

**FINANCIAL STATEMENTS**

**THE ARC OF THE UNITED STATES**

**FOR THE YEAR ENDED DECEMBER 31, 2007  
WITH SUMMARIZED FINANCIAL  
INFORMATION FOR 2006**

# THE ARC OF THE UNITED STATES

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

**INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying statement of financial position of The Arc of the United States as of December 31, 2007, and the related statements of activities and change in net assets, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of The Arc of the United States' management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the organization's 2006 financial statements and, in our report dated April 26, 2007, we expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Arc of the United States as of December 31, 2007, and its change in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Gelman Rosenberg & Freedman*

July 16, 2008

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MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

**THE ARC OF THE UNITED STATES**  
**STATEMENT OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2007**  
**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2006**

**ASSETS**

	<b>2007</b>	<b>2006</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents (Note 6)	\$ 386,808	\$ 2,340,496
Investments (Note 2)	2,196,017	312,932
Accounts receivable and advances, net of allowance for doubtful accounts of \$206,367 and \$235,500 for 2007 and 2006, respectively	117,511	273,690
Grants receivable	235,545	122,644
Inventory	14,268	12,545
Prepaid expenses	57,369	76,070
Due from related parties	-	129,031
Total current assets	<b>3,007,518</b>	<b>3,267,408</b>
<b>FURNITURE AND EQUIPMENT</b>		
Furniture and equipment	907,229	866,130
Less: Accumulated depreciation	(759,506)	(686,694)
Net furniture and equipment	<b>147,723</b>	<b>179,436</b>
<b>OTHER ASSETS</b>		
Deposits	10,020	25,656
Investment held for beneficial interest in perpetual trust (Note 3)	1,032,273	993,148
Total other assets	<b>1,042,293</b>	<b>1,018,804</b>
<b>TOTAL ASSETS</b>	<b>\$ 4,197,534</b>	<b>\$ 4,465,648</b>

See accompanying notes to financial statements.

## LIABILITIES AND NET ASSETS

	<u>2007</u>	<u>2006</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 454,908	\$ 146,953
Grants payable	6,456	6,456
Accrued vacation	111,031	138,892
Deferred revenue	1,400	21,500
Due to related parties (Note 6)	<u>204,203</u>	<u>64,122</u>
Total current liabilities	<u>777,998</u>	<u>377,923</u>
<b>NET ASSETS</b>		
Unrestricted net assets:		
Undesignated	47,452	165,102
Board designated (Note 9)	<u>829,613</u>	<u>571,344</u>
Total unrestricted net assets	877,065	736,446
Temporarily restricted (Note 4)	789,462	893,975
Permanently restricted (Note 5)	<u>1,753,009</u>	<u>2,457,304</u>
Total net assets	<u>3,419,536</u>	<u>4,087,725</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 4,197,534</u></b>	<b><u>\$ 4,465,648</u></b>

See accompanying notes to financial statements.

## THE ARC OF THE UNITED STATES

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2006**

	2007			2006	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
<b>REVENUE</b>					
Contributions	\$ 447,480	\$ 35,975	\$ -	\$ 483,455	\$ 505,580
Grants from governmental agencies	454,725	-	-	454,725	71,405
Affiliation and chapter fees	1,927,543	-	-	1,927,543	1,969,483
Registration fees	319,761	-	-	319,761	367,190
Program service fees	300,742	-	-	300,742	387,225
Other income	19,135	-	-	19,135	30,296
Sub-contract revenue	(23,019)	-	-	(23,019)	183,757
Advertising	22,760	-	-	22,760	27,575
Royalty income	73,697	-	-	73,697	89,607
Investment income	158,128	-	-	158,128	146,441
Net appreciation of investments	7,571	-	39,125	46,696	102,536
Net assets released from donor restrictions (Note 4)	<u>32,679</u>	<u>(32,679)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue	<u>3,741,202</u>	<u>3,296</u>	<u>39,125</u>	<u>3,783,623</u>	<u>3,881,095</u>
<b>EXPENSES</b>					
Program services:					
Public Health Education	359,189	-	-	359,189	299,124
Direct Assistance and Services	457,475	-	-	457,475	500,881
Services to Affiliates	<u>2,341,980</u>	<u>-</u>	<u>-</u>	<u>2,341,980</u>	<u>2,053,352</u>
Total program services	<u>3,158,644</u>	<u>-</u>	<u>-</u>	<u>3,158,644</u>	<u>2,853,357</u>
Supporting services:					
Management and General	846,692	-	-	846,692	895,825
Fundraising	<u>446,476</u>	<u>-</u>	<u>-</u>	<u>446,476</u>	<u>370,110</u>
Total supporting services	<u>1,293,168</u>	<u>-</u>	<u>-</u>	<u>1,293,168</u>	<u>1,265,935</u>
Total expenses	<u>4,451,812</u>	<u>-</u>	<u>-</u>	<u>4,451,812</u>	<u>4,119,292</u>
Change in net assets, before other items	(710,610)	3,296	39,125	(668,189)	(238,197)
<b>OTHER ITEMS:</b>					
Transfers	<u>851,229</u>	<u>(107,809)</u>	<u>(743,420)</u>	<u>-</u>	<u>(19,473)</u>
Change in net assets	140,619	(104,513)	(704,295)	(668,189)	(257,670)
Net assets at beginning of year	<u>736,446</u>	<u>893,975</u>	<u>2,457,304</u>	<u>4,087,725</u>	<u>4,345,395</u>
<b>NET ASSETS AT END OF YEAR</b>	<b><u>\$ 877,065</u></b>	<b><u>\$ 789,462</u></b>	<b><u>\$ 1,753,009</u></b>	<b><u>\$ 3,419,536</u></b>	<b><u>\$ 4,087,725</u></b>

See accompanying notes to financial statements.

THE ARC OF THE UNITED STATES

STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2007  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2006

	Program Services			Total Program Services
	Public Health Education	Direct Assistance and Services	Services to Affiliates	
Salaries	\$ 12,196	\$ 93,765	\$ 819,686	\$ 925,647
Employee benefits (Note 8)	1,015	18,430	137,786	157,231
Payroll taxes	864	4,478	57,104	62,446
Professional fees	36,637	64,445	50,456	151,538
Supplies	252	465	5,879	6,596
Telephone and internet	1,013	2,375	25,516	28,904
Postage and shipping	18	552	14,267	14,837
Insurance	-	408	60,156	60,564
Occupancy (Note 7)	800	6,011	120,067	126,878
Outside printing and artwork	1,289	3,829	210,983	216,101
Conferences, meetings and travel	1,797	9,407	576,344	587,548
Subscriptions and dues	-	14,754	5,503	20,257
Grants and sub-grants	293,643	233,320	-	526,963
Equipment/infrastructure repairs and maintenance	-	1,530	31,025	32,555
Depreciation	-	1,820	36,406	38,226
Miscellaneous and bad debt	9,665	1,886	190,802	202,353
	<b>\$ 359,189</b>	<b>\$ 457,475</b>	<b>\$ 2,341,980</b>	<b>\$ 3,158,644</b>

See accompanying notes to financial statements.

2007			2006		
Supporting Services					
Management and General	Fundraising	Total Supporting Services	Total	Total	Total
\$ 412,149	\$ 222,281	\$ 634,430	\$ 1,560,077	\$ 1,863,099	
71,304	35,915	107,219	264,450	327,368	
30,174	17,213	47,387	109,833	116,587	
107,723	42,679	150,402	301,940	211,123	
5,857	2,724	8,581	15,177	14,333	
17,255	8,528	25,783	54,687	52,522	
6,403	9,322	15,725	30,562	35,139	
5,301	2,447	7,748	68,312	79,305	
83,635	36,087	119,722	246,600	264,766	
6,576	24,369	30,945	247,046	231,196	
16,905	19,076	35,981	623,529	543,828	
14,883	75	14,958	35,215	25,010	
-	-	-	526,963	238,384	
15,880	13,101	28,981	61,536	46,701	
23,664	10,922	34,586	72,812	56,808	
28,983	1,737	30,720	233,073	13,123	
<b>\$ 846,692</b>	<b>\$ 446,476</b>	<b>\$ 1,293,168</b>	<b>\$ 4,451,812</b>	<b>\$ 4,119,292</b>	

See accompanying notes to financial statements.



**THE ARC OF THE UNITED STATES**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2006**

	<u>2007</u>	<u>2006</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (668,189)	\$ (257,670)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	72,812	56,808
Unrealized gain on investments	(2,069)	(12,279)
Realized gain on investments	(5,502)	(14,158)
Gain on perpetual trust	(39,125)	(70,999)
(Increase) decrease in:		
Accounts receivable and advances	156,179	309,205
Grants receivable	(112,901)	163,603
Inventory	(1,723)	(416)
Prepaid expenses	18,701	(14,022)
Due from related parties	129,031	(122,704)
Deposits	15,636	-
Increase (decrease) in:		
Accounts payable and accrued expenses	307,955	(35,061)
Grants payable	-	(88,187)
Accrued vacation	(27,861)	24,037
Deferred revenue	(20,100)	16,750
Due to related parties	<u>140,081</u>	<u>10,117</u>
Net cash used by operating activities	<u>(37,075)</u>	<u>(34,976)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of furniture and equipment	(41,099)	(129,017)
Purchase of investments	(2,444,867)	(30,097)
Proceeds from investments	<u>569,353</u>	<u>250,000</u>
Net cash provided (used) by investing activities	<u>(1,916,613)</u>	<u>90,886</u>
Net increase (decrease) in cash and cash equivalents	(1,953,688)	55,910
Cash and cash equivalents at beginning of year	<u>2,340,496</u>	<u>2,284,586</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 386,808</u></b>	<b><u>\$ 2,340,496</u></b>

See accompanying notes to financial statements.

**THE ARC OF THE UNITED STATES**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**

Organization -

The Arc of the United States is the national headquarters of the largest community based organization of and for people with intellectual and developmental disabilities. The Arc of the United States advocates for the rights and full participation of all children and adults with intellectual and developmental disabilities. Together with our network of affiliated chapters and members, we improve systems of supports and services; connect families; inspire communities and influence public policy.

The Arc provides an array of services and support for families and individuals and includes over 132,000 members affiliated through more than 785 state and local chapters across the nation, including training and education assistance with employment and independent living. The Arc of the United States is devoted to promoting and improving supports and services for all people with intellectual and developmental disabilities. The Arc of the United States is primarily supported by affiliation fees, program revenue and support from the general public.

Basis of presentation -

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

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended December 31, 2006, from which the summarized information was derived.

Cash and cash equivalents -

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

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

Investments -

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

Furniture and equipment -

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

**THE ARC OF THE UNITED STATES**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007**

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

Income taxes -

The Arc of the United States is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. The Arc of the United States is not a private foundation.

Inventory -

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

Net asset classification -

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

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of The Arc of the United States and include both internally designated and undesignated resources.
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of The Arc of the United States and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Change in Net Assets as net assets released from restrictions.
- **Permanently restricted net assets** represent funds restricted by the donor to be maintained in-perpetuity by The Arc of the United States.

Transfers of net assets represents a transfer of funds to properly record donor intent.

Contributions and grants -

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

Use of estimates -

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

**THE ARC OF THE UNITED STATES**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007**

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

Functional allocation of expenses -

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

**2. INVESTMENTS**

Investments consisted of the following at December 31, 2007:

	<b>Market Value</b>
Fixed income	\$2,004,046
Equities	10,725
Mutual Funds	181,246
	<b><u>\$2,196,017</u></b>

**3. BENEFICIAL INTEREST IN PERPETUAL TRUST**

The Arc of the United States 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 investment income. The increase in the asset measured by the fair value of the asset contributed to the trust is recorded as a permanently restricted gain.

For the year ended December 31, 2007, The Arc of the United States recorded net appreciation in the investments held in perpetual trust of \$39,125.

**4. TEMPORARILY RESTRICTED NET ASSETS**

As of December 31, 2007, temporarily restricted net assets consisted of the following:

Direct Assistance and Services	\$ 689,922
Public Health Education	99,540
	<b><u>\$ 789,462</u></b>

**THE ARC OF THE UNITED STATES**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007**

**4. TEMPORARILY RESTRICTED NET ASSETS (Continued)**

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

<b>Donor Imposed Restrictions:</b>	
Direct Assistance and Services	\$ 31,679
Public Health Education	<u>1,000</u>
	<b><u>\$ 32,679</u></b>

**5. PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted net assets at December 31, 2007 consist of endowed gifts to be held in-perpetuity with the investment income to be used for general purposes or specific programs conducted by The Arc of the United States.

**6. RELATED PARTY TRANSACTIONS**

During 2007, The Arc of the United States received payment of grants received from the Foundation of The Arc of the United States (the Foundation) that were made in prior years. The Arc of the United States and the Foundation have separate governing Boards of Directors, but share two voting directors.

Beginning in 2002, The Arc of the United States began administering the financial operations of the National Conference of Executives of The Arc of the United States (NCE). The Arc of the United States and NCE have separate governing Boards of Directors, but share common directors. At December 31, 2007, The Arc of the United States held cash in the amount of \$55,606 on behalf of NCE which is included in the balance due to related parties of \$204,203.

**7. COMMITMENTS - OPERATING LEASES**

The Arc of the United States occupies office facilities under non-cancelable operating leases having an original term of more than one year expiring on various dates through 2009. Rental expense was \$246,600 for the year ended December 31, 2007.

At December 31, 2007, minimum annual rental commitments under such leases are as follows:

<b><u>Year Ended December 31,</u></b>	
2008	\$ 326,536
2009	<u>189,153</u>
	<b><u>\$ 515,689</u></b>

**THE ARC OF THE UNITED STATES**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007**

**8. RETIREMENT PLAN**

The Arc of the United States has a fully insured noncontributory pension plan (the Plan) covering substantially all of its regular employees. Total pension expense was \$132,392 for the year ended December 31, 2007. The Plan, which provides for deferred annuity contracts, is a money purchase defined contribution plan. The Arc of the United States' cost is limited to the contributions fixed under the Plan.

**9. 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 of the United States or to fund any other special project of The Arc of the United States. As of December 31, 2007, Board designated assets were approximately \$829,613.