

# **THE ARC OF THE UNITED STATES**

**AUDIT REPORT**

**FINANCIAL AND FEDERAL AWARD  
COMPLIANCE EXAMINATION**

**FOR THE YEAR ENDED DECEMBER 31, 2013**

# THE ARC OF THE UNITED STATES

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**COMBINED FINANCIAL STATEMENTS**

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

**FOR THE YEAR ENDED DECEMBER 31, 2013  
WITH SUMMARIZED FINANCIAL  
INFORMATION FOR 2012**

**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  
The Foundation of The Arc of the United States  
Washington, D.C.

### Report on the Financial Statements

We have audited the accompanying combined financial statements of The Arc of the United States (The Arc) and The Foundation of The Arc of the United States (the Foundation), collectively the Organizations, which comprise the combined statement of financial position as of December 31, 2013, 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 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 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.

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

## 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, 2013, and the combined change in their 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.

## Report on Summarized Comparative Information

We have previously audited the Organizations' 2012 combined financial statements, and we expressed an unmodified audit opinion on those audited combined financial statements in our report dated April 14, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited combined financial statements from which it has been derived.

## Other Matter

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The Schedule of The Arc of the United States' Expenditures of Federal Awards, on page I-21 as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the combined financial statements as a whole.

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2014 on our consideration of The Arc of the United States' 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 those reports 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 internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Arc of the United States' internal control over financial reporting and compliance.



April 7, 2014

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

**COMBINED STATEMENT OF FINANCIAL POSITION  
AS OF DECEMBER 31, 2013  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2012**

**ASSETS**

	<b>2013</b>	<b>2012</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents (Note 6)	\$ 885,308	\$ 1,587,002
Investments (Notes 2 and 11)	13,521,173	12,014,405
Accounts receivable and advances, net of allowance for doubtful accounts of \$74,579 and \$80,476, for 2013 and 2012, respectively	183,544	538,042
Grants receivable	245,379	335,180
Prepaid expenses	46,661	4,429
Total current assets	14,882,065	14,479,058
<b>FIXED ASSETS</b>		
Furniture and equipment	1,492,813	1,483,351
Less: Accumulated depreciation and amortization	(657,711)	(507,424)
Net fixed assets	835,102	975,927
<b>OTHER ASSETS</b>		
Other assets	2,661	6,726
Investments held for beneficial interest in perpetual trust (Notes 3, 11 and 12)	1,214,147	1,136,150
Total other assets	1,216,808	1,142,876
<b>TOTAL ASSETS</b>	<b>\$ 16,933,975</b>	<b>\$ 16,597,861</b>

## LIABILITIES AND NET ASSETS

	<u>2013</u>	<u>2012</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 502,463	\$ 565,160
Deferred revenue	8,000	-
Due to related parties (Note 6)	32,121	32,405
Grants payable	<u>456</u>	<u>456</u>
Total current liabilities	<u>543,040</u>	<u>598,021</u>
<b>LONG-TERM LIABILITIES</b>		
Deferred rent (Note 7)	<u>1,102,135</u>	<u>1,029,279</u>
Total liabilities	<u>1,645,175</u>	<u>1,627,300</u>
<b>NET ASSETS</b>		
Unrestricted:		
Undesignated	1,498,919	864,114
Board-designated (Note 4)	<u>609,682</u>	<u>609,682</u>
Total unrestricted net assets	2,108,601	1,473,796
Temporarily restricted (Note 5)	10,973,956	11,368,519
Permanently restricted (Note 12)	<u>2,206,243</u>	<u>2,128,246</u>
Total net assets	<u>15,288,800</u>	<u>14,970,561</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 16,933,975</u></b>	<b><u>\$ 16,597,861</u></b>



**THE ARC OF THE UNITED STATES  
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**COMBINED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2013  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2012**

	<u>2013</u>			<u>2012</u>	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Total</u>
<b>REVENUE</b>					
Contributions	\$ 600,453	\$ 131,000	\$ -	\$ 731,453	\$ 1,825,775
Grants	1,650,253	2,000	-	1,652,253	1,365,341
Investment income (Notes 2 and 3)	1,031,493	546,533	-	1,578,026	1,102,007
Bequest income	238,664	5,974	-	244,638	4,663,202
Advertising	-	-	-	-	50
Contributed services (Note 9)	145,613	-	-	145,613	54,730
Affiliation and chapter fees	2,451,772	9,150	-	2,460,922	2,494,145
Royalty income	60,310	-	-	60,310	60,746
Registration fees	493,806	-	-	493,806	617,734
Program service fees	97,622	-	-	97,622	64,219
Other income	3,957	-	-	3,957	7,239
Net gain in perpetual trust (Note 3)	-	-	77,997	77,997	78,922
Net assets released from donor restrictions (Note 5)	<u>1,089,220</u>	<u>(1,089,220)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue	<u>7,863,163</u>	<u>(394,563)</u>	<u>77,997</u>	<u>7,546,597</u>	<u>12,334,110</u>
<b>EXPENSES</b>					
Program Services:					
Chapter Leadership and Development	1,350,195	-	-	1,350,195	1,357,988
Public Education	528,403	-	-	528,403	485,689
Public Policy	1,174,320	-	-	1,174,320	1,149,041
Program Innovation	<u>3,063,768</u>	<u>-</u>	<u>-</u>	<u>3,063,768</u>	<u>2,620,633</u>
Total program services	<u>6,116,686</u>	<u>-</u>	<u>-</u>	<u>6,116,686</u>	<u>5,613,351</u>
Supporting Services:					
Management and General	633,671	-	-	633,671	796,507
Fundraising	<u>478,001</u>	<u>-</u>	<u>-</u>	<u>478,001</u>	<u>409,169</u>
Total supporting services	<u>1,111,672</u>	<u>-</u>	<u>-</u>	<u>1,111,672</u>	<u>1,205,676</u>
Total expenses	<u>7,228,358</u>	<u>-</u>	<u>-</u>	<u>7,228,358</u>	<u>6,819,027</u>
Change in net assets	634,805	(394,563)	77,997	318,239	5,515,083
Net assets at beginning of year	<u>1,473,796</u>	<u>11,368,519</u>	<u>2,128,246</u>	<u>14,970,561</u>	<u>9,455,478</u>
<b>NET ASSETS AT END OF YEAR</b>	<b><u>\$ 2,108,601</u></b>	<b><u>\$ 10,973,956</u></b>	<b><u>\$ 2,206,243</u></b>	<b><u>\$15,288,800</u></b>	<b><u>\$14,970,561</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, 2013  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2012**

	<b>2013</b>		
	<b>Program Services</b>		
	<b>Chapter Leadership and Development</b>	<b>Public Education</b>	<b>Public Policy</b>
Salaries	\$ 534,421	\$ 163,874	\$ 690,451
Employee benefits (Note 8)	79,585	24,404	102,821
Payroll taxes	37,740	11,572	48,758
Professional fees	38,801	14,970	22,687
In-kind professional fees (Note 9)	101,929	-	-
Supplies	4,231	646	1,821
Telephone and internet	9,235	1,117	4,771
Postage and shipping	6,068	121,937	1,091
Insurance	4,370	747	2,180
Occupancy and storage (Note 7)	97,002	14,299	41,717
Outside printing and design	9,945	116,283	14,652
Advertising expenses	3,502	9,609	1,350
Conferences, meetings and travel	285,040	7,477	139,498
Subscriptions and dues	16,783	19,080	60,394
Grants and sub-grants	56,258	-	-
Equipment/infrastructure repairs and maintenance	17,954	10,782	6,492
Depreciation and amortization	38,721	6,620	19,315
Miscellaneous and bad debt	8,610	4,986	16,322
<b>TOTAL</b>	<b>\$ 1,350,195</b>	<b>\$ 528,403</b>	<b>\$ 1,174,320</b>

						2012
Supporting Services						
Program Innovation	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses	Total Expenses
\$ 769,897	\$ 2,158,643	\$ 580,442	\$ 261,734	\$ 842,176	\$ 3,000,819	\$ 2,806,197
114,652	321,462	86,439	38,977	125,416	446,878	469,186
54,369	152,439	40,990	18,483	59,473	211,912	198,166
296,348	372,806	29,620	34,234	63,854	436,660	207,099
43,684	145,613	-	-	-	145,613	54,730
27,971	34,669	2,686	1,175	3,861	38,530	27,347
21,802	36,925	4,550	2,115	6,665	43,590	67,290
5,072	134,168	1,165	10,704	11,869	146,037	130,968
5,041	12,338	3,216	1,407	4,623	16,961	17,392
235,229	388,247	61,547	26,923	88,470	476,717	462,912
10,315	151,195	1	22,512	22,513	173,708	196,500
850	15,311	-	2,125	2,125	17,436	-
95,506	527,521	17,413	21,589	39,002	566,523	556,156
47,270	143,527	5,579	4,240	9,819	153,346	192,145
905,695	961,953	-	-	-	961,953	1,007,999
62,709	97,937	9,510	11,677	21,187	119,124	133,849
44,671	109,327	28,495	12,465	40,960	150,287	167,113
322,687	352,605	(237,982)	7,641	(230,341)	122,264	123,978
<b>\$3,063,768</b>	<b>\$ 6,116,686</b>	<b>\$ 633,671</b>	<b>\$ 478,001</b>	<b>\$ 1,111,672</b>	<b>\$ 7,228,358</b>	<b>\$ 6,819,027</b>

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**COMBINED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2013  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2012**

	<u>2013</u>	<u>2012</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 318,239	\$ 5,515,083
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation and amortization	150,287	182,038
Unrealized gain on investments	(1,161,889)	(232,615)
Realized gain on sale of investments	-	(541,380)
Deferred rent abatement	72,856	898,431
Net gain in perpetual trust	(77,997)	(78,922)
(Increase) decrease in:		
Accounts receivable and advances	354,498	(279,795)
Grants receivable	89,801	(136,183)
Prepaid expenses	(42,232)	70,000
Other assets	4,065	82,165
(Decrease) increase in:		
Accounts payable and accrued liabilities	(62,697)	184,292
Deferred revenue	8,000	(5,000)
Due to related parties	(284)	(681)
Grants payable	-	(4,000)
Net cash (used) provided by operating activities	<u>(347,353)</u>	<u>5,653,433</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of furniture and equipment	(9,462)	(739,929)
Purchase of investments	(622,754)	(11,124,802)
Proceeds from sale of investments	<u>277,875</u>	<u>7,036,457</u>
Net cash used by investing activities	<u>(354,341)</u>	<u>(4,828,274)</u>
Net (decrease) increase in cash and cash equivalents	(701,694)	825,159
Cash and cash equivalents at beginning of year	<u>1,587,002</u>	<u>761,843</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 885,308</u></b>	<b><u>\$ 1,587,002</u></b>

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

**NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**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 140,000 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, 2012, 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.

Bank deposit accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to a limit of \$250,000. At times during the year, The Arc maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

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.

THE ARC OF THE UNITED STATES  
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NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2013

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

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 with the donor.

Grants receivable that are expected to be collected in future years are recorded at present value of their future cash flows, using an appropriate discount rate, which approximates fair value. All grants receivable are considered by management to be full collectable 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 -

For the year ended December 31, 2013, the Organizations have documented their consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and have 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, 2013**

**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.

The Organizations receive 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.

**THE ARC OF THE UNITED STATES  
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**NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**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, 2013:

	<b>Fair Value</b>
Mutual Funds	\$ 9,741,255
Stocks	1,599,975
Alternatives (Hedge Funds)	2,179,943
<b>TOTAL INVESTMENTS</b>	<b>\$ 13,521,173</b>

Alternative investments are comprised of the following at December 31, 2013:

<b>Investment Type</b>	<b>Amount</b>	<b>Liquidity</b>
Hedge Funds and Funds of Hedge Funds	\$ 827,707	No lock up, quarterly liquidity
Hedge Funds and Funds of Hedge Funds	97,832	No lock up, quarterly liquidity
Hedge Funds and Funds of Hedge Funds	398,741	No lock up, daily liquidity
Hedge Funds and Funds of Hedge Funds	35,275	No lock up, daily liquidity
Hedge Funds and Funds of Hedge Funds	820,388	No lock up but 2% termination fee if owned < 1 year, quarterly liquidity
<b>ALTERNATIVE INVESTMENTS</b>	<b>\$ 2,179,943</b>	

Included in investment income are the following at December 31, 2013:

Interest and dividends, net of investment fees of \$102,875	\$ 370,028
Unrealized gain	1,161,889
Distributions from the beneficial interest in perpetual trusts	46,109
<b>TOTAL INVESTMENT INCOME</b>	<b>\$ 1,578,026</b>



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**NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**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. Distributions from the trust are 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 in the Combined Statement of Activities and Change in Net Assets.

For the year ended December 31, 2013, The Arc recorded a net gain in perpetual trust of \$77,997, due to the increase in fair value.

The Arc also received distributions from the beneficial interest in perpetual trusts in the amount of \$46,109, 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, 2013, Board-designated assets totaled \$609,682.

**5. TEMPORARILY RESTRICTED NET ASSETS**

As of December 31, 2013, temporarily restricted net assets consisted of the following:

Donor-Imposed Restrictions:	
eXploreRecycling	\$ 33,694
Public Supported Research	222,059
Direct Assistance and Services	76,422
Diversity	98,659
Disaster Relief Fund	4,468
School to Community Transition	113,249
Consuelo Gonzalez Education, Support	4,290,200
Flinn Trust	5,942,760
Consuelo Gonzalez - DS Research Fund	124,696
Give a Parent a Break	3,812
Paul Marchand Fellowship Fund for Public Policy	40,443
Accumulated investment earnings from Endowments	<u>23,494</u>
<b>TOTAL TEMPORARILY RESTRICTED NET ASSETS</b>	<b><u>\$ 10,973,956</u></b>

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**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:	
eXploreRecycling	\$ 316,311
Public Supported Research	29,232
Diversity	1,341
Public Policy Advocacy Fund	480
Sibling Leadership Council	250
Endowments	79,341
School to Community Transition	431,418
Consuelo Gonzalez Education, Support	65,147
E-waiting List Campaign	600
Wings for Autism	92,180
Flinn Trust	66,920
Paul Marchand Fellowship Fund for Public Policy	<u>6,000</u>
<b>TOTAL NET ASSETS RELEASED FROM RESTRICTIONS</b>	<b><u>\$ 1,089,220</u></b>

**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, 2013, The Arc has a receivable from the Foundation amounting to \$48,871, for expenses paid by The Arc on behalf of the Foundation. Inter-company transactions are eliminated in the combined report presented.

At December 31, 2013, The Arc had a net balance of \$32,121 due to NCE. Included in that balance is cash in the amount of \$33,284 held 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 was only required to pay 50% of the rental installments for the 12 months following and received 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. Consequently, 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.

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**7. COMMITMENTS - OPERATING LEASES (Continued)**

Rent, which is included in occupancy and storage, was \$474,144 for the year ended December 31, 2013. Additionally, the deferred rent and lease incentive liability at year-end was \$1,102,135.

In December 2013, The Arc amended the lease to include an additional 1,644 square feet of office space. The lease for the additional space will commence upon completion of renovations by the landlord and will maintain a termination date of May 31, 2023. The renovations are expected to be completed by April 2014.

At December 31, 2013, minimum annual rental commitment under the lease is as follows:

**Year Ending December 31,**

2014	\$ 563,035
2015	595,668
2016	614,940
2017	643,472
2018	659,537
Thereafter	<u>3,116,133</u>
	<b><u>\$ 6,192,785</u></b>

**8. RETIREMENT PLAN**

The Arc has a non-contributory pension plan (the Plan), covering substantially all of its regular employees. Total pension expense was \$249,282 for the year ended December 31, 2013. 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, 2013, The Arc was the beneficiary of donated services in the amount of \$145,613. The value of these services 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, 2013, as follows:

<b>Donated Legal Services</b>	<b><u>\$ 145,613</u></b>
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**10. CONTINGENCY**

The Arc receives grants from various agencies of the United States Government. Such grants are subject to audit under the provisions of OMB Circular A-133. The ultimate determination of amounts received under the United States Government grants is based upon the allowance of costs reported to and accepted by the United States Government as a result of the audits. Audits in accordance with the provisions of OMB Circular A-133 have been completed for all required fiscal years through 2013. Until such audits have been accepted by the United States Government, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

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**11. 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.

**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, 2013:

- *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, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Asset Class:</b>				
Mutual Funds	\$ 9,741,255	\$ -	\$ -	\$ 9,741,255
Stocks	1,599,975	-	-	1,599,975
Alternatives (Hedge Funds)	<u>-</u>	<u>-</u>	<u>2,179,943</u>	<u>2,179,943</u>
<b>TOTAL</b>	<b><u>\$ 11,341,230</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 2,179,943</u></b>	<b><u>\$ 13,521,173</u></b>
 <b>INVESTMENTS HELD FOR BENEFICIAL INTEREST IN PERPETUAL TRUST</b>	 <b><u>\$ -</u></b>	 <b><u>\$ -</u></b>	 <b><u>\$ 1,214,147</u></b>	 <b><u>\$ 1,214,147</u></b>

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**11. FAIR VALUE MEASUREMENT (Continued)**

**Level 3 Financial Assets**

The following table provides a summary of changes in fair value of Organizations' financial assets for the year ended December 31, 2013:

	<u>Alternatives (Hedge Funds)</u>	<u>Perpetual Trust</u>
Beginning balance as of January 1, 2013	\$ 1,934,665	\$ 1,136,150
Unrealized and realized losses	195,268	110,068
Earned income	10	23,804
Purchases (sales)	<u>50,000</u>	<u>(55,875)</u>
<b>BALANCE AS OF DECEMBER 31, 2013</b>	<b><u>\$ 2,179,943</u></b>	<b><u>\$ 1,214,147</u></b>

**12. 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, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Endowment Funds	\$ 1,202	\$ 23,494	\$ 992,096	\$ 1,016,792
Beneficial Interest in Perpetual Trust	<u>-</u>	<u>-</u>	<u>1,214,147</u>	<u>1,214,147</u>
<b>TOTAL FUNDS</b>	<b><u>\$ 1,202</u></b>	<b><u>\$ 23,494</u></b>	<b><u>\$ 2,206,243</u></b>	<b><u>\$ 2,230,939</u></b>

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**12. ENDOWMENT (Continued)**

Changes in endowment net assets for the year ended December 31, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 1,202	\$ 17,020	\$ 2,128,246	\$ 2,146,468
Investment gain	-	85,814	77,997	163,811
Appropriations of expenditures in accordance with donor intent	-	(79,340)	-	(79,340)
<b>ENDOWMENT NET ASSETS, END OF YEAR</b>	<b><u>\$ 1,202</u></b>	<b><u>\$ 23,494</u></b>	<b><u>\$ 2,206,243</u></b>	<b><u>\$ 2,230,939</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. There was no deficiency as of December 31, 2013.

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.

**13. SUBSEQUENT EVENTS**

In preparing these combined financial statements, the Organizations have evaluated events and transactions for potential recognition or disclosure through April 7, 2014, the date the combined financial statements were issued.