



**Financial Statements**  
with Independent Auditor's Report

**December 31, 2021 and 2020**

# Bay Area Rehabilitation Center

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Board of Directors  
Bay Area Rehabilitation Center  
Baytown, Texas

## Independent Auditor's Report

### Opinion

We have audited the accompanying Financial Statements of Bay Area Rehabilitation Center which comprise the statement of financial position as of December 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bay Area Rehabilitation Center as of December 31, 2021, and the changes in their net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Bay Area Rehabilitation Center and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Bay Area Rehabilitation Center to continue as a going concern within one year after the date that the financial statements are available to be issued.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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In performing an audit in accordance with generally accepted auditing standards, we:

Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Bay Area Rehabilitation Center's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Bay Area Rehabilitation Center's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

#### **Supplementary Information**

Our audit was conducted for the purposes of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the schedule of insurance in force is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and the schedule of insurance in force is fairly stated, in all material respects, in relation to the financial statements as a whole.

#### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2022, on our consideration of Bay Area Rehabilitation Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Bay Area Rehabilitation Center's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Bay Area Rehabilitation Center's internal control over financial reporting and compliance.

*Gardner & Company, CPAs*

Little Rock, Arkansas  
April 30, 2022

Bay Area Rehabilitation Center

Statements of Financial Position

December 31	2021	2020
<b>Assets</b>		
<i>Current Assets</i>		
Cash and cash equivalents	\$ 755,414	\$ 785,328
Receivables - net	695,856	590,864
Prepaid expenses	85,377	30,627
<b>Total Current Assets</b>	<b>1,536,647</b>	<b>1,406,819</b>
<i>Investments</i>	906,387	649,606
<i>Property and Equipment - Net</i>	1,468,834	1,614,000
<b>Total Assets</b>	<b>\$ 3,911,868</b>	<b>\$ 3,670,425</b>
<b>Liabilities and Net Assets</b>		
<i>Current Liabilities</i>		
Accounts payable and accrued expenses	\$ 299,877	\$ 295,945
<b>Total Current Liabilities</b>	<b>299,877</b>	<b>295,945</b>
<b>Total Liabilities</b>	<b>299,877</b>	<b>295,945</b>
<i>Net Assets</i>		
Without donor restrictions	3,607,251	3,369,740
With donor restrictions	4,740	4,740
<b>Total Net Assets</b>	<b>3,611,991</b>	<b>3,374,480</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 3,911,868</b>	<b>\$ 3,670,425</b>

See independent auditor's report and the accompanying notes to the financial statements.

Bay Area Rehabilitation Center

Statements of Activities

For the Years Ended December 31	2021			2020		
	Without Donor	With Donor	Total	Without Donor	With Donor	Total
	Restrictions	Restrictions		Restrictions	Restrictions	
<b>Revenue and Other Support</b>						
Contributions and bequests	\$ 27,896	\$ 0	\$ 27,896	\$ 67,492	\$ 0	\$ 67,492
United Way allocation	250,345	0	250,345	301,694	0	301,694
Client tuition and fees - net	2,515,630	0	2,515,630	1,998,413	0	1,998,413
Federal and state grants	1,544,356	0	1,544,356	1,952,646	0	1,952,646
Production	1,426,152	0	1,426,152	1,412,057	0	1,412,057
Investment income	103,873	0	103,873	68,185	0	68,185
Interest income	0	0	0	440	0	440
Other income	664,432	0	664,432	586,228	0	586,228
<b>Total Revenue and Other Support</b>	<b>6,532,684</b>	<b>0</b>	<b>6,532,684</b>	<b>6,387,155</b>	<b>0</b>	<b>6,387,155</b>
<b>Expenses</b>						
Program	5,436,460	0	5,436,460	5,444,076	0	5,444,076
General and administrative	807,770	0	807,770	724,666	0	724,666
Fundraising	50,943	0	50,943	55,238	0	55,238
<b>Total Expenses</b>	<b>6,295,173</b>	<b>0</b>	<b>6,295,173</b>	<b>6,223,980</b>	<b>0</b>	<b>6,223,980</b>
<b>Change in Net Assets</b>	<b>237,511</b>	<b>0</b>	<b>237,511</b>	<b>163,175</b>	<b>0</b>	<b>163,175</b>
<b>Net assets - beginning of year</b>	<b>3,369,740</b>	<b>4,740</b>	<b>3,374,480</b>	<b>3,206,565</b>	<b>4,740</b>	<b>3,211,305</b>
<b>Net Assets - End of Year</b>	<b>\$ 3,607,251</b>	<b>\$ 4,740</b>	<b>\$ 3,611,991</b>	<b>\$ 3,369,740</b>	<b>\$ 4,740</b>	<b>\$ 3,374,480</b>

See independent auditor's report and the accompanying notes to the financial statements.

Bay Area Rehabilitation Center

Statements of Functional Expenses

2021

For the Year Ended December 31	Program						Support Services				
	ECI	Opportunity Center		Program			General and				
		Adult	Pediatric	Aquatic	Autism	Total	Administrative	Fundraising	Total		
Salaries and wages	\$ 1,931,257	\$ 596,304	\$ 141,961	\$ 368,211	\$ 18,729	\$ 94,312	\$ 37,878	\$ 500,854	\$ 3,150,774	\$ 37,878	\$ 3,689,506
Payroll taxes and other	153,655	49,305	10,991	28,699	1,671	7,380	3,013	36,856	251,701	3,013	291,570
Employee benefits	197,561	66,000	10,815	28,623	2,734	7,062	1,433	55,648	312,795	1,433	369,876
Professional fees	0	0	0	0	0	0	0	23,515	0	0	23,515
Contract fees	28,756	847,338	1,135	1,158	35	0	24	2,100	878,422	24	880,546
Supplies	18,211	22,177	7,062	7,174	10,009	0	578	2,323	64,633	578	67,534
Insurance	55,096	13,626	14,633	15,252	8,311	0	654	14,573	106,918	654	122,145
Utilities	60,099	19,560	14,051	14,070	8,555	0	268	17,575	116,335	268	134,178
Repairs and maintenance	144,068	71,502	38,681	41,572	14,584	0	4,378	26,134	310,407	4,378	340,919
Training and travel	1,220	2,015	999	710	10	0	8	2,038	4,954	8	7,000
Client treatment travel	2,624	0	0	0	0	0	0	0	2,624	0	2,624
Depreciation	67,654	42,683	4,331	5,086	20,894	0	0	99,429	140,648	0	240,077
Interest and related	0	0	0	0	0	0	481	5,384	0	481	5,865
Other direct	58,899	8,558	12,434	11,282	5,076	0	2,228	21,341	96,249	2,228	119,818
<b>Total Functional Expenses</b>	<b>\$ 2,719,100</b>	<b>\$ 1,739,068</b>	<b>\$ 257,093</b>	<b>\$ 521,837</b>	<b>\$ 90,608</b>	<b>\$ 108,754</b>	<b>\$ 50,943</b>	<b>\$ 807,770</b>	<b>\$ 5,436,460</b>	<b>\$ 50,943</b>	<b>\$ 6,295,173</b>

See independent auditor's report and the accompanying notes to the financial statements.

Bay Area Rehabilitation Center

Statements of Functional Expenses

2020

For the Year Ended December 31	ECI	Program							Support Services		
		Opportunity Center		Program			General and Administrative			Fundraising	Total
		Adult	Pediatric	Aquatic	Autism	Total	Administrative	Fundraising			
Salaries and wages	\$ 1,948,947	\$ 602,968	\$ 150,708	\$ 357,182	\$ 15,353	\$ 92,382	\$ 3,167,540	\$ 495,079	\$ 38,691	\$ 3,701,310	
Payroll taxes and other	157,527	51,404	11,594	27,478	1,770	7,107	256,880	34,641	4,173	295,694	
Employee benefits	177,839	44,271	9,951	23,585	4,042	6,100	265,788	45,288	1,609	312,685	
Professional fees	300	0	0	0	0	0	300	14,750	0	15,050	
Contract fees	9,904	833,889	1,893	1,897	11	34,233	881,827	107	11	881,945	
Supplies	8,207	16,067	3,687	3,656	11,124	0	42,741	1,589	457	44,787	
Insurance	47,487	13,443	13,514	13,741	1,020	0	89,205	15,349	1,856	106,410	
Utilities	59,833	18,113	9,815	9,859	12,560	9	110,189	22,046	595	132,830	
Repairs and maintenance	166,056	76,512	43,817	47,727	22,796	0	356,908	34,595	5,093	396,596	
Training and travel	787	3,823	298	295	3	0	5,206	4,229	4	9,439	
Client treatment travel	19,824	0	0	0	0	0	19,824	0	0	19,824	
Depreciation	73,435	46,952	12,909	12,479	38,455	0	184,230	47,552	783	232,565	
Interest and related	0	25	0	0	0	0	25	4,729	445	5,199	
Other direct	39,676	7,117	8,060	7,322	918	320	63,413	4,712	1,521	69,646	
<b>Total Functional Expenses</b>	<b>\$ 2,709,822</b>	<b>\$ 1,714,584</b>	<b>\$ 266,246</b>	<b>\$ 505,221</b>	<b>\$ 108,052</b>	<b>\$ 140,151</b>	<b>\$ 5,444,076</b>	<b>\$ 724,666</b>	<b>\$ 55,238</b>	<b>\$ 6,223,980</b>	

See independent auditor's report and the accompanying notes to the financial statements.



## Bay Area Rehabilitation Center

### Statements of Cash Flows

For the Years Ended December 31	2021	2020
<b>Cash Flows from Operating Activities</b>		
Change in Net Assets	\$ 237,511	\$ 163,175
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	240,077	232,565
Provision for contractual allowances and doubtful accounts	7,210	32,211
Increase in fair market value of investments	(96,781)	(60,587)
Decrease (increase) in assets:		
Client tuition and fees receivable	(24,033)	(107,370)
Grants and contracts receivable	3,468	(10,094)
Other receivables	(91,637)	108,081
Prepaid expenses	(54,750)	17,904
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	3,932	56,576
<b>Net cash provided by operating activities</b>	<b>224,997</b>	<b>432,461</b>
<b>Cash Flows from Investing Activities</b>		
Expenditures for property and equipment	(94,911)	(46,669)
Purchase of investments	(160,000)	0
<b>Net cash used in investing activities</b>	<b>(254,911)</b>	<b>(46,669)</b>
<b>Cash Flows from Financing Activities</b>		
Proceeds from Paycheck Protection Program loan	642,750	560,000
Forgiveness of Paycheck Protection Program loan	(642,750)	(560,000)
<b>Net cash used in financing activities</b>	<b>0</b>	<b>0</b>
Net increase (decrease) in cash and cash equivalents	(29,914)	385,792
Cash and cash equivalents - beginning of year	785,328	399,536
<b>Cash and Cash Equivalents - End of Year</b>	<b>\$ 755,414</b>	<b>\$ 785,328</b>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 5,865	\$ 5,199

See independent auditor's report and the accompanying notes to the financial statements.

## Bay Area Rehabilitation Center

### Notes to the Financial Statements

#### **Note 1 - Nature of Operations**

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*Organization and Nature of Activities.* Bay Area Rehabilitation Center (BARC) was created in 1948 and incorporated in the state of Texas in 1966, for the principal purpose of providing a variety of services including therapy, education, and recreational activities to infants, children, and adults who have a wide range of disabilities. Clients come from an area that extends over four counties surrounding Baytown, Texas. Management of the affairs of BARC is vested with a Board of Directors which consists of outside community leaders and the Center's officers.

#### **Note 2 - Summary of Significant Accounting Policies**

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

*Financial Statement Presentation.* BARC reports information regarding its financial position and activities according to two classes of net assets: net assets with donor restrictions and net assets without donor restrictions. Net assets with donor restrictions are subject to conditions imposed by donors and can be temporary or permanent in nature. Net assets without donor restrictions are not subject to any conditions and are available for use in BARC's operations at the discretion of the board of trustees.

*Receivables.* Receivables are comprised of amounts due from clients, grants and other contracts, and other receivables. Client tuition and fees receivable reflects the outstanding amount of consideration to which BARC expects to be entitled in exchange for providing client care. These amounts are due from clients, third-party payors (including health insurers and government programs) and others. As a service to the client, BARC bills third-party payors directly and bills the client when the client's responsibility for co-pays, coinsurance and deductibles is determined. Client tuition and fees receivable are due in full when billed. Revenue is recognized as performance obligations are satisfied.

*Contributions.* In accordance with professional accounting standards, contributions received are recorded with donor restrictions or without donor restrictions. Donor restricted net assets are reclassified to net assets without donor restrictions upon satisfaction of the time or purpose of restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, BARC reports it as without donor restrictions.

*Property and Equipment.* Property and equipment are stated at cost and are depreciated on a straight-line basis over estimated useful lives. Renewals and improvements which materially increase the useful lives of property and equipment are capitalized. Maintenance and repairs are charged to operations as incurred. Gains or losses on dispositions of property and equipment are reflected in earnings as realized.

*Cash and Cash Equivalents.* For purposes of the statement of cash flows, BARC considers all highly liquid debt instruments purchased with an original maturity date of three months or less to be cash and cash equivalents.

*Use of Estimates.* The preparation of financial statements 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 revenues and expenses. Actual results could differ from those estimates.

## Bay Area Rehabilitation Center

### Notes to the Financial Statements

#### **Note 2 - Summary of Significant Accounting Policies (continued)**

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*Net Assets Released from Restrictions.* Net assets are released from restrictions by incurring expenses satisfying the donor's time or purpose restriction. There were no net assets released from restriction during the years ended December 31, 2021 and 2020. Net assets with donor restrictions were \$4,740 as of December 31, 2021 and 2020.

*Compensated Absences.* Employees of BARC are entitled to personal time off to use for vacation, personal business, and sick days based upon the length of service. The estimated amount of compensation due has been determined to be immaterial; therefore, no liability has been recorded in the accompanying financial statements.

*Charity Care.* BARC provides care without charge or at amounts less than its established rates to clients meeting certain criteria under its charity care policy. For the years ended December 31, 2021 and 2020, the level of charity care provided was \$24,000 in each year.

*Functional Expenses.* The costs of providing program and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the various program services and supporting services benefited. Such allocations are determined by management on an equitable basis.

*Income Taxes.* BARC is exempt from income tax under §501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. During the years ended December 31, 2021 and 2020, BARC did not engage in any unrelated business activities. BARC files Forms 990, Return of Organization Exempt from Income Tax, which are subject to examination by the Internal Revenue Service (IRS), generally for three years after they are filed.

*Date of Management's Review.* Management has evaluated subsequent events through April 30, 2022, which is the date the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements for the year ended December 31, 2021.

#### **Note 3 - Investments**

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Investments in equity securities having a readily determinable fair value are carried at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the statement of activities as with or without donor restrictions based on the existence and nature of any donor or legally imposed restrictions.

The following is a summary of investments as of December 31, 2021 and 2020:

	December 31, 2021	December 31, 2020
Cash and cash equivalents	\$ 63,299	\$ 4,308
Certificates of deposit	264,023	294,886
Equity funds	579,065	350,412
<b>Total Investments</b>	<b>\$ 906,387</b>	<b>\$ 649,606</b>

## Bay Area Rehabilitation Center

### Notes to the Financial Statements

#### Note 4 - Fair Value of Financial Instruments

BARC has adopted Federal Accounting Standards Board (FASB) Accounting Standards Update (ASC) 820, *Fair Value Measurements and Disclosures for Financial Assets and Liabilities (ASC 820)*, which defines fair value as an exit price, representing the amount that would be received to sell an asset; or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability.

As a basis for considering such assumptions, ASC 820 established 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 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs, other than Level 1 inputs, that are either directly or indirectly observable.
- Level 3 - Unobservable inputs developed using BARC's estimates and assumptions, which reflect those that market participants would use.

The following table summarizes BARC's financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2021 and 2020, segregated among the appropriate levels within the fair value hierarchy:

Description	Fair Value	Fair Value Using		
		Level 1	Level 2	Level 3
<b>December 31, 2021</b>				
Cash and cash equivalents	\$ 63,299	\$ 63,299	\$ 0	\$ 0
Certificates of deposit	264,023	0	264,023	0
Equity funds	579,065	579,065	0	0
	<u>\$ 906,387</u>	<u>\$ 642,364</u>	<u>\$ 264,023</u>	<u>\$ 0</u>
<b>December 31, 2020</b>				
Cash and cash equivalents	\$ 4,308	\$ 4,308	\$ 0	\$ 0
Certificates of deposit	294,886	0	294,886	0
Equity funds	350,412	350,412	0	0
	<u>\$ 649,606</u>	<u>\$ 354,720</u>	<u>\$ 294,886</u>	<u>\$ 0</u>

#### Note 5 - Receivables

	December 31, 2021	December 31, 2020
Client tuition and fees	\$ 447,429	\$ 423,396
Grants and contracts	154,883	158,351
Other	227,773	136,136
	<u>830,085</u>	<u>717,883</u>
Provision for contractual allowances and doubtful accounts	(134,229)	(127,019)
<b>Receivables - Net</b>	<u>\$ 695,856</u>	<u>\$ 590,864</u>

## Bay Area Rehabilitation Center

### Notes to the Financial Statements

#### Note 6 – Property and Equipment

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	Cost	Accumulated Depreciation	Net Book Value
<b>December 31, 2021</b>			
Land	\$ 619,922	\$ 0	\$ 619,922
Buildings and improvements	5,635,892	4,926,539	709,353
Furniture and equipment	895,396	755,837	139,559
<b>Total Property and Equipment</b>	<b>\$ 7,151,210</b>	<b>\$ 5,682,376</b>	<b>\$ 1,468,834</b>
<b>December 31, 2020</b>			
Land	\$ 619,922	\$ 0	\$ 619,922
Buildings and improvements	5,635,892	4,735,054	900,838
Furniture and fixtures	800,485	707,245	93,240
<b>Total Property and Equipment</b>	<b>\$ 7,056,299</b>	<b>\$ 5,442,299</b>	<b>\$ 1,614,000</b>

Depreciation expense charged against income for the years ended December 31, 2021 and 2020, was \$240,077 and \$232,565, respectively.

#### Note 7 – Client Tuition and Fees

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The composition of client tuition and fees and uncompensated care provided is as follows:

Gross Billings	<u>\$ 3,820,803</u>	<u>\$ 3,101,168</u>
Uncompensated Care:		
Contractual adjustments	\$ 1,388,372	\$ 1,159,222
Charity care	24,000	24,000
Bad debt expense	30,000	30,000
	<u>\$ 1,442,372</u>	<u>\$ 1,213,222</u>

#### Note 8 - Concentrations of Credit Risk

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Financial instruments which potentially subject BARC to credit risk, as defined by generally accepted accounting standards, consist primarily of revenue and receivables from contracts with governmental agencies and cash and cash equivalents.

BARC received approximately 34% and 31% of revenue from contracts through the State of Texas in the years ending December 31 2021 and 2020, respectively. Additionally, BARC received approximately 41% and 39% of revenue from Medicaid in the years ending December 31, 2021 and 2020, respectively. Substantially all of BARC's activities are conducted in Baytown, Texas and its surrounding areas. Possible credit losses are provided for in BARC's allowance for contractual adjustments and doubtful accounts. Generally, BARC requires no security for the performance of its services.

BARC maintains its cash in local financial institutions where balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. During the year, the average monthly balances of cash held by the financial institutions exceeded the insured amount of \$250,000. Management believes that no significant credit risk exists with respect to these deposits.

## Bay Area Rehabilitation Center

### Notes to the Financial Statements

#### **Note 9 - Contingencies**

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*Federal and State Grant Programs.* The Center participates in federal and state grant programs which are subject to program compliance audits by the grantors or their representatives. Accordingly, the Center's compliance with applicable grant requirements will be determined at a future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Center expects such amounts, if any, to be immaterial.

*Litigation.* In the normal course of business, the Center may become subject to lawsuits and other claims and proceedings. Such matters are subject to uncertainty and outcomes are not predictable with assurance. Management is not aware of any pending or threatened lawsuit or proceedings that could have a material adverse effect on the Center's financial position, liquidity, or results of operations.

#### **Note 10 - Paycheck Protection Program**

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On March 27, 2020, President Trump signed into law the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act). One provision of the CARES Act was an appropriation of funds for the Small Business Administration (SBA) to be used for Paycheck Protection Program (PPP) loans. The purpose of these loans is to promote continued employment in small businesses and not-for-profits harmed by COVID-19 Coronavirus (COVID-19). PPP loans are unsecured, guaranteed by the SBA, bear interest at 1% per annum with a two-year term of which principal and interest are deferred for the first six months. The term can be extended to five years if mutually agreed upon by the borrower and the lender. A portion or all of the loan may be forgiven depending on the use of the funds for eligible costs and compliance with other relevant conditions as determined by the SBA. On April 30, 2020, BARC received \$560,000 in SBA PPP loan funds evident by a two-year promissory note with Community Bank of Texas. On December 30, 2020, BARC received notice from the SBA that the loan and accrued interest of \$3,836 was forgiven. On March 16, 2021, BARC received \$642,750 in second round SBA PPP loan funds evident by a two-year promissory note with Community Bank of Texas. On October 20, 2021, BARC received notice from the SBA that the second PPP loan and accrued interest was forgiven. BARC is required to retain all records relating to the PPP loans for six years from the date the loans were forgiven for potential review by the SBA.

Based on guidance provided by the AICPA in Technical Question and Answer (TQA) 3200.18 issued on June 10, 2020, BARC accounted for the loans as other income. In TQA 3200.18, the AICPA provides Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 470 *Debt*, as a basis for the guidance. Under FASB 470, the loan proceeds are recognized as debt on the balance sheets with classification as current or noncurrent liabilities. The expenses covered by forgiveness of the loans were accounted for in accordance with accounting standards generally accepted in the United States of America on the statements of activities. The debts were treated as extinguished, and the liabilities were derecognized once BARC received notices of forgiveness. BARC did not account for the gains on extinguishment on the statements of activities because the amounts were immaterial to the financial statements as a whole.

#### **Note 11 - Retirement Plan**

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BARC maintains a defined contribution retirement plan under §401(k) of the Internal Revenue Code. The plan covers all employees who are 21 years of age and older with at least 1,000 completed hours of service. BARC matches a discretionary percentage of an employee's contribution up to 6% of the employee's compensation. Employer contributions fully vest after five years of service. Employer contributions for the years ended December 31, 2021 and 2020, were \$46,360 and \$44,639, respectively.

## Bay Area Rehabilitation Center

### Notes to the Financial Statements

#### **Note 12 - Liquidity and Availability**

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As of December 31, 2021, BARC had working capital of \$1,674,446 and average days (based on normal expenditures) cash on hand of 62 days.

Financial assets available for general expenditure within one year of the balance sheet date, consist of the following:

	<u>December 31, 2021</u>
Financial assets at year end:	
Cash and cash equivalents	\$ 755,414
Receivables - net	695,856
Investments	906,387
Total Financial Assets	<u>2,357,657</u>
Less amounts not available to be used within one year:	
Net assets with donor restrictions	<u>4,740</u>
Financial assets available to meet general expenditures over the next 12 months	<u>\$ 2,352,917</u>

BARC's goal is generally to maintain financial assets to meet 90 days of operating expenses. As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts and certificates of deposit.

#### **Note 13 – Subsequent Events**

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Since December 31, 2021, the spread of COVID-19 has severely impacted many local economies around the world. In many countries, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions.

BARC has determined that these events are non-adjusting subsequent events. Accordingly, the statement of financial position and the statement activities as of and for the year ended December 31, 2021, have not been adjusted to reflect their impact. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and activities of BARC for future periods.

Subsequent events have been evaluated through April 30, 2022, the date which these financial statements were available to be issued.

**Supplementary  
Information**



*Bay Area Rehabilitation Center*

Schedule of Expenditures of Federal Awards

December 31, 2021

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<b>Federal Awards</b>		
<u>Passed through the State of Texas -</u>		
Texas Health and Human Services Commission		
Early Childhood Intervention Services		
Department of Education		
Special Education - Grants for Infants and Families Contract number HHS000640200037 - \$821,485	84.181	\$ 821,485
Special Education - Grants to States Contract number HHS000640200037 - \$74,160	84.027	74,160
Department of Health and Human Services		
Temporary Assistance for Needy Families Contract number HHS000640200037 - \$113,251	93.558	113,251
Social Security Administration		
Social Security - Disability Insurance	96.001	234
Department of Health and Human Services		
Medical Assistance Program Contract number 001008562 - \$840,863 Contract number 001023884 - \$38,552	93.778	<u>879,415</u>
Total Federal Awards		<u>1,888,545</u>
<b>Other Awards</b>		
<u>Passed through the State of Texas -</u>		
Texas Health and Human Services Commission		
Contract number 001008562 - \$400,776 Contract number 001023884 - \$15,884		416,660 <sup>1</sup>
<u>Passed through the State of Texas -</u>		
Texas Health and Human Services Commission		
Early Childhood Intervention Services Contract number HHS000640200037 - \$542,822		<u>542,822</u> <sup>1</sup>
Total Other Awards		<u>959,482</u>
Total Awards		<u>\$ 2,848,027</u>

<sup>1</sup> The state-provided funds have been included in the audit testing under the Uniform Guidance.

*The accompanying notes are an integral part of this schedule.*

## *Bay Area Rehabilitation Center*

### Notes to the Schedule of Expenditures of Federal Awards

#### **Note 1**

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The accompanying schedule of expenditures of federal awards (the SEFA) includes the federal award activity of Bay Area Rehabilitation Center under programs of the federal government for the year ended December 31, 2021. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the activities of Bay Area Rehabilitation Center, it is not intended to and does not present the financial position, changes in net assets or cash flows of Bay Area Rehabilitation Center.

#### **Note 2**

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Expenditures reported on the SEFA are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Bay Area Rehabilitation Center has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

*Bay Area Rehabilitation Center*

Schedule of Insurance in Force

Insurer	Policy Period	Type of Coverage	Amount of Coverage
Philadelphia Insurance Co.	12/1/2021 – 12/1/2022	Auto Liability and Physical Damage	\$1,000,000 per occurrence
Philadelphia Insurance Co.	12/1/2021 – 12/1/2022	Errors and Omissions	\$1,000,000
Philadelphia Insurance Co.	12/1/2021 – 12/1/2022	General Liability	\$1,000,000
Philadelphia Insurance Co.	12/1/2021 – 12/1/2022	Excess Liability	\$3,000,000
Philadelphia Insurance Co.	12/1/2021 – 12/1/2022	Professional Liability	\$3,000,000 aggregate
Velocity Risk Underwriters	12/1/2021 – 12/1/2022	Property	\$10,482,792 total insured value
Velocity Risk Underwriters	12/1/2021 – 12/1/2022	Machinery and Equipment	\$10,482,792 total insured value
Velocity Risk Underwriters	12/1/2021 – 12/1/2022	Property – Wind and Hail	\$10,482,792 total insured value
Velocity Risk Underwriters	12/1/2021 – 12/1/2022	Flood	\$1,000,000 5313 Decker Dr.
Velocity Risk Underwriters	12/1/2021 – 12/1/2022	Flood	\$1,000,000 5307 Decker Dr.
Philadelphia Insurance Co.	12/1/2021 – 12/1/2022	Sexual Abuse	\$1,000,000
Philadelphia Insurance Co.	12/1/2021 – 12/1/2022	Director and Officer Liability	\$1,000,000
Philadelphia Insurance Co.	12/1/2021 – 12/1/2022	Employee Dishonesty	\$500,000
Philadelphia Insurance Co.	12/1/2021 – 12/1/2022	Computer Equipment and Hardware	\$225,000
Texas Mutual Insurance Co.	08/1/2021 – 08/1/2022	Workers Compensation	\$500,000 per occurrence

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Members ARCPA

Board of Directors  
Bay Area Rehabilitation Center  
Baytown, Texas

## **Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Bay Area Rehabilitation Center as of and for the year ended December 31, 2021, and the related notes to the financial statements, and have issued our report thereon dated April 30, 2022.

### **Internal Control Over Financial Reporting**

In planning and performing our audits of the financial statements, we considered Bay Area Rehabilitation Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Bay Area Rehabilitation Center's internal control. Accordingly, we do not express an opinion on the effectiveness of Bay Area Rehabilitation Center's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we considered to be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Bay Area Rehabilitation Center's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gateway Company, CPAs

Little Rock, Arkansas  
April 30, 2022

# Gasaway & Company, CPAs

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Members AICPA

Members ARCPA

## **Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance Report on Compliance for Each Major Federal Program**

We have audited Bay Area Rehabilitation Center's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Bay Area Rehabilitation Center's major federal programs for the year ended December 31, 2021. Bay Area Rehabilitation Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### ***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Bay Area Rehabilitation Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Bay Area Rehabilitation Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Bay Area Rehabilitation Center's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, Bay Area Rehabilitation Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2021.

### **Report on Internal Control over Compliance**

Management of Bay Area Rehabilitation Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Bay Area Rehabilitation Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Bay Area Rehabilitation Center's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Gardaway & Company, CPAs*

Little Rock, Arkansas  
April 30, 2022

## *Bay Area Rehabilitation Center*

### Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2021

#### **Summary of Auditor's Results**

##### *Financial Statements*

1. The independent auditor's report expressed an unmodified opinion on the financial statements of BARC, in accordance with accounting principles generally accepted in the United States of America.
2. The independent auditor's report on internal control over financial reporting disclosed no significant deficiencies or material weaknesses.
3. No instances of noncompliance material to the financial statements of BARC were disclosed during the audit.

##### *Federal Awards*

4. The independent auditor's report on internal control over compliance for major federal awards programs disclosed no significant deficiencies or material weaknesses.
5. The independent auditor's report expressed an unmodified opinion on compliance for the major federal award.
6. The audit disclosed no findings required to be reported by 2 CFR 200.516(a).
7. BARC's major program was the Department of Education – Special Education – Grants for Infants and Families (CFDA 84.181).
8. The threshold used to distinguish between Type A and Type B programs was \$750,000.
9. BARC qualified as a low-risk auditee.

#### **Findings Required to be Reported by Government Auditing Standards**

No matters are reportable.

#### **Findings Required to be Reported by the Uniform Guidance**

No matters are reportable.



*Bay Area Rehabilitation Center*

Summary Schedule of Prior Audit Findings

For the Year Ended December 31, 2021

***There are no matters required to be reported.***