

**ARC OF KATY**  
**A TEXAS NON-PROFIT ORGANIZATION**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT  
AUGUST 31, 2018**

**ARC OF KATY**  
**A TEXAS NON-PROFIT ORGANIZATION**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT  
AUGUST 31, 2018**

**TABLE OF CONTENTS**

Independent Auditor's Report	1 - 2
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 9

**DAVID ECKLUND CPA PC**  
**CERTIFIED PUBLIC ACCOUNTANT**  
**2102 CYPRESS RUN DRIVE**  
**SUGAR LAND, TX 77478**  
**713-203-8821**

**INDEPENDENT AUDITOR'S REPORT**

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

I have audited the accompanying financial statements of Arc of Katy (a Texas non-profit organization), which comprise the statement of financial position as of August 31, 2018, and the related statements of activities, functional expenses and cash flows for the period 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**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

**Opinion**

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arc of Katy as of August 31, 2018, and the changes in its net assets and its cash flows for the period then ended in accordance with accounting principles generally accepted in the United States of America.

*David Ecklund CPA PC*

David Ecklund CPA PC  
Sugar Land, Texas  
November 4, 2019

**ARC OF KATY**  
**STATEMENTS OF FINANCIAL POSITION**  
**AUGUST 31, 2018**

**ASSETS**

Cash	\$ 188,047
Certificates of deposit	60,549
Accounts receivable	8,911
Prepaid expenses	13,967
Property and equipment, net of accumulated depreciation of \$129,187	12,277
 Total assets	 \$ 283,751

**LIABILITIES AND NET ASSETS**

Liabilities	
Accrued expenses	-
 Total liabilities	 -
 Net assets	
Net assets without donor restrictions	283,751
Net assets with donor restrictions	-
 Total net assets	 283,751
 Total liabilities and net assets	 \$ 283,751

The accompanying notes are an integral parts of these financial statements

# ARC OF KATY

## STATEMENT OF ACTIVITIES FOR THE PERIOD ENDED AUGUST 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
<b>PUBLIC SUPPORT AND REVENUES</b>			
Contributions	40,031	-	40,031
Tuition	127,161	-	127,161
Memberships	4,125	-	4,125
Special event revenue	132,171	-	132,171
Interest income	892	-	892
Other income	1,523	-	1,523
<b>Total Public Support and Revenues</b>	<b>305,903</b>	<b>-</b>	<b>305,903</b>
 Net assets released from restrictions			-
 <b>Total Public Support and Revenues, and     releases from restrictions</b>	<b>305,903</b>	<b>-</b>	<b>305,903</b>
 <b>EXPENSES</b>			
Program Services			
Social and recreational	118,481	5,243	123,724
<b>Total Program Services</b>	<b>118,481</b>	<b>5,243</b>	<b>123,724</b>
Supporting Services			
Management and general	82,252	-	82,252
Fundraising	47,058	-	47,058
<b>Total Supporting Services</b>	<b>129,310</b>	<b>-</b>	<b>129,310</b>
 <b>Total expenses</b>	<b>247,791</b>	<b>5,243</b>	<b>253,034</b>
 <b>Change in Net Assets</b>	<b>58,112</b>	<b>(5,243)</b>	<b>52,869</b>
 Net assets, beginning of period	225,639	5,243	230,882
 <b>Net assets, end of period</b>	<b>\$ 283,751</b>	<b>\$ -</b>	<b>\$ 283,751</b>

The accompanying notes are an integral parts of these financial statements

# ARC OF KATY

## STATEMENT OF FUNCTIONAL EXPENSES FOR THE PERIOD ENDED AUGUST 31, 2018

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Automotive	6,800	-	-	6,800
Day program expenses	7,570	-	-	7,570
Depreciation	-	1,430	-	1,430
Entertainment for socials	4,005	-	41,412	45,417
Insurance	11,838	1,315	-	13,153
Membership dues	-	1,578	-	1,578
Office expenses	374	12,700	5,646	18,720
Postage	458	631	-	1,089
Rent	-	28,878	-	28,878
Salaries, wages and payroll taxes	92,679	35,720	-	128,399
Total Functional Expenses	<u>\$ 123,724</u>	<u>\$ 82,252</u>	<u>\$ 47,058</u>	<u>\$ 253,034</u>

The accompanying notes are an integral parts of these financial statements

# ARC OF KATY

## STATEMENTS OF CASH FLOWS FOR THE PERIOD ENDED AUGUST 31, 2018

Cash flows from operating activities	
Change in net assets	\$ 52,869
Adjustments to reconcile income in net assets to net cash provided by operating activities:	
Depreciation expense	1,430
Change in operating assets and liabilities:	
Accounts receivable	(3,711)
Prepaid expenses	(8,698)
Accounts payable and accrued liabilities	<u>(2,916)</u>
Net cash provided by operating activities	<u>38,974</u>
Cash flows from investing activities	
Additions to fixed assets	(8,161)
Interest reinvested	<u>(892)</u>
Net cash used in investing activities	<u>(9,053)</u>
Net change in cash and cash equivalents	<u>29,921</u>
Cash, beginning of year	<u>218,675</u>
Cash, end of year	<u><u>\$ 248,596</u></u>

The accompanying notes are an integral parts of these financial statements

# ARC OF KATY

## NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2018

### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 Arc of Katy Day Habilitation Program, Recreation, Education, and Advocacy are the major program areas offered by the Organization to residents of Katy and surrounding communities. The Day Habilitation 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.

#### **Financial Statement Presentation**

The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

#### **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.

#### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

# ARC OF KATY

## NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2018

### **Cash and Cash Equivalents**

For purposes of the statements of cash flows, the Organization considers all highly liquid instruments available for current use with an initial term of maturity of three months or less to be cash equivalents.

### **Income Taxes**

The Organization is a non-profit charitable 501(c)(3) organization and is not subject to federal income tax. It is registered as an exempt organization in the State of Texas.

### **Furniture and Equipment**

Furniture and equipment is stated at cost. Depreciation is provided over the estimated lives of the assets principally on the straight-line method. The cost of additions and improvements is capitalized and expenditures for repairs and maintenance are expensed in the period incurred. When items of furniture and equipment are sold or retired, the related costs and accumulated depreciation are removed from the accounts and any gain or loss on disposition is included in the statement of activities. Depreciation expense was \$1,430 for the period ended August 31, 2018.

### **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.

## **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. The accounts may exceed the insured amount at various times. At August 31, 2018, the Organization did not have any uninsured bank balances.

# ARC OF KATY

## NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2018

### 3. CONTRIBUTIONS

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 not restricted by the donor are reported as net increases in assets without donor restrictions. All other donor-restricted contributions would be reported as net increases net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified as net assets released from restrictions.

### 4. 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 \$1,578 during the period ended August 31, 2018.

### 5. IMPAIRMENT OF LONG-LIVED ASSETS

In accordance with the accounting guidance for impairment or disposal of long lived assets, the Organization reviews its property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. No impairment loss has been recognized during the period ended August 31, 2018.

### 6. DATE OF MANAGEMENT'S REVIEW

Arc of Katy management reviewed and evaluated subsequent events through November 4, 2019, the date the financial statements were available to be issued, and no events have occurred subsequent to the statement of financial position dated August 31, 2018 that would require adjustments to, or disclosure in, the financial statements.