

THE ARC OF GREATER HOUSTON
(A NONPROFIT ORGANIZATION)

FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

GAINER DONNELLY & DESROCHES

THE ARC OF GREATER HOUSTON
(A NONPROFIT ORGANIZATION)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Arc of Greater Houston
Harris County, Texas

We have audited the accompanying statements of financial position of The Arc of Greater Houston ("The Arc") as of December 31, 2008 and 2007, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of The Arc's management. 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 the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Gainer Donnelly & Desroches LLP

July 21, 2009

THE ARC OF GREATER HOUSTON
(A Nonprofit Organization)
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2008 AND 2007

ASSETS		2008	2007
ASSETS:			
Cash and Cash Equivalents	\$	119,959	\$ 83,443
Marketable Securities		7,693	11,967
Program Fees Receivable		4,207	526
Prepaid Expenses		5,403	5,038
Property and Equipment, Net		2,656	4,141
Land Held for Investment		1,000	1,000
TOTAL ASSETS	\$	140,918	\$ 106,115
LIABILITIES AND NET ASSETS			
LIABILITIES:			
Accounts Payable	\$	8,741	\$ 10,535
Accrued Expenses		13,967	11,532
Deferred Lease Incentive		8,593	572
Total Liabilities		31,301	22,639
COMMITMENTS AND CONTINGENCIES			
NET ASSETS:			
Unrestricted		82,933	69,747
Temporarily Restricted		26,684	13,729
Total Net Assets		109,617	83,476
TOTAL LIABILITIES AND NET ASSETS	\$	140,918	\$ 106,115

The accompanying notes are an integral part of these financial statements.

THE ARC OF GREATER HOUSTON
(A Nonprofit Organization)
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008			2007		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND INCOME:						
Grants and Contracts	\$ 242,879	\$ 142,875	\$ 385,754	\$ 232,115	\$ 74,677	\$ 306,792
Program Fees	212,998	-	212,998	201,949	-	201,949
Contributions	71,157	-	71,157	66,880	-	66,880
Memberships	16,876	-	16,876	18,030	-	18,030
Special Events	33,226	1,675	34,901	33,249	700	33,949
Investment and Other Income, Net	(4,107)	-	(4,107)	4,233	-	4,233
Total Support and Income	573,029	144,550	717,579	556,456	75,377	631,833
Net Assets Released from Restrictions:						
Satisfaction of Program Restrictions	131,595	(131,595)	-	143,652	(143,652)	-
Total Support and Reclassifications	704,624	12,955	717,579	700,108	(68,275)	631,833
PROGRAM SERVICES:						
Advocacy Services	238,152	-	238,152	237,718	-	237,718
Summer Programs	193,005	-	193,005	175,006	-	175,006
Social and Leisure	68,726	-	68,726	93,289	-	93,289
Respite	109,630	-	109,630	118,607	-	118,607
Fall Camp Out	14,611	-	14,611	13,124	-	13,124
Total Program Services	624,124	-	624,124	637,744	-	637,744
SUPPORTING SERVICES:						
Management and General	24,120	-	24,120	25,958	-	25,958
Membership	16,942	-	16,942	16,298	-	16,298
Fundraising	26,252	-	26,252	35,738	-	35,738
Total Program and Supporting Services	691,438	-	691,438	715,738	-	715,738
CHANGE IN NET ASSETS	13,186	12,955	26,141	(15,630)	(68,275)	(83,905)
NET ASSETS AT BEGINNING OF YEAR	69,747	13,729	83,476	85,377	82,004	167,381
NET ASSETS AT END OF YEAR	\$ 82,933	\$ 26,684	\$ 109,617	\$ 69,747	\$ 13,729	\$ 83,476

The accompanying notes are an integral part of these financial statements.

THE ARC OF GREATER HOUSTON
(A Nonprofit Organization)
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2008

	PROGRAM SERVICES					Total Program Services	SUPPORTING SERVICES			Total
	Advocacy Services	Summer Programs	Social and Leisure	Respite	Fall Camp Out		Management and General	Membership	Fundraising	
Salaries and Wages	\$ 202,476	\$ 83,764	\$ 23,893	\$ 76,731	\$ 6,930	\$ 393,794	\$ 2,154	\$ 13,499	\$ 22,742	\$ 432,189
Bank Charges	-	43	-	-	-	43	2,702	-	-	2,745
Depreciation Expense	613	240	169	169	-	1,191	127	7	84	1,409
Dues and Publications	723	-	-	-	-	723	4,673	1,970	788	8,154
Facility Rental	250	64,545	2,550	11,000	6,040	84,385	-	-	-	84,385
Insurance	765	2,960	1,596	1,947	55	7,323	1,263	20	20	8,626
Meetings	124	-	-	-	-	124	155	-	53	332
Miscellaneous Expense	-	49	-	20	-	69	459	-	44	572
Office Equipment Rental	2,565	758	991	758	58	5,130	446	117	234	5,927
Office Maintenance	3,804	1,124	1,470	1,124	87	7,609	661	172	347	8,789
Office Rent	15,120	5,400	11,160	2,160	-	33,840	720	720	720	36,000
Office Supplies	2,826	1,576	1,021	307	61	5,791	354	123	385	6,653
Postage	1,157	1,002	482	35	-	2,676	530	238	164	3,608
Printing	2,229	139	199	-	2	2,569	219	10	66	2,864
Professional Fees	-	-	-	-	-	-	7,500	-	-	7,500
Program Consumables	399	29,623	23,616	14,112	1,299	69,049	32	-	-	69,081
Telephone	3,147	1,064	1,311	918	-	6,440	66	66	66	6,638
Training	(325)	41	-	-	-	(284)	1,119	-	175	1,010
Travel and Mileage	2,279	677	268	349	79	3,652	940	-	364	4,956
Total	\$ 238,152	\$ 193,005	\$ 68,726	\$ 109,630	\$ 14,611	\$ 624,124	\$ 24,120	\$ 16,942	\$ 26,252	\$ 691,438

The accompanying notes are an integral part of these financial statements.

THE ARC OF GREATER HOUSTON
(A Nonprofit Organization)
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2007

	PROGRAM SERVICES					Total Program Services	SUPPORTING SERVICES			Total
	Advocacy Services	Summer Programs	Social and Leisure	Respite	Fall Camp Out		Management and General	Membership	Fundraising	
Salaries and Wages	\$ 197,162	\$ 91,551	\$ 49,943	\$ 86,169	\$ 5,249	\$ 430,074	\$ 6,168	\$ 11,503	\$ 27,823	\$ 475,568
Bank Charges	-	-	-	-	-	-	2,936	-	391	3,327
Depreciation Expense	1,297	507	358	358	-	2,520	283	-	179	2,982
Dues and Publications	623	27	-	-	-	650	5,206	3,285	329	9,470
Event Costs	301	-	-	-	-	301	-	-	-	301
Facility Rental	-	56,424	6,341	10,560	6,409	79,734	100	-	-	79,834
Insurance	894	3,101	1,761	2,057	55	7,868	1,176	26	26	9,096
Meetings	109	-	-	-	-	109	218	-	31	358
Miscellaneous Expense	998	235	232	125	-	1,590	600	53	2,685	4,928
Office Equipment Rental	1,517	695	787	471	-	3,470	79	55	28	3,652
Office Maintenance	2,816	724	886	768	98	5,292	711	142	366	6,511
Office Rent	15,120	5,400	11,160	2,160	-	33,840	720	720	720	36,000
Office Supplies	2,770	1,765	918	306	-	5,759	62	122	394	6,337
Postage	1,951	1,029	539	52	-	3,571	631	321	692	5,215
Printing	5,345	350	48	-	-	5,743	186	-	803	6,732
Professional Fees	-	-	-	-	-	-	6,300	-	-	6,300
Program Consumables	1,223	11,281	18,556	14,222	1,199	46,481	73	-	30	46,584
Public Relations	6	-	-	-	-	6	-	-	60	66
Telephone	3,406	1,064	1,419	993	-	6,882	71	71	71	7,095
Training	225	-	-	-	-	225	80	-	315	620
Travel and Mileage	1,955	705	341	306	114	3,421	91	-	786	4,298
Volunteer Support	-	148	-	60	-	208	267	-	9	484
Total	\$ 237,718	\$ 175,006	\$ 93,289	\$ 118,607	\$ 13,124	\$ 637,744	\$ 25,958	\$ 16,298	\$ 35,738	\$ 715,738

The accompanying notes are an integral part of these financial statements.

THE ARC OF GREATER HOUSTON
(A Nonprofit Organization)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in Net Assets	\$ 26,141	\$ (83,905)
Adjustments to Reconcile Changes in Net Assets to Net Cash		
Provided by (Used in) Operating Activities:		
Depreciation	1,409	2,982
Loss on Disposal of Fixed Assets	76	-
Net Unrealized Loss on Marketable Securities	4,360	85
Changes in Operating Assets and Liabilities		
Program Fees Receivable	(3,681)	39,549
Prepaid Expenses	(365)	(644)
Accounts Payable	(1,794)	(2,450)
Accrued Expenses	2,435	(2,116)
Deferred Lease Incentive	8,021	(572)
Net Cash Provided by (Used in) Operating Activities	<u>36,602</u>	<u>(47,071)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Reinvested Dividends	<u>(86)</u>	<u>(613)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	36,516	(47,684)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>83,443</u>	<u>131,127</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 119,959</u>	<u>\$ 83,443</u>
SUPPLEMENTARY SCHEDULE OF NONCASH ACTIVITIES:		
Contributed Office Space	<u>\$ 36,000</u>	<u>\$ 36,000</u>
Disposal of Property and Equipment	<u>\$ 13,165</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

THE ARC OF GREATER HOUSTON
(A NONPROFIT ORGANIZATION)
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Arc of Greater Houston (“The Arc”), a Texas nonprofit organization, formerly known as Northwest Association for Retarded Citizens – Metropolitan Houston/Gulf Coast Area Council, was chartered on September 6, 1984. The mission of The Arc of Greater Houston: “The Arc of Greater Houston advocates for the rights and full participation of all children and adults with intellectual and developmental disabilities in the community”.

The Arc provides the following services:

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

Financial Statement Presentation

The Arc’s financial records are maintained on the accrual basis of accounting in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements for Not-for-profit Organizations*. Under SFAS 117, The Arc is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted

Cash Equivalents

For the purposes of the statements of cash flows, The Arc considers all highly liquid investments with initial maturities of three months or less to be cash equivalents.

Program Fees Receivable

The Arc considers program fees receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. Management evaluates receivables for collectibility on an individual basis. If amounts become uncollectible, they will be charged to operations when that determination is made.

Property and Equipment

The Arc capitalizes all expenditures in excess of \$1,000 for property and equipment at cost, or in the case of donated property, at the estimated fair value at the date of donation. Depreciation is computed by use of the straight-line method for financial reporting purposes. Useful lives of the assets range from three to seven years.

Routine maintenance, repair, renewal and replacement costs are charged against operations in the year incurred. Expenditures which materially increase values or extend useful lives of property and equipment are capitalized.

THE ARC OF GREATER HOUSTON
(A NONPROFIT ORGANIZATION)
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Contributions

The Arc accounts for its contributions in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, whereby contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions.

Unconditional promises to give that are expected to be collected within one year are recorded at their realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is included as contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

Noncash contributions intended for conversion to cash or use in The Arc's facilities are recorded at fair market value at the date of contribution.

The Arc recognizes donated services at their fair value in the period received if the services received create or enhance nonfinancial assets, require specialized skills and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

A substantial number of unpaid volunteers make significant contributions of their time to develop The Arc's programs, principally in recreational programs and fundraising campaigns. The value of the contributed time is not reflected in these statements because it does not require a specialized skill or create or enhance a nonfinancial asset.

Federal Income Taxes

The Arc is a nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. In November, 2001, The Arc was granted an individual ruling under the same section and has been classified as an organization that is not a private foundation under Section 509(a) of the Internal Revenue Code and, as such, qualifies for the charitable contribution deduction for individual donors.

Functional Expenses

Functional expenses which cannot readily be related to a specific program are charged to various programs based upon hours worked, square footage, number of program staff or other reasonable methods for allocated multiple function expenses as determined by management.

THE ARC OF GREATER HOUSTON
(A NONPROFIT ORGANIZATION)
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Use of Estimates

The preparation of the 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 amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that have the most impact on financial position and results of operations primarily relate to the collectibility of accounts receivable, the fair value of marketable securities, the useful lives of property and equipment, certain accrued liabilities and the allocation of expenses among functional areas. Management believes these estimates and assumptions provide a reasonable basis for the fair presentation of the financial statements.

Fair Value Considerations

The Arc adopted Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 157, “Fair Value Measurements” effective January 1, 2008. SFAS No. 157 provides a revised definition of fair value, establishes a framework for measuring fair value and expands financial statement disclosure requirements for fair value information. Under SFAS No. 157, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The Statement also establishes a fair value hierarchy that distinguishes between inputs based on market data from independent sources (observable inputs) and a reporting entity’s internal assumptions based upon the best information available when external market data is limited or unavailable (unobservable inputs). The fair value hierarchy in SFAS No. 157 prioritizes fair value measurements into three levels based on the nature of the inputs. Pursuant to FASB Staff Position FAS 157-2, The Arc has delayed the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008.

Also, effective January 1, 2008, The Arc adopted SFAS No. 159, “The Fair Value Option for Financial Assets and Liabilities” which allows entities to choose, at specified election dates, to measure eligible financial assets and financial liabilities at fair value that are not otherwise required to be measured at fair value. If an organization elects the fair value option for an eligible item, changes in that item’s fair value in subsequent reporting periods must be recognized in current earnings.

Reclassifications

Certain reclassifications have been made to the 2007 financial statement presentation to correspond to the current year’s format. Net assets and changes in net assets are unchanged due to these reclassifications.

THE ARC OF GREATER HOUSTON
(A NONPROFIT ORGANIZATION)
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – FAIR VALUE MEASUREMENTS

The Arc adopted SFAS No. 157 as of January 1, 2008 for financial assets and liabilities measured on a recurring basis. SFAS No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS No. 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Inputs other than Level 1 inputs that are either directly or indirectly observable such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable; or other inputs not directly observable, but derived principally from, or corroborated by, observable market data.
- Level 3: Unobservable inputs that are supported by little or no market activity.

The Arc utilizes the market approach to measure fair value for its financial assets and liabilities. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

The value of assets and liabilities measured at fair value on a recurring basis is as follows:

	Quoted Market Prices in Active Markets <u>(Level 1)</u>	Other Observable Inputs <u>(Level 2)</u>	Unobservable Inputs <u>(Level 3)</u>
December 31, 2008:			
Marketable Securities	\$ <u>7,693</u>	\$ <u>-</u>	\$ <u>-</u>
December 31, 2007:			
Marketable Securities	\$ <u>11,967</u>	\$ <u>-</u>	\$ <u>-</u>

The Arc's marketable securities are held with Mutual of America Institutional Funds, Inc. Funds can be distributed upon request. Unrealized losses included in unrestricted net assets are included in other income and totaled \$4,360 and \$85 for the years ended December 31, 2008 and 2007, respectively.

The Arc's remaining financial instruments (primarily cash and cash equivalents, accounts receivable and payables) are carried in the accompanying financial statements at amounts which reasonably approximate fair value.

THE ARC OF GREATER HOUSTON
(A NONPROFIT ORGANIZATION)
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	<u>2008</u>	<u>2007</u>
Furniture and Fixtures	\$ 7,906	\$ 8,282
Equipment	<u>29,262</u>	<u>42,051</u>
Total Property and Equipment	37,168	50,333
Less: Accumulated Depreciation	<u>(34,512)</u>	<u>(46,192)</u>
Property and Equipment, Net	\$ <u><u>2,656</u></u>	\$ <u><u>4,141</u></u>

Depreciation expense for the years ended December 31, 2008 and 2007 totaled \$1,409 and \$2,982, respectively.

NOTE 4 – TEMPORARY RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31:

	<u>2008</u>	<u>2007</u>
Hurricane Katrina Relief	\$ -	\$ 1,510
Krolczyk Memorials	-	1,185
Lepley Memorials	2,157	3,669
Program Services	6,566	6,004
2009 Annual Fundraising Event	10,000	-
Scholarships	<u>7,961</u>	<u>1,361</u>
Total	\$ <u><u>26,684</u></u>	\$ <u><u>13,729</u></u>

THE ARC OF GREATER HOUSTON
(A NONPROFIT ORGANIZATION)
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 – OPERATING LEASE

The Arc maintains certain office equipment under operating leases expiring in various years through 2013. Future lease commitments under these leases are as follows:

<u>Year Ending</u> <u>December 31,</u>		
2009	\$	9,672
2010		8,990
2011		5,580
2012		5,580
2013		<u>2,790</u>
	\$	<u><u>32,612</u></u>

Rent expense for office equipment totaled \$5,927 and \$3,632 for the years ended December 31, 2008 and 2007, respectively.

NOTE 6 – CONCENTRATION OF CREDIT RISK

At various times during the year, The Arc may have bank deposits in excess of Federal Deposit Insurance Corporation (FDIC) insurance limits. At December 31, 2008, The Arc's deposits in non-interest bearing accounts were fully insured by the FDIC under the Transaction Account Guarantee Program. Management believes any credit risk is low due to the overall financial strength of the financial institution. No amounts were at risk as of December 31, 2008.

NOTE 7 – RELATED PARTY TRANSACTIONS

The Arc of Texas and The Arc of the United States are affiliated chapters of The Arc. This relationship consists of The Arc paying membership dues of \$5.00 from each of their members plus an affiliation fee to these affiliated chapters. The Arc has an affiliation agreement with the affiliated chapters, but fees may change annually.

Membership dues to The Arc of Texas and The Arc of the United States totaled \$6,085 and \$8,105 for the years ended December 31, 2008 and 2007, respectively.