

The Arc of Katy

Independent Accountants Review Report
and Financial Statements for the
Year Ended August 31, 2021



Richard Bennoch CPA

*Certified Public Accountants
Nonprofit CPA and Consultants*

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors
The Arc of Katy
Katy, Texas

We have reviewed the accompanying financial statements of The Arc of Katy (a non-profit organization), which comprise the statement of financial position as of August 31, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of the organization's management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountants' Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountants' Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Richard Bennoch CPA

Richard Bennoch CPA
Certified Public Accountants
Houston, Texas

December 11, 2021

The Arc of Katy

Statement of Financial Position

<i>As of August 31,</i>	2021
Assets	
Cash and cash equivalents	\$ 164,611
Accounts receivable	7,086
Prepaid expenses	15,854
Property and equipment, net	34,932
Refundable deposits	2,000
Total Assets	\$ 224,483
Liabilities and Net Assets	
Liabilities	
Accounts payable	\$ 4,043
Accrued expenses	4,771
Total Liabilities	8,814
Net Assets	
Without donor restrictions	215,669
With donor restrictions	-
Total Net Assets	215,669
Total Liabilities and Net Assets	\$ 224,483

The Arc of Katy

Statement of Activities

Year Ended August 31,	Without Donor Restrictions	With Donor Restrictions	2021 Total
Public Support and Revenues			
Contributions	\$ 70,085	\$ -	\$ 70,085
Tuition and fees	156,191	-	156,191
Memberships	16,839	-	16,839
Special events:			
Revenue	50,070		
Less: Direct benefit to donor	-		
Net special events revenue	50,070	-	50,070
Merchandise sales	16,402	-	16,402
Interest income	844	-	844
In-kind contributions	3,005	-	3,005
Loan forgiveness	57,092	-	57,092
Net assets released from restrictions	-	-	-
Total Public Support and Revenues	370,528	-	370,528
Expenses			
Program Services			
Social and recreational programs	248,756	-	248,756
Total Program Services	248,756	-	248,756
Supporting Services			
Management and general	36,750	-	36,750
Fundraising	13,580	-	13,580
Total Supporting Services	50,330	-	50,330
Total Expenses	299,086	-	299,086
Change in Net Assets	71,442	-	71,442
Net Assets, Beginning of Year	144,227	-	144,227
Net Assets, End of Year	\$ 215,669	\$ -	\$ 215,669

The Arc of Katy

Statement of Functional Expenses

<i>Year Ended August 31,</i>	Program Services		Supporting Services		Total	2021 Total
	Social and Recreational Programs	Management and General	Fundraising	Supporting Services		
Salaries and Related Expenses						
Salaries and wages	\$ 124,619	\$ 11,814	\$ -	\$ 11,814	\$ 136,433	
Payroll taxes	10,659	812	-	812	11,471	
Total Salaries and Related Expenses	135,278	12,626	-	12,626	147,904	
Other Expenses						
Auto	6,479	-	-	-	6,479	
Bank fees	4,672	431	-	431	5,103	
Depreciation	7,247	409	-	409	7,656	
Dues and subscription	-	2,330	-	2,330	2,330	
Insurance	15,592	821	-	821	16,413	
Marketing and communications	-	658	-	658	658	
Miscellaneous	1,511	1,192	-	1,192	2,703	
Payroll fees	4,902	258	-	258	5,160	
Postage	796	202	-	202	998	
Professional fees	-	12,575	-	12,575	12,575	
Rent	43,368	2,283	-	2,283	45,651	
Repairs and maintenance	1,170	829	-	829	1,999	
Scholarships	5,780	-	-	-	5,780	
Supplies	12,999	1,722	13,580	15,302	28,301	
Telephone	1,835	97	-	97	1,932	
Training	1,100	-	-	-	1,100	
Utilities	6,027	317	-	317	6,344	
Total Other Expenses	113,478	24,124	13,580	37,704	151,182	
Total Expenses	\$ 248,756	\$ 36,750	\$ 13,580	\$ 50,330	\$ 299,086	

See independent accountant's review report.

The Arc of Katy

Statement of Cash Flows

<i>Year Ended August 31,</i>	2021
Cash Flows From Operating Activities	
Change in net assets	\$ 71,442
Adjustments to reconcile change in net assets to net change in cash from operating activities:	
Depreciation	7,656
Forgiveness of loan	(57,092)
Changes in assets and liabilities:	
Accounts receivable	(8,566)
Prepaid expenses	17,038
Accounts payable	1,949
Accrued liabilities	4,771
Deferred revenue	(12,418)
Total Adjustments	(46,662)
Net Change from Operating Activities	24,780
Cash Flows From Investing Activities	
Additions of property and equipment	(15,850)
Net Change from Investing Activities	(15,850)
Cash Flows From Financing Activities	
Proceeds from Paycheck Protection Program	21,292
Net Change from Financing Activities	21,292
Net Change in Cash and Cash Equivalents	30,222
Cash and Cash Equivalents, Beginning of Year	134,389
Cash and Cash Equivalents, End of Year	\$ 164,611

The Arc of Katy

Notes to Financial Statements

NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT 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.

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.

Basis of Presentation

The Organization reports information regarding its financial position and activities according to two classes of net assets that are based upon the existence or absence of restrictions on use that are placed by its donors: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions are resources available to support operations and not subject to donor restrictions. The only limits on the use of net assets without donor restrictions are the broad limits resulting from the nature of the Organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Net assets with donor restrictions are resources that are subject to donor-imposed restrictions. Some restrictions are temporary in nature, such as those that are restricted by a donor for use for a particular purpose or in a particular future period. Other restrictions may be perpetual in nature; such as those that are restricted by a donor that the resources be maintained in perpetuity.

The Organization's unspent contributions are reported in net assets with donor restrictions if the donor limited their use, as are promised contributions that are not yet due. Contributions of property and equipment or cash restricted to acquisition of property and equipment are reported as net assets with donor restrictions if the donor has restricted the use of the property or equipment to a particular program. These restrictions expire when the assets are placed in service.

The Arc of Katy

Notes to Financial Statements

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions.

Cash and Cash Equivalents

Cash and cash equivalents include all monies in banks and highly liquid investments with maturity dates of less than three months. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

Donated Assets

Donated assets and other noncash donations are recorded as contributions at their fair values at the date of donation.

Property and Equipment

Property and equipment are stated at cost or fair value at date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Equipment	5 years
Leasehold improvements	5 years or term of lease
Vehicles	5 years

Additions and betterments of \$2,500 or more are capitalized, while maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently. Property and equipment are reviewed for impairment if the use of the asset significantly changes or another indicator of possible impairment is noted. If the carrying amount for the asset is not recoverable, the value is written down to the asset's fair value.

Contributed Services

The Organization receives services donated by volunteers in carrying out the Organization's programs. Contributions of services are recognized as support at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated. No amounts have been reflected in the financial statements for those services because they do not meet the criteria for recognition.

Use of 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.

Revenue Recognition

Revenue and Revenue Recognition

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable

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Notes to Financial Statements

contracts received in advance are deferred to the applicable period in which the related services are performed, or expenditures are incurred, respectively. Contributions are recognized when cash, or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met or the donor has explicitly released the restriction.

Revenue with and without Donor Restrictions

Contributions that are restricted by the donor 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. Contributions of property and equipment are reported as net assets with donor restrictions if the donor restricted the use of the property or equipment to a particular program, as are contributions of cash restricted to the purchase of property and equipment. Otherwise, donor restrictions on contributions of property and equipment or assets restricted for purchase of property and equipment are considered to expire when the assets are placed in service. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Balances that are outstanding after management has used reasonable collection efforts are written off through a charge to bad debt expense. Management expects the accounts receivable balance at August 31, 2021 to be fully collectible.

Tuition and Fees

Tuition and fees are recognized in the period in which the services are provided.

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.

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Notes to Financial Statements

Investments and Fair Value of Financial Instruments

Accounting principles generally accepted in the United States of America establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy are described below:

- (i) Level 1—Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.
- (ii) Level 2—Inputs to the valuation methodology include:
 - quoted prices for similar assets or liabilities in active markets;
 - quoted prices for identical or similar assets or liabilities in inactive markets;
 - inputs other than quoted prices that are observable for the asset or liability;
 - inputs that are derived principally from or corroborated by observable market data by correlation or by other means.
- (iii) Level 3—Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset 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 need to maximize the use of observable inputs and minimize the use of unobservable inputs.

As of August 31, 2021, cash and cash equivalents held by the Organization of \$164,611, respectively, were reported at fair value using a Level 1 measure.

Advertising Expense

Advertising costs are expensed as incurred.

Functional Allocation of Expense

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities. The Statement of Functional Expenses presents the natural classification of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of time and effort. 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.

NOTE 2 – CONCENTRATION OF CREDIT RISKS

All of a depositor's accounts at an insured depository institution, including all noninterest-bearing transaction accounts, will be insured by the Federal Deposit Insurance Corporation (FDIC) up to the

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Notes to Financial Statements

standard maximum deposit insurance amount (\$250,000), for each deposit insurance ownership category. The Organization maintains cash balances at a financial institution located in Texas. As of August 31, 2021, all of the Organizations cash balances were fully insured.

NOTE 3 – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of August 31, 2021, comprise the following:

Cash and cash equivalents	\$164,611
Accounts receivable	7,086
Financial assets available to meet cash needs for general expenditures within one year	\$171,697

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing program activities, as well as the conduct of services undertaken to support those activities, to be general expenditures.

The Organization is substantially supported by tuition and fees, and regularly monitors liquidity required to meet its operating needs. As part of the organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

NOTE 4 – PROPERTY AND EQUIPMENT

As of August 31, 2021, property and equipment consisted of the following:

Equipment	\$6,678
Leasehold improvements	24,023
Vehicles	160,459
Less: Accumulated Depreciation	(156,228)
Total Property and Equipment, net	\$34,932

Depreciation expense charged to operations for the year ended August 31, 2021 was \$7,656.

NOTE 5 – NET ASSETS WITHOUT DONOR RESTRICTION

As of August 31, 2021, net assets without donor restriction consisted of the following:

Undesignated	\$215,669
Total Net Assets Without Donor Restrictions	\$215,669

NOTE 6 – OPERATING LEASES

On January 1, 2020, the Organization entered into an operating lease agreement for facility space effective January 1, 2020 until December 31, 2022 with a monthly payment of \$3,315 for the first twelve (12) months and increasing to \$3,415 for the remainder of the lease. The Organization also leases two storage facilities with a combined monthly payment of \$340 on a month-to-month basis.

The future minimum lease payments under the non-cancellable operating lease for the year ended August 21, 2021 is as follows:

Fiscal-Year ended:	
2022	\$40,980
2023	13,660
Total Future Minimum Lease Payments	\$56,640

NOTE 7 – RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENT

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 Organization adopted this ASU for fiscal year ended August 31, 2021 using an appropriate retrospective method. Adoption of ASU 2014-09 resulted in no changes in presentation of the financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU intends to clarify and improve current accounting guidance to determine when a transaction should be accounted for as a contribution or as an exchange transaction and provides additional guidance about how to determine whether a contribution is conditional. The Organization adopted ASU 2018-08 on July 1, 2019, using a modified prospective basis. The adoption of ASU 2018-08 did not have a material impact on the financial statements.

On August 18, 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

NOTE 8 – NEW ACCOUNTING PRONOUNCEMENTS

Accounting for Leases

In February 2016, the FASB issued a new accounting pronouncement regarding lease accounting. In June 2020, the FASB issued an amendment to the pronouncement extending the effective date from reporting periods after December 15, 2019 to reporting periods after December 31, 2021 due to the adverse effects of the COVID-19 pandemic. A lessee will be required to recognize on the balance sheet the assets and liabilities for leases with lease terms of more than twelve months. Management is currently evaluating the effect this pronouncement will have on the financial statements and related disclosures.

NOTE 9 – CONCENTRATIONS

The Organization is dependent on several sources of support and revenue. Tuition revenue makes up forty-three percent (43%) of total support and revenue for the year ended August 31, 2021. Tuition revenue could fluctuate year-to-year based on the number of participants enrolled in the Organization's programs.

NOTE 10 – 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 \$2,330 for the year ended August 31, 2021.

NOTE 11 – SUBSEQUENT EVENTS

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through December 11, 2021, the date the financial statements were available to be issued. The Organization has determined that no change to the financial statements for the year ended August 31, 2021 is deemed necessary as a result of this evaluation.

Due to the ongoing COVID-19 pandemic, the Organization continues to evaluate current economic conditions and the impact on the Organization's operations for the year ended August 31, 2021, as the long-term effects of the pandemic are uncertain.

The Arc of Katy has been notified by a donor that they intend to build and donate a facility to the Organization for its use. The building was completed in December 2021 and is expected to be transferred to the Organization in January 2022. The Organization has responsibility for some leasehold improvements and furnishing and appliances for the facility and has initiated a capital campaign to fund these items. Once the Organization takes possession of the new building it intends to sublease or assign its lease in the current Program Facility, releasing it from its lease obligation.