REHABILITATION INSTITUTE OF SOUTHERN CALIFORNIA
DBA REHABILITATION INSTITUTE OF ORANGE COUNTY

Financial Statements and Independent Auditors' Report

August 31, 2014 and 2013

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, 2014 and 2013, and the related statements of activities, cash flows, and functional expenses 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 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 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, 2014 and 2013, 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.

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Report on Summarized Comparative Information

We have previously audited the Rehabilitation Institute of Southern California's August 31, 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 5, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Santa Ana, CA
December 30, 2014

REHABILITATION INSTITUTE OF SOUTHERN CALIFORNIA
DBA REHABILITATION INSTITUTE OF ORANGE COUNTY

STATEMENTS OF FINANCIAL POSITION
AS OF AUGUST 31, 2014 AND 2013

	2014	2013
ASSETS		
Cash and cash equivalents	$ 5,684,045	$ 5,315,371
Accounts receivable, net of allowance for doubtful accounts of $219,110 and $216,579	579,778	700,986
Grants receivable	22,540	14,252
Prepaid expenses	49,201	60,266
Total current assets	6,335,564	6,090,875
LAND, BUILDINGS, AND EQUIPMENT		
Land, buildings, and equipment, net of accumulated depreciation and amortization of $5,813,159 and $5,604,901	3,259,260	3,448,337
OTHER ASSETS	112,105	104,438
Total assets	$ 9,706,929	$ 9,643,650
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 135,598	$ 174,479
Accrued expenses	451,899	417,388
Total liabilities	587,497	591,867
NET ASSETS		
Unrestricted	9,118,479	9,050,376
Temporarily restricted	953	1,407
Total net assets	9,119,432	9,051,783
Total liabilities and net assets	$ 9,706,929	$ 9,643,650

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, 2014
WITH COMPARATIVE TOTALS FOR YEAR ENDED AUGUST 31, 2013

	General Unrestricted	Temporarily Restricted	2014 Total	2013 Total
PUBLIC SUPPORT				
Contributions	$ 10,406	$ 953	$ 11,359	$ 28,331
Special events, net	34,596	-	34,596	38,668
Bequests	41,857	-	41,857	40,431
Total public support	86,859	953	87,812	107,430
REVENUE				
Service fees, net	6,931,732	-	6,931,732	6,531,857
United Way	-	39,304	39,304	53,207
Grants	-	219,663	219,663	199,205
Interest	53,276	-	53,276	17,295
Cafeteria/boutique	21,958	-	21,958	24,197
Other revenue	57,140	-	57,140	116,971
Total revenue	7,064,106	258,967	7,323,073	6,942,732
NET ASSETS RELEASED FROM TEMPORARY RESTRICTIONS	258,967	(258,967)	-	-
Total public support and revenue	7,409,932	953	7,410,885	7,050,162
EXPENSES				
Program services	6,806,906	-	6,806,906	6,523,546
Supporting services:				
Fundraising	20,735	-	20,735	34,173
Management and general	514,188	1,407	515,595	631,493
Total expenses	7,341,829	1,407	7,343,236	7,189,212
CHANGE IN NET ASSETS	68,103	(454)	67,649	(139,050)
NET ASSETS, BEGINNING OF YEAR	9,050,376	1,407	9,051,783	9,190,833
NET ASSETS, END OF YEAR	$ 9,118,479	$ 953	$ 9,119,432	$ 9,051,783

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, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ 67,649	$ (139,050)
Adjustments to reconcile changes in net assets to net cash flows from operating activities:		
Depreciation and amortization	208,221	216,978
(Increase) decrease in assets:		
Accounts receivable	121,208	(36,266)
Grant receivable	(8,288)	(4,120)
Prepaid expenses	11,065	42,315
Other assets	(7,667)	(43,537)
Increase (decrease) in liabilities:		
Accounts payable	(38,881)	13,592
Accrued expenses	34,511	14,586
Net cash provided by operating activities	387,818	64,598
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of land, buildings, and equipment	(19,144)	(18,530)
Net cash used in investing activities	(19,144)	(18,530)
NET CHANGE IN CASH AND CASH EQUIVALENTS	368,674	46,068
CASH AND CASH EQUIVALENTS, beginning of year	5,315,371	5,269,303
CASH AND CASH EQUIVALENTS, end of year	$ 5,684,045	$ 5,315,371

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, 2014
WITH COMPARATIVE TOTALS FOR YEAR ENDED AUGUST 31, 2013

	Program Services	Fund Raising	Management and General	2014 Total	2013 Total
GENERAL FUND					
Salaries & wages	$ 4,111,379	$ 13,845	$ 355,195	$ 4,480,419	$ 4,503,372
Employee benefits:					
Fringe benefits	132,777	1,476	23,702	157,955	213,595
Workers' compensation insurance	312,169	324	15,050	327,543	207,973
Payroll taxes:					
FICA	299,732	532	23,772	324,036	319,711
Unemployment insurance	32,680	65	1,458	34,203	37,242
Total salaries and related expenses	4,888,737	16,242	419,177	5,324,156	5,281,893
Professional fees:					
Legal & accounting Fees	17,288	61	1,481	18,830	17,174
Contractual/consulting fees	44,255	64	4,379	48,698	41,596
Professional fees	427,471	-	-	427,471	403,258
Supplies:					
Supplies	84,919	304	4,656	89,879	79,061
Medical & nursing supplies	9,289	8	143	9,440	9,704
Telephone	57,481	414	11,207	69,102	58,729
Postage & shipping expenses	4,296	34	675	5,005	4,383
Occupancy:					
Occupancy	228,596	528	13,608	242,732	222,672
Taxes, licenses, & fees	32,599	52	1,245	33,896	34,198
Insurance expenses	65,863	210	5,356	71,429	66,230
Utilities	187,553	187	8,331	196,071	171,253
Printing, artworks, adverts.	13,617	61	978	14,656	11,216
Recruiting expenses	8,497	31	575	9,103	2,179
Mileage & travel expenses	33,605	1,363	3,446	38,414	40,769
Conference/meetings	133	8	150	291	14
Staff development	72	39	723	834	397
Membership fees	1,110	15	283	1,408	1,313
Books & periodicals	2,373	37	692	3,102	3,466
Program activities & others	2,101	21	395	2,517	6,222
Transportation expenses	220,521	-	215	220,736	216,926
Minor equipment & repairs	17,220	70	2,006	19,296	12,861
Rentals & leases	26,239	501	9,977	36,717	34,850
Computer expenses	15,299	-	11,886	27,185	21,200
Cafeteria expenses	213,156	-	-	213,156	220,094
Interest & bank charges	3,281	323	7,287	10,891	10,576
Total general fund expenses	6,605,571	20,573	508,871	7,135,015	6,972,234
LAND, BUILDINGS AND EQUIPMENT FUND:					
Depreciation - building & improvements	189,888	128	5,521	195,537	195,656
Depreciation - furniture & equipment	6,927	24	968	7,919	14,972
Depreciation - equipment	3,281	-	-	3,281	3,281
Amortization - goodwill/software	1,239	10	235	1,484	3,069
Total land, buildings and equipment Fund Expenses	201,335	162	6,724	208,221	216,978
TOTAL EXPENSES	$ 6,806,906	$ 20,735	$ 515,595	$ 7,343,236	$ 7,189,212
	92.70%	0.28%	7.02%		

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

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, 2014 and 2013 the Organization had donor-imposed restrictions in the amount of $953 and $1,407, respectively.

- *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, 2014 and 2013.

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, 2014 and 2013, 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, 2014 and 2013.

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, 2014 and 2013, 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, 2014 and 2013, the Organization exceeded federally insured limits by approximately $3,611,000 and $3,331,000, respectively. 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 $4,092,000 (59%) and $3,718,000 (57%) of total public support and revenue for the years ended August 31, 2014 and 2013, respectively. The Transitional Adult Program (TAP) program is designed to teach and maintain functional living skills for adults with developmental disabilities and comprises approximately $1,187,000 (17%) and $927,000 (14%) of total public support and revenue for the years ended August 31, 2014 and 2013, 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, 2014 and 2013.

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, 2014 up through the date the Organization issued these financial statements on December 30, 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, 2014 and 2013:

	Cost or FMV		Estimated Service Life
	2014	2013	
Land	$ 884,289	$ 884,289	
Land improvements	206,024	206,024	20 years
Buildings and improvements	6,915,627	6,902,451	5 – 30 years
Furnishings and equipment	867,632	861,627	3 – 10 years
Vehicles	119,446	119,446	5 years
Computers	38,083	38,083	5 years
Goodwill (Sandpiper)	41,318	41,318	
Totals	9,072,419	9,053,238	
Less accumulated depreciation and amortization	(5,813,159)	(5,604,901)	
Property and equipment, net	$ 3,259,260	$ 3,448,337	

Depreciation and amortization expense amounted to $208,221 and $216,978 for the years ended August 31, 2014 and 2013, 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, 2014 and 2013, the amount due from the affiliate is $68,189 and $65,068, 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, 2014 and 2013.

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, 2014 and 2013, the Organization properly recorded and spent $86,512 and $69,604, respectively, while for the grant year ended June 30, 2014 and 2013, the Organization properly received and reported $61,050 and $71,204, 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, 2014 and 2013, the Organization invoiced and properly spent $129,151 and $126,191, respectively, on behalf of this grant.

Note 10 – Special event

The Organization holds an annual golf tournament and various other small events, to raise money for their programs. The following is a summary of the special events:

	Golf Tournament	Other Events	2014 Total	2013 Total
Income	$ 46,030	$ -	$ 46,030	$ 54,098
Expenses	(11,434)	-	(11,434)	(15,430)
Net	$ 34,596	$ -	$ 34,596	$ 38,668