COMBINED FINANCIAL STATEMENTS

THE ARC OF THE UNITED STATES

THE FOUNDATION OF THE ARC OF THE UNITED STATES

FOR THE YEAR ENDED DECEMBER 31, 2018
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2017

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.

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, 2018, 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, 2018, 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.

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Report on Summarized Comparative Information

We have previously audited the Organizations' 2017 combined financial statements, and we expressed an unmodified audit opinion on those audited combined financial statements in our report dated April 12, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited combined financial statements from which it has been derived.

Gelman Rosenberg & Freedman

April 7, 2019

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

COMBINED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017

ASSETS

	2018	2017
CURRENT ASSETS		
Cash and cash equivalents	$ 1,659,601	$ 1,609,933
Investments	10,234,434	11,977,282
Accounts receivable, net of allowance for doubtful accounts of $52,000 and $65,000, for 2018 and 2017, respectively	530,982	637,716
Grants receivable	97,061	83,653
Due from related party	135,327	49,335
Prepaid expenses	69,012	64,688
Total current assets	12,726,417	14,422,607
FIXED ASSETS		
Land	-	238,755
Furniture and equipment	1,805,618	1,730,824
Website	885,215	826,363
	2,690,833	2,795,942
Less: Accumulated depreciation and amortization	(1,855,121)	(1,548,150)
Net fixed assets	835,712	1,247,792
OTHER ASSETS		
Security deposit	40,054	40,054
Investments held for beneficial interest in perpetual trust	1,122,742	1,274,333
Deferred compensation investments	135,398	126,498
Total other assets	1,298,194	1,440,885
TOTAL ASSETS	**$ 14,860,323**	**$ 17,111,284**

LIABILITIES AND NET ASSETS

	2018	2017
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 847,934	$ 701,079
Deferred revenue	9,005	3,000
Deferred rent, current	138,659	56,830
Total current liabilities	995,598	760,909
LONG-TERM LIABILITIES		
Deferred rent, net of current portion	604,237	808,267
Deferred compensation	135,398	126,498
Total long-term liabilities	739,635	934,765
Total liabilities	1,735,233	1,695,674
NET ASSETS		
Without donor restrictions:		
Undesignated	1,592,650	2,666,954
Board designated	609,682	609,682
Without donor restriction net assets	2,202,332	3,276,636
With donor restrictions	10,922,758	12,138,974
Total net assets	13,125,090	15,415,610
TOTAL LIABILITIES AND NET ASSETS	**$ 14,860,323**	**$ 17,111,284**

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, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017

	2018			2017
	Without Donor Restrictions	With Donor Restrictions	Total	Total
REVENUE AND SUPPORT				
Contributions	$ 692,100	$ 1,723,827	$ 2,415,927	$ 3,461,413
Affiliation and chapter fees	2,869,978	-	2,869,978	2,652,475
Contributed services	4,496,222	-	4,496,222	1,951,014
Bequest income	526,077	198,395	724,472	132,901
Registration fees	928,758	-	928,758	947,241
Grants	547,457	-	547,457	584,055
Program service fees	370,661	-	370,661	169,810
Investment (loss) income, net	(376,277)	(303,903)	(680,180)	1,634,375
Royalty income	84,145	-	84,145	103,550
Other income	20,616	751	21,367	114,298
Loss on sale of land	(56,807)	-	(56,807)	-
Net (loss) gain in perpetual trust	-	(151,591)	(151,591)	130,887
Net assets released from donor restrictions	2,683,695	(2,683,695)	-	-
Total revenue and support	12,786,625	(1,216,216)	11,570,409	11,882,019
EXPENSES				
Program Services:				
Chapter Leadership and Development	2,157,217	-	2,157,217	1,762,232
Public Education	1,947,051	-	1,947,051	1,616,262
Public Policy	4,275,107	-	4,275,107	2,454,508
Program Innovation	3,621,728	-	3,621,728	3,773,568
Total program services	12,001,103	-	12,001,103	9,606,570
Supporting Services:				
Management and General	1,037,507	-	1,037,507	869,234
Fundraising	822,319	-	822,319	905,579
Total supporting services	1,859,826	-	1,859,826	1,774,813
Total expenses	13,860,929	-	13,860,929	11,381,383
Change in net assets	(1,074,304)	(1,216,216)	(2,290,520)	500,636
Net assets at beginning of year	3,276,636	12,138,974	15,415,610	14,914,974
NET ASSETS AT END OF YEAR	**$ 2,202,332**	**$ 10,922,758**	**$ 13,125,090**	**$ 15,415,610**

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, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017

	2018				
	Program Services				
	Chapter Leadership and Development	Public Education	Public Policy	Program Innovation	Total Program Services
Salaries	$ 894,447	$ 75,281	$ 928,892	$ 1,389,389	$ 3,288,009
Employee benefits	145,053	12,208	150,639	225,318	533,218
Payroll taxes	61,677	5,191	64,052	95,806	226,726
Professional fees	36,165	38,494	12,214	273,318	360,191
Contributed services	-	1,639,189	2,660,731	-	4,299,920
Supplies	11,029	180	1,599	10,190	22,998
Telephone and internet	9,631	340	5,225	16,909	32,105
Postage and shipping	12,236	46,732	1,230	6,521	66,719
Insurance	5,241	339	2,860	7,490	15,930
Occupancy and storage	147,118	5,286	44,632	279,413	476,449
Outside printing and design	43,235	59,802	23,744	38,315	165,096
Advertising expenses	4,483	10,076	649	51,461	66,669
Conferences, meetings and travel	429,267	10,479	224,595	89,748	754,089
Subscriptions and dues	52,957	18,568	85,988	27,880	185,393
Contractual services	18,101			354,895	372,996
Grants and sub-grants		-	-	98,650	98,650
Equipment/infrastructure repairs and maintenance	60,978	8,721	14,132	80,820	164,651
Depreciation and amortization	73,792	4,769	40,273	105,450	224,284
Bad debt	-	-	-	-	-
Miscellaneous	25,342	1,475	13,652	22,054	62,523
Subtotal	2,030,752	1,937,130	4,275,107	3,173,627	11,416,616
Allocation of management and general	126,465	9,921	-	448,101	584,487
TOTAL	**$ 2,157,217**	**$ 1,947,051**	**$ 4,275,107**	**$ 3,621,728**	**$ 12,001,103**

Supporting Services				2017
Management and General	Fundraising	Total Supporting Services	Total Expenses	Total Expenses
$ 839,320	$ 428,419	$ 1,267,739	$ 4,555,748	$ 4,293,449
136,113	69,477	205,590	738,808	726,200
57,876	29,542	87,418	314,144	309,664
126,800	81,532	208,332	568,523	834,759
196,302	-	196,302	4,496,222	1,951,014
1,888	2,183	4,071	27,069	23,071
3,145	2,167	5,312	37,417	36,849
1,081	11,683	12,764	79,483	117,216
3,545	2,328	5,873	21,803	24,182
55,314	36,325	91,639	568,088	582,308
611	51,096	51,707	216,803	450,999
271	10,936	11,207	77,876	38,288
102,599	14,538	117,137	871,226	932,062
4,804	5,638	10,442	195,835	176,933
-	-	-	372,996	237,907
-	-	-	98,650	77,500
11,670	31,712	43,382	208,033	195,636
49,910	32,777	82,687	306,971	286,110
20,008	-	20,008	20,008	13,000
10,737	11,966	22,703	85,226	74,236
1,621,994	822,319	2,444,313	13,860,929	11,381,383
(584,487)	-	(584,487)	-	-
$ 1,037,507	**$ 822,319**	**$ 1,859,826**	**$ 13,860,929**	**$ 11,381,383**

See accompanying notes to combined financial statements.

EXHIBIT D

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, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (2,290,520)	$ 500,636
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	306,971	286,110
Unrealized loss (gain) on investments	1,281,033	(1,186,452)
Realized gain on sale of investments	(319,359)	(216,120)
Loss on sale of land	56,807	-
Net loss (gain) in perpetual trust	151,591	(130,887)
Change in allowance for doubtful accounts	13,000	20,000
Decrease (increase) in:		
Accounts receivable	93,734	(242,097)
Grants receivable	(13,408)	577,496
Due from related party	(85,992)	(49,335)
Prepaid expenses	(4,324)	11,241
Security deposit	-	(31,934)
Increase (decrease) in:		
Accounts payable and accrued liabilities	146,855	199,333
Deferred revenue	6,005	(7,695)
Deferred rent	(122,201)	(106,134)
Due to related party	-	(20,958)
Net cash used by operating activities	(779,808)	(396,796)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(133,645)	(252,791)
Proceeds from sale of land	181,947	-
Purchase of investments	(267,826)	(187,311)
Proceeds from sale of investments	1,049,000	1,322,475
Net cash provided by investing activities	829,476	882,373
Net increase in cash and cash equivalents	49,668	485,577
Cash and cash equivalents at beginning of year	1,609,933	1,124,356
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 1,659,601**	**$ 1,609,933**
SUPPLEMENTAL INFORMATION:		
Taxes Paid	**$ 8,883**	**$ -**

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 are presented on the accrual basis of accounting, and in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14 *Presentation of Financial Statements for Not-for-Profit Entitie*s. The ASU was adopted for the year ended December 31, 2018 and applied retrospectively.

The combined financial statements reflect the activity of The Arc and the Foundation and are presented 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, 2017, 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.

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

Investments -

Investments are recorded at their readily determinable fair value. Interest, dividends, realized and unrealized gains and losses are included in investment income net of investment expenses provided by external investment advisors in the Combined Statement of Activities and Change in Net Assets.

Accounts and grants receivable -

Accounts receivable and grants receivable 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 and furniture 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. Beginning January 1, 2018, they are subject to unrelated business income taxes on qualified transportation fringe benefits provided to its employees. The amount of the tax for the year ended December 31, 2018 totaled $8,883, and is reflected under “Miscellaneous” in the Combined Statement of Functional expenses. The Organizations are not private foundations.

Uncertain tax positions -

For the year ended December 31, 2018, 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 -

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- **Net Assets Without Donor Restrictions** - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions are recorded as net assets without donor restrictions. Assets restricted solely through the actions of the Board are referred to as Board designated and are also reported as net assets without donor restrictions.

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

Net asset classification (continued) -

- **Net Assets With Donor Restrictions -** Contributions restricted by donors or grantors are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Combined Statement of Activities and Change in Net Assets as net assets released from restrictions. Other donor imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity and are included with net assets with donor restrictions.

Contributions and grants -

Contributions and grants received without donor restrictions and with donor restrictions are recorded as revenue in the year notification is received from the donor. Contributions and grants with donor restrictions are recognized as without donor restrictions 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 net assets with donor restriction in the accompanying combined financial statements.

The Organizations receive funding under grants and contracts from the U.S. 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 income without donor restrictions 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.

Contributed services-

Contributed services consist of legal services and advertising. Contributed services are recorded at their fair market value as of the date of the gift.

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.

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

Functional allocation of expenses (continued) -

Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses directly attributed to a specific functional area of the Organizations are reported as direct expenses to the programmatic area and those expenses that benefit more than one function are allocated on a basis of estimated time and effort or other reasonable basis.

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. 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 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 June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made,* which is intended to clarify and improve current guidance about whether a transfer of assets is an exchange transaction or a contribution. The amendments in this ASU provide a more robust framework to determine when a transaction should be accounted for as a contribution under Subtopic 958-605 or as an exchange transaction accounted for under other guidance (for example, Topic 606). The amendments also provide additional guidance about how to determine whether a contribution is conditional or unconditional. The amendments in this ASU could result in more grants and contracts being accounted for as contributions than under previous GAAP. The amendments in this ASU could result in more grants and contracts being accounted for as contributions than under previous GAAP.

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

New accounting pronouncements (not yet adopted) (continued) -

The ASU recommends application on a modified prospective basis; however, retrospective application is permitted. The Organizations have not yet decided on a transition method. The ASU is effective for fiscal years beginning after December 15, 2018. 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 combined financial statements have been reclassified to conform to the current year's presentation. The reclassifications are primarily due to the adoption of Accounting Standards Update 2016-14, as discussed above, which requires two classifications of net assets from the previously presented three classes. Net assets previously classified as of December 31, 2017 as unrestricted net assets in the amount of $3,276,636 are now classified as without donor restrictions. Net assets previously classified as temporarily restricted net assets and permanently restricted net assets in the amount of $9,872,546 and $2,266,428, respectively, are now classified as net assets with donor restrictions.

2. INVESTMENTS

Investments consisted of the following at December 31, 2018:

	Fair Value
Mutual funds	$ 530,849
Stocks	6,982,912
Fixed income - taxable bonds	2,720,673
TOTAL INVESTMENTS	**$ 10,234,434**

Included in the investment portfolio are endowed gifts to be invested in perpetuity in the amount of $2,114,839 for the year ended December 31, 2018.

The investment loss is the following for the year ended December 31, 2018:

Interest and dividends	$ 275,508
Unrealized loss	(1,281,033)
Realized gain	319,359
Distributions from the beneficial interest in perpetual trusts	53,846
Investment expenses provided by external investment advisors	(47,860)
TOTAL INVESTMENT LOSS, NET OF INVESTMENT EXPENSES	**$ (680,180)**

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 investment income without donor restrictions. The increase or decrease in the asset measured by the fair value of the asset contributed to the trust is recorded as a restricted gain in perpetuity in the Combined Statement of Activities and Change in Net Assets.

For the year ended December 31, 2018, The Arc recorded a net loss in perpetual trust of $151,591, due to the decrease in fair value.

The Arc also received distributions from the beneficial interest in perpetual trusts in the amount of $53,846, which is included in investment loss without donor restrictions 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, 2018 was $1,122,742.

4. BOARD DESIGNATED

The Board of Directors has set aside certain net assets without donor restrictions 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, 2018, Board designated assets totaled $609,682.

5. NET ASSETS WITH DONOR RESTRICTIONS

As of December 31, 2018, net assets with donor restrictions consisted of the following:

Donor-Imposed Restrictions:	
Down Syndrome New Mexico Fund	$ 3,832,426
Chapter Financial Assistance and Support	3,749,745
Advocacy Engagement	530,079
Public Supported Research	271,101
Down Syndrome Research Fund	138,026
Individual and Family Support Programs	108,292
Tech Programs	62,118
Prevention Fund	53,552
Disability Employment Programs	53,018
Disaster Relief Fund	15,504
NCCJD	10,000
Wings for Autism	7,006
Give a Parent a Break	3,787
Paul Marchand Fellowship Fund for Public Policy	3,205
Give a Kid a Job	25
Accumulated investment losses from endowments not yet authorized for spending	5,786
Endowments to be invested in perpetuity, less underwater endowments in the amount of $35,751	2,079,088
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	**$ 10,922,758**

5. NET ASSETS WITH DONOR RESTRICTIONS (Continued)

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	$ 734,173
Advocacy Engagement	547,247
Individual and Family Support Programs	510,716
Disability Employment Programs	290,880
Tech Programs	254,417
Wings for Autism Program	120,655
Down Syndrome New Mexico Fund	119,581
MEAF-Employment	61,000
Health and Wellness Programs	39,376
Paul Marchand Fellowship Fund for Public Policy	3,504
Public Policy Advocacy Fund	1,896
Special Education Advocacy Programs	250
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS	**$ 2,683,695**

6. LIQUIDITY

Financial assets available for use within one year of the Combined Statement of Financial Position, comprise the following at December 31, 2018:

Cash and cash equivalents	$ 1,659,601
Investments	10,234,434
Accounts receivable	530,982
Grants receivable	97,061
Less: Donor restrictions for specific purposes	(9,800,016)
Less: Board designated net assets	(609,682)
FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR	**$ 2,112,380**

The Organizations have a policy to structure its financial assets to be available and liquid as its obligations become due. In general, cash is available to meet the upcoming year's needs for general expenditures.

7. 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, 2018, the Foundation has a receivable from The Arc amounting to $129,744, 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.

8. 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 $135,571 for the management fees which are included in program service fees on the Combined Statement of Activities and Change in Net Assets.

9. 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, 2018, occupancy expense was $569,722. Additionally, the deferred rent and lease incentive liability at year-end was $742,896.

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, 2018, minimum annual rental commitments under the lease are as follows:

Year Ending December 31,	
2019	$ 616,294
2020	633,178
2021	650,552
2022	668,319
2023	284,111
	$ 2,852,454

10. RETIREMENT PLAN

The Arc has a non-contributory pension plan (the Plan), covering substantially all of its regular employees. Total pension expense was $371,053 for the year ended December 31, 2018. 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, 2018, $135,398 was deferred under the Plan.

11. CONTRIBUTED SERVICES

During the year ended December 31, 2018, The Arc was the beneficiary of donated services in the amount of $4,496,222. 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, 2018, as follows:

Donated legal services	$ 2,857,034
Donated advertising	1,639,188
TOTAL CONTRIBUTED SERVICES	**$ 4,496,222**

12. 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, 2018, The Arc did not incur costs of Federal funding in excess of $750,000 that would require a single audit under the Uniform Guidance.

13. 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 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.

13. FAIR VALUE MEASUREMENT (Continued)

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, 2018:

- *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, 2018:

	Level 1	Level 2	Level 3	Total
Asset Class:				
Mutual funds	$ 530,849	$ -	$ -	$ 530,849
Stocks	6,982,912	-	-	6,982,912
Fixed income - taxable bonds	-	2,720,673	-	2,720,673
TOTAL	**$ 7,513,761**	**$ 2,720,673**	**$ -**	**$ 10,234,434**
DEFERRED COMPENSATION ASSET	**$ 135,398**	**$ -**	**$ -**	**$ 135,398**
Common trust funds	$ -	$ 258,075	$ -	$ 258,075
Equities	706,279	-	-	706,279
Money market	32,700	-	-	32,700
Fixed income	125,688	-	-	125,688
ASSETS HELD IN PERPETUAL TRUST	**$ 864,667**	**$ 258,075**	**$ -**	**$ 1,122,742**

14. 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 is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, thus classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those assets are time restricted until the governing Board appropriates such amounts for expenditures. Most of those net asset also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions.

14. ENDOWMENT (Continued)

The governing Board has interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Organizations consider a fund to be underwater if the fair value of the fund is less than the sum the (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Organizations have interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with UPMIFA, the Organizations consider the following factors in making a determination to appropriated 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.

Description of amounts classified as net assets with donor restrictions (Endowment only):

Net Assets with Donor Restrictions:	
Original donor-restricted endowment gift amounts and amounts required to be retained by donor less underwater endowments	$ 2,079,088
Accumulated investment earnings with purpose restrictions	5,786
TOTAL ENDOWMENT FUNDS CLASSIFIED AS NET ASSETS WITH DONOR RESTRICTIONS	**$ 2,084,874**

Changes in endowment net assets for the year ended December 31, 2018:

	Without Donor Restriction	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ -	$ 2,273,295	$ 2,273,295
Investment loss, net	-	(36,830)	(36,830)
Loss in beneficial interest in perpetual trusts	-	(151,591)	(151,591)
ENDOWMENT NET ASSETS, END OF YEAR	**$ -**	**$ 2,084,874**	**$ 2,084,874**

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 organization to retain as a fund of perpetual duration. Deficiencies of this nature exist in five donor-restricted endowment funds, which together have an original gift value of $424,514, and a deficiency of $35,751 as of December 31, 2018. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new contributions for donor-restricted endowment funds and continued appropriates for certain programs that was deemed prudent by the Board of Directors.

14. ENDOWMENT (Continued)

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.

15. SUBSEQUENT EVENTS

In preparing these combined financial statements, the Organizations have evaluated events and transactions for potential recognition or disclosure through April 7, 2019, the date the combined financial statements were issued.

On November 7, 2018, The Arc's Board of Directors approved the restructuring of The Arc of Georgia Services Corporation (formerly The Georgia Arc Network) and The Arc of the District of Columbia Inc. to be subsidiary corporations of the Organization with effective date being January 1, 2019.