



Financial Statements

**As of and for the Year Ended
December 31, 2023**

With Independent Auditor's Reports Thereon

Bay Area Rehabilitation Center

December 31, 2023

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Bay Area Rehabilitation Center
Baytown, Texas

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Bay Area Rehabilitation Center (a nonprofit organization), which comprise the statement of financial position as of December 31, 2023, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Bay Area Rehabilitation Center as of December 31, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with 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. 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 opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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's ability 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 and *Government 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 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 and *Government 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.

Supplemental Information

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 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, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other 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 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 September 25, 2024, 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.



Little Rock, Arkansas
September 25, 2024

Bay Area Rehabilitation Center

Statement of Financial Position

December 31, 2023

	<u>2023</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 520,201
Receivables, net	
Client tuition and fees	-
Grants and contracts	226,555
Other	345,890
Total receivables	<u>572,445</u>
Prepaid expenses	<u>45,876</u>
Total current assets	<u>1,138,522</u>
Property and equipment, net	<u>1,339,175</u>
Investments	<u>1,069,293</u>
Total assets	<u>\$ 3,546,990</u>
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts payable and accrued expenses	<u>\$ 326,642</u>
Total current liabilities	<u>326,642</u>
Total liabilities	<u>326,642</u>
Net assets	
Without donor restrictions	3,081,348
With donor restrictions	139,000
Total net assets	<u>3,220,348</u>
Total liabilities and net assets	<u>\$ 3,546,990</u>

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

Bay Area Rehabilitation Center

Statement of Activities Year Ended December 31, 2023

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	2023 Total
Public support, revenues and other			
Contributions and bequests	\$ 30,283	\$ 139,000	\$ 169,283
United Way allocation	110,437	-	110,437
Client tuition and fees, net	2,177,009	-	2,177,009
Federal and state grants	1,794,732	-	1,794,732
Production	1,525,383	-	1,525,383
Investment income	121,134	-	121,134
Interest income	-	-	-
Other income	1,505,206	-	1,505,206
Total public support, revenues, and other	<u>7,264,184</u>	<u>139,000</u>	<u>7,403,184</u>
Expenses			
Program services			
ECI	2,927,071	-	2,927,071
Opportunity Center	1,815,700	-	1,815,700
Pediatric	580,049	-	580,049
Adult	355,172	-	355,172
Aquatic	172,858	-	172,858
Total program services	<u>5,850,850</u>	<u>-</u>	<u>5,850,850</u>
Support services			
General and administrative	1,193,215	-	1,193,215
Fundraising	91,653	-	91,653
Total support services	<u>1,284,868</u>	<u>-</u>	<u>1,284,868</u>
Total expenses	<u>7,135,718</u>	<u>-</u>	<u>7,135,718</u>
Change in net assets	128,466	139,000	267,466
Net assets at beginning of year	<u>2,952,882</u>	<u>-</u>	<u>2,952,882</u>
Net assets at end of year	<u>\$ 3,081,348</u>	<u>\$ 139,000</u>	<u>\$ 3,220,348</u>

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

Bay Area Rehabilitation Center

Statement of Functional Expenses

Year Ended December 31, 2023

	Program Services						Support Services			Total Expenses
	ECI	Opportunity Center	Pediatric	Adult	Aquatic	Total	General and Administrative	Fundraising	Total	2023 Total
Personnel	\$ 2,377,244	\$ 589,280	\$ 478,565	\$ 246,945	\$ 40,000	\$ 3,732,034	\$ 670,651	\$ 53,192	\$ 723,843	\$ 4,455,877
Foster care payments	-	851,130	-	12,756	-	863,886	-	-	-	863,886
Occupancy	155,086	84,456	51,971	50,906	98,216	440,635	52,198	660	52,858	493,493
Insurance	89,765	6,435	3,299	3,299	2,624	105,422	51,136	164	51,300	156,722
Travel	32,562	24,535	1,222	1,373	182	59,874	6,579	251	6,830	66,704
Professional fees	166,263	162,027	18,242	17,961	3,850	368,343	36,857	2,936	39,793	408,136
General and administrative	22,921	19,438	10,825	12,016	1,216	66,416	369,275	9,991	379,266	445,682
Recruiting and retention	21,658	1,246	2,004	1,003	23	25,934	3,651	22	3,673	29,607
Direct contract fees	1,620	27,927	-	-	-	29,547	1,200	-	1,200	30,747
Direct supplies	809	12,748	1,715	1,703	23,274	40,249	290	-	290	40,539
Depreciation	59,143	36,478	12,206	7,210	3,473	118,510	1,378	24,437	25,815	144,325
Total functional expense	\$ 2,927,071	\$ 1,815,700	\$ 580,049	\$ 355,172	\$ 172,858	\$ 5,850,850	\$ 1,193,215	\$ 91,653	\$ 1,284,868	\$ 7,135,718

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

Bay Area Rehabilitation Center

Statement of Cash Flows Year Ended December 31, 2023

	<u>2023</u>
Cash Flows from Operating Activities	
Change in net assets	\$ 267,466
Adjustments to reconcile change in net assets to cash provided by operating activities:	
Depreciation	144,326
Provision for contractual allowances and doubtful accounts	(69,334)
(Increase)/decrease in fair market value of investments	(120,113)
(Increase)/decrease in current assets:	
Client tuition and fees receivable	336,210
Grants and contracts receivable	(161,679)
Other receivables	(161,406)
Prepaid expenses	(15,720)
Increase/(decrease) in current liabilities:	
Accounts payable and accrued expenses	<u>51,203</u>
Net cash provided by operating activities	<u>270,953</u>
Cash Flows from Investing Activities	
Purchase of property and equipment	(95,314)
Purchase of investments	<u>(380,161)</u>
Net cash used by investing activities	<u>(475,475)</u>
Cash Flows from Financing Activities	
None	<u>-</u>
Net cash provided/(used) by financing activities	<u>-</u>
Net increase/(decrease) in cash and cash equivalents	(204,522)
Cash and cash equivalents, beginning of year	<u>\$ 724,723</u>
Cash and cash equivalents, end of year	<u>\$ 520,201</u>

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

Bay Area Rehabilitation Center

Notes to Financial Statements

December 31, 2023

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Bay Area Rehabilitation Center (the Center) 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 the Center is vested with a Board of Directors which consists of outside community leaders and the Center's officers.

The following is a summary of significant accounting policies followed in the preparation of the financial statements.

Basis of Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor restrictions. Accordingly, net assets of the Center and changes therein are classified and reported as follows:

Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions.

Net assets with donor restrictions are subject to donor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Center considers all liquid investments with original maturities of three months or less to be cash equivalents, other than those included in assets limited as to use or held in brokerage accounts.

Investments and Investment Return

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 upon the existence and nature of any donor or legally imposed restrictions.

Client Tuition and Fees Receivable

Client tuition and fees receivable reflects the outstanding amount of consideration to which the Center 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, the Center 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.

Bay Area Rehabilitation Center

Notes to Financial Statements

December 31, 2023

Property and Equipment

Property and equipment acquisitions are recorded at cost and are depreciated using the straight-line method over the estimated useful life of each asset. Donations of property and equipment are reported at fair value as an increase in net assets without donor restrictions unless use of the assets is restricted by the donor.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Buildings and improvements	7 – 30 years
Furniture and equipment	3 – 10 years

Long-lived Asset Impairment

The Center evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

Charity Care

The Center provides care without charge or at amounts less than its established rates to clients meeting certain criteria under its charity care policy. The level of charity care provided during the year ended December 31, 2023 was \$24,656.

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.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Note 2: Client Tuition and Fees

The composition of client tuition and fees and uncompensated care provided for the year ended December 31, 2023 is as follows:

Gross Billings	<u>\$ 3,311,837</u>
Uncompensated Care:	
Contractual adjustments	1,062,172
Charity care	24,656
Bad debt expense	<u>48,000</u>
Uncompensated Care	<u>\$ 1,134,828</u>

Bay Area Rehabilitation Center

Notes to Financial Statements

December 31, 2023

Note 3: Property and Equipment

Property and equipment, net of accumulated depreciation as of December 31, 2023 is as follows:

Category	Amount	Useful Life
Land	\$ 619,922	-
Buildings and improvements	5,675,902	7 – 30
Furniture and equipment	764,621	3 – 10
Total property and equipment	7,060,445	
Less: accumulated depreciation	(5,721,270)	
Property and equipment, net	\$ 1,339,175	

Depreciation expense for the year ended December 31, 2023 was \$144,326.

Note 4: Investments

The following is a summary of investments as of December 31, 2023:

Investment Class	Amount
Cash and cash equivalents	\$ 1,452
Certificates of deposit	414,184
Equity funds	655,109
	\$ 1,070,145

Note 5: Fair Value of Assets and Liabilities

Fair value is the price 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. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1 Quoted prices in active markets for identical assets or liabilities
- Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3 Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities

The following table presents the fair value measurements of investments and the level within the fair value hierarchy in which fair value measurements all at December 31, 2023:

2023	Fair Value	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 1,452	\$ 1,452	\$ -	\$ -
Certificates of deposit	414,184	-	414,184	-
Equity funds	655,109	655,109	-	-
Total	\$1,070,145	\$ 656,561	\$ 414,184	\$ -

Bay Area Rehabilitation Center

Notes to Financial Statements

December 31, 2023

Note 6: Receivables

Grants and contracts	\$ 258,166
Other	384,762
	<u>642,928</u>
Provision for doubtful accounts	<u>(70,483)</u>
Receivables, net	<u>\$ 572,445</u>

Note 7: Employer-sponsored Retirement Plan

The Center has established a 401(k) defined contribution plan for employees (the 401(k) Plan). Employees are eligible to participate in the 401(k) Plan after attaining age 21 and completing 1,000 hours of service. Eligible employees may join the 401(k) Plan on January 1 or July 1. Under the terms of the plan agreement, employees may contribute up to 15% of their compensation. The Center matches a discretionary percentage of an employee's contribution up to 6% of the employee's compensation.

The Center may also make discretionary employer contributions which are allocated to each eligible employee. Employer contributions fully vest after five years of services. The Center's expense related to this plan for the year ended 2023 were \$74,188.

Note 8: Concentrations of Credit Risk

The Center received approximately 45% of revenue from contracts through the State of Texas for the year ending 2023. Additionally, the Center received approximately 27% of revenue from Medicaid in the year ending 2023. Substantially all of the Center's activities are conducted in Baytown, Texas and its surrounding areas. Possible credit losses are provided for in the Center's allowance for contractual adjustments and doubtful accounts. Generally, the Center requires no security for the performance of its services.

The Center maintains cash in bank deposit accounts, which at times, may exceed federally insured limits. Management believes that no significant credit risk exists with respect to these deposits.

Note 9: Contingencies

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.

Bay Area Rehabilitation Center

Notes to Financial Statements

December 31, 2023

Note 10: Availability and Liquidity

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2023 comprise the following:

Total financial assets:	
Cash	\$ 520,201
Receivables, net	572,445
Investments	<u>1,069,293</u>
Total financial assets	\$ 2,161,939
Less amounts not available to be used within one year:	
Donor restricted net assets	<u>-</u>
Financial assets available to meet general expenditures within one year	<u>\$ 2,161,939</u>

The Center'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 11: Subsequent Events

Subsequent events have been evaluated through September 25, 2024, the date which these financial statements were available to be issued.

Bay Area Rehabilitation Center
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2023

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Federal Expenditures
Federal Awards		
<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	84.181	\$ 796,651
Contract number HHS000640200037 - \$796,651		
Special Education - Grants to States	84.027	75,240
Contract number HHS000640200037 - \$75,240		
Department of Health and Human Services		
Temporary Assistance for Needy Families	93.558	129,028
Contract number HHS000640200037 - \$129,028		
Social Security Administration		
Social Security - Disability Insurance	96.001	162
Department of Health and Human Services		
Medical Assistance Program	93.778	<u>980,475</u>
Contract number HHS000004600243 - \$40,852		
Contract number 001008562 - \$904,216		
Contract number 001023884 - \$35,407		
Total Federal Awards		<u>\$ 1,981,556</u>
Other Awards		
<u>Passed through the State of Texas</u> - Texas Health and Human Services Commission		
Contract number HHS000004600243 - \$22,352		\$ 572,943 ¹
Contract number 001008562 - \$532,000		
Contract number 001023884 - \$18,591		
<u>Passed through the State of Texas</u> - Texas Health and Human Services Commission		
Early Childhood Intervention Services		<u>807,866</u>
Contract number HHS000640200037 - \$807,866		
Total Other Awards		<u>\$ 1,380,809</u>
Total Awards		<u><u>\$ 3,362,365</u></u>

See independent auditor's report and accompanying notes to the schedule of expenditures of federal awards.

Bay Area Rehabilitation Center
Notes to the Schedule of Expenditures of Federal Awards
Year Ended December 31, 2023

Notes to the Schedule of Expenditures of Federal Awards

1. The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Bay Area Rehabilitation Center under programs of the federal government for the year ended December 31, 2023. The information in this Schedule 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.

2. Expenditures reported on the Schedule 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 percent de minimis indirect cost rate allowed under the Uniform Guidance.

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

Bay Area Rehabilitation Center

Schedule of Insurance in Force

December 31, 2023

Insurer	Policy Period	Type of Coverage	Amount of Coverage
Philadelphia Insurance Co.	12/1/2023 – 12/1/2024	Auto Liability and Physical Damage	\$1,000,000 per Occurrence
Philadelphia Insurance Co.	12/1/2023 – 12/1/2024	Errors and Omissions	\$1,000,000
Philadelphia Insurance Co.	12/1/2023 – 12/1/2024	General Liability	\$3,000,000 Aggregate
Philadelphia Insurance Co.	12/1/2023 – 12/1/2024	Excess Liability	\$3,000,000 per Occurrence
Philadelphia Insurance Co.	12/1/2023 – 12/1/2024	Professional Liability	\$3,000,000 Aggregate
Philadelphia Insurance Co.	12/1/2023 – 12/1/2024	Property	\$10,516,323 Total Insured Value
Philadelphia Insurance Co.	12/1/2023 – 12/1/2024	Machinery and Equipment	\$10,516,323 Total Insured Value
Philadelphia Insurance Co.	12/1/2023 – 12/1/2024	Property – Wind and Hail	\$10,516,323 Total Insured Value
Philadelphia Insurance Co.	12/1/2023 – 12/1/2024	Flood	\$1,000,000 5313 Decker Drive
Philadelphia Insurance Co.	12/1/2023 – 12/1/2024	Flood	\$1,000,000 5307 Decker Drive
Philadelphia Insurance Co.	12/1/2023 – 12/1/2024	Sexual Abuse	\$1,000,000
Philadelphia Insurance Co.	12/1/2023 – 12/1/2024	Director and Officer Liability	\$1,000,000
Philadelphia Insurance Co.	12/1/2023 – 12/1/2024	Employee Dishonesty	\$1,000,000
Philadelphia Insurance Co.	12/1/2023 – 12/1/2024	Computer Equipment and Hardware	\$225,000
Philadelphia Insurance Co.	12/1/2023 – 12/1/2024	Cyber Liability	\$1,000,000
Texas Mutual Insurance Co.	8/1/2023 – 8/1/2024	Workers Compensation	\$500,000 per Occurrence

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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

To the Board of Directors
Bay Area Rehabilitation Center
Baytown, Texas

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 (a nonprofit organization), which comprise the statement of financial position as of December 31, 2023, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 25, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Bay Area Rehabilitation Center's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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 consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on 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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gabaway & Company, CPAs

Little Rock, Arkansas
September 25, 2024

Gasaway & Company, CPAs

415 North McKinley Street
Suite 795
Little Rock, Arkansas 72205

Members AICPA

Members ARCPA

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Bay Area Rehabilitation Center
Baytown, Texas

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Bay Area Rehabilitation Center's compliance with the types of compliance requirements identified as subject to audit 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, 2023. 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.

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, 2023.

Basis for Opinion on Each Major Federal Program

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 Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance 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 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of Bay Area Rehabilitation Center's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Bay Area Rehabilitation Center's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Bay Area Rehabilitation Center's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Bay Area Rehabilitation Center's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Bay Area Rehabilitation Center's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Bay Area Rehabilitation Center's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Bay Area Rehabilitation Center's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

Gisawany Company, CPAs

Little Rock, Arkansas
September 25, 2024

Bay Area Rehabilitation Center

Schedule of Findings and Questioned Costs

Year Ended December 31, 2023

Summary of Auditor's Results

Financial Statements

1. The independent auditor's report expressed an unmodified opinion on the financial statements of Bay Area Rehabilitation Center (the Center), 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 the Center 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. The Center's major program was the Department of Health and Human Services – Medical Assistance Program (CFDA 93.778).
8. The threshold used to distinguish between Type A and Type B programs was \$750,000.
9. The Center 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
Year Ended December 31, 2023

No matters are reportable.