482</u>          |
| <b>NET ASSETS AT END OF YEAR</b>                        | <b><u>\$ 1,056,614</u></b> | <b><u>\$ 6,349,540</u></b> | <b><u>\$ 2,049,324</u></b> | <b><u>\$ 9,455,478</u></b> | <b><u>\$ 9,060,558</u></b> |

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, 2011  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2010**

|   | <b>2011</b>                   |                             |                      |                                 |
|---|-------------------------------|-----------------------------|----------------------|---------------------------------|
|   | <b>Program Services</b>       |                             |                      |                                 |
|   | <b>Chapter<br/>Excellence</b> | <b>Public<br/>Education</b> | <b>Public Policy</b> | <b>National<br/>Initiatives</b> |
| Salaries  | \$ 419,638                    | \$ 165,744                  | \$ 586,364           | \$ 398,521                      |
| Employee benefits (Note 8)                          | 68,491                        | 27,052                      | 95,703               | 65,045                          |
| Payroll taxes                                       | 29,372                        | 11,601                      | 41,041               | 27,894                          |
| Professional fees                                   | 49,274                        | 76,781                      | 24,007               | 228,803                         |
| In-kind professional fees (Note 9)                  | -                             | -                           | 129,077              | -                               |
| Supplies  | 13,281                        | 1,734                       | 7,165                | 8,293                           |
| Telephone and internet                              | 15,145                        | 3,500                       | 8,909                | 26,559                          |
| Postage and shipping                                | 6,926                         | 98,182                      | 3,113                | 37,742                          |
| Insurance   | 2,919                         | 774                         | 1,995                | 2,218                           |
| Occupancy and storage (Note 7)                      | 102,825                       | 14,631                      | 86,608               | 101,363                         |
| Outside printing and design                         | 14,202                        | 130,424                     | 17,632               | 57,202                          |
| Conferences, meetings and travel                    | 232,081                       | 20,396                      | 111,217              | 347,343                         |
| Subscriptions and dues                              | 73,377                        | 16,771                      | 35,852               | 9,009                           |
| Grants and sub-grants                               | 686,821                       | 250                         | -                    | 823,405                         |
| Equipment/infrastructure repairs<br>and maintenance | 12,242                        | 3,301                       | 7,073                | 21,445                          |
| Depreciation and amortization                       | 14,554                        | 3,858                       | 9,948                | 11,061                          |
| Miscellaneous and bad debt                          | 109,045                       | 13,332                      | 41,279               | 287,292                         |
| <b>TOTAL</b>  | <b>\$ 1,850,193</b>           | <b>\$ 588,331</b>           | <b>\$ 1,206,983</b>  | <b>\$ 2,453,195</b>             |

See accompanying notes to combined financial statements.



|                                       |                              |                           |                   |                                 |                     |                     | 2010 |
|---------------------------------------|------------------------------|---------------------------|-------------------|---------------------------------|---------------------|---------------------|------|
|                                       |                              | Supporting Services       |                   |                                 |                     |                     |      |
| Chapter<br>Organizing and<br>Advocacy | Total<br>Program<br>Services | Management<br>and General | Fundraising       | Total<br>Supporting<br>Services | Total<br>Expenses   | Total<br>Expenses   |      |
| \$ 181,458                            | \$ 1,751,725                 | \$ 453,032                | \$ 250,702        | \$ 703,734                      | \$ 2,455,459        | \$ 2,061,226        |      |
| 29,617                                | 285,908                      | 73,942                    | 40,918            | 114,860                         | 400,768             | 349,075             |      |
| 12,701                                | 122,609                      | 31,709                    | 17,547            | 49,256                          | 171,865             | 139,267             |      |
| 5,275                                 | 384,140                      | 26,831                    | 20,780            | 47,611                          | 431,751             | 373,073             |      |
| -                                     | 129,077                      | -                         | -                 | -                               | 129,077             | 197,563             |      |
| 969                                   | 31,442                       | 4,927                     | 3,654             | 8,581                           | 40,023              | 32,069              |      |
| 1,717                                 | 55,830                       | 5,075                     | 2,118             | 7,193                           | 63,023              | 56,671              |      |
| 783                                   | 146,746                      | 1,681                     | 40,572            | 42,253                          | 188,999             | 125,231             |      |
| 438                                   | 8,344                        | 2,230                     | 872               | 3,102                           | 11,446              | 57,981              |      |
| 8,290                                 | 313,717                      | 42,162                    | 16,493            | 58,655                          | 372,372             | 190,464             |      |
| 608                                   | 220,068                      | 999                       | 125,655           | 126,654                         | 346,722             | 237,765             |      |
| 15,550                                | 726,587                      | 23,043                    | 9,822             | 32,865                          | 759,452             | 586,077             |      |
| 421                                   | 135,430                      | 2,142                     | 3,188             | 5,330                           | 140,760             | 135,477             |      |
| 250                                   | 1,510,726                    | -                         | -                 | -                               | 1,510,726           | 1,538,309           |      |
| 667                                   | 44,728                       | 3,390                     | 44,981            | 48,371                          | 93,099              | 109,712             |      |
| 2,186                                 | 41,607                       | 11,118                    | 4,349             | 15,467                          | 57,074              | 44,880              |      |
| 4,944                                 | 455,892                      | (249,194)                 | 16,067            | (233,127)                       | 222,765             | 71,081              |      |
| <b>\$ 265,874</b>                     | <b>\$ 6,364,576</b>          | <b>\$ 433,087</b>         | <b>\$ 597,718</b> | <b>\$ 1,030,805</b>             | <b>\$ 7,395,381</b> | <b>\$ 6,305,921</b> |      |

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, 2011  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2010**

|   | <u>2011</u>              | <u>2010</u>                |
|---|--------------------------|----------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                          |                            |
| Change in net assets  | \$ 394,920               | \$ (968,924)               |
| Adjustments to reconcile change in net assets to<br>net cash provided (used) by operating activities: |                          |                            |
| Depreciation and amortization   | 57,074                   | 44,880                     |
| Unrealized loss (gain) on investments   | 433,380                  | (47,957)                   |
| Realized gain on sale of investments  | -                        | (104,745)                  |
| Deferred rent abatement   | 130,848                  | -                          |
| Net loss (gain) in perpetual trust  | 65,269                   | (96,108)                   |
| Bad debt expense  | 65,184                   | -                          |
| (Increase) decrease in:   |                          |                            |
| Accounts receivable and advances  | (173,210)                | 6,989                      |
| Grants receivable   | 102,931                  | (130,898)                  |
| Prepaid expenses  | (58,127)                 | 11,292                     |
| Other assets  | (66,518)                 | -                          |
| (Decrease) increase in:   |                          |                            |
| Accounts payable and accrued liabilities  | (26,074)                 | (103,522)                  |
| Deferred revenue  | (28,075)                 | 30,075                     |
| Due to related parties  | (198)                    | 833                        |
| Grants payable  | <u>(2,000)</u>           | <u>-</u>                   |
| Net cash provided (used) by operating activities  | <u>895,404</u>           | <u>(1,358,085)</u>         |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                          |                            |
| Purchase of furniture and equipment   | (392,056)                | (7,488)                    |
| Purchase of investments   | (3,901,946)              | (5,305,377)                |
| Proceeds from sale of investments   | <u>1,159,148</u>         | <u>5,939,152</u>           |
| Net cash (used) provided by investing activities  | <u>(3,134,854)</u>       | <u>626,287</u>             |
| Net decrease in cash and cash equivalents   | (2,239,450)              | (731,798)                  |
| Cash and cash equivalents at beginning of year  | <u>3,001,293</u>         | <u>3,733,091</u>           |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>   | <b><u>\$ 761,843</u></b> | <b><u>\$ 3,001,293</u></b> |

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

**NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2011**

**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 150,000 members affiliated through more than 705 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*. 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, 2010, from which the summarized information was derived.

Cash and cash equivalents -

Through December 31, 2012, the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") provides temporary unlimited deposit insurance coverage for noninterest-bearing transaction accounts at all Federal Deposit Insurance Corporation (FDIC) - insured depository institutions (the "Dodd-Frank Deposit Insurance Provision"). The Organizations maintain a portion of their cash balances at financial institutions in noninterest-bearing accounts; thereby, all of these cash balances are protected by the FDIC under this Act.

At times during the year, the Organizations maintain cash balances in interest-bearing accounts at financial institutions in excess of the Federal Deposit Insurance Corporation (FDIC) limits. Management believes the risk in these situations to be minimal.

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

NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2011

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

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.

Accounts 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.

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.

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 -

In June 2006, the Financial Accounting Standards Board (FASB) released FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes. For the year ended December 31, 2011, the Organizations have documented their consideration of FASB ASC 740-10 and determined that no material uncertain tax positions qualify for either recognition or disclosure in the combined financial statements. The Federal Form 990, *Return of Organization Exempt from Income Tax*, is subject to examination by the Internal Revenue Service, generally for three years after it is filed.

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.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2011**

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

Net asset classification (continued) -

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

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.

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 measurements -

The Organizations adopted the provisions of FASB ASC 820, *Fair Value Measurements and Disclosures*. 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 measurements. The Organizations account for a significant portion of their financial instruments at fair value or considers fair value in their measurement.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2011**

**2. INVESTMENTS**

Investments consisted of the following at December 31, 2011:

|                             | <b>Fair Value</b>   |
|-----------------------------|---------------------|
| Mutual Funds (Equities)     | \$ 3,796,991        |
| Mutual Funds (Fixed Income) | 2,394,151           |
| Alternatives (Hedge Funds)  | 960,923             |
| <b>TOTAL INVESTMENTS</b>    | <b>\$ 7,152,065</b> |

Alternative investments are comprised of the following at December 31, 2011:

| <b>Investment Type</b>               | <b>Amount</b>     | <b>Liquidity</b>                |
|--------------------------------------|-------------------|---------------------------------|
| Hedge Funds and Funds of Hedge Funds | \$ 226,169        | No lock up, daily liquidity     |
| Hedge Funds and Funds of Hedge Funds | 93,232            | No lock up, quarterly liquidity |
| Hedge Funds and Funds of Hedge Funds | 34,563            | No lock up, daily liquidity     |
| Hedge Funds and Funds of Hedge Funds | 606,959           | No lock up, quarterly liquidity |
| <b>ALTERNATIVE INVESTMENTS</b>       | <b>\$ 960,923</b> |                                 |

Included in investment income are the following at December 31, 2011:

|  |                  |
|--|------------------|
| Interest and dividends   | \$ 423,628       |
| Unrealized loss  | (433,380)        |
| Distributions from the beneficial interest in perpetual trusts | 38,279           |
| <b>TOTAL INVESTMENT INCOME</b>                                 | <b>\$ 28,527</b> |

**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 (loss) gain in perpetual trust in the Combined Statement of Activities and Change in Net Assets. For the year ended December 31, 2011, The Arc recorded a net loss in perpetual trust of \$(65,269), due to the decrease in fair value.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2011**

**3. BENEFICIAL INTEREST IN PERPETUAL TRUST (Continued)**

The Arc also received distributions from the beneficial interest in perpetual trusts, in the amount \$38,279, which is included in unrestricted investment income in the Combined 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, 2011, Board-designated assets totaled \$609,682.

**5. TEMPORARILY RESTRICTED NET ASSETS**

As of December 31, 2011, temporarily restricted net assets consisted of the following:

|   |                            |
|---|----------------------------|
| Public Supported Research                       | \$ 219,039                 |
| Direct Assistance and Services                  | 76,423                     |
| Samuelson Endowment for Children                | 24,079                     |
| Disaster Relief Fund                            | 100                        |
| Accumulated investment earnings from Endowments | 6,838                      |
| Wal-Mart School to Community Transition         | 744,397                    |
| Consuelo Gonzalez Education, Support            | 3,554,945                  |
| Flinn Trust                                     | 1,583,135                  |
| Consuelo Gonzalez - DS Research Fund            | 100,066                    |
| Give a Parent a Break                           | 3,812                      |
| Paul Marchand Fellowship Fund for Public Policy | <u>36,706</u>              |
| <b>TOTAL TEMPORARILY RESTRICTED NET ASSETS</b>  | <b><u>\$ 6,349,540</u></b> |

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

|  |                            |
|--|----------------------------|
| Donor-Imposed Restrictions:                        |                            |
| Public Supported Research                          | \$ 199,906                 |
| Direct Assistance and Services                     | 10                         |
| Public Policy Advocacy Fund                        | 685                        |
| Sibling Leadership Council                         | 300                        |
| Endowments   | 2,229                      |
| Wal-Mart School to Community Transition            | 1,008,071                  |
| Consuelo Gonzalez Education, Support               | 6,877                      |
| E-waiting List Campaign                            | 610                        |
| Samuelson Endowment for Children                   | 25,000                     |
| Flinn Trust  | 44,011                     |
| Paul Marchand Fellowship Fund for Public Policy    | <u>6,109</u>               |
| <b>TOTAL NET ASSETS RELEASED FROM RESTRICTIONS</b> | <b><u>\$ 1,293,808</u></b> |

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

**NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2011**

**6. RELATED PARTY TRANSACTIONS**

The Arc and the Foundation have separate governing Boards of Directors, but share two voting directors which control the Foundation's Board. At December 31, 2011, The Arc has a receivable from the Foundation amounting to \$16,597, for expenses paid by The Arc on behalf of the Foundation. Inter-company transactions are eliminated in the combined report presented.

On March 30, 2010, The Arc entered into a joint venture agreement with the National Conference of Executives of the Arc (NCE) in which The Arc would perform all accounting procedures and program services. The Arc and NCE have separate governing Boards of Directors, but share common directors. These common directors do not cause The Arc to have control over NCE's Board.

At December 31, 2011, The Arc held cash in the amount of \$32,562 on behalf of NCE.

**7. COMMITMENTS - OPERATING LEASES**

The Arc occupied office space under a non-cancelable operating lease, having an original term of more than one year, expiring September 30, 2011.

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 is only required to pay 50% of the rental installments for the 12 months following and will receive 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. In future periods, 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 and storage, was \$369,943 for the year ended December 31, 2011. Additionally, the deferred rent liability at year-end was \$130,848.

At December 31, 2011, minimum annual rental commitment under the lease is as follows:

**Year Ended December 31,**

|            |                            |
|------------|----------------------------|
| 2012       | \$ 483,652                 |
| 2013       | 495,754                    |
| 2014       | 508,171                    |
| 2015       | 520,845                    |
| 2016       | 537,696                    |
| Thereafter | <u>3,864,047</u>           |
|            | <b><u>\$ 6,410,165</u></b> |



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

**NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2011**

**8. RETIREMENT PLAN**

The Arc has non-contributory pension plan (the Plan), covering substantially all of its regular employees. Total pension expense was \$190,678 for the year ended December 31, 2011. 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. CONTRIBUTED SERVICES**

During the year ended December 31, 2011, The Arc was the beneficiary of donated services in the amount of \$129,077. The value of these goods was estimated at fair market value, and has been included as revenue and expenses in the accompanying financial statements for the year ended December 31, 2011, as follows:

|                               |                          |
|-------------------------------|--------------------------|
| <b>Donated Legal Services</b> | <b><u>\$ 129,077</u></b> |
|-------------------------------|--------------------------|

**10. FAIR VALUE MEASUREMENTS**

In accordance with FASB ASC 820, *Fair Value Measurements and Disclosures*, 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. 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.** 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, 2011:

- *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.
- *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 ARC OF THE UNITED STATES  
THE FOUNDATION OF THE ARC OF THE UNITED STATES**

**NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2011**

**10. FAIR VALUE MEASUREMENTS (Continued)**

The table below summarizes, by level within the fair value hierarchy, the Organizations' investments as of December 31, 2011:

|  | <u>Level 1</u>             | <u>Level 2</u>     | <u>Level 3</u>             | <u>Total</u>               |
|--|----------------------------|--------------------|----------------------------|----------------------------|
| <b>Asset Category:</b>   |                            |                    |                            |                            |
| Mutual Funds (Equities)  | \$ 3,796,991               | \$ -               | \$ -                       | \$ 3,796,991               |
| Mutual Funds (Fixed Income)  | 2,394,151                  | -                  | -                          | 2,394,151                  |
| Alternatives (Hedge Funds)   | <u>-</u>                   | <u>-</u>           | <u>960,923</u>             | <u>960,923</u>             |
| <b>TOTAL</b>   | <b><u>\$ 6,191,142</u></b> | <b><u>\$ -</u></b> | <b><u>\$ 960,923</u></b>   | <b><u>\$ 7,152,065</u></b> |
| <br>   |                            |                    |                            |                            |
| <b>INVESTMENTS HELD FOR BENEFICIAL<br/>INTEREST IN PERPETUAL TRUST</b> | <b><u>\$ -</u></b>         | <b><u>\$ -</u></b> | <b><u>\$ 1,057,228</u></b> | <b><u>\$ 1,057,228</u></b> |

**Level 3 Financial Assets**

The following table provides a summary of changes in fair value of the Organizations' financial assets for the year ended December 31, 2011:

|   | <u>Investments</u>       | <u>Perpetual<br/>Trust</u> |
|---|--------------------------|----------------------------|
| Beginning balance as of January 1, 2011 | \$ -                     | \$ 1,122,497               |
| Unrealized and realized losses          | (69,277)                 | (46,700)                   |
| Earned income                           | 38                       | 35,811                     |
| Purchases (sales)                       | <u>1,030,162</u>         | <u>(54,380)</u>            |
| <b>BALANCE AS OF DECEMBER 31, 2011</b>  | <b><u>\$ 960,923</u></b> | <b><u>\$ 1,057,228</u></b> |

**11. 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.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2011**

**11. ENDOWMENT (Continued)**

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.

The Organizations' endowment net asset composition by type of fund as of December 31, 2011:

|  | <u>Unrestricted</u>      | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>               |
|--|--------------------------|-----------------------------------|-----------------------------------|----------------------------|
| Donor-Restricted Endowment Funds       | \$ (1,962)               | \$ 6,838                          | \$ 992,096                        | \$ 996,972                 |
| Beneficial Interest in Perpetual Trust | <u>-</u>                 | <u>-</u>                          | <u>1,057,228</u>                  | <u>1,057,228</u>           |
| <b>TOTAL FUNDS</b>                     | <b><u>\$ (1,962)</u></b> | <b><u>\$ 6,838</u></b>            | <b><u>\$ 2,049,324</u></b>        | <b><u>\$ 2,054,200</u></b> |

Changes in endowment net assets for the year ended December 31, 2011:

|  | <u>Unrestricted</u>      | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>               |
|--|--------------------------|-----------------------------------|-----------------------------------|----------------------------|
| Endowment net assets, beginning of year                        | \$ -                     | \$ 9,736                          | \$ 2,114,593                      | \$ 2,124,329               |
| Investment loss  | (1,962)                  | (669)                             | (65,269)                          | (67,900)                   |
| Appropriations of expenditures in accordance with donor intent | <u>-</u>                 | <u>(2,229)</u>                    | <u>-</u>                          | <u>(2,229)</u>             |
| <b>ENDOWMENT NET ASSETS, END OF YEAR</b>                       | <b><u>\$ (1,962)</u></b> | <b><u>\$ 6,838</u></b>            | <b><u>\$ 2,049,324</u></b>        | <b><u>\$ 2,054,200</u></b> |

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. Deficiencies totaled \$1,962 as of December 31, 2011.

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.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2011**

**11. ENDOWMENT (Continued)**

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.

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.

**12. SUBSEQUENT EVENTS**

In preparing these combined financial statements, the Organizations have evaluated events and transactions for potential recognition or disclosure through April 14, 2012, the date the combined financial statements were issued. The Organization received approximately \$4,000,000 in a bequest in January 2012.