

ARC OF KATY
A TEXAS NON-PROFIT ORGANIZATION

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2017 AND 2016**

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TABLE OF CONTENTS

Independent Auditor's Report	1 - 2
Statements of Financial Position	3
Statements of Activities	4 – 5
Statements of Functional Expenses	6 – 7
Statements of Cash Flows	8
Notes to Financial Statements	9 – 11

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 December 31, 2017 and 2016, and the related statements of activities, functional expenses and 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.

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 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.

David Ecklund CPA PC

David Ecklund CPA PC
Sugar Land, Texas
February 5, 2019

ARC OF KATY

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash	\$ 142,663	\$ 122,377
Certificates of deposit	76,012	75,525
Accounts receivable	5,200	5,200
Prepaid expenses	5,269	1,269
Property and equipment, net of accumulated depreciation of \$125,305 & \$111,321	<u>4,654</u>	<u>18,638</u>
Total assets	<u><u>\$ 233,798</u></u>	<u><u>\$ 223,009</u></u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accrued expenses	<u>2,916</u>	<u>1,886</u>
Total liabilities	<u>2,916</u>	<u>1,886</u>
Net assets		
Net assets without donor restrictions	225,639	215,880
Net assets with donor restrictions	<u>5,243</u>	<u>5,243</u>
Total net assets	<u>230,882</u>	<u>221,123</u>
Total liabilities and net assets	<u><u>\$ 233,798</u></u>	<u><u>\$ 223,009</u></u>

The accompanying notes are an integral parts of these financial statements

ARC OF KATY

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
PUBLIC SUPPORT AND REVENUES			
Contributions	21,753	-	21,753
Tuition	139,132	-	139,132
Memberships	5,068	-	5,068
Special event revenue	145,759	-	145,759
In-kind support	88,057	-	88,057
Interest income	436	-	436
Other income	6,305	-	6,305
Total Public Support and Revenues	406,510	-	406,510
 Net assets released from restrictions			-
 Total Public Support and Revenues, and releases from restrictions	406,510	-	406,510
 EXPENSES			
Program Services			
Social and recreational	282,008	-	282,008
Total Program Services	282,008	-	282,008
Supporting Services			
Management and general	66,176	-	66,176
Fundraising	48,567	-	48,567
Total Supporting Services	114,743	-	114,743
 Total expenses	396,751	-	396,751
 Change in Net Assets	9,759	-	9,759
 Net assets, beginning of year	215,880	5,243	221,123
 Net assets, end of year	\$ 225,639	\$ 5,243	\$ 230,882

The accompanying notes are an integral parts of these financial statements

ARC OF KATY

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2016

	Without Donor Restrictions	With Donor Restrictions	Total
PUBLIC SUPPORT AND REVENUES			
Contributions	21,273	-	21,273
Tuition	116,404	-	116,404
Memberships	8,537	-	8,537
Special event revenue	116,979	-	116,979
In-kind support	61,000	-	61,000
Interest income	403	-	403
Other income	1,220	-	1,220
Total Public Support and Revenues	325,816	-	325,816
 Net assets released from restrictions			-
 Total Public Support and Revenues, and releases from restrictions	325,816	-	325,816
EXPENSES			
Program Services			
Social and recreational	290,138	-	290,138
Total Program Services	290,138	-	290,138
Supporting Services			
Management and general	80,246	-	80,246
Fundraising	30,355	-	30,355
Total Supporting Services	110,601	-	110,601
 Total expenses	400,739	-	400,739
 Change in Net Assets	(74,923)	-	(74,923)
 Net assets, beginning of year	290,803	5,243	296,046
 Net assets, end of year	\$ 215,880	\$ 5,243	\$ 221,123

The accompanying notes are an integral parts of these financial statements

ARC OF KATY

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Automotive	1,899	-	-	1,899
Bank charges	-	90	-	90
Charity	180	-	-	180
Contract services	-	6,695	-	6,695
Day program expenses	15,643	-	-	15,643
Depreciation	16,041	-	-	16,041
Entertainment for socials	1,184	-	-	1,184
Facilities	83,480	-	-	83,480
Fundraising expenses	-	-	48,567	48,567
Insurance	15,057	1,673	-	16,730
Membership dues	-	1,100	-	1,100
Miscellaneous	-	51	-	51
Office expenses	-	4,112	-	4,112
Postage	-	337	-	337
Rent	-	14,987	-	14,987
Salaries, wages and payroll taxes	148,524	37,131	-	185,655
Total Functional Expenses	<u>\$ 282,008</u>	<u>\$ 66,176</u>	<u>\$ 48,567</u>	<u>\$ 396,751</u>

The accompanying notes are an integral parts of these financial statements

ARC OF KATY

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2016

	Program Services	Management and General	Fundraising	Total
Automotive	1,037	-	-	1,037
Bank charges	-	254	-	254
Contract services	-	10,074	-	10,074
Day program expenses	18,162	-	-	18,162
Depreciation	22,068	2,452	-	24,520
Entertainment for socials	1,424	-	-	1,424
Facilities	61,000	-	-	61,000
Fundraising expenses	-	-	30,355	30,355
Insurance	20,579	956	-	21,535
Membership dues	-	1,280	-	1,280
Office expenses	1,999	4,239	-	6,238
Postage	-	1,641	-	1,641
Professional fees	-	7,800	-	7,800
Rent	-	10,796	-	10,796
Salaries, wages and payroll taxes	163,869	40,754	-	204,623
Total Functional Expenses	\$ 290,138	\$ 80,246	\$ 30,355	\$ 400,739

The accompanying notes are an integral parts of these financial statements

ARC OF KATY

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Change in net assets	\$ 9,759	\$ (74,923)
Adjustments to reconcile income in net assets to net cash provided by operating activities:		
Depreciation expense	16,041	24,520
Change in operating assets and liabilities:		
Prepaid expenses	(4,000)	-
Accounts payable and accrued liabilities	<u>(1,027)</u>	<u>1,585</u>
Net cash provided by (used in) operating activities	<u>20,773</u>	<u>(48,818)</u>
Cash flows from investing activities		
Interest reinvested	<u>(487)</u>	<u>(219)</u>
Net cash (used in) investing activities	<u>(487)</u>	<u>(219)</u>
Net change in cash and cash equivalents	<u>20,286</u>	<u>(49,037)</u>
Cash, beginning of year	<u>122,377</u>	<u>171,414</u>
Cash, end of year	<u>\$ 142,663</u>	<u>\$ 122,377</u>

The accompanying notes are an integral parts of these financial statements

ARC OF KATY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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 DECEMBER 31, 2017 AND 2016

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 \$16,041 and 24,520 for the years ended December 31, 2017 and 2016, respectively.

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 December 31, 2017 and 2016, the Organization did not have any uninsured bank balances.

ARC OF KATY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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 \$1,100 and \$1,280 during 2017 and 2016, respectively

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 years ended December 31, 2017 and 2016.

6. DATE OF MANAGEMENT'S REVIEW

Arc of Katy management reviewed and evaluated subsequent events through February 5, 2019, the date the financial statements were available to be issued, and no events have occurred subsequent to the statement of financial position dated December 31, 2017 and 2016 that would require adjustments to, or disclosure in, the financial statements.