

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

**Financial Statements and
Independent Auditors' Report**

August 31, 2016 and 2015

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 statement of financial position as of August 31, 2016, 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.

Auditors' 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, 2016, 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, 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 28, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The statements of functional expenses on page 6 are presented for purposes of additional analysis and are 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
December 22, 2016

REHABILITATION INSTITUTE OF SOUTHERN CALIFORNIA
DBA REHABILITATION INSTITUTE OF ORANGE COUNTY

STATEMENTS OF FINANCIAL POSITION
AS OF AUGUST 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 6,796,692	\$ 6,302,776
Accounts receivable, net of allowance for doubtful accounts of \$214,980 and \$213,211, respectively	588,702	502,100
Prepaid expenses	<u>37,486</u>	<u>40,259</u>
Total current assets	7,422,880	6,845,135
 LAND, BUILDINGS, AND EQUIPMENT		
Land, buildings, and equipment, net of accumulated depreciation and amortization of \$6,102,404 and \$5,935,174	3,067,734	3,120,544
 OTHER ASSETS		
	<u>115,515</u>	<u>100,041</u>
Total assets	<u>\$ 10,606,129</u>	<u>\$ 10,065,720</u>
 <u>LIABILITIES AND NET ASSETS</u>		
 LIABILITIES		
Accounts payable	\$ 141,435	\$ 142,014
Accrued expenses	453,646	410,731
Clients' fees received in advance	<u>31,557</u>	<u>49,214</u>
Total liabilities	626,638	601,959
 NET ASSETS		
Unrestricted	9,979,491	9,463,156
Temporarily restricted	<u>-</u>	<u>605</u>
Total net assets	<u>9,979,491</u>	<u>9,463,761</u>
Total liabilities and net assets	<u>\$ 10,606,129</u>	<u>\$ 10,065,720</u>

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, 2016
WITH COMPARATIVE TOTALS FOR YEAR ENDED AUGUST 31, 2015

	General Unrestricted	Temporarily Restricted	2016 Total	2015 Total
PUBLIC SUPPORT				
Contributions	\$ 132,164	\$ -	\$ 132,164	\$ 60,669
Special events, net	28,114	-	28,114	39,602
Bequests	-	-	-	76,872
Total public support	160,278	-	160,278	177,143
REVENUE				
Service fees, net	7,886,802	-	7,886,802	7,321,648
United Way	551	-	551	1,207
Grants	-	155,885	155,885	202,649
Interest	80,412	-	80,412	20,210
Cafeteria/boutique	21,618	-	21,618	20,960
Other revenue	52,765	-	52,765	52,747
Total revenue	8,042,148	155,885	8,198,033	7,619,421
NET ASSETS RELEASED FROM TEMPORARY RESTRICTIONS	155,885	(155,885)	-	-
Total public support and revenue	8,358,311	-	8,358,311	7,796,564
EXPENSES				
Program services	7,378,745	-	7,378,745	6,929,082
Supporting services:				
Fundraising	26,985	-	26,985	24,953
Management and general	436,246	605	436,851	498,200
Total expenses	7,841,976	605	7,842,581	7,452,235
CHANGE IN NET ASSETS	516,335	(605)	515,730	344,329
NET ASSETS, BEGINNING OF YEAR	9,463,156	605	9,463,761	9,119,432
NET ASSETS, END OF YEAR	\$ 9,979,491	\$ -	\$ 9,979,491	\$ 9,463,761

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, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 515,730	\$ 344,329
Adjustments to reconcile changes in net assets to net cash flows from operating activities:		
Depreciation and amortization	168,626	166,495
(Increase) decrease in assets:		
Accounts receivable	(86,602)	77,678
Grant receivable	-	22,540
Prepaid expenses	2,773	8,942
Other assets	(15,474)	12,064
Increase (decrease) in liabilities:		
Accounts payable	(579)	6,416
Accrued expenses	42,915	(41,168)
Clients' fees received in advance	(17,657)	49,214
	<u>609,732</u>	<u>646,510</u>
Net cash provided by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of land, buildings, and equipment	(57,136)	(27,779)
Construction in progress	(58,680)	-
	<u>(115,816)</u>	<u>(27,779)</u>
Net cash used in investing activities		
NET CHANGE IN CASH AND CASH EQUIVALENTS	493,916	618,731
CASH AND CASH EQUIVALENTS, beginning of year	<u>6,302,776</u>	<u>5,684,045</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 6,796,692</u>	<u>\$ 6,302,776</u>

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, 2016
WITH COMPARATIVE TOTALS FOR YEAR ENDED AUGUST 31, 2015

	Program Services	Fund Raising	Management and General	2016 Total	2015 Total
GENERAL FUND					
Salaries & wages	\$ 4,648,384	\$ 19,031	\$ 316,478	\$ 4,983,893	\$ 4,691,060
Employee benefits:					
Fringe benefits	143,738	1,344	20,746	165,828	162,892
Workers' compensation insurance	184,338	446	13,452	198,236	180,278
Payroll taxes:					
FICA	337,465	634	21,829	359,928	336,916
Unemployment insurance	22,472	49	874	23,395	37,509
Total salaries and related expenses	5,336,397	21,504	373,379	5,731,280	5,408,655
Professional fees:					
Legal & accounting fees	19,896	50	805	20,751	14,961
Contractual/consulting fees	52,943	121	4,028	57,092	47,710
Professional fees	473,366	-	-	473,366	399,257
Supplies:					
Supplies	105,465	520	4,012	109,997	102,982
Medical & nursing supplies	6,483	-	-	6,483	7,763
Telephone	83,436	494	8,237	92,167	103,522
Postage & shipping expenses	4,638	44	413	5,095	3,666
Occupancy:					
Occupancy	246,799	564	8,402	255,765	259,959
Taxes, licenses, & fees	35,006	120	774	35,900	33,017
Insurance expenses	78,065	228	3,596	81,889	73,675
Utilities	168,122	198	5,310	173,630	210,152
Printing, artworks, adverts.	7,648	93	1,295	9,036	14,661
Recruiting expenses	4,345	-	-	4,345	4,125
Mileage & travel expenses	35,447	1,315	2,122	38,884	39,880
Conference/meetings	97	8	78	183	348
Staff development	2,237	35	334	2,606	1,059
Membership fees	3,295	6	52	3,353	1,543
Books & periodicals	4,512	48	454	5,014	3,502
Program activities & others	3,483	167	226	3,876	3,320
Transportation expenses	229,269	-	499	229,768	212,919
Minor equipment & repairs	9,515	64	722	10,301	24,777
Rentals & leases	32,882	503	5,330	38,715	40,743
Computer expenses	15,031	457	4,756	20,244	18,076
Cafeteria expenses	248,538	-	-	248,538	238,184
Interest & bank charges	5,971	342	9,364	15,677	17,284
Total general fund expenses	7,212,886	26,881	434,188	7,673,955	7,285,740
LAND, BUILDINGS AND EQUIPMENT FUND:					
Depreciation - building & improvements	154,226	86	1,585	155,897	154,950
Depreciation - furniture & equipment	8,214	17	915	9,146	8,434
Depreciation - equipment	2,167	-	-	2,167	2,753
Amortization - goodwill/software	1,252	1	163	1,416	358
(Gain)/loss on asset disposal	-	-	-	-	-
Total land, buildings and equipment Fund Expenses	165,859	104	2,663	168,626	166,495
TOTAL EXPENSES	\$ 7,378,745	\$ 26,985	\$ 436,851	\$ 7,842,581	\$ 7,452,235
	<u>94.09%</u>	<u>0.34%</u>	<u>5.57%</u>		

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, 2016 AND 2015

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, 2016 there were no temporarily restricted funds. As of August 31, 2015 the Organization had donor-imposed restrictions in the amount of \$605.

- *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, 2016 and 2015.

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, 2016 AND 2015

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, 2016 and 2015, 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, 2016 and 2015.

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, 2016 and 2015, 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, 2016 AND 2015

Note 2 – Summary of significant accounting policies (continued)

Promise to give

Contributions are recognized when the donor makes a promise to give to the Organization, that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Concentrations of risk

The Organization at times maintains cash in bank accounts in excess of federally insured limits. As of August 31, 2016 and 2015, the Organization exceeded federally insured limits by approximately \$4,200,000 and \$4,050,000, 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 \$5,077,000 (64%) and \$4,649,000 (60%) of total public support and revenue for the years ended August 31, 2016 and 2015, respectively. The Transitional Adult Program (TAP) program is designed to teach and maintain functional living skills for adults with developmental disabilities and comprises approximately \$1,118,000 (14%) and \$1,058,000 (14%) of total public support and revenue for the years ended August 31, 2016 and 2015, 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 short-term U.S. Treasury Notes all of which are recorded at fair value using Level 1 inputs, quoted prices in active markets as of August 31, 2016 and 2015.

REHABILITATION INSTITUTE OF SOUTHERN CALIFORNIA
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NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2016 AND 2015

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, 2016 up through the date the Organization issued these financial statements on December 22, 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, 2016 and 2015:

	Cost or FMV		Estimated Service Life
	2016	2015	
Land	\$ 884,289	\$ 884,289	-
Land improvements	206,024	206,024	20 years
Construction in progress	58,680	-	-
Buildings and improvements	6,953,365	6,923,018	5 – 30 years
Furnishings and equipment	897,251	884,858	3 – 10 years
Vehicles	132,446	119,446	5 years
Computers	38,083	38,083	5 years
Totals	9,170,138	9,055,718	
Less: accumulated depreciation and amortization	(6,102,404)	(5,935,174)	
Property and equipment, net	\$ <u>3,067,734</u>	\$ <u>3,120,544</u>	

Depreciation and amortization expense amounted to \$168,626 and \$166,495 for the years ended August 31, 2016 and 2015, respectively.

Note 4 – 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, 2016 and 2015, the amount due from the affiliate is \$75,029 and \$71,632, respectively.

Note 5 – 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
DBA REHABILITATION INSTITUTE OF ORANGE COUNTY

NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2016 AND 2015

Note 6 – 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 4% of their salary. The plan pays from plan assets all related expenses of the plan. The Organization made \$35,748 and \$30,713 in employer matching contributions for the years ended August 31, 2016 and 2015, respectively.

Note 7 – 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 year ended August 31, 2015, the Organization properly recorded and spent \$65,107, while for the grant year ended June 30, 2015, the Organization properly received and reported \$80,810. As of August 31, 2016, the Organization no longer has an agreement with the Area Agency on Aging.

Note 8 – Department of Education

The Organization currently has a grant from the California 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, 2016 and 2015, the Organization invoiced and properly spent \$151,885 and \$133,542, respectively, on behalf of this grant.

Note 9 – 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>2016 Total</u>	<u>2015 Total</u>
Income	\$ 46,739	\$ -	\$ 46,739	\$ 56,688
Expenses	<u>(18,625)</u>	<u>-</u>	<u>(18,625)</u>	<u>(17,086)</u>
Net	<u>\$ 28,114</u>	<u>\$ -</u>	<u>\$ 28,114</u>	<u>\$ 39,602</u>