George W. Teats Jr.
CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Rehabilitation Institute of Southern California
dba Rehabilitation Institute of Orange County
Orange, California

We have audited the accompanying financial statements of Rehabilitation Institute of Southern California dba Rehabilitation Institute of Orange County (the Organization), a nonprofit organization, which comprise the statements of financial position as of August 31, 2013 and 2012, and the related statements of activities 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditors' 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. 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 Rehabilitation Institute of Southern California dba Rehabilitation Institute of Orange County, as of August 31, 2013 and 2012, 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 Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 6 is presented for purposes of additional analysis and is not a

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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.

Santa Ana, CA
February 5, 2014

REHABILITATION INSTITUTE OF SOUTHERN CALIFORNIA
DBA REHABILITATION INSTITUTE OF ORANGE COUNTY

STATEMENTS OF FINANCIAL POSITION
AS OF AUGUST 31, 2013 AND 2012

	2013	2012
ASSETS		
Cash and cash equivalents	$ 5,315,371	$ 5,269,303
Accounts receivable, net of allowance for doubtful accounts of $216,579 and $205,669	700,986	664,720
Grants receivable	14,252	10,132
Prepaid expenses	60,266	102,581
Total current assets	6,090,875	6,046,736
LAND, BUILDINGS, AND EQUIPMENT		
Land, buildings, and equipment, net of accumulated depreciation and amortization of $5,604,901 and $5,387,876	3,448,337	3,646,785
OTHER ASSETS	104,438	60,901
Total assets	$ 9,643,650	$ 9,754,422
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 174,479	$ 160,887
Accrued expenses	417,388	402,702
Total liabilities	591,867	563,589
NET ASSETS		
Unrestricted	9,050,376	9,190,833
Temporarily restricted	1,407	-
	9,051,783	9,190,833
Total liabilities and net assets	$ 9,643,650	$ 9,754,422

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

REHABILITATION INSTITUTE OF SOUTHERN CALIFORNIA
DBA REHABILITATION INSTITUTE OF ORANGE COUNTY

STATEMENTS OF ACTIVITIES
YEAR ENDED AUGUST 31, 2013
WITH COMPARATIVE TOTALS FOR YEAR ENDED AUGUST 31, 2012

	General Unrestricted	Temporarily Restricted	2013 Total	2012 Total
PUBLIC SUPPORT				
Contributions	$ 26,924	$ 1,407	$ 28,331	$ 10,973
Special events, net	38,668	-	38,668	35,126
Bequests	40,431	-	40,431	128,545
Total public support	106,023	1,407	107,430	174,644
REVENUE				
Service fees, net	6,531,857	-	6,531,857	6,602,118
United Way	-	53,207	53,207	48,571
Grants	-	199,205	199,205	196,944
Interest	17,295	-	17,295	64,640
Cafeteria/boutique	24,197	-	24,197	24,058
Other revenue	116,971	-	116,971	62,554
Total revenue	6,690,320	252,412	6,942,732	6,998,885
NET ASSETS RELEASED FROM TEMPORARY RESTRICTIONS	252,412	(252,412)	-	-
Total public support and revenue	7,048,755	1,407	7,050,162	7,173,529
EXPENSES				
Program services	6,523,546	-	6,523,546	5,999,454
Supporting services:				
Fundraising	34,173	-	34,173	34,504
Management and general	631,493	-	631,493	901,192
Total expenses	7,189,212	-	7,189,212	6,935,150
CHANGE IN NET ASSETS	(140,457)	1,407	(139,050)	238,379
NET ASSETS, BEGINNING OF YEAR	9,190,833	-	9,190,833	8,952,454
NET ASSETS, END OF YEAR	$ 9,050,376	$ 1,407	$ 9,051,783	$ 9,190,833

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

REHABILITATION INSTITUTE OF SOUTHERN CALIFORNIA
DBA REHABILITATION INSTITUTE OF ORANGE COUNTY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ (139,050)	$ 238,379
Adjustments to reconcile changes in net assets to net cash flows from operating activities:		
Depreciation and amortization	216,978	221,517
(Increase) decrease in assets:		
Accounts receivable	(36,266)	(134,014)
Grant receivable	(4,120)	23,211
Prepaid expenses	42,315	11,517
Other assets	(43,537)	(4,630)
Increase (decrease) in liabilities:		
Accounts payable	13,592	79,384
Accrued expenses	14,686	(8,425)
Net cash provided by operating activities	64,598	426,939
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of land, buildings, and equipment	(18,530)	(37,210)
Net cash used in investing activities	(18,530)	(37,210)
NET CHANGE IN CASH AND CASH EQUIVALENTS	46,068	389,729
CASH AND CASH EQUIVALENTS, beginning of year	5,269,303	4,879,574
CASH AND CASH EQUIVALENTS, end of year	$ 5,315,371	$ 5,269,303

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

REHABILITATION INSTITUTE OF SOUTHERN CALIFORNIA
DBA REHABILITATION INSTITUTE OF ORANGE COUNTY

STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED AUGUST 31, 2013
WITH COMPARATIVE TOTALS FOR YEAR ENDED AUGUST 31, 2012

	Program Services	Fund Raising	Management and General	2013 Total	2012 Total
GENERAL FUND					
Salaries & wages	$ 3,978,900	$ 20,355	$ 504,117	$ 4,503,372	$ 4,288,236
Employee benefits:					
Fringe benefits	190,799	1,458	21,338	213,595	206,531
Workers' compensation insurance	190,710	481	16,782	207,973	155,809
Payroll taxes:					
FICA	286,146	1,107	32,458	319,711	308,012
Unemployment insurance	35,935	66	1,241	37,242	80,837
Total salaries and related expenses	4,682,490	23,467	575,936	5,281,893	5,039,425
Professional fees:					
Legal & accounting Fees	15,050	204	1,920	17,174	9,295
Contractual/consulting fees	37,924	75	3,597	41,596	41,647
Professional fees	403,258	-	-	403,258	453,487
Supplies:					
Supplies	76,826	209	2,026	79,061	95,761
Medical & nursing supplies	9,704	-	-	9,704	9,896
Telephone	52,686	325	5,718	58,729	45,041
Postage & shipping expenses	3,975	39	369	4,383	5,009
Occupancy:					
Occupancy	213,734	2,378	6,560	222,672	206,261
Taxes, licenses, & fees	33,642	74	482	34,198	39,131
Insurance expenses	64,654	132	1,444	66,230	57,966
Utilities	164,885	1,430	4,938	171,253	169,988
Printing, artworks, adverts.	10,572	279	365	11,216	13,325
Recruiting expenses	2,179	-	-	2,179	4,622
Mileage & travel expenses	37,819	859	2,091	40,769	38,364
Conference/meetings	14	-	-	14	-
Staff development	228	-	169	397	15
Membership fees	1,206	10	97	1,313	2,136
Books & periodicals	3,216	24	226	3,466	2,654
Program activities & others	4,955	331	936	6,222	5,337
Transportation expenses	216,906	-	20	216,926	186,768
Minor equipment & repairs	12,465	9	387	12,861	13,749
Rentals & leases	29,515	441	4,894	34,850	40,756
Computer expenses	14,007	-	7,193	21,200	15,687
Cafeteria expenses	220,094	-	-	220,094	206,426
Interest & bank charges	2,865	518	7,193	10,576	10,887
Total general fund expenses	6,314,869	30,804	626,561	6,972,234	6,713,633
LAND, BUILDINGS AND EQUIPMENT FUND:					
Depreciation - building & improvements	188,578	3,296	3,782	195,656	196,641
Depreciation - furniture & equipment	14,042	53	878	14,972	18,764
Depreciation - equipment	3,281	-	-	3,281	3,281
Amortization - goodwill/software	2,777	20	272	3,068	2,831
Total land, buildings and equipment Fund Expenses	208,677	3,369	4,932	216,978	221,517
TOTAL EXPENSES	$ 6,523,546	$ 34,173	$ 631,493	$ 7,189,212	$ 6,935,150
	90.74%	0.48%	8.78%		

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

REHABILITATION INSTITUTE OF SOUTHERN CALIFORNIA
DBA REHABILITATION INSTITUTE OF ORANGE COUNTY

NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2013 AND 2012

Note 1 – Nature of the Organization

Rehabilitation Institute of Orange County (the Organization) is a California nonprofit corporation that provides an array of services to children, adults and their families. The primary purpose of the Organization is to provide comprehensive rehabilitation services to handicapped and injured people in the community.

Note 2 – Summary of significant accounting policies

Basis of presentation

The Organization follows accounting standards for general-purpose external financial statements provided by not-for-profit organizations. Among other provisions, the standards require the classification and disclosure of net assets, revenues, expenses, gains, and losses based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets, revenues, expenses, gains, and losses of the Organization are reported in three classes as follows:

- *Unrestricted*

  Unrestricted net assets are net assets that are neither temporarily restricted nor permanently restricted by donor-imposed stipulations.

- *Temporarily Restricted*

  Temporarily restricted net assets result from contributions or other inflows of assets whose use by the Organization is limited by donor imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations. When a donor specified restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statements of activities as net assets released from restrictions. As of August 31, 2013 the Organization had donor-imposed restrictions in the amount of $1,407. As of August 31, 2012 there were no donor-imposed restrictions.

- *Permanently Restricted*

  Permanently restricted net assets result from contributions or other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Organization. The Organization did not have any permanently restricted net assets as of August 31, 2013 and 2012.

Cash and cash equivalents

For the purpose of the statement of cash flows, the Organization considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents.

Donated materials and services

Donated materials and equipment are reflected as contributions in the accompanying statements at their estimated fair value at date of receipt. No amounts have been reflected in the statements for donated services as no objective basis is available to measure the value of such services; however, a substantial number of volunteers have donated significant amounts of their time to the Organization's program services and its fund raising campaigns.

Note 2 – Summary of significant accounting policies (continued)

Fund accounting

The accounts of the Organization are maintained in accordance with the principles of fund accounting. That is the procedure by which resources within fund categories may only be utilized in accordance with purposes established by the source. Externally restricted funds may only be utilized in accordance with restrictions placed on them by the donor. Unrestricted funds are funds received, over which the Organization's Board of Directors has full discretionary control.

Allowance for doubtful accounts

The reserve method is being used to estimate an allowance for doubtful accounts. As of August 31, 2013 and 2012, the allowance included an estimate of the difference between actual amounts billed and the amount the Organization will accept as payment in full, especially where it is the policy of the Organization to accept, as payment in full, amounts received from Medi-Cal, private insurance and workmen's compensation claims.

Land, building and equipment

Land, building and equipment are stated at cost. Donated property and equipment is recorded at fair value at the time of the gift. Expenditures for major additions are capitalized and minor replacements, maintenance, and repairs are charged to expense as incurred. When assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the results of operations for the respective period. Depreciation is calculated over the estimated useful lives of the related assets using the straight-line method for financial statement purposes. Depreciation is computed over the estimated useful lives ranging from 3 to 30 years for the individual assets. The Organization uses the straight-line method of depreciation.

The Organization reviews the carrying value of long-term assets for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include operating results, trends and prospects, the manner in which the property is used, and the effects of obsolescence, demand, competition, and other economic factors. Based on this assessment, there was no impairment as of August 31, 2013 and 2012.

Tax exempt status

The Organization has been granted tax exempt status by the Internal Revenue Service under Code Section 501(c)(3). The State of California also recognizes the tax exempt status and accordingly, no provision for income taxes is required.

Accounting for uncertain income tax positions

In examining its tax positions, the Organization will assume the positions will be examined by the appropriate taxing authority, and the taxing authority would have full knowledge of all relevant information. The technical merits of the Organization's tax positions are derived from sources of authority in the tax law (legislation and statutes, legislative intent, regulations, rulings, and case law) and their applicability to the facts and circumstances of the tax positions. The statute of limitations for federal and California purposes is generally three and four years, respectively. As of August 31, 2013 and 2012, the Organization did not identify any material uncertain income tax positions.

Note 2 – Summary of significant accounting policies (continued)

Promise to give

Unconditional promises to give are recognized as revenue and a corresponding receivable in the period earned. Unconditional promises to give are transferred to unrestricted assets when the conditions on which they depend are substantially met.

Concentrations of risk

The Organization at times maintains cash in bank accounts in excess of federally insured limits. As of August 31, 2013 and 2012, the Organization did not exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant risks for cash in bank accounts.

The Adult Day Health Care (ADHC) program specializes in the care of brain injured adults and comprises approximately $3,718,000 (57%) and $3,671,000 (56%) of total public support and revenue for the years ended August 31, 2013 and 2012, respectively. The Transitional Adult Program (TAP) program is designed to teach and maintain functional living skills for adults with developmental disabilities and comprises approximately $927,000 (14%) and $830,000 (13%) of total public support and revenue for the years ended August 31, 2013 and 2012, respectively.

Fair value measurements

The Organization follows guidance that defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosures about fair value measurements. The standards establish a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under the standards are described as follows:

Level 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.
Level 2	Inputs to the valuation methodology include: a) quoted market prices for similar assets or liabilities in active markets; b) quoted prices for identical or similar assets or liabilities in inactive markets; c) inputs other than quoted prices that are observable for the asset or liability; d) and inputs that are derived principally from or corroborated by observable market data by correlation or other means.
Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Organization's cash equivalents are comprised primarily of money market funds, short-term corporate, asset- backed and U.S. Treasury bonds all of which are recorded at fair value using Level 1 inputs, quoted prices in active markets as of August 31, 2013 and 2012.

Note 2 – Summary of significant accounting policies (continued)

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Management believes that the estimates utilized in preparing its financial statements are reasonable and prudent. Actual results could differ from these estimates.

Subsequent events

The Organization has evaluated all events or transactions that occurred after August 31, 2013 up through the date the Organization issued these financial statements on February 5, 2014. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

Note 3 – Land, building, and equipment

Investments in land, building and equipment are stated at cost, if purchased, or at fair value at date of gift, if donated. Land, building and equipment consisted of the following as of August 31, 2013 and 2012:

	Cost or FMV		Estimated Service Life
	2013	2012	
Land	$ 884,289	$ 884,289	
Land improvements	206,024	206,024	20 years
Buildings and improvements	6,902,451	6,886,023	5 – 30 years
Furnishings and equipment	861,627	859,478	3 – 10 years
Vehicles	119,446	119,446	5 years
Computers	38,083	38,083	5 years
Goodwill (Sandpiper)	41,318	41,318	
Totals	9,053,238	9,034,661	
Less accumulated depreciation and amortization	(5,604,901)	(5,387,876)	
Property and equipment, net	$ 3,448,337	$ 3,646,785	

Depreciation and amortization expense amounted to $216,978 and $221,517 for the years ended August 31, 2013 and 2012, respectively.

Note 5 – Related party transactions

The Organization makes advances to an affiliate, an entity under common management, primarily to help fund their fundraising for crippled children in Orange County. Such advances bear no interest and have no maturity date. The note receivable has been classified as a noncurrent other asset in the accompanying balance sheet because repayment is not anticipated during the next year. As of August 31, 2013 and 2012, the amount due from the affiliate is $65,068 and $60,901, respectively.

Note 6 – Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Note 7 – Pension plan

The Organization currently has a 401(K) plan for all eligible employees. The plan provides for an employer match of 50% of employees' contribution up to 2%. The plan pays from plan assets all related expenses of the plan. The Organization made approximately $29,000 in employer matching contributions for the years ended August 31, 2013 and 2012.

Note 8 – Area Agency on Aging

The Organization currently has a grant from the Area Agency on Aging which runs from July 1 to June 30 of each year. The Organization has a fiscal year from September 1 to August 31 of each year. For the years ended August 31, 2013 and 2012, the Organization properly recorded and spent $69,604 and $84,049, respectively, while for the grant year ended June 30, 2013 and 2012, RIO properly received and reported $71,204 and $87,241, respectively.

Note 9 – Department of Education

The Organization currently has a grant from the Department of Education, under the "Nutrition Services Division" to provide meals and refreshments for their clients. This contract period runs from July 1 to June 30 of each year. The Organization has a fiscal year from September 1 to August 30 of each year. For the years ended August 31, 2013 and 2012, the Organization invoiced and properly spent $126,191 and $114,712, respectively, on behalf of this grant.