

# **The Arc of Greater Houston**

Financial Statements  
and Independent Auditors' Report  
for the years ended December 31, 2017 and 2016

# The Arc of Greater Houston

## Table of Contents

---

	Page
<b>Independent Auditors' Report</b>	1
<b>Financial Statements:</b>	
Statements of Financial Position as of December 31, 2017 and 2016	2
Statement of Activities for the year ended December 31, 2017	3
Statement of Activities for the year ended December 31, 2016	4
Statement of Functional Expenses for the year ended December 31, 2017	5
Statement of Functional Expenses for the year ended December 31, 2016	6
Statements of Cash Flows for the years ended December 31, 2017 and 2016	7
Notes to Financial Statements for the years ended December 31, 2017 and 2016	8

---

**Independent Auditors' Report**

To the Board of Directors of  
The Arc of Greater Houston:

We have audited the accompanying financial statements of The Arc of Greater Houston, which comprise the statements of financial position as of December 31, 2017 and 2016 and the related statements of activities, of functional expenses, and of cash flows for the years then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements** – Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of The Arc of Greater Houston as of December 31, 2017 and 2016 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Blazek & Vetterling*

July 27, 2018

# The Arc of Greater Houston

Statements of Financial Position as of December 31, 2017 and 2016

---

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash	\$ 133,680	\$ 29,641
Contract receivable	14,574	13,580
Pledges receivable	125,000	
Prepaid expenses and other assets	18,361	9,647
Investments ( <i>Note 2</i> )	<u>34,252</u>	<u>30,036</u>
TOTAL ASSETS	<u>\$ 325,867</u>	<u>\$ 82,904</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 13,152	\$ 1,835
Accrued payroll liabilities	<u>12,920</u>	<u>14,535</u>
Total liabilities	<u>26,072</u>	<u>16,370</u>
Net assets:		
Unrestricted	96,672	34,947
Temporarily restricted ( <i>Note 3</i> )	<u>203,123</u>	<u>31,587</u>
Total net assets	<u>299,795</u>	<u>66,534</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 325,867</u>	<u>\$ 82,904</u>

*See accompanying notes to financial statements.*

---

## The Arc of Greater Houston

Statement of Activities for the year ended December 31, 2017

---

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Program fees, net of scholarships of \$5,110	\$ 258,875		\$ 258,875
Contract fees	215,196		215,196
Contributions	76,306	\$ 397,416	473,722
Membership contributions	18,004		18,004
Special events	197,281		197,281
Cost of benefits to donors – special events	(99,794)		(99,794)
Investment income	<u>4,216</u>	<u>          </u>	<u>4,216</u>
Total revenue	670,084	397,416	1,067,500
Net assets released from restrictions:			
Expenditure for program purposes	<u>225,880</u>	<u>(225,880)</u>	<u>          </u>
Total	<u>895,964</u>	<u>171,536</u>	<u>1,067,500</u>
EXPENSES:			
Program expenses:			
Education and advocacy services	308,928		308,928
Fall and summer programs	197,431		197,431
Respite	102,795		102,795
Social and leisure	<u>77,500</u>		<u>77,500</u>
Total program expenses	686,654		686,654
Management and general	72,633		72,633
Fundraising	<u>74,952</u>		<u>74,952</u>
Total expenses	<u>834,239</u>		<u>834,239</u>
CHANGES IN NET ASSETS	61,725	171,536	233,261
Net assets, beginning of year	<u>34,947</u>	<u>31,587</u>	<u>66,534</u>
Net assets, end of year	<u>\$ 96,672</u>	<u>\$ 203,123</u>	<u>\$ 299,795</u>

*See accompanying notes to financial statements.*

---

## The Arc of Greater Houston

Statement of Activities for the year ended December 31, 2016

---

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Program fees, net of scholarships of \$4,591	\$ 239,918		\$ 239,918
Contract fees	221,309		221,309
Contributions	124,020	\$ 62,661	186,681
Membership contributions	24,836		24,836
Special events	69,098		69,098
Cost of benefits to donors – special events	(14,084)		(14,084)
Investment income	<u>2,227</u>	<u>          </u>	<u>2,227</u>
Total revenue	667,324	62,661	729,985
Net assets released from restrictions:			
Expenditure for program purposes	<u>149,862</u>	<u>(149,862)</u>	<u>          </u>
Total	<u>817,186</u>	<u>(87,201)</u>	<u>729,985</u>
EXPENSES:			
Program expenses:			
Education and advocacy services	307,894		307,894
Fall and summer programs	192,203		192,203
Respite	84,747		84,747
Social and leisure	<u>56,070</u>	<u>          </u>	<u>56,070</u>
Total program expenses	640,914		640,914
Management and general	71,006		71,006
Fundraising	<u>87,293</u>	<u>          </u>	<u>87,293</u>
Total expenses	<u>799,213</u>	<u>          </u>	<u>799,213</u>
CHANGES IN NET ASSETS	17,973	(87,201)	(69,228)
Net assets, beginning of year	<u>16,974</u>	<u>118,788</u>	<u>135,762</u>
Net assets, end of year	<u>\$ 34,947</u>	<u>\$ 31,587</u>	<u>\$ 66,534</u>

*See accompanying notes to financial statements.*

---

## The Arc of Greater Houston

### Statement of Functional Expenses for the year ended December 31, 2017

<u>EXPENSES</u>	<u>EDUCATION AND ADVOCACY SERVICES</u>	<u>FALL AND SUMMER PROGRAMS</u>	<u>RESPIRE</u>	<u>SOCIAL AND LEISURE</u>	<u>TOTAL PROGRAM EXPENSES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Salaries and benefits	\$ 238,341	\$ 43,861	\$ 72,951	\$ 41,201	\$ 396,354	\$ 26,489	\$ 50,233	\$ 473,076
Facility rentals	3,398	112,151		7,308	122,857		500	123,357
Program supplies	3,783	11,922	25,801	24,222	65,728	456	6,130	72,314
Contract services	3,686	22,700		280	26,666	22,000	713	49,379
Donated office space	24,120	2,880	1,800	2,160	30,960	1,800	3,240	36,000
Insurance	8,347	1,203	682	874	11,106		1,394	12,500
Professional fees						11,035		11,035
Office supplies	5,848	917	459	645	7,869	701	1,351	9,921
Training	7,081	75			7,156	1,937		9,093
Bank charges	485		349	8	842	3,269	3,599	7,710
Travel and mileage	5,120	621	259	79	6,079	595	728	7,402
Telephone	3,356	560	280	392	4,588	773	671	6,032
Dues and publications	394				394	2,687	1,581	4,662
Office equipment rental	2,743	327	205	246	3,521	205	369	4,095
Printing	1,976			75	2,051	291	1,046	3,388
Postage	145	161	1	1	308	366	816	1,490
Other	105	53	8	9	175	29	2,581	2,785
Total expenses	<u>\$ 308,928</u>	<u>\$ 197,431</u>	<u>\$ 102,795</u>	<u>\$ 77,500</u>	<u>\$ 686,654</u>	<u>\$ 72,633</u>	<u>\$ 74,952</u>	834,239
Cost of benefits to donors – special events								<u>99,794</u>
Total								<u>\$ 934,033</u>

*See accompanying notes to financial statements.*

## The Arc of Greater Houston

### Statement of Functional Expenses for the year ended December 31, 2016

<u>EXPENSES</u>	<u>EDUCATION AND ADVOCACY SERVICES</u>	<u>FALL AND SUMMER PROGRAMS</u>	<u>RESPIRE</u>	<u>SOCIAL AND LEISURE</u>	<u>TOTAL PROGRAM EXPENSES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Salaries and benefits	\$ 250,724	\$ 34,949	\$ 57,728	\$ 24,280	\$ 367,681	\$ 21,670	\$ 74,122	\$ 463,473
Facility rentals	631	104,876		800	106,307			106,307
Program supplies	1,940	16,494	21,530	25,397	65,361	1,226	15	66,602
Contract services	5,416	27,426	72	280	33,194	21,833		55,027
Donated office space	23,040	3,240	2,520	2,160	30,960	1,800	3,240	36,000
Insurance	6,838	1,020	767	657	9,282	1,124	1,089	11,495
Professional fees				221	221	11,775		11,996
Office supplies	5,775	985	660	566	7,986	614	1,131	9,731
Bank charges	167	38		221	426	2,780	987	4,193
Travel and mileage	3,873	1,087	251	177	5,388	543	572	6,503
Telephone	2,807	476	333	286	3,902	530	571	5,003
Dues and publications	976				976	2,036	550	3,562
Office equipment rental	3,552	499	389	333	4,773	529	500	5,802
Printing		24		175	199		918	1,117
Postage	300	390	20	40	750	4,102	1,265	6,117
Depreciation	1,730	676	477	477	3,360	377	239	3,976
Other	125	23			148	67	2,094	2,309
Total expenses	<u>\$ 307,894</u>	<u>\$ 192,203</u>	<u>\$ 84,747</u>	<u>\$ 56,070</u>	<u>\$ 640,914</u>	<u>\$ 71,006</u>	<u>\$ 87,293</u>	799,213
Cost of benefits to donors – special events								<u>14,084</u>
Total								<u>\$ 813,297</u>

*See accompanying notes to financial statements.*



## The Arc of Greater Houston

### Statements of Cash Flows for the years ended December 31, 2017 and 2016

---

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 233,261	\$ (69,228)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation		3,976
Net unrealized gain on investments	(1,675)	(1,444)
Gain on sale of property	(994)	
Changes in operating assets and liabilities:		
Contract receivable	(994)	(13,580)
Pledges receivable	(125,000)	100,000
Prepaid expenses and other assets	(9,713)	513
Accounts payable	11,317	(10,865)
Accrued payroll liabilities	<u>(1,615)</u>	<u>(8,983)</u>
Net cash provided by operating activities	<u>104,587</u>	<u>389</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Net change in money market mutual funds held as investments	(65)	9,981
Proceeds from sale of property	1,993	
Purchase of investments	<u>(2,476)</u>	<u>(763)</u>
Net cash provided (used) by investing activities	<u>(548)</u>	<u>9,218</u>
<b>NET CHANGE IN CASH</b>	<b>104,039</b>	<b>9,607</b>
Cash, beginning of year	<u>29,641</u>	<u>20,034</u>
Cash, end of year	<u>\$ 133,680</u>	<u>\$ 29,641</u>

*See accompanying notes to financial statements.*

---

## The Arc of Greater Houston

Notes to Financial Statements for the years ended December 31, 2017 and 2016

---

### NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – The Arc of Greater Houston (The Arc), a Texas nonprofit organization, was chartered on September 6, 1984. The Arc is an affiliate of The Arc of Texas and The Arc of the United States. The mission of The Arc is to promote and protect the human rights of people with intellectual and developmental disabilities and actively support their full inclusion and participation in the community through their lifetimes. The Arc provides the following services and activities:

- Increases public awareness of intellectual and developmental disabilities and their causes;
- Provides educational services to parents and professionals through training programs, seminars and printed resources;
- Provides community-based, age-appropriate respite services;
- Provides support groups for individuals, families and groups of parents;
- Offers an extensive network of information and referral;
- Provides community-based, age-appropriate social and leisure programs; and
- Provides summer programs for individuals of all ages.

The Arc receives funding from contracts with The Harris Center for Mental Health and IDD, formerly Mental Health and Mental Retardation Authority of Harris County (the Harris Center), which totaled \$205,558 in 2017 and \$203,809 in 2016. The Arc is supported by contributions from foundations and other donors.

Federal income tax status – The Arc is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §170(b)(1)(A)(vi).

Pledges receivable that are expected to be collected within one year are reported at net realizable value. Amounts expected to be collected in future years are discounted, if material, to estimate the present value of their estimated future cash flows. Pledges receivable at December 31, 2017 are expected to be collected within one year.

Investments are reported at fair value. Investment return includes realized and unrealized gains and losses, interest and dividends. Investment return is reported in the statement of activities as an increase in unrestricted net assets unless the use of the income is limited by donor-imposed restrictions.

Net asset classification – Contributions and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* include those net assets whose use is not restricted by donor-imposed stipulations, even though their use may be limited in other respects, such as by contract or board designation.
- *Temporarily restricted net assets* include contributions restricted by the donor for specific purposes or time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.

Program and contract fees are recognized as revenue when the related services are provided.

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as restricted revenue. Conditional contributions are recognized in the same manner when the conditions are substantially met.

In 2017, \$343,000 or approximately 72% of contributions were from four donors. In 2016, \$60,000 or approximately 32% of contributions were from one donor.

Contributed materials, use of facilities and services are recognized as contributions at fair value when an unconditional commitment is received from the donor. The related expense is recognized as the item is used. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. During 2017 and 2016, the Harris Center provided donated facility costs totaling approximately \$36,000, which is included in contributions and expenses in the statement of activities.

A substantial number of volunteers have contributed significant amounts of time in connection with programs for which no amount has been recorded in the financial statements because the donated services did not meet the criteria for recognition under generally accepted accounting principles.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts of reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Recent financial accounting pronouncements – In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU are aimed at providing more useful information to users of not-for-profit financial statements. Under this ASU, net assets will be presented in two classes: *net assets with donor restrictions* and *net assets without donor restrictions* and underwater endowments will be grouped with *net assets with donor restrictions*. New or enhanced disclosures will be required about the nature and composition of net assets, and the liquidity and availability of resources for general operating expenditures within one year of the balance sheet date. Expenses will be required to be presented by both nature and function and investment return will be presented net of external and direct internal investment expenses. Absent explicit donor stipulations, restrictions on long-lived assets will expire when assets are placed in service. The Arc is required to adopt this ASU for fiscal year 2018. Adoption of this ASU will impact the presentation and disclosures of the financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which replaces most existing revenue recognition guidance for exchange transactions not specifically covered by other guidance. This ASU does not apply to non-exchange transactions such as contributions. The core principle of the new guidance is that an entity should recognize revenue in an amount that reflects the consideration to which it expects to be entitled in exchange for transferred goods or services and establishes a 5-step process to determine when performance obligations are satisfied and revenue is recognized. The Arc is required to adopt this ASU for fiscal year 2019 using an appropriate retrospective method. The Arc has not yet determined the impact of adopting this ASU on its financial statements.

## NOTE 2 – FAIR VALUE MEASUREMENTS

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity’s assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value at December 31, 2017 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Equity mutual fund	\$ 25,350			\$ 25,350
Money market mutual fund	<u>8,902</u>			<u>8,902</u>
Total investments measured at fair value	<u>\$ 34,252</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 34,252</u>

Assets measured at fair value at December 31, 2016 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Equity mutual fund	\$ 21,199			\$ 21,199
Money market mutual fund	<u>8,837</u>			<u>8,837</u>
Total investments measured at fair value	<u>\$ 30,036</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 30,036</u>

Mutual funds are valued at the reported net asset value of shares held. This valuation method may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while The Arc believes its valuation method is appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

## NOTE 3 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2017</u>	<u>2016</u>
Employment roundtable and community capacity building	\$ 118,000	
Education and advocacy programs	69,938	\$ 19,250
Cypress/Klein Dance	10,340	10,340
Other	<u>4,845</u>	<u>1,997</u>
Total temporarily restricted net assets	<u>\$ 203,123</u>	<u>\$ 31,587</u>

#### **NOTE 4 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through July 27, 2018, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.

---