

**REHABILITATION INSTITUTE OF SOUTHERN CALIFORNIA  
DBA REHABILITATION INSTITUTE OF ORANGE COUNTY**

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**Financial Statements and  
Independent Auditors' Report**

**August 31, 2015 and 2014**

# George W. Teats Jr.

CERTIFIED PUBLIC ACCOUNTANT

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## 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 statement of financial position as of August 31, 2015, and the related statements of activities and cash flows for the year 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. 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, 2015, 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.

## Report on Summarized Comparative Information

We have previously audited the Rehabilitation Institute of Southern California's August 31, 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 30, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

## Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The statement of functional expenses on page 6 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.



Santa Ana, CA  
January 23, 2016

REHABILITATION INSTITUTE OF SOUTHERN CALIFORNIA  
DBA REHABILITATION INSTITUTE OF ORANGE COUNTY

STATEMENTS OF FINANCIAL POSITION  
AS OF AUGUST 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 6,302,776	\$ 5,684,045
Accounts receivable, net of allowance for doubtful accounts of \$213,211 and \$219,095, respectively	502,100	579,778
Grants receivable	-	22,540
Prepaid expenses	40,259	49,201
	<u>6,845,135</u>	<u>6,335,564</u>
Total current assets		
LAND, BUILDINGS, AND EQUIPMENT		
Land, buildings, and equipment, net of accumulated depreciation and amortization of \$5,813,159 and \$5,604,901	3,120,544	3,259,260
OTHER ASSETS	100,041	112,105
Total assets	<u>\$ 10,065,720</u>	<u>\$ 9,706,929</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Accounts payable	\$ 142,014	\$ 135,598
Accrued expenses	410,731	451,809
Clients' fees received in advance	49,214	-
	<u>601,959</u>	<u>587,497</u>
Total liabilities		
<u>NET ASSETS</u>		
Unrestricted	9,463,158	9,118,479
Temporarily restricted	605	953
	<u>9,463,761</u>	<u>9,119,432</u>
Total net assets		
Total liabilities and net assets	<u>\$ 10,065,720</u>	<u>\$ 9,706,929</u>

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

REHABILITATION INSTITUTE OF SOUTHERN CALIFORNIA  
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STATEMENTS OF ACTIVITIES  
YEAR ENDED AUGUST 31, 2015  
WITH COMPARATIVE TOTALS FOR YEAR ENDED AUGUST 31, 2014

	General Unrestricted	Temporarily Restricted	2015 Total	2014 Total
<b>PUBLIC SUPPORT</b>				
Contributions	\$ 60,669	\$ -	\$ 60,669	\$ 11,359
Special events, net	39,602	-	39,602	34,596
Requests	76,872	-	76,872	41,857
Total public support	177,143	-	177,143	87,812
<b>REVENUE</b>				
Service fees, net	7,321,648	-	7,321,648	6,931,732
United Way	1,207	-	1,207	39,304
Grants	-	202,649	202,649	219,683
Interest	20,210	-	20,210	53,276
Cafeteria/boutique	20,960	-	20,960	21,958
Other revenue	52,747	-	52,747	57,140
Total revenue	7,416,772	202,649	7,619,421	7,323,073
<b>NET ASSETS RELEASED FROM TEMPORARY RESTRICTIONS</b>				
	202,649	(202,649)	-	-
Total public support and revenue	7,798,554	-	7,798,554	7,410,885
<b>EXPENSES</b>				
Program services	6,929,082	-	6,929,082	6,806,806
Supporting services:				
Fundraising	24,953	-	24,953	20,735
Management and general	497,852	348	498,200	515,595
Total expenses	7,451,887	348	7,452,235	7,343,236
CHANGE IN NET ASSETS	344,677	(348)	344,329	87,649
NET ASSETS, BEGINNING OF YEAR	9,118,479	953	9,119,432	9,051,783
NET ASSETS, END OF YEAR	\$ 9,463,156	\$ 605	\$ 9,463,761	\$ 9,119,432

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

REHABILITATION INSTITUTE OF SOUTHERN CALIFORNIA  
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STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 344,329	\$ 67,649
Adjustments to reconcile changes in net assets to net cash flows from operating activities:		
Depreciation and amortization	166,495	208,225
(Increase) decrease in assets:		
Accounts receivable	77,678	121,208
Grant receivable	22,540	(8,288)
Prepaid expenses	8,942	11,065
Other assets	12,064	(7,667)
Increase (decrease) in liabilities:		
Accounts payable	6,416	(38,881)
Accrued expenses	(41,168)	34,511
Clients' fees received in advance	49,214	-
Net cash provided by operating activities	<u>646,510</u>	<u>387,822</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of land, buildings, and equipment	<u>(27,779)</u>	<u>(19,148)</u>
Net cash used in investing activities	<u>(27,779)</u>	<u>(19,148)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>618,731</b>	<b>368,674</b>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<b><u>5,684,045</u></b>	<b><u>5,315,371</u></b>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b><u>\$ 6,302,776</u></b>	<b><u>\$ 5,684,045</u></b>

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

REHABILITATION INSTITUTE OF SOUTHERN CALIFORNIA  
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STATEMENTS OF FUNCTIONAL EXPENSES  
YEAR ENDED AUGUST 31, 2015  
WITH COMPARATIVE TOTALS FOR YEAR ENDED AUGUST 31, 2014

	Program Services	Fund Raising	Management and General	2015 Total	2014 Total
<b>GENERAL FUND</b>					
Salaries & wages	\$ 4,342,189	\$ 18,712	\$ 332,179	\$ 4,691,060	\$ 4,480,419
Employee benefits					
Fringe benefits	138,633	1,553	22,706	162,892	157,955
Workers' compensation insurance	164,254	536	15,448	180,238	327,543
Payroll taxes					
FICA	310,847	636	25,433	336,916	324,036
Unemployment insurance	35,111	83	2,315	37,509	34,203
<b>Total salaries and related expenses</b>	<b>4,991,054</b>	<b>19,520</b>	<b>398,081</b>	<b>5,408,655</b>	<b>5,324,156</b>
Professional fees					
Legal & accounting fees	14,458	7	496	14,961	18,830
Contractual/consulting fees	42,278	98	5,334	47,710	49,698
Professional fees	399,257	-	-	399,257	427,471
Supplies					
Supplies	97,844	240	4,898	102,982	89,879
Medical & nursing supplies	7,441	15	306	7,763	9,440
Telephone	88,581	520	14,421	103,522	69,102
Postage & shipping expenses	2,997	34	635	3,666	5,005
Occupancy					
Occupancy	245,954	598	13,407	259,959	242,728
Taxes, licenses, & fees	31,872	33	1,112	33,017	33,896
Insurance expenses	67,883	226	5,768	73,875	71,429
Utilities	200,379	224	9,549	210,152	196,071
Printing, artworks, adverts	13,092	315	1,254	14,661	14,656
Recruiting expenses	4,100	-	25	4,125	9,103
Mileage & travel expenses	35,504	1,325	3,051	39,880	38,414
Conference/meetings	208	7	133	348	291
Staff development	629	22	408	1,059	834
Membership fees	1,245	15	283	1,543	1,408
Books & periodicals	3,028	24	450	3,502	3,102
Program activities & others	2,173	208	939	3,320	2,517
Transportation expenses	212,912	-	7	212,919	220,736
Minor equipment & repairs	22,977	83	1,717	24,777	19,296
Rentals & leases	29,955	559	10,226	40,743	36,717
Computer expenses	8,702	498	8,878	18,076	27,185
Cafeteria expenses	238,184	-	-	238,184	213,156
Interest & bank charges	3,886	289	13,119	17,284	10,891
<b>Total general fund expenses</b>	<b>6,766,374</b>	<b>24,871</b>	<b>494,455</b>	<b>7,285,740</b>	<b>7,135,011</b>
<b>LAND, BUILDINGS AND EQUIPMENT FUND</b>					
Depreciation - building & improvements	152,178	61	2,711	154,950	195,541
Depreciation - furniture & equipment	7,485	19	950	8,434	7,919
Depreciation - equipment	2,753	-	-	2,753	3,281
Amortization goodwill/software	312	2	44	358	1,484
(Gain)/loss on asset disposal	-	-	-	-	-
<b>Total land, buildings and equipment Fund Expenses</b>	<b>162,708</b>	<b>82</b>	<b>3,705</b>	<b>166,495</b>	<b>208,225</b>
<b>TOTAL EXPENSES</b>	<b>\$ 6,929,082</b>	<b>\$ 24,953</b>	<b>\$ 498,200</b>	<b>\$ 7,452,235</b>	<b>\$ 7,343,236</b>
	<u>92.88%</u>	<u>0.33%</u>	<u>6.89%</u>		

The accompanying notes are an integral part of these financial statements

REHABILITATION INSTITUTE OF SOUTHERN CALIFORNIA  
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NOTES TO THE FINANCIAL STATEMENTS  
AUGUST 31, 2015 AND 2014

**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, 2015 and 2014 the Organization had donor-imposed restrictions in the amount of \$605 and \$953, 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, 2015 and 2014.

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.



**REHABILITATION INSTITUTE OF SOUTHERN CALIFORNIA  
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**NOTES TO THE FINANCIAL STATEMENTS  
AUGUST 31, 2015 AND 2014**

**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, 2015 and 2014, 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, 2015 and 2014.

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, 2015 and 2014, the Organization did not identify any material uncertain income tax positions.

REHABILITATION INSTITUTE OF SOUTHERN CALIFORNIA  
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NOTES TO THE FINANCIAL STATEMENTS  
AUGUST 31, 2015 AND 2014

**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, 2015 and 2014, the Organization exceeded federally insured limits by approximately \$4,050,000 and \$3,611,000, 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 \$4,649,000 (60%) and \$4,092,000 (55%) of total public support and revenue for the years ended August 31, 2015 and 2014, respectively. The Transitional Adult Program (TAP) program is designed to teach and maintain functional living skills for adults with developmental disabilities and comprises approximately \$1,058,000 (14%) and \$1,187,000 (16%) of total public support and revenue for the years ended August 31, 2015 and 2014, 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:<br>a) quoted market prices for similar assets or liabilities in active markets;<br>b) quoted prices for identical or similar assets or liabilities in inactive markets;<br>c) inputs other than quoted prices that are observable for the asset or liability;<br>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, 2015 and 2014.

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**NOTES TO THE FINANCIAL STATEMENTS  
AUGUST 31, 2015 AND 2014**

**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, 2015 up through the date the Organization issued these financial statements on January 28, 2016. 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, 2015 and 2014:

	<u>Cost or FMV</u>		<u>Estimated Service Life</u>
	<u>2015</u>	<u>2014</u>	
Land	\$ 884,289	\$ 884,289	
Land improvements	206,024	206,024	20 years
Buildings and improvements	6,923,018	6,915,627	5 – 30 years
Furnishings and equipment	884,858	867,632	3 – 10 years
Vehicles	119,446	119,446	5 years
Computers	38,083	38,083	5 years
Totals	<u>9,097,036</u>	<u>9,072,419</u>	
Less: accumulated depreciation and amortization	<u>(5,976,492)</u>	<u>(5,813,159)</u>	
Property and equipment, net	<u>\$ 3,120,544</u>	<u>\$ 3,259,260</u>	

Depreciation and amortization expense amounted to \$166,495 and \$208,225 for the years ended August 31, 2015 and 2014, 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, August 31, 2015 and 2014, the amount due from the affiliate is \$71,632 and \$68,189, 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.

**REHABILITATION INSTITUTE OF SOUTHERN CALIFORNIA  
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**NOTES TO THE FINANCIAL STATEMENTS  
AUGUST 31, 2015 AND 2014**

**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 \$31,000 and \$29,000 in employer matching contributions for the years ended August 31, August 31, 2015 and 2014, respectively.

**Note 8 – Area Agency on Aging**

During the year ended August 31, 2015, the Organization received 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, 2015 and 2014, the Organization properly recorded and spent \$65,107 and \$86,512, respectively, while for the grant year ended June 30, 2015 and 2014, the Organization properly received and reported \$80,810 and \$61,050, respectively. As of June 30, 2015, the Organization no longer has an agreement with the Area Agency on Aging.

**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, 2015 and 2014, the Organization invoiced and properly spent \$133,542 and \$129,151, 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:

	<u>Golf Tournament</u>	<u>Other Events</u>	<u>2015 Total</u>	<u>2014 Total</u>
Income	\$ 52,968	\$ 3,720	\$ 56,688	\$ 46,030
Expenses	<u>(18,318)</u>	<u>(768)</u>	<u>(17,088)</u>	<u>(11,434)</u>
Net	\$ <u>36,650</u>	\$ <u>2,952</u>	\$ <u>39,602</u>	\$ <u>34,596</u>