COMBINED FINANCIAL STATEMENTS

THE ARC OF THE UNITED STATES

THE FOUNDATION OF THE ARC OF THE UNITED STATES

FOR THE YEAR ENDED DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016

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, 2017, and the related combined statements of activities and change in net assets, functional expenses and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Organizations as of December 31, 2017, 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' 2016 combined financial statements, and we expressed an unmodified audit opinion on those audited combined financial statements in our report dated April 10, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited combined financial statements from which it has been derived.

Gelman Rosenberg & Freedman

April 12, 2018

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

COMBINED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016

ASSETS

	2017	2016
CURRENT ASSETS		
Cash and cash equivalents	$ 1,609,933	$ 1,124,356
Investments	11,977,282	11,709,874
Accounts receivable and advances, net of allowance for doubtful accounts of $65,000 and $85,000, for 2017 and 2016, respectively	637,716	415,619
Grants receivable	83,653	661,149
Due from related party	49,335	-
Prepaid expenses	64,688	75,929
Total current assets	14,422,607	13,986,927
FIXED ASSETS		
Land	238,755	238,755
Furniture and equipment	1,730,824	1,730,824
Website	826,363	573,572
	2,795,942	2,543,151
Less: Accumulated depreciation and amortization	(1,548,150)	(1,262,040)
Net fixed assets	1,247,792	1,281,111
OTHER ASSETS		
Other assets	40,054	8,120
Investments held for beneficial interest in perpetual trust	1,274,333	1,143,446
Deferred compensation investments	126,498	91,508
Total other assets	1,440,885	1,243,074
TOTAL ASSETS	**$ 17,111,284**	**$ 16,511,112**

LIABILITIES AND NET ASSETS

	2017	2016
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 701,079	$ 501,746
Deferred revenue	3,000	10,695
Deferred rent, current	56,830	46,434
Due to related parties	-	20,958
Total current liabilities	760,909	579,833
LONG-TERM LIABILITIES		
Deferred rent, net of current portion	808,267	924,797
Deferred compensation	126,498	91,508
Total long-term liabilities	934,765	1,016,305
Total liabilities	1,695,674	1,596,138
NET ASSETS		
Unrestricted:		
Undesignated	2,666,954	1,859,631
Board-designated	609,682	609,682
Total unrestricted net assets	3,276,636	2,469,313
Temporarily restricted	9,872,546	10,310,119
Permanently restricted	2,266,428	2,135,542
Total net assets	15,415,610	14,914,974
TOTAL LIABILITIES AND NET ASSETS	**$ 17,111,284**	**$ 16,511,112**

See accompanying notes to combined financial statements.

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

COMBINED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016

	2017				2016
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
REVENUE AND SUPPORT					
Contributions	$ 1,247,387	$ 2,214,026	$ -	$ 3,461,413	$ 2,951,194
Grants	559,055	25,000	-	584,055	1,398,154
Investment income	1,057,148	577,227	-	1,634,375	810,278
Bequest income	132,901	-	-	132,901	19,911
Contributed services	1,951,014	-	-	1,951,014	1,352,789
Affiliation and chapter fees	2,652,475	-	-	2,652,475	2,574,771
Royalty income	103,550	-	-	103,550	66,977
Registration fees	947,241	-	-	947,241	830,094
Program service fees	169,810	-	-	169,810	124,671
Other income	108,249	6,050	-	114,299	101,926
Net gain in perpetual trust	-	-	130,886	130,886	17,782
Net assets released from donor restrictions	3,259,876	(3,259,876)	-	-	-
Total revenue and support	12,188,706	(437,573)	130,886	11,882,019	10,248,547
EXPENSES					
Program Services:					
Chapter Leadership and Development	1,762,232	-	-	1,762,232	1,352,780
Public Education	1,616,262	-	-	1,616,262	1,678,759
Public Policy	2,454,508	-	-	2,454,508	1,138,048
Program Innovation	3,773,568	-	-	3,773,568	4,703,886
Total program services	9,606,570	-	-	9,606,570	8,873,473
Supporting Services:					
Management and General	869,234	-	-	869,234	800,352
Fundraising	905,579	-	-	905,579	667,546
Total supporting services	1,774,813	-	-	1,774,813	1,467,898
Total expenses	11,381,383	-	-	11,381,383	10,341,371
Change in net assets	807,323	(437,573)	130,886	500,636	(92,824)
Net assets at beginning of year	2,469,313	10,310,119	2,135,542	14,914,974	15,007,798
NET ASSETS AT END OF YEAR	$ 3,276,636	$ 9,872,546	$ 2,266,428	$ 15,415,610	$ 14,914,974

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, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016

	2017				
	Program Services				
	Chapter Leadership and Development	Public Education	Public Policy	Program Innovation	Total Program Services
Salaries	$ 640,311	$ 125,955	$ 990,115	$ 1,278,887	$ 3,035,268
Employee benefits	108,303	21,304	167,469	216,313	513,389
Payroll taxes	46,182	9,084	71,412	92,240	218,918
Professional fees	16,963	51,708	24,284	581,701	674,656
In-kind professional fees	-	1,115,099	691,738	-	1,806,837
Supplies	5,445	253	2,025	10,700	18,423
Telephone and internet	7,586	399	6,003	16,317	30,305
Postage and shipping	8,712	87,398	752	5,675	102,537
Insurance	4,257	470	4,044	7,522	16,293
Occupancy and storage	94,909	7,270	55,013	299,135	456,327
Outside printing and design	92,616	151,588	47,719	88,176	380,099
Advertising expenses	844	189	84	32,392	33,509
Conferences, meetings and travel	470,213	7,908	231,592	96,139	805,852
Subscriptions and dues	23,218	19,839	88,583	29,597	161,237
Grants and sub-grants	81,508	-	-	233,899	315,407
Equipment/infrastructure repairs and maintenance	46,999	9,744	12,963	85,225	154,931
Depreciation and amortization	50,367	5,564	47,842	89,000	192,773
Bad debt	-	-	-	-	-
Miscellaneous	15,856	1,402	12,870	13,831	43,959
Subtotal	1,714,289	1,615,174	2,454,508	3,176,749	8,960,720
Allocation of management and general	47,943	1,088	-	596,819	645,850
TOTAL	**$ 1,762,232**	**$ 1,616,262**	**$ 2,454,508**	**$ 3,773,568**	**$ 9,606,570**

Supporting Services				2016
Management and General	Fundraising	Total Supporting Services	Total Expenses	Total Expenses
$ 795,747	$ 462,434	$ 1,258,181	$ 4,293,449	$ 4,145,796
134,594	78,217	212,811	726,200	710,491
57,393	33,353	90,746	309,664	287,643
128,723	31,380	160,103	834,759	913,811
144,178	-	144,178	1,951,015	1,352,789
1,994	2,653	4,647	23,070	35,579
2,787	3,757	6,544	36,849	34,667
593	14,086	14,679	117,216	198,836
3,982	3,907	7,889	24,182	24,931
54,175	71,806	125,981	582,308	596,884
346	70,554	70,900	450,999	160,955
82	4,697	4,779	38,288	4,297
109,317	16,893	126,210	932,062	761,922
5,054	10,642	15,696	176,933	148,642
-	-	-	315,407	473,188
10,798	29,907	40,705	195,636	170,193
47,114	46,223	93,337	286,110	238,366
13,000	-	13,000	13,000	27,554
5,207	25,070	30,277	74,236	54,826
1,515,084	905,579	2,420,663	11,381,383	10,341,371
(645,850)	-	(645,850)	-	-
$ 869,234	**$ 905,579**	**$ 1,774,813**	**$ 11,381,383**	**$ 10,341,371**

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

COMBINED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 500,636	$ (92,824)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	286,110	238,366
Unrealized gain on investments	(1,186,452)	(553,493)
Realized gain on sale of investments	(216,120)	(23,795)
Loss on sale of land	-	3,155
Net income in perpetual trust	(130,887)	(17,782)
Change in allowance for doubtful accounts	20,000	606
(Increase) decrease in:		
Accounts receivable and advances	(242,097)	(106,024)
Grants receivable	577,496	(71,268)
Due from related party	(49,335)	-
Prepaid expenses	11,241	(26,661)
Other assets	(31,934)	1,638
Increase (decrease) in:		
Accounts payable and accrued liabilities	199,333	(127,562)
Deferred revenue	(7,695)	5,695
Deferred rent	(106,134)	(70,221)
Due to related parties	(20,958)	(36,299)
Net cash used by operating activities	(396,796)	(876,469)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(252,791)	(327,563)
Proceeds from sale of land	-	415,690
Purchase of investments	(187,311)	(117,113)
Proceeds from sale of investments	1,322,475	550,000
Net cash provided by investing activities	882,373	521,014
Net increase (decrease) in cash and cash equivalents	485,577	(355,455)
Cash and cash equivalents at beginning of year	1,124,356	1,479,811
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 1,609,933**	**$ 1,124,356**

See accompanying notes to combined financial statements.

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 650 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, 2016, 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. Interest, dividends, realized and unrealized gains and losses are included in investment income in the Combined Statement of Activities and Change in Net Assets.

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

Accounts receivable, grants receivable and advances -

Accounts receivable, grants 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.

Fixed assets -

Fixed assets are stated at cost. Land is recorded at the fair value at the date of the donation. Fixed assets 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, 2017, 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.

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.

- **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.

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

Contributions and grants (continued) -

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. Government, 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.

Affiliation and chapter fees, registration and program services fees -

Affiliation and chapter fees, registrations and program services fees are recognized as revenue in the period that they are earned.

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 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.

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

Fair value measurement (continued) -

The Organizations account for a significant portion of their financial instruments at fair value or considers fair value in their measurement.

New accounting pronouncements (not yet adopted) -

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (*Topic 958), intended to improve financial reporting for not-for-profit entities. The ASU will reduce the current three classes of net assets into two: with and without donor restrictions. The change in each of the classes of net assets must be reported on the Combined Statement of Activities and Change in Net Assets. The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, functional classification of expenses, investment expenses, donor restrictions, and underwater endowments. The ASU is effective for years beginning after December 15, 2017. Early adoption is permitted. The ASU should be applied on a retrospective basis in the year that the ASU is first applied. While the ASU will change the presentation of the Organizations' combined financial statements, it is not expected to alter the Organizations' reported financial position.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) (ASU 2014-09). The ASU establishes a comprehensive revenue recognition standard for virtually all industries under generally accepted accounting principles in the United States (U.S. GAAP) including those that previously followed industry-specific guidance. The guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB issued ASU 2015-14 in August 2015 that deferred the effective date of ASU 2014-09 by a year thus the effective date is fiscal years beginning after December 15, 2018. Early adoption is permitted. The Organizations have not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the combined financial statements.

In 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the Combined Statement of Financial Position and disclosing key information about leasing arrangements. The ASU is effective for private entities for fiscal years beginning after December 15, 2019. Early adoption is permitted. The ASU should be applied at the beginning of the earliest period presented using a modified retrospective approach.

The Organizations plan to adopt the new ASU's at the required implementation dates.

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.

2. INVESTMENTS

Investments consisted of the following at December 31, 2017:

	Fair Value
Mutual funds	$ 584,796
Stocks	8,225,610
Fixed income - taxable bonds	3,166,876
TOTAL INVESTMENTS	**$ 11,977,282**

Included in investment income are the following at December 31, 2017:

Interest and dividends, net of investment fees of $38,361	$ 186,372
Unrealized gain	1,186,452
Realized gain	216,120
Distributions from the beneficial interest in perpetual trusts	45,431
TOTAL INVESTMENT INCOME	**$ 1,634,375**

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 in perpetual trust in the Combined Statement of Activities and Change in Net Assets.

For the year ended December 31, 2017, The Arc recorded a net gain in perpetual trust of $130,886, due to the increase in fair value.

The Arc also received distributions from the beneficial interest in perpetual trusts in the amount of $45,431, which is included in unrestricted investment income in the Combined Statement of Activities and Change in Net Assets.

The value of The Arc's interest in the perpetual trusts at December 31, 2017 was $1,274,333.

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, 2017, Board-designated assets totaled $609,682.

5. TEMPORARILY RESTRICTED NET ASSETS

As of December 31, 2017, temporarily restricted net assets consisted of the following:

Donor-Imposed Restrictions:	
Chapter Financial Assistance and Support	$ 4,483,918
Down Syndrome New Mexico Fund	4,209,653
Advocacy Engagement	467,326
Tech Programs	181,536
Individual and Family Support Programs	163,700
Down Syndrome Research Fund	147,163
Public Supported Research	72,131
Prevention Fund	53,552
Health and Wellness Programs	39,375
Disability Employment Programs	18,898
Wings for Autism	17,662
Accumulated investment earnings from Endowments	6,864
Paul Marchand Fellowship Fund for Public Policy	5,900
Give a Parent a Break	3,787
Disaster Relief Fund	1,056
Give a Kid a Job	25
TOTAL TEMPORARILY RESTRICTED NET ASSETS	**$ 9,872,546**

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

Donor-Imposed Restrictions:	
Chapter Financial Assistance and Support Programs	$ 878,677
Tech Programs	664,412
Individual and Family Support Programs	541,208
Disability Employment Programs	245,566
Down Syndrome New Mexico Fund	236,270
Advocacy Engagement	212,674
Wings for Autism Program	102,338
Public Supported Research	59,895
Health and Wellness Programs	59,692
Accumulated investment earnings from Endowments	55,059
Disaster Relief Fund	52,441
Special Education Advocacy Programs	45,120
Criminal Justice and Disability Programs	39,347
Autism Employment Programs	25,000
Prevention Fund	22,870
Paul Marchand Fellowship Fund for Public Policy	9,034
Public Policy Advocacy Fund	4,512
Other programs - Foundation	3,789
Mary Lou Meccariello Legacy Fund	1,972
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS	**$ 3,259,876**

6. RELATED PARTY TRANSACTIONS

The Arc and the Foundation have separate governing Boards of Directors, but share six voting directors which control the Foundation's Board. At December 31, 2017, the Foundation has a receivable from The Arc amounting to $105,046, for contributions paid to the Foundation received through The Arc on behalf of the Foundation. Inter-company transactions are eliminated in the combined report presented.

At December 31, 2017, The Arc had a net balance of $33,284 due to the National Conference of Executives of the Arc (NCE). The Arc and NCE have separate governing Boards of Directors and there is no economic control. Included in that balance is cash in the amount of $33,284 held on behalf of NCE.

7. MANAGEMENT SERVICES CONTRACT

The Arc entered into a management service agreement with The Arc of the District of Columbia, Inc. (The Arc of DC). The Arc of DC is a non-profit organization and is affiliated as a state chapter of The Arc. Both organizations do not share voting directors, therefore, The Arc does not have an economic control over The Arc of DC and their financial activity is not combined. The Arc charged The Arc of DC $108,960 for the management fees which are included in other revenue on the Statement of Activities and Change in Net Assets.

8. 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.

For the year ended December 31, 2017, occupancy expense was $582,308. Additionally, the deferred rent and lease incentive liability at year-end was $865,097.

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 commenced on May 15, 2014 and will maintain a termination date of May 31, 2023.

At December 31, 2017, minimum annual rental commitments under the lease are as follows:

Year Ending December 31,	
2018	$ 599,836
2019	616,294
2020	633,178
2021	650,552
2022	668,319
Thereafter	284,111
	$ 3,452,290

9. RETIREMENT PLAN

The Arc has a non-contributory pension plan (the Plan), covering substantially all of its regular employees. Total pension expense was $322,839 for the year ended December 31, 2017. 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.

The Arc also has a 457(b) deferred compensation plan, effective August 9, 2009, limited to the top hat group of employees. Elective deferrals may be made to the Plan up to the maximum allowed by law. As of December 31, 2017, $126,498 was deferred under the Plan.

10. CONTRIBUTED SERVICES

During the year ended December 31, 2017, The Arc was the beneficiary of donated services in the amount of $1,951,014. The value of these services was estimated at fair market value, and has been included as revenue and expenses in the accompanying combined financial statements for the year ended December 31, 2017, as follows:

Donated Legal Services	$ 835,915
Donated Advertising	1,115,099
TOTAL CONTRIBUTED SERVICES	**$ 1,951,014**

11. CONTINGENCY

The Arc receives grants from various agencies of the United States Government. Beginning for fiscal year ended December 31, 2015, such grants are subject to audit under the provisions of *Title 2 U.S. Code of Federal Regulations (CFR) Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. 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 applicable provisions have been completed for all required fiscal years through 2016. 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.

During the year ended December 31, 2017, The Arc did not incur costs of Federal funding in excess of $750,000 that would require a single audit under the Uniform Guidance.

12. 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.

12. FAIR VALUE MEASUREMENT (Continued)

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 for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

Level 3. These are investments where 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, 2017:

- *Mutual funds* - Valued at the daily closing price as reported by the fund. Mutual funds held by the Organizations are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Organizations are deemed to be actively traded.

- *Common stocks* - Valued at the closing price reported on the active market in which the individual securities are traded.

- *Fixed income - taxable bonds* - Fair value is based upon current yields available on comparable securities of issuers with similar ratings, the security's terms and conditions, and interest rate and credit risk.

The table below summarizes, by level within the fair value hierarchy, the Organizations' investments as of December 31, 2017:

	Level 1	Level 2	Level 3	Total
Asset Class:				
Mutual funds	$ 584,796	$ -	$ -	$ 584,796
Stocks	8,225,610	-	-	8,225,610
Fixed income - taxable bonds	-	3,166,876	-	3,166,876
TOTAL	**$ 8,810,406**	**$ 3,166,876**	**$ -**	**$ 11,977,282**
DEFERRED COMPENSATION ASSET	**$ 126,498**	**$ -**	**$ -**	**$ 126,498**
Common Trust Funds	$ -	$ 440,623	$ -	$ 440,623
Equities	654,712	-	-	654,712
Money Market	37,705	-	-	37,705
Fixed Income	141,293	-	-	141,293
ASSETS HELD IN PERPETUAL TRUST	**$ 833,710**	**$ 440,623**	**$ -**	**$ 1,274,333**

13. ENDOWMENT

The Organizations' endowment consists of donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, 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 allowing the Organizations to appropriate for expenditures or accumulate so much of an endowment fund as the Organizations determine is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Board of Directors.

As a result of this interpretation, the Organizations have not changed the way permanently restricted net assets are classified. See Note 1 for further information on net asset classification. The remaining portion of the donor-restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure 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, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	$ -	$ 6,867	$ 2,266,428	$ 2,273,295
TOTAL FUNDS	**$ -**	**$ 6,867**	**$ 2,266,428**	**$ 2,273,295**

Changes in endowment net assets for the year ended December 31, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 4,869	$ 2,135,542	$ 2,140,411
Investment gain	-	61,128	-	61,128
Net investment gain in beneficial interest in perpetual trusts	-	-	130,886	130,886
Appropriations of expenditures in accordance with donor intent	-	(59,130)	-	(59,130)
ENDOWMENT NET ASSETS, END OF YEAR	**$ -**	**$ 6,867**	**$ 2,266,428**	**$ 2,273,295**

13. ENDOWMENT (Continued)

Funds with Deficiencies -

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organizations to retain as fund of perpetual duration. There was no deficiency as of December 31, 2017.

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.

14. SUBSEQUENT EVENTS

In preparing these combined financial statements, the Organizations have evaluated events and transactions for potential recognition or disclosure through April 12, 2018, the date the combined financial statements were issued.