ARC OF KATY

Financial Statements for the Years Ended December 31, 2013 and 2012

BENNOCH & WALKER LLC
CERTIFIED PUBLIC ACCOUNTANTS

ARC OF KATY

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Arc of Katy
Katy, Texas

We have audited the accompanying financial statements of Arc of Katy (a nonprofit organization), which comprise the statement of financial position as of December 31, 2014, and the related statements of activities, functional expenses and cash flows for the year 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.

Auditor's Responsibility
Our responsibility is to express an opinion on these 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 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 auditor's 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arc of Katy as of December 31, 2013, and the changes in its net assets and its 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 Arc of Katy's 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 21, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Bennoch & Walker LLC

Bennoch & Walker LLC
Certified Public Accountants
Houston, Texas

December 5, 2014

THE ARC OF KATY
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2013 (with comparative totals for 2012)

	2013	2012
ASSETS		
Cash and cash equivalents	$ 206,097	$ 147,471
Prepaids	-	1,131
Certificates of deposit	74,023	152,320
Property and equipment, net of accumulated depreciation of $35,604	84,920	45,995
TOTAL ASSETS	$ 365,040	$ 346,917
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	$ 3,950	$ -
NET ASSETS		
Unrestricted	361,090	346,917
TOTAL NET ASSETS	361,090	346,917
TOTAL LIABILITIES AND NET ASSETS	$ 365,040	$ 346,917

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

THE ARC OF KATY
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013 (with comparative totals for 2012)

	2013	2012
PUBLIC SUPPORT AND REVENUES		
Contributions	$ 45,586	$ 30,603
Grants	7,000	21,500
Tuition	101,988	83,281
Memberships	5,285	2,260
Other income	3,795	1,526
Interest income	1,600	1,109
In-kind support	61,000	43,200
Fundraising	-	75,000
Special event revenue	117,340	131,491
Less: cost of direct benefits to donors	(15,605)	(16,658)
TOTAL PUBLIC SUPPORT AND REVENUES	327,989	373,312
EXPENSES		
Program Services:		
Social and Recreational	250,416	182,193
Total Program Services	250,416	182,193
Supporting Services:		
Management and general	42,160	21,071
Fundraising	21,240	25,973
Total Supporting Services	63,400	47,044
TOTAL EXPENSES	313,816	229,237
INCREASE IN NET ASSETS	14,173	144,075
NET ASSETS, BEGINNING OF YEAR	346,917	202,842
NET ASSETS, END OF YEAR	$ 361,090	$ 346,917

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

THE ARC OF KATY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR DECEMBER 31, 2013 (with comparative totals for 2012)

	Program	Management/ General	Fundraising	2013 Total	2012 Total
Automotive	$ 1,623	$ -	$ -	$ 1,623	$ -
Bank charges	-	321	-	321	1,124
Charity	1,850	-	-	1,850	550
Consulting	-	7,803	9,000	16,803	18,000
Day Program expenses	21,882	-	-	21,882	22,257
Depreciation	24,105	-	-	24,105	11,499
Entertainment for socials	600	-	-	600	911
Facilities	61,000	-	-	61,000	41,040
Fundraising expenses	-	-	12,240	12,240	7,973
Insurance	-	13,138	-	13,138	5,990
Membership dues	-	1,665	-	1,665	1,415
Merchandise	-	3,130	-	3,130	-
Miscellaneous	836	2,077	-	2,913	-
Office expenses	-	1,102	-	1,102	5,655
Payroll taxes	12,904	267	-	13,171	8,728
Postage and printing	-	958	-	958	197
Professional fees	-	3,550	-	3,550	5,525
Rent	-	4,425	-	4,425	-
Scholarships	5,000	-	-	5,000	4,800
Telephone	-	224	-	224	-
Transportation	-	-	-	-	7,200
Wages	120,616	3,500	-	124,116	86,373
TOTAL FUNCTIONAL EXPENSES	$ 250,416	$ 42,160	$ 21,240	$ 313,816	$ 229,237

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

THE ARC OF KATY
STATEMENTS OF CASH FLOWS
FOR THE YEAR DECEMBER 31, 2013 (with comparative totals for 2012)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
INCREASE IN NET ASSETS	$ 14,173	$ 144,075
ADJUSTMENTS TO RECONCILE INCREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Depreciation expense	24,105	11,499
Change in assets and liabilities:		
Prepaids	1,131	(1,131)
Accounts payable	3,950	-
TOTAL ADJUSTMENTS	29,186	10,368
NET CASH PROVIDED BY OPERATING ACTIVITIES	43,359	154,443
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(63,030)	(57,494)
Interest reinvested	(1,552)	(1,108)
Redemption of certificate of deposits	79,849	-
Purchase of certifcate of deposit	-	(50,000)
NET CASH USED BY INVESTING ACTIVITIES	15,267	(108,602)
NET INCREASE IN CASH AND CASH EQUIVALENTS	58,626	45,841
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	147,471	101,630
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 206,097	$ 147,471

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

NOTE 1– NATURE OF OPERATIONS AND SIGNIFCANT ACCOUNTING POLICIES

Nature of Operations

The Arc of Katy (the "Organization") is a not-for-profit organization incorporated on August 2, 1990 and organized for the purpose of ensuring opportunities for people with intellectual and developmental disabilities to maximize their quality of life within the community. It is an affiliate of The Arc of Texas (a State organization) and The Arc of the U.S. (a National organization). The Organization is supported primarily through donor contributions, tuition and fund-raising revenue.

Currently the Adult Activity Day Program, Recreational, Educational, and Advocacy are the major program areas offered by the Organization to residents of Katy and surrounding communities. Their Day program provides their participants meaningful activities in a safe environment, gives them the chance to improve their social and communication skills, and allows them to contribute back to the community. The Recreational programs provide monthly socials to individuals with intellectual and developmental disabilities. The Educational and Advocacy programs provide support for education and legislative activities that benefit people with intellectual and developmental disabilities.

Significant Accounting Policies

Basis of Accounting – The financial statements of the Organization have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Financial Statement Presentation – The Organization's financial statements are presented in accordance with Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) 958-205-45-4, Financial Statements of Not-for-Profit Organizations. Under FASB ASC 958-205-45-4, the Organization is required to report information regarding its financial position and activities according to three classes of net assets:

Unrestricted net assets – These are resources that are not subject to donor-imposed stipulations and can be used for the general operations of the Organization. As of December 31, 2012 and 2011, the Organization had $365,040 and $343,715, respectively, of unrestricted resources.

Temporarily restricted net assets – These are resources that are subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. The Organization did not have any temporarily restricted net assets as of December 31, 2013 and 2012.

Permanently restricted net assets – These are resources that are subject to donor restrictions requiring that the principal be held in perpetuity and any income thereon be used by the

Organization. The Organization did not have any permanently restricted net assets as of December 31, 2013 and 2012.

In addition, the Organization is required by FASB ASC 958-205-45-4 to present a statement of cash flows.

Generally, grants are recognized as revenues when earned. Grants that operate on a reimbursement basis are recognized on the accrual basis as revenues only to the extent of disbursements and commitments that are allowable for reimbursement. Revenues from contributions, donations and other sources are recognized as unrestricted or temporarily restricted revenues when received or unconditionally promised by a third party. Revenues from special events are recognized when the events are held. Interest income is recognized when earned based on passage of time. Program income and other income are recognized when received.

Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents – For purposes of the statements of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three (3) months or less to be cash equivalents.

Property and Equipment – The Organization capitalizes property and equipment over $500. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method over the estimated useful lives.

Contributions and Promises to Give – In accordance with FASB ASC 958-605-45-3, *Accounting for Contributions Received and Contributions Made*, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Conditional promises to give cash or other assets are not recognized as revenues until received. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions are met in the fiscal year in which the contributions were recognized. All other donor-restricted contributions would be reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

The Organization uses the allowance method to determine uncollectible grant and promise to give receivables. The allowance is based on management's analysis of specific promises made. The Organization considers all grant and promise to give receivables to be fully collectible; accordingly no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

Contributed Services – The Organization recognizes contributed services at their fair value if the services provide value to the Organization and require specialized skills, are provided by individuals possessing those skills, and would have been purchased if not provided by contributors, as established by FASB ASC 958-605-25-26.

Donations – Donations are recorded as contributions at fair value at the date of donation. Such donations are reported as unrestricted net assets unless the donor has restricted the donated assets to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as restricted by the donor.

The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Functional Allocation of Expenses – Expenses are categorized in the Statement of Activities as program services, fundraising and management and general. The Organization's expenses are allocated on a functional basis among these benefited categories.

Program service expenses include direct and indirect (allocated) expenses for the various programs offered by the Organization. Expenses that can be identified with a specific program and support services are allocated directly according to their natural expenditure classification. Other expenses, that are common to several functions, are allocated to program services by various reasonable bases.

Fundraising expenses represent cost incurred in connection with fundraising efforts. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Income Taxes – The Organization is a nonprofit corporation that is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code ("Code") and comparable

State law, and contributions to it are tax deductible within the limitations prescribed by the Code. The Organization did not conduct any unrelated business activities in the current fiscal year. Therefore, the Organization has made no provision for federal income taxes in the accompanying financial statements.

The Organization applies the provisions of FASB ASC Topic 740, Income Taxes, (formerly FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109), which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosures and transition.

The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

Fair Value – ASC 820, *Fair Value Measurements and Disclosures*, which defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosures about fair value measurements. ASC 820 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, establishes a framework for measuring fair value in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date.

The valuation techniques required by ASC 820 are based upon observable and unobservable inputs, and ASC 820 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. The three levels of inputs used to measure fair value are as follows:

- Level I – Quoted prices in active markets for identical assets or liabilities. An active market is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Level I assets include cash and cash equivalents and certificates of deposit with a fair value at December 31, 2013 and 2012 of $280,120 and $296,589, respectively.

- Level 2 – Inputs other than quoted prices included in Level I, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities that are not active; or other inputs that are observable or can be corroborated by observable market data.

- Level 3 – Significant unobservable inputs that are supported by little or no market activity.

The asset’s or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used are to maximize the use of observable inputs and minimize the use of unobservable inputs.

Advertising – Advertising costs are expensed as incurred.

Reclassifications – Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 presentation.

Recent Accounting Pronouncements – The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2012-05, Statement of Cash Flows (Topic 230): *Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*.

The new provision addresses the classification of cash receipts arising from the sale of certain donated financial assets in the statement of cash flows for not-for-profit entities. The ASU requires not-for-profit organizations to "*...classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any NFP-imposed limitations for sale and were converted nearly immediately into cash*." The ASU requires a donated financial asset that is immediately converted to cash be treated the same as donated cash and thus included in operating activities in the Statement of Cash Flows. If the donor restricts the use of the donated financial asset to a long-term purpose the cash receipts should be classified as cash flows from financing activities. In any other case the cash receipts from the sale should be classified as cash flows from investing activities.

NOTE 2 – CONCENTRATION OF CREDIT RISK

The Organization maintains cash balances at two financial institutions located in Texas. The accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At December 31, 2013 and 2012, the Organization had no amounts uninsured by the FDIC.

NOTE 3 – PROPERTY AND EQUIPMENT

As of December 31, 2013 and 2012, property and equipment consisted of the following:

	2013	2012
Vehicles	$ 120,524	$ 57,494
	120,524	57,494
Less: Accumulated depreciation	(35,604)	(11,499)
Property and equipment, net	$ 84,920	$ 45,995

Depreciation expense charged to operations for the years ended December 31, 2012 and 2011 was $24,105 and $11,499, respectively.

NOTE 4 – CONCENTRATIONS

The Organization is dependent on several sources of support and revenue. Tuition revenue makes up thirty-one percent (31%) and twenty-four percent (24%) of total support and revenue for the years ended December 31, 2013 and 2012 respectively. Tuition revenue could fluctuate year-to-year based on the number of participants enrolled in the Organization's programs. Fundraising and special event revenue makes up thirty-six percent (36%) and sixty percent (60%) of total support and revenue for the years ended December 31, 2013 and 2012, respectively. The Organization conducts two annual fund-raisers and the gross proceeds raised and direct costs of benefit to donors incurred may fluctuate from year-to-year based on economic conditions and other factors.

NOTE 5 – RELATED PARTY TRANSACTIONS

The Organization is an affiliate of the The Arc of Texas (a State organization) and the The Arc of the U.S (a National organization). The Organization pays annual affiliation fees to the State and National Arc organizations. The State and National organizations provide the Organization with advocacy, educational opportunities, membership and other supporting services. The Organization paid affiliation fees of $1,665 and $1,415 during 2013 and 2012, respectively.

NOTE 6 – SUBSEQUENT EVENTS

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through December 5, 2014, the date the financial statements were available to be issued. The Organization has determined there are no subsequent events requiring disclosure.