

Magic Valley Rehabilitation Services, Inc.
Twin Falls, Idaho
Annual Financial Report
June 30, 2016 and 2015

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Mahlke Hunsaker & Company PLLC

C e r t i f i e d P u b l i c A c c o u n t a n t s

INDEPENDENT AUDITORS' REPORT

Board of Directors
Magic Valley Rehabilitation Services, Inc.
Twin Falls, ID 83301

We have audited the accompanying financial statements of Magic Valley Rehabilitation Services, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 Magic Valley Rehabilitation Services, Inc. as of June 30, 2016 and 2015, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Sincerely,

Mahlke Hunsaker & Co.

Mahlke Hunsaker & Company, pllc

August 16, 2016

Magic Valley Rehabilitation Services, Inc.
Statements of Financial Position
June 30, 2016 and 2015

| Assets | <u>6/30/16</u> | <u>6/30/15</u> |
|--|-------------------|-------------------|
| Current Assets | | |
| Cash and Cash Equivalents | \$ 63,610 | \$ 146,383 |
| Accounts Receivable | 65,811 | 89,565 |
| Investments | 203,583 | 205,023 |
| Prepaid Expenses | 5,334 | 9,056 |
| Total Current Assets | <u>338,338</u> | <u>450,027</u> |
| Long-Term Assets | | |
| Fixed Assets (Net of Accumulated Depreciation) | 187,861 | 198,759 |
| Total Long-Term Assets | <u>187,861</u> | <u>198,759</u> |
| Total Assets | <u>\$ 526,199</u> | <u>\$ 648,786</u> |
| Liabilities and Net Assets | | |
| Current Liabilities | | |
| Accounts Payable | \$ 9,258 | \$ 39,065 |
| Accrued Expenses | 40,321 | 68,826 |
| Deferred Revenue | 4,393 | 4,751 |
| Total Current Liabilities | <u>53,972</u> | <u>112,642</u> |
| Total Liabilities | 53,972 | 112,642 |
| Net Assets | | |
| Unrestricted | 472,227 | 536,144 |
| Temporarily Restricted | - | - |
| Total Net Assets | <u>472,227</u> | <u>536,144</u> |
| Total Liabilities and Net Assets | <u>\$ 526,199</u> | <u>\$ 648,786</u> |

See accompanying notes and accountants' report.

Magic Valley Rehabilitation Services, Inc.
Statements of Activities
For the Years Ended
June 30, 2016 and 2015

| | 6/30/16 | 6/30/15 |
|---|-------------------|-------------------|
| Unrestricted Net Assets | | |
| Unrestricted revenues and gains | | |
| Sales and Services | \$ 787,819 | \$ 820,975 |
| Gifts and Donations | 28,713 | 30,627 |
| Interest Income | 1,931 | 1,082 |
| Other Revenue | 161 | 2,300 |
| Net Assets Released from Restrictions | - | - |
| Total Unrestricted Revenues and Gains | 818,624 | 854,984 |
| Market Value Loss on investment | 3,359 | - |
| Expenses | 879,182 | 891,464 |
| Total Expenses and Gains/Losses | 882,541 | 891,464 |
| Increase (Decrease) in Unrestricted Net Assets | (63,917) | (36,480) |
| Net Assets, Beginning of Period | 536,144 | 572,624 |
| Net Assets, End of Period | \$ 472,227 | \$ 536,144 |

See accompanying notes and accountants' report.

Magic Valley Rehabilitation Services, Inc.
Statements of Functional Expenses
For the Year Ended
June 30, 2016

| | General Operations | Idaho Division of Vocational Rehabilitation | U.S. Dept of Health and Human Services | Fund Raising | 2016 Total |
|-----------------------|-------------------------------|--|---|-------------------------|-----------------------|
| Staff Salaries | \$ 49,833 | \$ 219,750 | \$ 201,730 | \$ 7,909 | \$ 479,222 |
| Employee Salaries | 25,001 | 58 | - | - | 25,059 |
| Training Stipend | 67,565 | - | - | - | 67,565 |
| Staff Fringe Benefit | 9,399 | 42,859 | 31,286 | 1,650 | 85,194 |
| Employee Fringe | 2,097 | 13 | - | - | 2,110 |
| Advertising | 490 | 862 | 747 | 58 | 2,157 |
| Consultant Fees | 1,529 | 5,239 | 4,798 | 123 | 11,689 |
| Contract Override | 1,248 | - | - | - | 1,248 |
| Personal Service | 8,804 | 8,060 | 7,039 | 1,796 | 25,699 |
| Professional Services | 1,272 | 2,573 | 2,255 | - | 6,100 |
| Office Supplies | 971 | 1,963 | 1,721 | - | 4,655 |
| Materials | 7,850 | 3,806 | 2,036 | 44 | 13,736 |
| Utilities | 3,227 | 4,752 | 3,946 | 321 | 12,246 |
| Telephone | 1,773 | 3,516 | 2,444 | 142 | 7,875 |
| Insurance | 10,343 | 12,319 | 11,823 | 333 | 34,818 |
| Rental Equipment | 554 | 1,120 | 982 | - | 2,656 |
| Travel | 3,150 | 25,012 | 9,651 | 178 | 37,991 |
| Staff Training | 96 | 639 | 321 | 10 | 1,066 |
| Depreciation | 13,047 | 8,280 | 7,254 | - | 28,581 |
| Postage | 448 | 906 | 794 | - | 2,148 |
| Janitorial | 3,130 | 9,341 | 10,328 | - | 22,799 |
| Miscellaneous | 1,601 | 1,470 | 1,252 | 245 | 4,568 |
| Totals | \$ 213,428 | \$ 352,538 | \$ 300,407 | \$ 12,809 | \$ 879,182 |

See accompanying notes and accountants' report.

Magic Valley Rehabilitation Services, Inc.
Statements of Functional Expenses
For the Year Ended
June 30, 2015

| | General Operations | Idaho Division of Vocational Rehabilitation | U.S. Dept of Health and Human Services | Fund Raising | 2015 Total |
|-----------------------|-------------------------------|--|---|-------------------------|-----------------------|
| Staff Salaries | \$ 57,556 | \$ 209,006 | \$ 213,781 | \$ 5,078 | \$ 485,421 |
| Employee Salaries | 26,410 | 304 | - | - | 26,714 |
| Training Stipend | 67,042 | - | - | - | 67,042 |
| Staff Fringe Benefit | 13,477 | 43,201 | 38,055 | 1,209 | 95,942 |
| Employee Fringe | 2,075 | 32 | - | - | 2,107 |
| Advertising | 857 | 1,137 | 1,004 | 8 | 3,006 |
| Consultant Fees | 49 | 1,542 | 1,408 | - | 2,999 |
| Contract Override | 1,373 | - | - | - | 1,373 |
| Personal Service | 7,417 | 7,277 | 5,621 | 77 | 20,392 |
| Professional Services | 1,251 | 2,531 | 2,218 | - | 6,000 |
| Office Supplies | 969 | 1,982 | 1,742 | - | 4,693 |
| Materials | 16,855 | 1,098 | 1,208 | - | 19,161 |
| Utilities | 3,852 | 6,037 | 5,268 | 289 | 15,446 |
| Telephone | 1,158 | 2,961 | 2,023 | 17 | 6,159 |
| Insurance | 8,708 | 10,948 | 10,409 | 198 | 30,263 |
| Rental Equipment | 716 | 1,444 | 1,259 | - | 3,419 |
| Travel | 1,357 | 22,178 | 9,444 | 79 | 33,058 |
| Staff Training | 134 | 717 | 598 | 7 | 1,456 |
| Depreciation | 13,488 | 8,559 | 7,499 | - | 29,546 |
| Postage | 416 | 840 | 725 | - | 1,981 |
| Janitorial | 3,140 | 9,341 | 10,338 | - | 22,819 |
| Miscellaneous | 5,374 | 3,086 | 3,987 | 20 | 12,467 |
| Totals | \$ 233,674 | \$ 334,221 | \$ 316,587 | \$ 6,982 | \$ 891,464 |

See accompanying notes and accountants' report.

Magic Valley Rehabilitation Services, Inc.
Statements of Cash Flows
For the Years Ended
June 30, 2016 and 2015

| Cash Flows from Operating Activities | 6/30/16 | 6/30/15 |
|---|----------------|----------------|
| Change in Net Assets | \$ (63,917) | \$ (36,480) |
| Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities: | | |
| Depreciation | 28,581 | 29,546 |
| (Increase) Decrease in Accounts Receivable | 23,754 | (24,602) |
| (Increase) Decrease in Prepaid Expenses | 3,722 | (4,463) |
| Increase (Decrease) in Accounts Payable | (29,808) | 26,496 |
| Increase (Decrease) in Deferred Revenue | (358) | 1,051 |
| Increase (Decrease) in Accrued Expenses | (28,505) | 31,445 |
| | (66,531) | 22,993 |
| Cash Flows from Investing Activities | | |
| Net Change in Investments | 1,440 | (187,390) |
| Purchases of Fixed Assets | (17,682) | (4,765) |
| | (16,242) | (192,155) |
| Net Decrease in Cash and Cash Equivalents | (82,773) | (169,162) |
| Cash, Beginning of Period | 146,383 | 315,545 |
| Cash, End of Period | \$ 63,610 | \$ 146,383 |

See accompanying notes and accountants' report.

Magic Valley Rehabilitation Services, Inc.
Twin Falls, Idaho
Notes to Financial Statements
June 30, 2016 and 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Magic Valley Rehabilitation Services, Inc. (MVRS) is presented to assist the reader in understanding the Corporation's financial statements. The financial statements and notes are representations of the Corporation's management, who is responsible for their integrity and objectivity.

Business Activity and History

Magic Valley Rehabilitation Services, Inc. was incorporated in March 1973 as a nonprofit corporation primarily to provide rehabilitation services to persons with disabilities. All functions and activities that MVRS has oversight responsibility for are included in the financial statements.

Basis of Accounting

The financial statements of MVRS have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Expense Allocation

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

Income Tax Status

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

Cash and Cash Equivalents

For the purposes of the Statements of Cash Flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Property and Equipment

Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method.

Magic Valley Rehabilitation Services, Inc.
Twin Falls, Idaho
Notes to Financial Statements
June 30, 2016 and 2015

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- CONTINUED

Deferred Revenue

Income from grants is deferred and recognized over the periods to which the dues and fees relate.

Restricted and Unrestricted Revenue and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Unrestricted net assets

Unrestricted net assets consist of both designated and undesignated assets. Designated assets are assets subject to Organization imposed stipulations that may or may not be met, either by actions of the Organization or the passage of time. Undesignated net assets are net assets that are not subject to any stipulations. The Board of Directors reserves the right to use the funds from the designated funds for other legitimate Organization purposes.

Temporarily restricted net assets

Temporarily restricted net assets consist of assets whose use by the Organization is subject to donor-imposed restrictions that either expire by the passage of time or can be fulfilled and removed by actions of the Organization. There are no temporarily restricted net assets in the Organization as of June 30, 2016 and 2015.

Permanently restricted net assets

Permanently restricted net assets consist of assets subject to donor imposed stipulations that are to be maintained permanently by the Organization. There are no permanently restricted assets as of June 30, 2016 and 2015.

Accounts Receivable

Substantially all receivables are for current periods and the major portion was collected in July and August 2016. Accordingly, no reserve for bad debt is provided.

Liabilities--Operating Funds

Vested vacation pay earned by employees at June 30, 2016 and 2015, but not yet taken totaled \$34,149 and \$41,771 and is included in accrued expenses under liabilities on the statements of financial position. Other liabilities (other than interfund loans) included in the operating funds represent amounts due at June 30, 2016 and 2015, for current transactions. Such amounts were paid in July and August 2016 and 2015.

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 at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Magic Valley Rehabilitation Services, Inc.
Twin Falls, Idaho
Notes to Financial Statements
June 30, 2016 and 2015

NOTE 2 – RETIREMENT PLAN

MVRS adopted a 401(K) retirement plan effective July 1, 2000. The plan covers all employees who work at least 1000 hours with one or more years of service. The Company's contribution is based on 2% of each eligible employee's salary. The plan has a five-year vesting schedule. The Company's contribution for the years ended June 30, 2016 and 2015 were \$7,537 and \$6,991, respectively.

NOTE 3 – CERTIFICATES OF DEPOSIT

A certificate of deposit with Idaho Central Credit Union totaling \$142,761 is included in investments in the accompanying financial statements for the year ended June 30, 2016. The CD has a maturity date of February 7, 2017 and the interest rate is 1.492%.

NOTE 4 – INVESTMENTS

MVRS has \$56,322 invested in money market, equities, fixed income and other investments as of June 30, 2016 as well as two cemetery plots valued at \$4,500.

NOTE 5 - LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, equipment, and related depreciation are summarized as follows:

| | Balance 7/1/2015 | Increases | Decreases | Balance 6/30/2016 |
|-----------------------------------|-----------------------------------|--------------------|------------------|------------------------------------|
| Land | \$ 14,498 | \$ - | \$ - | \$ 14,498 |
| Building & Improvements | 566,439 | 11,532 | - | 577,971 |
| Equipment | 89,685 | 6,151 | - | 95,836 |
| Office Furniture & Equipment | 8,376 | - | - | 8,376 |
| Telephone System | 12,140 | - | - | 12,140 |
| Vehicles | 103,887 | - | - | 103,887 |
| Total | <u>795,025</u> | <u>17,683</u> | <u>-</u> | <u>812,708</u> |
| Less: Accumulated Depreciation | <u>(596,266)</u> | <u>(28,581)</u> | <u>-</u> | <u>(624,847)</u> |
| Net Fixed Assets | <u>\$ 198,759</u> | <u>\$ (10,898)</u> | <u>\$ -</u> | <u>\$ 187,861</u> |

NOTE 6 – CUSTODIAL CREDIT RISK

For deposits and investments, custodial credit risk is the risk that, in the event of the failure of the counterpart, the Organization will not be able to recover the value of its deposits or investments that are in the possession of an outside party. The Organization does not have a policy for custodial credit risk outside of the deposit and investment agreements.

Magic Valley Rehabilitation Services, Inc.
Twin Falls, Idaho
Notes to Financial Statements
June 30, 2016 and 2015

NOTE 7 – CONCENTRATIONS OF CREDIT RISK

Financial instruments that subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. The Organization does not require collateral to support financial instruments. The Organization maintains its cash balances in three financial institutions located in Twin Falls, Idaho. As of June 30, 2016 and 2015, these deposits did not exceed the \$250,000 insurance provided by the Federal Deposit Insurance Corporation (FDIC) coverage.

NOTE 8 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of ASC 825, Financial Instruments. The estimated fair value amounts have been determined by the Organization using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Organization could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Cash, receivables, accounts payable and accrued liabilities

The carrying amounts reported in the statement of financial position for cash, receivables, accounts payable and accrued liabilities are a reasonable estimate of their fair value.

NOTE 9 – COMMITMENTS & CONTINGENCIES

MVRS leases a copier through US Bank that expires in the year 2018. The agreement requires monthly payments of \$265. Required minimum operating lease payments for the year ending June 30 are as follows:

| | |
|-------|-----------------|
| 2017 | \$ 3,180 |
| 2018 | <u>771</u> |
| Total | <u>\$ 3,951</u> |

NOTE 10 - SUBSEQUENT EVENTS

MVRS has evaluated subsequent events through August 16, 2016, the date which the financial statements were available to be issued.