

COMBINED FINANCIAL STATEMENTS

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

**FOR THE YEAR ENDED DECEMBER 31, 2010
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2009**

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

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GELMAN, ROSENBERG & FREEDMAN
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The 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, 2010, 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 Arc's combined financial statements for the year ended December 31, 2009 and, in our report dated March 20, 2010, 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 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, 2010, 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.

Gelman Rosenberg & Freedman

April 30, 2011

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

**COMBINED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2010
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2009**

	2010	2009
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,001,293	\$ 3,733,091
Cash held for endowment (Note 11)	-	271,360
Investments (Notes 2 and 10)	4,842,647	5,052,360
Accounts receivable and advances, net of allowance for doubtful accounts of \$143,454 and \$157,150, during 2010 and 2009, respectively	150,221	157,210
Grants receivable	301,928	171,030
Prepaid expenses	16,302	27,594
Total current assets	8,312,391	9,412,645
FIXED ASSETS		
Furniture and equipment	998,719	991,230
Less: Accumulated depreciation and amortization	(915,665)	(870,784)
Net fixed assets	83,054	120,446
OTHER ASSETS		
Other assets	22,373	22,373
Investment held for beneficial interest in perpetual trust (Notes 3 and 10)	1,122,497	1,026,389
Total other assets	1,144,870	1,048,762
TOTAL ASSETS	\$ 9,540,315	\$ 10,581,853

See accompanying notes to combined financial statements.

LIABILITIES AND NET ASSETS

	<u>2010</u>	<u>2009</u>
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 406,942	\$ 510,464
Deferred revenue	33,075	3,000
Due to Related Parties (Note 6)	33,284	32,451
Grants payable	<u>6,456</u>	<u>6,456</u>
Total current liabilities	<u>479,757</u>	<u>552,371</u>
NET ASSETS		
Unrestricted:		
Undesignated	446,932	274,141
Board-designated (Note 4)	<u>740,457</u>	<u>740,457</u>
Total unrestricted net assets	1,187,389	1,014,598
Temporarily restricted (Note 5)	5,758,576	6,996,399
Permanently restricted (Note 11)	<u>2,114,593</u>	<u>2,018,485</u>
Total net assets	<u>9,060,558</u>	<u>10,029,482</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 9,540,315</u>	<u>\$ 10,581,853</u>

**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, 2010
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2009**

	2010			2009	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
REVENUE					
Contributions	\$ 510,676	\$ 285,957	\$ -	\$ 796,633	\$ 3,474,379
Grants	251,037	-	-	251,037	289,232
Investment income (Note 2)	366,427	274,764	-	641,191	669,467
Bequest income	154,303	-	-	154,303	3,043,097
Advertising	2,000	-	-	2,000	20,050
Contributed services (Note 9)	197,563	-	-	197,563	1,256,510
Affiliation and chapter fees	2,246,059	-	-	2,246,059	2,077,810
Sublicensing fees	73,200	-	-	73,200	-
Royalty income	64,803	-	-	64,803	79,078
Registration fees	469,450	-	-	469,450	388,111
Program service fees	317,887	-	-	317,887	375,920
Other income	26,763	-	-	26,763	1,393
Other revenue	-	-	-	-	59,397
Net gain in perpetual trust (Note 3)	-	-	96,108	96,108	100,555
Net assets released from donor restrictions (Note 5)	<u>1,798,544</u>	<u>(1,798,544)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue	<u>6,478,712</u>	<u>(1,237,823)</u>	<u>96,108</u>	<u>5,336,997</u>	<u>11,834,999</u>
EXPENSES					
Program Services:					
Chapter Excellence	2,768,279	-	-	2,768,279	1,092,677
Public Education	1,297,116	-	-	1,297,116	811,274
Public Policy	<u>1,244,981</u>	<u>-</u>	<u>-</u>	<u>1,244,981</u>	<u>2,341,503</u>
Total program services	<u>5,310,376</u>	<u>-</u>	<u>-</u>	<u>5,310,376</u>	<u>4,245,454</u>
Supporting Services:					
Management and General	520,255	-	-	520,255	566,770
Fundraising	<u>475,290</u>	<u>-</u>	<u>-</u>	<u>475,290</u>	<u>410,679</u>
Total supporting services	<u>995,545</u>	<u>-</u>	<u>-</u>	<u>995,545</u>	<u>977,449</u>
Total expenses	<u>6,305,921</u>	<u>-</u>	<u>-</u>	<u>6,305,921</u>	<u>5,222,903</u>
Change in net assets	172,791	(1,237,823)	96,108	(968,924)	6,612,096
Net assets at beginning of year	<u>1,014,598</u>	<u>6,996,399</u>	<u>2,018,485</u>	<u>10,029,482</u>	<u>3,417,386</u>
NET ASSETS AT END 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>

See accompanying notes to combined financial statements.

**THE ARC OF THE UNITED STATES
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**COMBINED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2010**

	2010			
	Program Services			
	Chapter Excellence	Public Education	Public Policy	Total Program Services
Salaries	\$ 506,406	\$ 427,242	\$ 612,303	\$ 1,545,951
Employee benefits (Note 8)	85,761	72,355	103,695	261,811
Payroll taxes	34,215	28,867	41,370	104,452
Professional fees	108,602	189,846	22,776	321,224
In-kind professional fees (Note 9)	-	29,250	168,313	197,563
Supplies	7,674	14,730	4,935	27,339
Telephone and internet	18,002	15,006	15,721	48,729
Postage and shipping	8,855	76,250	3,210	88,315
Insurance	47,908	2,895	2,944	53,747
Occupancy and storage (Note 7)	66,868	38,309	34,976	140,153
Outside printing and design	28,571	103,676	12,475	144,722
Conferences, meetings and travel	347,560	36,531	150,621	534,712
Subscriptions and dues	75,235	23,087	31,770	130,092
Grants and sub-grants	1,336,000	202,309	-	1,538,309
Equipment/infrastructure repairs and maintenance	22,214	13,743	14,569	50,526
Depreciation and amortization	11,886	9,483	9,642	31,011
Miscellaneous and bad debt	62,522	13,537	15,661	91,720
TOTAL	\$ 2,768,279	\$ 1,297,116	\$ 1,244,981	\$ 5,310,376

See accompanying notes to combined financial statements.

Supporting Services			2009	
Management and General	Fundraising	Total Supporting Services	Total Expenses	Total Expenses
\$ 351,483	\$ 163,792	\$ 515,275	\$ 2,061,226	\$ 1,752,914
59,525	27,739	87,264	349,075	267,327
23,748	11,067	34,815	139,267	123,239
24,796	27,053	51,849	373,073	218,535
-	-	-	197,563	1,256,510
2,748	1,982	4,730	32,069	17,729
4,757	3,185	7,942	56,671	39,325
2,304	34,612	36,916	125,231	88,158
2,612	1,622	4,234	57,981	65,685
31,037	19,274	50,311	190,464	233,566
-	93,043	93,043	237,765	180,671
28,699	22,666	51,365	586,077	480,471
2,705	2,680	5,385	135,477	49,446
-	-	-	1,538,309	279,692
7,747	51,439	59,186	109,712	59,570
8,556	5,313	13,869	44,880	46,660
(30,462)	9,823	(20,639)	71,081	63,405
\$ 520,255	\$ 475,290	\$ 995,545	\$ 6,305,921	\$ 5,222,903

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, 2010
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2009**

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (968,924)	\$ 6,612,096
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	44,880	46,660
Unrealized gain on investments	(47,957)	(522,279)
Realized gain on sale of investments	(104,745)	-
Net gain in perpetual trust	(96,108)	(100,555)
(Increase) decrease in:		
Accounts receivable and advances	6,989	(11,041)
Grants receivable	(130,898)	(115,328)
Inventory	-	3,618
Prepaid expenses	11,292	21,334
Other assets	-	(12,353)
Increase (decrease) in:		
Accounts payable and accrued liabilities	(103,522)	133,291
Deferred revenue	30,075	(68,900)
Due to Related Parties	<u>833</u>	<u>(6,068)</u>
Net cash provided (used) by operating activities	<u>(1,358,085)</u>	<u>5,980,475</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furniture and equipment	(7,488)	(75,885)
Purchase of investments	(5,305,377)	(2,928,695)
Proceeds from sale of investments	<u>5,939,152</u>	<u>-</u>
Net cash provided (used) by investing activities	<u>626,287</u>	<u>(3,004,580)</u>
Net increase (decrease) in cash and cash equivalents	(731,798)	2,975,895
Cash and cash equivalents at beginning of year	<u>3,733,091</u>	<u>757,196</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 3,001,293</u>	<u>\$ 3,733,091</u>

See accompanying notes to combined financial statements.

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

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

The Arc of the United States (The Arc) is the national headquarters of the largest community-based organization of and for people with intellectual and developmental disabilities. The Arc advocates for the rights and full participation of all children and adults with intellectual and developmental disabilities. Together with its network of affiliated chapters and members, The Arc improves systems of support and services; connects families; inspires communities and influences public policy.

The Arc provides an array of services and support for families and individuals and includes over 150,000 members affiliated through more than 725 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, 2009, from which the summarized information was derived.

Cash and cash equivalents -

The Organizations consider 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 Organizations maintain 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.

**THE ARC OF THE UNITED STATES
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**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2010**

**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, 2010, 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.

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
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**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2010**

**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 -

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 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.

Reclassification -

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. These reclassifications had no effect on the previously reported changes in net assets.

**THE ARC OF THE UNITED STATES
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**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2010**

2. INVESTMENTS

Investments consisted of the following at December 31, 2010:

	<u>Market Value</u>
Mutual Funds	\$ 4,685,588
Fixed income	81,942
Government securities	<u>75,117</u>
TOTAL INVESTMENTS	<u>\$ 4,842,647</u>

Included in investment income are the following at December 31, 2010:

Interest and dividends	\$ 447,621
Unrealized gain	47,957
Realized gain	104,745
Distributions from the beneficial interest in perpetual trusts	<u>40,868</u>
TOTAL INVESTMENT INCOME	<u>\$ 641,191</u>

3. BENEFICIAL INTEREST IN PERPETUAL TRUST

The Arc is the beneficiary of certain perpetual trusts held and administered by a third party. The present value of the estimated future cash flows (as measured by the fair value of the underlying investments) is recognized as assets and contribution revenues at the dates the trusts are established. Distribution of the trusts is recorded as unrestricted investment income.

The increase or decrease in the asset measured by the fair value of the asset contributed to the trust is recorded as a permanently restricted gain (loss) in perpetual trust on the Combined Statement of Activities and Change in Net Assets.

For the year ended December 31, 2010, The Arc recorded a net gain in perpetual trust of \$96,108, due to the increase in fair value. The Arc also received distributions from the beneficial interest in perpetual trusts, in the amount \$40,868, which is included in unrestricted investment income on 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, 2010, Board-designated assets totaled \$740,457.

**THE ARC OF THE UNITED STATES
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**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2010**

5. TEMPORARILY RESTRICTED NET ASSETS

As of December 31, 2010, temporarily restricted net assets consisted of the following:

Public Supported Research	\$ 414,850
Direct Assistance and Services	76,422
Samuelson Endowment for Children	50,000
Accumulated investment earnings from Endowments	9,736
Wal-Mart School to Community Transition	1,471,948
Consuelo Gonzalez Education, Support	3,628,579
Consuelo Gonzalez - DS Research Fund	101,953
Give a Parent a Break	3,788
Paul Marchand Fellowship Fund for Public Policy	<u>1,300</u>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	<u>\$5,758,576</u>

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

Donor-Imposed Restrictions:	
Public Supported Research	\$ 1,000
Disaster Relief Fund	2,635
Endowments	24,190
Wal-Mart School to Community Transition	1,706,774
Consuelo Gonzalez Education, Support	61,861
E-waiting List Campaign	1,495
International Work	<u>589</u>
	<u>\$1,798,544</u>

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, 2010, 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, 2010, The Arc held cash in the amount of \$33,284 on behalf of NCE.

7. COMMITMENTS - OPERATING LEASES

The Arc occupies office facilities under non-cancelable operating leases, having an original term of more than one-year, expiring on various dates through 2011. Rental expense was \$190,464 for the year ended December 31, 2010.

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**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2010**

7. COMMITMENTS - OPERATING LEASES (Continued)

At December 31, 2010, minimum annual rental commitments under such leases are as follows:

Year Ended December 31, 2011	<u>\$ 192,802</u>
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8. RETIREMENT PLAN

The Arc has a fully insured non-contributory pension plan (the Plan), covering substantially all of its regular employees. Total pension expense was \$176,520 for the year ended December 31, 2010. 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, 2010, The Arc was the beneficiary of donated services in the amount of \$197,563, which has been included as revenue and expenses for the year ended December 31, 2010, as follows:

Donated Legal Services	\$ 168,313
Doated Professional Services	<u>29,250</u>
TOTAL CONTRIBUTED SERVICES	<u>\$ 197,563</u>

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. These are investments where values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect assumptions of management about assumptions market participants would use in pricing the investments. These investments include non-readily marketable securities that do not have an active market.

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**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2010**

10. FAIR VALUE MEASUREMENTS (Continued)

Financial assets recorded in the Combined Statement of Financial Position are categorized based on the inputs to the valuation technique as follows for the year ended December 31, 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Asset Category:				
Mutual funds	\$ 4,685,588	\$ -	\$ -	\$ 4,685,588
Fixed income	81,942	-	-	81,942
Government securities	<u>75,117</u>	<u>-</u>	<u>-</u>	<u>75,117</u>
TOTAL	<u>\$ 4,842,647</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,842,647</u>
INVESTMENTS HELD FOR BENEFICIAL INTEREST IN PERPETUAL TRUST	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,122,497</u>	<u>\$ 1,122,497</u>

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, 2010:

	<u>Investments</u>	<u>Perpetual Trust</u>
Beginning balance as of January 1, 2010	\$ 3,911	\$ 1,026,389
Unrealized and realized gains	-	96,108
Sales	<u>(3,911)</u>	<u>-</u>
BALANCE AS OF DECEMBER 31, 2010	<u>\$ -</u>	<u>\$ 1,122,497</u>

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 State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, the 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 SPMIFA.

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**NOTES TO COMBINED FINANCIAL STATEMENTS
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11. ENDOWMENT (Continued)

In accordance with SPMIFA, 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, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Endowment Funds	\$ -	\$ 9,736	\$ 992,095	\$ 1,001,831
Beneficial Interest in Perpetual Trust	-	-	1,122,497	1,122,497
TOTAL FUNDS	\$ -	\$ 9,736	\$ 2,114,592	\$ 2,124,328

Changes in endowment net assets for the year ended December 31, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 8,748	\$ 2,018,485	\$ 2,027,233
Investment income	-	25,178	96,108	121,286
Appropriations of expenditures in accordance with donor intent	-	(24,190)	-	(24,190)
ENDOWMENT NET ASSETS, END OF YEAR	\$ -	\$ 9,736	\$ 2,114,593	\$ 2,124,329

Funds with Deficiencies -

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Organizations to retain as fund of perpetual duration. There were no deficiencies of this nature as of December 31, 2010.

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.

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**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2010**

11. ENDOWMENT (Continued)

Strategies Employed for Achieving Objectives -

To satisfy its 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 its 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 30, 2011, the date the combined financial statements were issued. The Arc is currently negotiating an extension to their current operating lease in Washington, D.C. lease has not been signed as of April 30, 2011.