

BAY AREA REHABILITATION CENTER

FINANCIAL REPORT

December 31, 2016

BAY AREA REHABILITATION CENTER

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HINRICHS & ASSOCIATES, LTD.

Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Bay Area Rehabilitation Center
Baytown, Texas

We have audited the accompanying financial statements of Bay Area Rehabilitation Center (the Center) (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and changes in net assets, functional expenses, 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bay Area Rehabilitation Center as of December 31, 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 Bay Area Rehabilitation Center's 2015 financial statements, and our report dated May 6, 2016, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it was derived.

Henrich & Associates, Ltd.

Minneapolis, Minnesota
June 15, 2017

BAY AREA REHABILITATION CENTER

STATEMENT OF FINANCIAL POSITION

December 31, 2016

(With Comparative Totals for December 31, 2015)

ASSETS	2016	2015 (Memorandum Only)
Current assets		
Cash and cash equivalents	\$ 378,643	\$ 123,582
Receivables		
Client tuition and fees, net of allowance for contractual adjustments and doubtful accounts of \$82,421	328,500	317,559
Grants and contracts	123,154	139,376
Other	203,269	175,396
Total receivables	654,923	632,331
Prepaid expenses	63,127	24,826
Total current assets	1,096,693	780,739
Deferred Costs	11,041	-
Property and equipment, net	2,656,862	2,883,552
Total assets	\$ 3,764,596	\$ 3,664,291

See accompanying notes to financial statements

LIABILITIES AND NET ASSETS

	2016	2015 (Memorandum Only)
Current liabilities		
Current installments of long-term notes payable	\$ 74,729	\$ 87,531
Accounts payable and accrued expenses	225,420	171,295
Total current liabilities	300,149	258,826
Long-term notes payable, excluding current installments	304,480	246,038
Total liabilities	604,629	504,864
Net Assets		
Unrestricted	3,155,227	3,154,687
Temporarily restricted	-	-
Permanently restricted	4,740	4,740
Total net assets	3,159,967	3,159,427
Total liabilities and net assets	\$ 3,764,596	\$ 3,664,291

See accompanying notes to financial statements

BAY AREA REHABILITATION CENTER

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
 Year Ended December 31, 2016
 (With Comparative Totals for December 31, 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	2015 (Memorandum Only)
Public support, revenues and other					
Contributions and bequests	\$ 32,102	\$ -	\$ -	\$ 32,102	\$ 38,870
United Way allocation	404,663	-	-	404,663	428,881
Gross client tuition and fees less contractual adjustments of \$1,328,245	2,791,812	-	-	2,791,812	2,516,498
State and federal grants	1,470,964	-	-	1,470,964	1,779,671
Production	1,477,791	-	-	1,477,791	1,201,756
Miscellaneous income	45,587	-	-	45,587	35,528
Net assets released from restrictions-satisfaction of program restrictions	-	-	-	-	-
Total public support, revenues and other	6,222,919	-	-	6,222,919	6,001,204
Expenses					
Program services					
ECI	2,822,896	-	-	2,822,896	2,845,809
Opportunity Center	1,617,741	-	-	1,617,741	1,417,407
Adult	479,704	-	-	479,704	408,536
Pediatric	402,036	-	-	402,036	426,259
Aquatic	131,300	-	-	131,300	116,421
Total program services	5,453,677	-	-	5,453,677	5,214,432
Support services					
General and administrative	703,902	-	-	703,902	727,220
Fundraising	64,800	-	-	64,800	52,292
Total support services	768,702	-	-	768,702	779,512
Total expenses	6,222,379	-	-	6,222,379	5,993,944
Change in net assets	540	-	-	540	7,260
Net assets at beginning of year	3,154,687	-	4,740	3,159,427	3,152,167
Net assets at end of year	\$ 3,155,227	\$ -	\$ 4,740	\$ 3,159,967	\$ 3,159,427

See accompanying notes to financial statements

BAY AREA REHABILITATION CENTER

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2016

(With Comparative Totals for December 31, 2015)

	Program Services					Support Services			Total Expenses		
	ECI	Opportunity Center	Adult	Pediatric	Aquatic	Total	General and Administrative	Fundraising	Total	2016 Total	2015 Total (Memorandum Only)
Salaries	\$ 1,961,922	\$ 569,241	\$ 319,479	\$ 251,985	\$ 21,145	\$ 3,123,772	\$ 412,728	\$ 36,269	\$ 448,997	\$ 3,572,769	\$ 3,393,796
Employee health benefits	202,788	58,521	22,175	30,883	2,260	316,627	45,685	1,582	47,267	363,894	385,346
Payroll taxes and other	166,579	46,531	26,182	21,195	1,996	262,483	32,909	3,181	36,090	298,573	305,153
Professional fees	-	-	-	-	-	-	24,490	-	24,490	24,490	-
Contract fees	46,299	781,212	6,658	14,232	179	848,580	46	6	52	848,632	738,536
Telephone and utilities	70,188	26,195	12,120	9,516	22,232	140,251	24,133	974	25,107	165,358	153,162
Repairs and maintenance	108,096	58,741	39,200	35,249	27,455	268,741	42,599	8,612	51,211	319,952	290,386
Staff training and travel	96,465	5,512	4,519	1,690	8	108,194	3,969	15	3,984	112,178	131,964
Supplies	18,400	26,431	6,789	7,467	8,647	67,734	5,192	4,736	9,928	77,662	77,674
Insurance	47,490	5,123	13,904	8,715	15,888	91,120	15,725	1,224	16,949	108,069	122,149
Other	40,869	2,214	9,249	5,841	1,058	59,231	7,757	3,101	10,858	70,089	117,821
Interest	-	1,431	-	-	-	1,431	18,888	-	18,888	20,319	24,569
Depreciation and amortization	63,800	36,589	19,429	15,263	30,432	165,513	69,781	5,100	74,881	240,394	253,388
Total functional expense	\$ 2,822,896	\$ 1,617,741	\$ 479,704	\$ 402,036	\$ 131,300	\$ 5,453,677	\$ 703,902	\$ 64,800	\$ 768,702	\$ 6,222,379	\$ 5,993,944

See accompanying notes to financial statements

BAY AREA REHABILITATION CENTER

STATEMENT OF CASH FLOWS
 Year Ended December 31, 2016
 (With Comparative Totals for December 31, 2015)

	2016	2015 (Memorandum Only)
Cash Flows From Operating Activities		
Change in net assets	\$ 540	\$ 7,260
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	240,394	253,388
Provision for doubtful accounts	(24,824)	(3,832)
(Increase) decrease in current assets		
Client tuition and fees receivable	13,883	19,421
Grants and contract receivable	16,222	(24,487)
Other receivables	(27,873)	(61,789)
Prepaid expenses	(38,301)	13,066
Deferred costs	(11,041)	-
Increase (decrease) in current liabilities		
Accounts payable and accrued expenses	54,126	(101,058)
Total adjustments	<u>222,586</u>	<u>94,709</u>
Net cash provided by operating activities	<u>223,126</u>	<u>101,969</u>
Cash Flows From Investing Activities		
Acquisition of property and equipment	<u>(13,705)</u>	<u>(43,181)</u>
Cash Flows From Financing Activities		
Principal proceeds (payments) on notes payable	<u>45,640</u>	<u>(83,092)</u>
Net increase (decrease) in cash and equivalents	255,061	(24,304)
Cash and cash equivalents at beginning of year	<u>123,582</u>	<u>147,886</u>
Cash and cash equivalents at end of year	<u>\$ 378,643</u>	<u>\$ 123,582</u>
Supplemental disclosure of cash flow information- cash paid during the year for interest	<u>\$ 20,319</u>	<u>\$ 24,569</u>

See accompanying notes to financial statements

BAY AREA REHABILITATION CENTER

NOTES TO FINANCIAL STATEMENTS

Note 1: Description of Company and Summary of Significant Accounting Policies

Bay Area Rehabilitation Center (the Center) was created in 1948 and incorporated in the state of Texas in 1966 for the principal purpose of providing a variety of services including therapy, education, and recreational activities to infants, children and adults who have a wide range of disabilities. Clients come from an area that extends over four counties surrounding Baytown, Texas. Management of the affairs of the Center is vested with a Board of Directors which consists of outside community leaders and the Center's officers.

The following is a summary of significant accounting policies followed in the preparation of the financial statements.

Basis of Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Center and changes therein are classified and reported as follows:

- Unrestricted net assets - net assets that are not subject to donor-imposed stipulations.
- Temporarily restricted net assets - net assets that are subject to donor-imposed stipulations that require the passage of time or the occurrence of a specific event.
- Permanently restricted net assets - net assets required to be maintained in perpetuity with only the income to be used for the Center's activities, due to donor-imposed restrictions.

The 2015 columns in the basic financial statements are presented for comparative purposes and are labeled memorandum only because they do not provide a complete presentation in accordance with generally accepted accounting principles.

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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

BAY AREA REHABILITATION CENTER

NOTES TO FINANCIAL STATEMENTS, CONTINUED

Contributions

The Center records unconditional contributions, including promises to give, as revenue when received. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. Contributions are recorded net of estimated uncollectible amounts. Management expects all contributions to be collected within one year.

The Center reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

Gifts of property and equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Center reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Client Tuition and Fees

Client tuition and fees are reported at the estimated net realizable amounts from individuals, third-party payors and others for services rendered. Management regularly monitors outstanding accounts receivable to assure they do not become past due. Management has established approximately \$82,000 in an allowance for doubtful accounts based on an evaluation of outstanding accounts receivable at year end.

The Center provides services to clients covered under government programs and various other third-party payor programs at amounts less than its established billing rates based on contractual agreements. Differences between the established billing rates and amounts reimbursed are recorded as contractual adjustments.

Government Grants

Revenues on government grants conditioned on the incurrence of certain qualifying expenses are recognized to the extent expenses are incurred. Revenues on government grants under performance-based

BAY AREA REHABILITATION CENTER

NOTES TO FINANCIAL STATEMENTS, CONTINUED

contracts are recorded as the Center performs the services required by the contract.

Charity Care

The Center provides care without charge or at amounts less than its established rates to clients who meet certain charity criteria. Because the Center does not pursue collection of amounts determined to qualify as charity care and these amounts were never expected to result in cash flows, they are not reported as revenue. Uncollectible amounts from clients who do not meet the Center's charity criteria are estimated and included as a component of expenses for certain programs in the statement of activities and changes in net assets.

Cash Equivalents

The Center considers all highly liquid investment instruments purchased with original maturities of three months or less to be cash equivalents. Due to their short-term nature, the carrying value of the Center's financial assets and liabilities approximate their fair value.

Property and Equipment

Property and equipment purchased by the Center are stated at cost. Donated property and equipment are recorded at fair value at the date of the donation, which is then treated as cost. Depreciation and amortization are recorded using the straight-line method over the estimated useful lives of the assets. The costs of ordinary maintenance and repairs are charged to expense in the year incurred.

Impairment of Long-lived Assets

When events or changes in circumstances indicate the carrying amount of property and equipment may not be recoverable, an evaluation of the recoverability of currently recorded costs is performed. When an evaluation is performed, the estimated value of undiscounted future net cash flows associated with the asset is compared to the asset's carrying value to determine if a write-down to fair value is required.

Functional Expenses

Functional expenses which cannot readily be related to a specific program are charged to the various programs based on hours worked, square footage, number of program staff, or other reasonable methods.

BAY AREA REHABILITATION CENTER

NOTES TO FINANCIAL STATEMENTS, CONTINUED

Income Taxes

The Organization has taken the tax position that it is exempt from income taxes under Section 501 (c)(3) of the Internal Revenue Code. The Organization's open audit periods are 2013 to 2016.

Subsequent Events

The Organization has evaluated subsequent events through June 15, 2017, the date the financial statements were available to be issued.

Note 2: Charity Care

The Center delivers a sizable amount of care without regard to the ability of the client to pay. Clients receiving charity care must meet the Center's preestablished criteria for charity.

Records are maintained to identify and monitor the level of charity care the Center provides. These records include the amount of charges foregone for services and supplies furnished under the charity care policy. The level of charity care provided during the year ended December 31, 2016, based on the Center's established rates, was \$36,000.

Note 3: Client Tuition and Fees

Gross revenue and the level of uncompensated care provided, based on the Center's established rates, during the year ended December 31, 2016 are as follows:

Gross client billings	<u>\$ 4,033,344</u>
Uncompensated care:	
Contractual adjustments	\$1,292,245
Charity	36,000
Provision for doubtful accounts	<u>-</u>
Uncompensated care	<u>\$ 1,328,245</u>

Note 4: Property and Equipment

Property and equipment, net of accumulated depreciation and amortization at December 31, 2016, are as follows:

BAY AREA REHABILITATION CENTER

NOTES TO FINANCIAL STATEMENTS, CONTINUED

	<u>Cost</u>	<u>Life in years</u>
Land	\$1,073,087	-
Buildings and improvements	5,638,154	7-30
Furniture and equipment	<u>1,023,613</u>	3-10
Total property and equipment	7,734,854	
Less accumulated depreciation and amortization	<u>5,077,992</u>	
Property and equipment, net	<u><u>\$ 2,656,862</u></u>	

Note 5: Notes Payable

The Center has a revolving line of credit of \$400,000 with Community Bank of Texas that matures in July 2017. There was no amount outstanding on the revolving line of credit as of December 31, 2016.

The Center has the following installment promissory notes payable at December 31, 2016:

Note payable, to a bank, payable in monthly installments of \$6,923, including interest, at 5.25%, matures in November 2021, and is secured by substantially all of the Center's assets.	\$ 359,278
Note payable to a bank, payable in monthly installments of \$814, including interest at 5.25%, matures in February 2019, and is secured by vehicles.	<u>19,931</u>
	379,209
Less: current installments	<u>74,729</u>
	<u><u>\$ 304,480</u></u>

The annual maturities of the long-term notes payable at December 31, 2016 are as follows:

<u>Year ending</u> <u>December 31,</u>	
2017	\$ 74,729
2018	78,748
2019	74,623
2020	76,964
2021	74,145

Note 6: Employee Retirement Plans

The Center has established a 401(k) defined contribution plan for employees (the 401(k) Plan). Employees are eligible to participate in the 401(k) Plan after attaining age 21 and completing 1,000 hours of service. Eligible employees may join the 401(k) Plan on January 1 or July 1. Under the terms of the plan agreement, employees may contribute up to 15% of their compensation. The Center matches a discretionary percentage of an employee's contribution up to 6% of the employee's compensation. The Center's match for 2016 was 50% of the first 6% of compensation. The Center may also make discretionary

BAY AREA REHABILITATION CENTER

NOTES TO FINANCIAL STATEMENTS, CONTINUED

employer contributions which are allocated to each eligible employee. Employer contributions fully vest after five years of service. The Center's expense related to this plan for the year ended December 31, 2016 was \$46,472.

Note 7: Concentrations of Credit Risk

The Center receives approximately 24% of revenue from a contract through the State of Texas. The majority of the Center's activities are with clients located in Baytown and its surrounding areas. Possible credit losses are provided for in the Center's allowance for contractual adjustments and doubtful accounts. Generally, the Center requires no security for the performance of its services. The mix of receivables from clients and third-party payors at December 31, 2016, is as follows:

Commercial insurance	43%
Medicaid	44
Medicare	10
Other third-party payors	2
Clients	1
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	100%
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The Center maintains cash in bank deposit accounts, which at times, may exceed federally insured limits. Management believes that no significant credit risk exists with respect to these deposits.

Note 8: Temporarily and Permanently Restricted Net Assets

Permanently restricted net assets (restricted for the purposes indicated) at December 31, 2016, are designated for the endowment fund. The Center has received \$4,740 in contributions that were permanently restricted by the donors. There are no contributions temporarily restricted by donors at December 31, 2016.

Note 9: Contingencies

Federal and State Grant Programs

The Center participates in federal and state grant programs which are subject to program compliance audits by the grantors or their representative. Accordingly, the Center's compliance with applicable grant requirements will be determined at a future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the Center expects such amounts, if any, to be immaterial.

BAY AREA REHABILITATION CENTER

NOTES TO FINANCIAL STATEMENTS, CONTINUED

Litigation

In the normal course of business, the Center may become subject to lawsuits and other claims and proceedings. Such matters are subject to uncertainty and outcomes are not predictable with assurance. Management is not aware of any pending or threatened lawsuit or proceedings which would have a material adverse effect on the Center's financial position, liquidity, or results of operations.