COMBINED FINANCIAL STATEMENTS

# THE ARC OF THE UNITED STATES

# THE FOUNDATION OF THE ARC OF THE UNITED STATES

FOR THE YEAR ENDED DECEMBER 31, 2012
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2011

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

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying combined financial statements of The Arc of the United States (The Arc) (a non-profit organization), which comprise the combined statement of financial position as of December 31, 2012, and the related combined statements of activities and change in net assets, functional expenses and cash flows for the year then ended, and the related notes to the combined financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

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

### Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of The Arc as of December 31, 2012, and the combined change in net assets and their combined cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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**Report on Summarized Comparative Information**

We have previously audited The Arc's 2011 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 14, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Gelman Rosenberg & Freedman

Bethesda, Maryland
April 14, 2013

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

**COMBINED STATEMENT OF FINANCIAL POSITION**
**AS OF DECEMBER 31, 2012**
**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2011**

## ASSETS

| | 2012 | 2011 |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | $ 1,587,002 | $ 761,843 |
| Investments (Notes 2 and 10) | 12,014,405 | 7,152,065 |
| Accounts receivable and advances, net of allowance for doubtful accounts of $80,476 and $143,454, for 2012 and 2011, respectively | 538,042 | 258,247 |
| Grants receivable | 335,180 | 198,997 |
| Prepaid expenses | 4,429 | 74,429 |
| Total current assets | 14,479,058 | 8,445,581 |
| **FIXED ASSETS** | | |
| Furniture and equipment | 1,483,351 | 743,422 |
| Less: Accumulated depreciation and amortization | (507,424) | (325,386) |
| Net fixed assets | 975,927 | 418,036 |
| **OTHER ASSETS** | | |
| Other assets | 6,726 | 88,891 |
| Investments held for beneficial interest in perpetual trust (Notes 3 and 10) | 1,136,150 | 1,057,228 |
| Total other assets | 1,142,876 | 1,146,119 |
| **TOTAL ASSETS** | **$ 16,597,861** | **$ 10,009,736** |

See accompanying notes to combined financial statements.

## LIABILITIES AND NET ASSETS

| | 2012 | 2011 |
|---|---|---|
| **CURRENT LIABILITIES** | | |
| Accounts payable and accrued liabilities | $ 565,160 | $ 380,868 |
| Deferred revenue | - | 5,000 |
| Due to related parties (Note 6) | 32,405 | 33,086 |
| Grants payable | 456 | 4,456 |
| Total current liabilities | 598,021 | 423,410 |
| **LONG-TERM LIABILITIES** | | |
| Deferred rent (Note 7) | 1,029,279 | 130,848 |
| Total liabilities | 1,627,300 | 554,258 |
| **NET ASSETS** | | |
| Unrestricted: | | |
| Undesignated | 864,114 | 446,932 |
| Board-designated (Note 4) | 609,682 | 609,682 |
| Total unrestricted net assets | 1,473,796 | 1,056,614 |
| Temporarily restricted (Note 5) | 11,368,519 | 6,349,540 |
| Permanently restricted (Note 11) | 2,128,246 | 2,049,324 |
| Total net assets | 14,970,561 | 9,455,478 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 16,597,861 | $ 10,009,736 |

See accompanying notes to combined financial statements.

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

**COMBINED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS**
**FOR THE YEAR ENDED DECEMBER 31, 2012**
**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2011**

| | 2012 | | | | 2011 |
|---|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Total |
| **REVENUE** | | | | | |
| Contributions | $ 680,930 | $ 1,144,845 | $ - | $ 1,825,775 | $ 849,926 |
| Government grants | 1,365,341 | - | - | 1,365,341 | 2,031,477 |
| Sub-contract revenue | - | - | - | - | 101,140 |
| Investment income (Notes 2 and 3) | 611,830 | 490,177 | - | 1,102,007 | 28,527 |
| Bequest income | 210,425 | 4,452,777 | - | 4,663,202 | 1,638,645 |
| Advertising | 50 | - | - | 50 | 2,725 |
| Contributed services (Note 9) | 54,730 | - | - | 54,730 | 129,077 |
| Affiliation and chapter fees | 2,436,347 | 57,798 | - | 2,494,145 | 2,455,714 |
| Royalty income | 60,746 | - | - | 60,746 | 64,531 |
| Registration fees | 617,734 | - | - | 617,734 | 427,742 |
| Program service fees | 64,219 | - | - | 64,219 | 121,275 |
| Other income | 7,239 | - | - | 7,239 | 4,791 |
| Net gain (loss) in perpetual trust (Note 3) | - | - | 78,922 | 78,922 | (65,269) |
| Net assets released from donor restrictions (Note 5) | 1,126,618 | (1,126,618) | - | - | - |
| Total revenue | 7,236,209 | 5,018,979 | 78,922 | 12,334,110 | 7,790,301 |
| **EXPENSES** | | | | | |
| Program Services: | | | | | |
| Chapter Excellence | 1,051,798 | - | - | 1,051,798 | 1,850,193 |
| Public Education | 485,689 | - | - | 485,689 | 588,331 |
| Public Policy | 1,149,041 | - | - | 1,149,041 | 1,206,983 |
| National Initiatives | 2,620,633 | - | - | 2,620,633 | 2,453,195 |
| Chapter Organizing and Advocacy | 306,190 | - | - | 306,190 | 265,874 |
| Total program services | 5,613,351 | - | - | 5,613,351 | 6,364,576 |
| Supporting Services: | | | | | |
| Management and General | 796,507 | - | - | 796,507 | 433,087 |
| Fundraising | 409,169 | - | - | 409,169 | 597,718 |
| Total supporting services | 1,205,676 | - | - | 1,205,676 | 1,030,805 |
| Total expenses | 6,819,027 | - | - | 6,819,027 | 7,395,381 |
| Change in net assets | 417,182 | 5,018,979 | 78,922 | 5,515,083 | 394,920 |
| Net assets at beginning of year | 1,056,614 | 6,349,540 | 2,049,324 | 9,455,478 | 9,060,558 |
| **NET ASSETS AT END OF YEAR** | **$ 1,473,796** | **$ 11,368,519** | **$ 2,128,246** | **$14,970,561** | **$ 9,455,478** |

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, 2012
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2011**

| | 2012 | | | |
|---|---|---|---|---|
| | Program Services | | | |
| | Chapter Excellence | Public Education | Public Policy | National Initiatives |
| Salaries | $ 451,893 | $ 163,367 | $ 658,282 | $ 588,453 |
| Employee benefits (Note 8) | 75,555 | 27,314 | 110,063 | 98,387 |
| Payroll taxes | 31,911 | 11,537 | 46,486 | 41,555 |
| Professional fees | 25,039 | 28,398 | 18,335 | 88,981 |
| In-kind professional fees (Note 9) | - | - | - | - |
| Supplies | 4,706 | 727 | 3,111 | 13,194 |
| Telephone and internet | 12,119 | 1,726 | 6,000 | 37,498 |
| Postage and shipping | 6,579 | 75,865 | 2,186 | 10,768 |
| Insurance | 3,183 | 748 | 2,581 | 5,218 |
| Occupancy and storage (Note 7) | 76,929 | 13,636 | 47,027 | 222,125 |
| Outside printing and design | 11,949 | 119,359 | 13,889 | 20,438 |
| Conferences, meetings and travel | 274,953 | 4,142 | 142,250 | 83,415 |
| Subscriptions and dues | 17,939 | 19,131 | 56,964 | 83,139 |
| Grants and sub-grants | 5,828 | - | - | 969,965 |
| Equipment/infrastructure repairs and maintenance | 11,984 | 10,637 | 5,719 | 77,958 |
| Depreciation and amortization | 30,585 | 7,190 | 24,795 | 50,134 |
| Miscellaneous and bad debt | 10,646 | 1,912 | 11,353 | 229,405 |
| **TOTAL** | **$ 1,051,798** | **$ 485,689** | **$ 1,149,041** | **$ 2,620,633** |

| | | | | | | 2011 |
|---|---|---|---|---|---|---|
| | | Supporting Services | | | | |
| Chapter Organizing and Advocacy | Total Program Services | Management and General | Fundraising | Total Supporting Services | Total Expenses | Total Expenses |
| $ 148,474 | $ 2,010,469 | $ 591,075 | $ 204,653 | $ 795,728 | $ 2,806,197 | $ 2,455,459 |
| 24,824 | 336,143 | 98,826 | 34,217 | 133,043 | 469,186 | 400,768 |
| 10,485 | 141,974 | 41,740 | 14,452 | 56,192 | 198,166 | 171,865 |
| 9,857 | 170,610 | 22,589 | 13,900 | 36,489 | 207,099 | 431,751 |
| - | - | 54,730 | - | 54,730 | 54,730 | 129,077 |
| 1,336 | 23,074 | 2,994 | 1,279 | 4,273 | 27,347 | 40,023 |
| 2,804 | 60,147 | 5,098 | 2,045 | 7,143 | 67,290 | 63,023 |
| 1,706 | 97,104 | 2,298 | 31,566 | 33,864 | 130,968 | 188,999 |
| 1,387 | 13,117 | 3,179 | 1,096 | 4,275 | 17,392 | 11,446 |
| 25,283 | 385,000 | 57,936 | 19,976 | 77,912 | 462,912 | 372,372 |
| 686 | 166,321 | 6 | 30,173 | 30,179 | 196,500 | 346,722 |
| 22,930 | 527,690 | 12,804 | 15,662 | 28,466 | 556,156 | 759,452 |
| 5,061 | 182,234 | 5,868 | 4,043 | 9,911 | 192,145 | 140,760 |
| 32,206 | 1,007,999 | - | - | - | 1,007,999 | 1,510,726 |
| 3,021 | 109,319 | 6,922 | 17,608 | 24,530 | 133,849 | 93,099 |
| 13,330 | 126,034 | 30,547 | 10,532 | 41,079 | 167,113 | 57,074 |
| 2,800 | 256,116 | (140,105) | 7,967 | (132,138) | 123,978 | 222,765 |
| **$ 306,190** | **$ 5,613,351** | **$ 796,507** | **$ 409,169** | **$ 1,205,676** | **$ 6,819,027** | **$ 7,395,381** |

See accompanying notes to combined financial statements.

**THE ARC OF THE UNITED STATES**
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**COMBINED STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED DECEMBER 31, 2012**
**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2011**

| | 2012 | 2011 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Change in net assets | $ 5,515,083 | $ 394,920 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 182,038 | 57,074 |
| Unrealized (gain) loss on investments | (232,615) | 433,380 |
| Realized gain on sale of investments | (541,380) | - |
| Deferred rent abatement | 898,431 | 130,848 |
| Net (gain) loss in perpetual trust | (78,922) | 65,269 |
| Bad debt expense | - | 65,184 |
| (Increase) decrease in: | | |
| Accounts receivable and advances | (279,795) | (173,210) |
| Grants receivable | (136,183) | 102,931 |
| Prepaid expenses | 70,000 | (58,127) |
| Other assets | 82,165 | (66,518) |
| (Decrease) increase in: | | |
| Accounts payable and accrued liabilities | 184,292 | (26,074) |
| Deferred revenue | (5,000) | (28,075) |
| Due to related parties | (681) | (198) |
| Grants payable | (4,000) | (2,000) |
| Net cash provided by operating activities | 5,653,433 | 895,404 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of furniture and equipment | (739,929) | (392,056) |
| Purchase of investments | (11,124,802) | (3,901,946) |
| Proceeds from sale of investments | 7,036,457 | 1,159,148 |
| Net cash used by investing activities | (4,828,274) | (3,134,854) |
| Net increase (decrease) in cash and cash equivalents | 825,159 | (2,239,450) |
| Cash and cash equivalents at beginning of year | 761,843 | 3,001,293 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | **$ 1,587,002** | **$ 761,843** |

## 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 about 700 state and local chapters across the nation, including training and education assistance with employment and independent living. The Arc is devoted to promoting and improving supports and services for all people with intellectual and developmental disabilities. The Arc is primarily supported by affiliation fees, program revenue and support from the general public.

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

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

Basis of presentation -

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

The combined financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organizations' combined financial statements for the year ended December 31, 2011, from which the summarized information was derived.

Cash and cash equivalents -

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

Through December 31, 2012, the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") provided temporary unlimited deposit insurance coverage for non-interest bearing transaction accounts at all Federal Deposit Insurance Corporation (FDIC) insured depository institutions (the "Dodd-Frank Deposit Insurance Provision"). The Organization maintained a portion of its cash balance at a financial institution in a non-interest bearing account; thereby, all of this cash balance was protected by the FDIC under this Act. Beginning January 1, 2013, funds deposited in non-interest bearing accounts will no longer receive unlimited deposit insurance coverage. Bank deposit accounts at one institution will be insured by the FDIC up to a limit of $250,000. Management believes the risk in these situations to be minimal.

## 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.

Grants receivable that are expected to be collected in future years are recorded at fair value, measured as the present value of their future cash flows. All grants receivable are considered by management to be fully collectible within the next year.

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, 2012, 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.

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

Net asset classification (continued) -

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

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

Contributions and grants -

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

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

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.

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

Fair value measurement -

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

## 2. INVESTMENTS

Investments consisted of the following at December 31, 2012:

| | Fair Value |
|---|---|
| Mutual Funds (Equities) | $ 1,279,385 |
| Mutual Funds (Fixed Income) | 8,800,355 |
| Alternatives (Hedge Funds) | 1,934,665 |
| **TOTAL INVESTMENTS** | **$ 12,014,405** |

Alternative investments are comprised of the following at December 31, 2012:

| Investment Type | Amount | Liquidity |
|---|---|---|
| Hedge Funds and Funds of Hedge Funds | $ 727,052 | No lock up, quarterly liquidity |
| Hedge Funds and Funds of Hedge Funds | 110,931 | No lock up, quarterly liquidity |
| Hedge Funds and Funds of Hedge Funds | 391,363 | No lock up, daily liquidity |
| Hedge Funds and Funds of Hedge Funds | 33,980 | No lock up, daily liquidity |
| Hedge Funds and Funds of Hedge Funds | 671,339 | No Lock-up but 2% termination fee if owned <1Year, expires 05/30/2013, quarterly liquidity |
| **ALTERNATIVE INVESTMENTS** | **$ 1,934,665** | |

Included in investment income are the following at December 31, 2012:

| | |
|---|---|
| Interest and dividends, net of investment fees of $104,445 | $ 292,913 |
| Unrealized gain | 232,615 |
| Realized gain | 541,380 |
| Distributions from the beneficial interest in perpetual trusts | 35,099 |
| **TOTAL INVESTMENT INCOME** | **$ 1,102,007** |

## 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, 2012, The Arc recorded a net gain in perpetual trust of $78,922, due to the increase in fair value.

The Arc also received distributions from the beneficial interest in perpetual trusts in the amount of $35,099, 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, 2012, Board-designated assets totaled $609,682.

## 5. TEMPORARILY RESTRICTED NET ASSETS

As of December 31, 2012, temporarily restricted net assets consisted of the following:

| | |
|---|---|
| Donor-Imposed Restrictions: | |
| eXploreeRecycling | $ 350,004 |
| Public Supported Research | 222,141 |
| Direct Assistance and Services | 76,423 |
| Disaster Relief Fund | 4,468 |
| Wings for Autism | 90,181 |
| Accumulated investment earnings from Endowments | 17,020 |
| School to Community Transition | 535,517 |
| Consuelo Gonzalez Education, Support | 3,911,851 |
| Flinn Trust | 6,003,706 |
| Consuelo Gonzalez - DS Research Fund | 111,903 |
| Give a Parent a Break | 3,812 |
| Paul Marchand Fellowship Fund for Public Policy | 41,493 |
| **TOTAL TEMPORARILY RESTRICTED NET ASSETS** | **$ 11,368,519** |

## 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: | |
| eXploreeRecycling | $ 214,997 |
| Disaster Relief Fund | 10 |
| Public Policy Advocacy Fund | 1,050 |
| Sibling Leadership Council | 50 |
| Endowments | 44,268 |
| School to Community Transition | 736,677 |
| Consuelo Gonzalez Education, Support | 60,099 |
| E-waiting List Campaign | 515 |
| Wings for Autism | 9,819 |
| Samuelson Endowment for Children | 26,928 |
| Flinn Trust | 32,205 |
| **TOTAL NET ASSETS RELEASED FROM RESTRICTIONS** | **$ 1,126,618** |

## 6. RELATED PARTY TRANSACTIONS

The Arc and the Foundation have separate governing Boards of Directors, but share five voting directors which control the Foundation's Board. At December 31, 2012, The Arc has a receivable from the Foundation amounting to $29,888, 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, 2012, The Arc held cash in the amount of $33,284 on behalf of NCE.

## 7. COMMITMENTS - OPERATING LEASES

During fiscal year 2011, The Arc signed a 140 month lease commencing on October 1, 2011 and terminating on May 31, 2023, with annual lease escalations of 2.5%. As part of the lease agreement, The Arc received three free months of rent at the commencement of the contract. Additionally, The Arc 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.

## 7. COMMITMENTS - OPERATING LEASES (Continued)

Rent, which is included in occupancy and storage, was $459,135 for the year ended December 31, 2012. Additionally, the deferred rent and lease incentive liability at year-end was $1,029,279.

At December 31, 2012, minimum annual rental commitment under the lease is as follows:

| Year Ending December 31, | |
|---|---|
| 2013 | $ 386,821 |
| 2014 | 508,171 |
| 2015 | 520,845 |
| 2016 | 537,696 |
| 2017 | 562,644 |
| Thereafter | 3,301,403 |
| | **$ 5,817,580** |

## 8. RETIREMENT PLAN

The Arc has a non-contributory pension plan (the Plan), covering substantially all of its regular employees. Total pension expense was $229,447 for the year ended December 31, 2012. 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, 2012, The Arc was the beneficiary of donated services in the amount of $54,730. 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, 2012, as follows:

| | |
|---|---|
| **Donated Legal Services** | **$ 54,730** |

## 10. FAIR VALUE MEASUREMENT

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

## 10. FAIR VALUE MEASUREMENT (Continued)

**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, 2012:

- *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 table below summarizes, by level within the fair value hierarchy, the Organizations' investments as of December 31, 2012:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Asset Category:** | | | | |
| Mutual Funds (Equities) | $ 1,279,385 | $ - | $ - | $ 1,279,385 |
| Mutual Funds (Fixed Income) | 8,800,355 | - | - | 8,800,355 |
| Alternatives (Hedge Funds) | - | - | 1,934,665 | 1,934,665 |
| **TOTAL** | **$ 10,079,740** | **$ -** | **$ 1,934,665** | **$ 12,014,405** |
| **INVESTMENTS HELD FOR BENEFICIAL INTEREST IN PERPETUAL TRUST** | **$ -** | **$ -** | **$ 1,136,150** | **$ 1,136,150** |

### 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, 2012:

| | Investments | Perpetual Trust |
|---|---|---|
| Beginning balance as of January 2, 2012 | $ 960,923 | $ 1,057,228 |
| Unrealized and realized losses | 148,747 | 84,248 |
| Earned income | 4 | 27,508 |
| Purchases (sales) | 824,991 | (32,834) |
| **BALANCE AS OF DECEMBER 31, 2012** | **$ 1,934,665** | **$ 1,136,150** |

## 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.

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, 2012:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Donor-Restricted Endowment Funds | $ 1,202 | $ 17,020 | $ 992,096 | $ 1,010,318 |
| Beneficial Interest in Perpetual Trust | - | - | 1,136,150 | 1,136,150 |
| **TOTAL FUNDS** | **$ 1,202** | **$ 17,020** | **$ 2,128,246** | **$ 2,146,468** |

Changes in endowment net assets for the year ended December 31, 2012:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, beginning of year | $ (1,962) | $ 6,838 | $ 2,049,324 | $ 2,054,200 |
| Investment gain | 3,164 | 29,594 | 78,922 | 111,680 |
| Appropriations of expenditures in accordance with donor intent | - | (19,412) | - | (19,412) |
| **ENDOWMENT NET ASSETS, END OF YEAR** | **$ 1,202** | **$ 17,020** | **$ 2,128,246** | **$ 2,146,468** |

## 11. 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 UPMIFA requires the Organizations to retain as fund of perpetual duration. There was no deficiency as of December 31, 2012.

Return Objectives and Risk Parameters -

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

Strategies Employed for Achieving Objectives -

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

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, 2013, the date the combined financial statements were issued.