



## **Financial Statements**

**As of and for the Years Ended  
December 31, 2020 and 2019**

**With Independent Auditor's Reports Thereon**

**Bay Area Rehabilitation Center**  
**December 31, 2020 and 2019**

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## **Independent Auditor's Report**

Board of Directors  
Bay Area Rehabilitation Center  
Baytown, Texas

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Bay Area Rehabilitation Center, which comprise the statement of financial position as of December 31, 2020 and 2019, 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**

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we 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, we express no such opinion.

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Membership

American Institute of Certified Public Accountants  
Center for Audit Quality  
Government Audit Quality Center  
Employee Benefit Plan Audit Quality Center

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Membership

Arkansas Society of Certified Public Accountants  
Missouri Society of Certified Public Accountants  
Tennessee Society of Certified Public Accountants  
Texas Society of Certified Public Accountants

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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

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, 2020 and 2019, 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.

### ***Other Matters***

#### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information, consisting of the schedule of expenditures of federal awards 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, as listed in the table of contents 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 information is fairly stated, in all material respects, in relation to the financial statements as a whole.

#### ***Accounting Firm Merger***

Bay Area Rehabilitation Center engaged Gasaway & Company, CPAs to perform audit services as confirmed by an engagement letter dated December 10, 2020. Subsequent to the date of the engagement letter but before the completion of fieldwork and issuance of the audit report, Gasaway & Company, CPAs merged into Garland & Greenwood, CPAs and Advisors, PLLC as of January 1, 2021. The responsible partner and audit staff did not change during the merger. Garland & Greenwood CPAs and Advisors, PLLC accepts responsibility for Gasaway & Company, CPAs work prior to the merger.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2021 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.

*Garland & Greenwood, CPAs and Advisors, PLLC*

Little Rock, Arkansas

June 4, 2021

**Bay Area Rehabilitation Center**  
**Statements of Financial Position**  
**December 31, 2020 and 2019**

	2020	2019
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 785,328	\$ 399,536
Receivables		
Client tuition and fees, net	296,377	221,218
Grants and contracts	158,351	148,257
Other	136,136	244,217
Total receivables	590,864	613,692
Prepaid expenses	30,627	48,531
Total current assets	1,406,819	1,061,759
Property and equipment, net	1,614,000	1,799,896
Investments	649,606	589,019
Total assets	\$ 3,670,425	\$ 3,450,674
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 295,945	\$ 239,369
Total current liabilities	295,945	239,369
Total liabilities	295,945	239,369
Net assets		
Without donor restrictions	3,369,740	3,206,565
With donor restrictions	4,740	4,740
Total net assets	3,374,480	3,211,305
Total liabilities and net assets	\$ 3,670,425	\$ 3,450,674

The accompanying notes are an integral part of these financial statements.

**Bay Area Rehabilitation Center**  
**Statements of Activities**  
**Years Ended December 31, 2020 and 2019**

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	2020 Total	2019 (Memorandum Only)
Public support, revenues and other				
Contributions and bequests	\$ 67,492	\$ -	\$ 67,492	\$ 76,728
United Way allocation	301,694	-	301,694	326,513
Client tuition and fees, net	1,998,413	-	1,998,413	2,339,288
Federal and state grants	1,952,646	-	1,952,646	1,779,325
Production	1,412,057	-	1,412,057	1,508,898
Investment income	68,185	-	68,185	94,960
Interest income	440	-	440	2,547
Other income	586,228	-	586,228	28,472
Total public support, revenues, and other	<u>6,387,155</u>	<u>-</u>	<u>6,387,155</u>	<u>6,156,731</u>
Expenses				
Program services				
ECI	2,709,822	-	2,709,822	2,874,296
Opportunity Center	1,714,584	-	1,714,584	1,792,964
Adult	266,246	-	266,246	431,158
Pediatric	505,221	-	505,221	448,790
Aquatic	108,052	-	108,052	142,610
Autism	140,151	-	140,151	-
Total program services	<u>5,444,076</u>	<u>-</u>	<u>5,444,076</u>	<u>5,689,818</u>
Support services				
General and administrative	724,666	-	724,666	719,874
Fundraising	55,238	-	55,238	54,089
Total support services	<u>779,904</u>	<u>-</u>	<u>779,904</u>	<u>773,963</u>
Total expenses	<u>6,223,980</u>	<u>-</u>	<u>6,223,980</u>	<u>6,463,781</u>
Change in net assets	163,175	-	163,175	(307,050)
Net assets at beginning of year	<u>3,206,565</u>	<u>4,740</u>	<u>3,211,305</u>	<u>3,518,355</u>
Net assets at end of year	<u>\$ 3,369,740</u>	<u>\$ 4,740</u>	<u>\$ 3,374,480</u>	<u>\$ 3,211,305</u>

The accompanying notes are an integral part of these financial statements.

**Bay Area Rehabilitation Center**  
**Statements of Functional Expenses**  
**Years Ended December 31, 2020 and 2019**

	Program Services							Support Services			Total Expenses	
	ECI	Opportunity Center	Adult	Pediatric	Aquatic	Autism	Total	General and Administrative	Fundraising	Total	2020 Total	2019 Total (Memorandum Only)
Salaries and wages	\$ 1,948,947	\$ 602,968	\$ 150,708	\$ 357,182	\$ 15,353	\$ 92,382	\$ 3,167,540	\$ 495,079	\$ 38,691	\$ 533,770	\$ 3,701,310	3,794,895
Payroll taxes and other	157,527	51,404	11,594	27,478	1,770	7,107	256,880	34,641	4,173	38,814	295,694	321,367
Employee benefits	177,839	44,271	9,951	23,585	4,042	6,100	265,788	45,288	1,609	46,897	312,685	318,755
Professional fees	300	-	-	-	-	-	300	14,750	-	14,750	15,050	22,714
Contract fees	9,904	833,889	1,893	1,897	11	34,233	881,827	107	11	118	881,945	877,277
Supplies	8,207	16,067	3,687	3,656	11,124	-	42,741	1,589	457	2,046	44,787	66,828
Insurance	47,487	13,443	13,514	13,741	1,020	-	89,205	15,349	1,856	17,205	106,410	100,991
Utilities	59,833	18,113	9,815	9,859	12,560	9	110,189	22,046	595	22,641	132,830	147,017
Repairs and maintenance	166,056	76,512	43,817	47,727	22,796	-	356,908	34,595	5,093	39,688	396,596	389,688
Training and travel	787	3,823	298	295	3	-	5,206	4,229	4	4,233	9,439	15,240
Client treatment travel	19,824	-	-	-	-	-	19,824	-	-	-	19,824	82,473
Depreciation	73,435	46,952	12,909	12,479	38,455	-	184,230	47,552	783	48,335	232,565	239,013
Interest and related	-	25	-	-	-	-	25	4,729	445	5,174	5,199	5,955
Other direct	39,676	7,117	8,060	7,322	918	320	63,413	4,712	1,521	6,233	69,646	81,568
<b>Total functional expense</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>\$ 779,904</b>	<b>\$ 6,223,980</b>	<b>\$ 6,463,781</b>

The accompanying notes are an integral part of these financial statements.

**Bay Area Rehabilitation Center**  
**Statements of Cash Flows**  
**Years Ended December 31, 2020 and 2019**

	2020	2019 (Memorandum Only)
Cash Flows from Operating Activities		
Change in net assets	\$ 163,175	\$ (307,050)
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	232,565	239,013
Provision for contractual allowances and doubtful accounts	32,211	(47,856)
(Increase)/decrease in fair market value of investments	(60,587)	(86,405)
(Increase)/decrease in current assets:		
Client tuition and fees receivable	(107,370)	254,042
Grants and contracts receivable	(10,094)	823
Other receivables	108,081	(14,911)
Prepaid expenses	17,904	6,000
Increase/(decrease) in current liabilities:		
Accounts payable and accrued expenses	56,576	(9,974)
Net cash provided by operating activities	432,461	33,682
Cash Flows from Investing Activities		
Purchase of property and equipment	(46,669)	(35,025)
Net cash used by investing activities	(46,669)	(35,025)
Cash Flows from Financing Activities		
Proceeds from the Paycheck Protection Program loan	560,000	-
Forgiveness of the Paycheck Protection Program loan	(560,000)	-
Net cash provided/(used) by financing activities	-	-
Net increase/(decrease) in cash and cash equivalents	385,792	(1,343)
Cash and cash equivalents, beginning of year	\$ 399,536	\$ 400,879
Cash and cash equivalents, end of year	\$ 785,328	\$ 399,536
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ -	\$ -

The accompanying notes are an integral part of these financial statements.

# Bay Area Rehabilitation Center

## Notes to Financial Statements

December 31, 2020 and 2019

### **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.

# Bay Area Rehabilitation Center

## Notes to Financial Statements

December 31, 2020 and 2019

### 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.

### 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 years ended December 31, 2020 and 2019 was \$24,000 and \$74,000, respectively.

### 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.

# Bay Area Rehabilitation Center

## Notes to Financial Statements

December 31, 2020 and 2019

### Income Taxes

The Center is exempt from income tax under IRC section 501(c)(3), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. The Center has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. The Center has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

### Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

### **Note 2: Client Tuition and Fees**

The composition of client tuition and fees and uncompensated care provided for the years ended December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Gross Billings	<u>\$ 3,101,168</u>	<u>\$ 4,054,458</u>
Uncompensated Care:		
Contractual adjustments	1,159,222	1,727,143
Charity care	24,000	74,000
Bad debt expense	30,000	30,000
Uncompensated Care	<u>\$ 1,213,222</u>	<u>\$ 1,831,143</u>

### **Note 3: Property and Equipment**

Property and equipment, net of accumulated depreciation as of December 31, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>	<u>Useful Life</u>
Land	\$ 619,922	\$ 619,922	-
Buildings and improvements	5,635,892	5,613,321	7 – 30
Furniture and equipment	800,485	776,387	3 – 10
Total property and equipment	7,056,299	7,009,630	
Less: accumulated depreciation	5,442,299	5,209,734	
Property and equipment, net	<u>\$ 1,614,000</u>	<u>\$ 1,799,896</u>	

# Bay Area Rehabilitation Center

## Notes to Financial Statements

December 31, 2020 and 2019

### Note 4: Investments

The following is a summary of investments as of December 31, 2020 and 2019:

Investment Class	2020	2019
Cash and cash equivalents	\$ 4,308	\$ 6,372
Certificates of deposit	294,886	252,072
Equity funds	350,412	330,576
	\$ 649,606	\$ 589,020

### 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, 2020 and 2019:

2020	Fair Value	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 4,308	\$ 4,308	\$ -	\$ -
Certificates of deposit	294,886	-	294,886	-
Equity funds	350,412	350,412	-	-
Total	\$ 649,606	354,720	294,886	\$ -
2019	Fair Value	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 6,372	\$ 6,372	\$ -	\$ -
Certificates of deposit	252,072	-	252,072	-
Equity funds	330,576	330,576	-	-
Total	\$ 589,020	\$ 336,948	\$ 252,072	\$ -

# Bay Area Rehabilitation Center

## Notes to Financial Statements

December 31, 2020 and 2019

### **Note 6: 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 years ended 2020 and 2019 were \$44,639 and \$38,864, respectively.

### **Note 7: Concentrations of Credit Risk**

The Center received approximately 31% and 29% of revenue from contracts through the State of Texas in the years ending 2020 and 2019, respectively. Additionally, the Center received approximately 39% and 38% of revenue from Medicaid in the years ending 2020 and 2019, respectively. 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 8: 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, 2020 and 2019

### Note 9: 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, 2020 and 2019 comprise the following:

	<u>2020</u>	<u>2019</u>
Total financial assets:		
Cash	\$ 785,328	\$ 399,536
Receivables, net	590,864	613,692
Investments	649,606	589,019
Total financial assets	<u>2,025,798</u>	<u>1,602,247</u>
Less amounts not available to be used within one year:		
Donor restricted net assets	<u>4,740</u>	<u>4,740</u>
Financial assets available to meet general expenditures within one year	<u>\$ 2,021,058</u>	<u>\$ 1,597,507</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 10: Paycheck Protection Program Loan

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, the Center received \$560,000 in SBA PPP loan funds evidenced by a two-year promissory note with Community Bank of Texas. On December 30, 2020, the Center received notice from the SBA that the loan and accrued interest of \$3,835.62 was forgiven. The Center is required to retain all records relating to the PPP loan for six years from the date the loan was 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, the Center accounted for the loan 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 sheet with classification as a current or noncurrent liability. The expenses covered by forgiveness of the loan were accounted for in accordance with accounting standards generally accepted in the United States of America on the statement of activities.

**Bay Area Rehabilitation Center**  
**Notes to Financial Statements**  
**December 31, 2020 and 2019**

The debt was treated as extinguished, and the liability was derecognized once the Center received notice of forgiveness. The Center did not account for the gain on extinguishment on the statement of activities because the amount was immaterial to the financial statements as a whole.

**Note 11: Subsequent Events**

Since December 31, 2019, 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.

The Center 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, 2020 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 the Center for future periods.

Subsequent events have been evaluated through June 4, 2021, 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, 2020**

<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	84.181	\$ 1,364,650
Contract number 191200001 - \$908,684		
Contract number 640200037 - \$455,966		
Special Education - Grants to States	84.027	108,720
Contract number 191200001 - \$31,680		
Contract number 640200037 - \$77,040		
Department of Health and Human Services		
Temporary Assistance for Needy Families	93.558	58,976
Contract number 191200001 - \$32,194		
Contract number 640200037 - \$26,782		
Social Security Administration		
Social Security - Disability Insurance	96.001	864
Department of Health and Human Services		
Money Follows the Person Rebalancing Demonstration	93.791	16,122
Contract number 001008562 - \$16,122		
Department of Health and Human Services		
Medical Assistance Program	93.778	<u>960,052</u>
Contract number 001008562 - \$891,881		
Contract number 001023884 - \$68,171		
Total Federal Awards		<u>\$ 2,509,384</u>
<b>Other Awards</b>		
<u>Passed through the State of Texas</u> - Texas Health and Human Services Commission		
Contract number 001008562 - \$450,086		\$ 479,918 <sup>1</sup>
Contract number 001023884 - \$29,832		
<u>Passed through the State of Texas</u> - Texas Health and Human Services Commission		
Early Childhood Intervention Services		<u>414,793</u> <sup>1</sup>
Contract number 191200001 - \$302,658		
Contract number 640200037 - \$112,135		
Total Other Awards		<u>\$ 894,711</u>
Total Awards		<u>\$ 3,404,095</u>

The accompanying notes are an integral part of this schedule.

**Bay Area Rehabilitation Center**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**Year Ended December 31, 2020**

***Notes to Schedule***

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, 2020. 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.

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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, 2020**

<u>Insurer</u>	<u>Policy Period</u>	<u>Type of Coverage</u>	<u>Amount of Coverage</u>
Philadelphia Insurance Co.	12/1/2020 – 12/1/2021	Auto Liability and Physical Damage	\$1,000,000 per Occurrence
Philadelphia Insurance Co.	12/1/2020 – 12/1/2021	Errors and Omissions	\$1,000,000
Philadelphia Insurance Co.	12/1/2020 – 12/1/2021	General Liability	\$1,000,000
Philadelphia Insurance Co.	12/1/2020 – 12/1/2021	Excess Liability	\$3,000,000
Philadelphia Insurance Co.	12/1/2020 – 12/1/2021	Professional Liability	\$3,000,000 Aggregate
Velocity Risk Underwriters	12/1/2020 – 12/1/2021	Property	\$10,138,050 Total Insured Value
Velocity Risk Underwriters	12/1/2020 – 12/1/2021	Machinery and Equipment	\$10,138,050 Total Insured Value
Velocity Risk Underwriters	12/1/2020 – 12/1/2021	Property – Wind and Hail	\$10,138,050 Total Insured Value
Velocity Risk Underwriters	12/1/2020 – 12/1/2021	Flood	\$1,000,000 5313 Decker Dr.
Velocity Risk Underwriters	12/1/2020 – 12/1/2021	Flood	\$1,000,000 5307 Decker Dr.
Philadelphia Insurance Co.	12/1/2020 – 12/1/2021	Sexual Abuse	\$1,000,000
Philadelphia Insurance Co.	12/1/2020 – 12/1/2021	Director and Officer Liability	\$1,000,000
Philadelphia Insurance Co.	12/1/2020 – 12/1/2021	Employee Dishonesty	\$500,000
Philadelphia Insurance Co.	12/1/2020 – 12/1/2021	Computer Equipment and Hardware	\$225,000
Texas Mutual Insurance Co.	8/1/2020 – 8/1/2021	Workers Compensation	\$500,000 per Occurrence

Founding Partners

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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***

Board of Directors  
Bay Area Rehabilitation Center  
Baytown, Texas

We have audited 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, the financial statements of Bay Area Rehabilitation Center, which comprise the statement of financial position as of December 31, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated June 4, 2021.

***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) to determine the 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.

Membership

American Institute of Certified Public Accountants  
Center for Audit Quality  
Government Audit Quality Center  
Employee Benefit Plan Audit Quality Center

Membership

Arkansas Society of Certified Public Accountants  
Missouri Society of Certified Public Accountants  
Tennessee Society of Certified Public Accountants  
Texas Society of Certified Public Accountants

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 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 determination of financial statement amounts. 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*

***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.

*Garland & Greenwood, CPAs and Advisors, PLLC*

Little Rock, Arkansas  
June 4, 2021

Founding Partners

John S. Brock, CPA  
Jake Froemsdorf, CPA  
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## **Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance**

Board of Directors  
Bay Area Rehabilitation Center  
Baytown, Texas

### **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, 2020. 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.

Membership

American Institute of Certified Public Accountants  
Center for Audit Quality  
Government Audit Quality Center  
Employee Benefit Plan Audit Quality Center

Membership

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Tennessee Society of Certified Public Accountants  
Texas Society of Certified Public Accountants

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, 2020.

### **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.

*Garland & Greenwood, CPAs and Advisors, PLLC*

Little Rock, Arkansas

June 4, 2021

**Bay Area Rehabilitation Center**  
**Schedule of Findings and Questioned Costs**  
**Year Ended December 31, 2020**

***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 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. 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, 2020**

No matters are reportable.