

CENTER FOR HEAD INJURY SERVICES
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2016 and 2015

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Independent Auditors' Report

Board of Directors
Center for Head Injury Services
St. Louis, Missouri

We have audited the accompanying financial statements of the Center for Head Injury Services (the "Organization") (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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 on page 1 present fairly, in all material respects, the financial position of the Center for Head Injury Services as of June 30, 2016 and 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.

Anders Minkler Huber & Helms LLP

March 10, 2017

**Center for Head Injury Services
Statements of Financial Position
June 30, 2016 and 2015**

Assets

	2016	2015
Current Assets		
Cash and cash equivalents	\$ 20,202	\$ 196,785
Accounts receivable, net	476,878	371,164
Grants receivable	23,248	73,610
Prepaid expenses	14,880	16,373
Total Current Assets	535,208	657,932
Property and Equipment, net	1,181,648	152,868
Other Assets	11,813	31,813
Total Assets	\$ 1,728,669	\$ 842,613

Liabilities and Net Assets

Current Liabilities		
Current maturities of long-term debt	\$ 555,146	\$ 19,422
Line of credit	117,693	25,100
Accounts payable	186,057	54,253
Accrued expenses and other current liabilities	33,928	94,702
Total Current Liabilities	892,824	193,477
Long-term Debt	395,174	40,478
Total Liabilities	1,287,998	233,955
Net Assets		
Unrestricted	429,467	577,408
Temporary restricted	11,204	31,250
Total Net Assets	440,671	608,658
Total Liabilities and Net Assets	\$ 1,728,669	\$ 842,613

**Center for Head Injury Services
Statement of Activities
Year Ended June 30, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue, Gains and Other Support			
Contributions	\$ 21,443	\$ -	\$ 21,443
Grants	161,204	11,204	172,408
Special events	147,317	-	147,317
Program fees	2,622,614	-	2,622,614
Other	<u>192,096</u>	<u>-</u>	<u>192,096</u>
	3,144,674	11,204	3,155,878
Net assets released from restrictions:			
Satisfaction of time and purpose restrictions	<u>31,250</u>	<u>(31,250)</u>	<u>-</u>
Total Revenues, Gains and Other Support	<u>3,175,924</u>	<u>(20,046)</u>	<u>3,155,878</u>
Expenses			
Program Services			
Adult Day Program	452,858	-	452,858
Vocational/Employment Services	757,493	-	757,493
Community Placement	402,005	-	402,005
Medical	208,447	-	208,447
Midwest Adult Autism Project	343,792	-	343,792
Destination Desserts	<u>374,201</u>	<u>-</u>	<u>374,201</u>
Total Program Services	<u>2,538,796</u>	<u>-</u>	<u>2,538,796</u>
Supporting Activities			
Management and general	571,807	-	571,807
Fundraising	<u>213,262</u>	<u>-</u>	<u>213,262</u>
Total Supporting Activities	<u>785,069</u>	<u>-</u>	<u>785,069</u>
Total Expenses	<u>3,323,865</u>	<u>-</u>	<u>3,323,865</u>
Change in Net Assets	(147,941)	(20,046)	(167,987)
Net Assets, Beginning of Year	<u>577,408</u>	<u>31,250</u>	<u>608,658</u>
Net Assets, End of Year	<u>\$ 429,467</u>	<u>\$ 11,204</u>	<u>\$ 440,671</u>

**Center for Head Injury Services
Statement of Activities
Year Ended June 30, 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue, Gains and Other Support			
Contributions	\$ 7,442	\$ -	\$ 7,442
Grants	214,528	31,250	245,778
Government contracts	-	-	-
Special events	59,084	-	59,084
In-kind contributions	2,500	-	2,500
Membership dues	-	-	-
Program Fees	2,669,883	-	2,669,883
Investment income	-	-	-
Net realized/unrealized gain (loss) on investments	-	-	-
Other	<u>220,509</u>	<u>-</u>	<u>220,509</u>
	<u>3,173,946</u>	<u>31,250</u>	<u>3,205,196</u>
Net assets released from restrictions			
Satisfaction of time and usage restrictions	<u>125,000</u>	<u>(125,000)</u>	<u>-</u>
Total Revenues, Gains and Other Support	<u>3,298,946</u>	<u>(93,750)</u>	<u>3,205,196</u>
Expenses			
Program Services			
Day Services	279,726	-	279,726
Vocational/Employment Services	1,033,285	-	1,033,285
Community Placement	143,185	-	143,185
Medical	473,777	-	473,777
Midwest Adult Autism Project	284,742	-	284,742
Destination Desserts	<u>341,391</u>	<u>-</u>	<u>341,391</u>
Total Program Services	<u>2,556,106</u>	<u>-</u>	<u>2,556,106</u>
Supporting Activities			
Management and general	653,365	-	653,365
Fundraising	<u>104,557</u>	<u>-</u>	<u>104,557</u>
Total Supporting Activities	<u>757,922</u>	<u>-</u>	<u>757,922</u>
Total Expenses	<u>3,314,028</u>	<u>-</u>	<u>3,314,028</u>
Change in Net Assets	(15,082)	(93,750)	(108,832)
Net Assets, Beginning of Year	<u>592,490</u>	<u>125,000</u>	<u>717,490</u>
Net Assets, End of Year	<u>\$ 577,408</u>	<u>\$ 31,250</u>	<u>\$ 608,658</u>

**Center for Head Injury Services
Statement of Functional Expenses
Year Ended June 30, 2016**

	Program Services							Supporting Activities		Total Expenses
	Adult Day Program	Vocational/ Employment Services	Community Placement	Medical	Midwest Adult Autism Project	Destination Desserts	Total	Management and general	Fundraising	
Salaries and wages	\$ 319,051	\$ 522,258	\$ 276,832	\$ 159,414	\$ 246,649	\$ 193,804	\$ 1,718,008	\$ 287,577	\$ 106,261	\$ 2,111,846
Payroll taxes	26,283	44,023	23,272	13,270	21,594	16,173	144,615	22,920	8,247	175,782
Employee benefits	36,930	71,236	37,101	13,594	29,561	28,352	216,774	32,235	18,871	267,880
Advertising	-	-	-	-	-	-	-	-	809	809
Client assistance	-	126	-	99	-	-	225	-	-	225
Dues and subscriptions	1,215	27	-	13	35	2,664	3,954	17,358	1,208	22,520
Equipment	-	-	-	-	-	587	587	10,258	-	10,845
Insurance	-	-	-	-	-	-	-	38,167	-	38,167
Interest expense	-	-	-	-	-	2,009	2,009	24,755	-	26,764
Licenses	-	-	-	60	-	6,446	6,506	18,746	-	25,252
Maintenance	561	1,418	532	205	1,457	6,392	10,565	12,775	149	23,489
Miscellaneous	25	175	-	50	-	335	585	(6,684)	-	(6,099)
Occupancy	25,945	65,960	24,599	13,672	31,682	26,440	188,298	15,310	6,879	210,487
Postage	-	-	37	-	-	719	756	2,123	1,161	4,040
Printing	-	283	-	78	-	630	991	1,698	3,081	5,770
Professional fees	-	-	-	-	-	3,414	3,414	38,149	1,081	42,644
Seminars	100	613	-	-	200	60	973	3,178	125	4,276
Special events	-	-	-	-	-	-	-	-	59,715	59,715
Subcontractors	10,089	6,807	11,649	-	2,049	3,016	33,610	7,118	-	40,728
Supplies	(216)	945	1,441	1,125	582	69,513	73,390	15,518	3,165	92,073
Telephone	1,443	4,415	1,924	381	1,274	2,559	11,996	623	277	12,896
Training	266	1,418	255	46	440	54	2,479	(630)	134	1,983
Travel	25,080	22,399	18,593	4,218	837	5,011	76,138	2,273	485	78,896
Utilities	6,086	15,390	5,770	2,222	7,432	6,023	42,923	3,591	1,614	48,128
Total Expense Before Depreciation and Amortization	452,858	757,493	402,005	208,447	343,792	374,201	2,538,796	547,058	213,262	3,299,116
Depreciation and amortization	-	-	-	-	-	-	-	24,749	-	24,749
Total Expenses	<u>\$ 452,858</u>	<u>\$ 757,493</u>	<u>\$ 402,005</u>	<u>\$ 208,447</u>	<u>\$ 343,792</u>	<u>\$ 374,201</u>	<u>\$ 2,538,796</u>	<u>\$ 571,807</u>	<u>\$ 213,262</u>	<u>\$ 3,323,865</u>

**Center for Head Injury Services
Statement of Functional Expenses
Year Ended June 30, 2015**

	Program Services							Supporting Activities		Total Expenses
	Adult Day Program	Vocational/ Employment Services	Community Placement	Medical	Midwest Adult Autism Project	Destination Desserts	Total	Management and general	Fundraising	
Salaries and wages	\$ 186,536	\$ 781,212	\$ 116,821	\$ 191,534	\$ 197,746	\$ 190,161	\$ 1,664,010	\$ 298,241	\$ 64,596	\$ 2,026,847
Payroll taxes	14,421	61,000	8,074	14,285	15,160	14,677	127,617	45,033	4,440	177,090
Employee benefits	16,401	60,557	10,466	6,935	11,980	15,780	122,119	30,191	7,118	159,428
Advertising	-	54	-	-	-	-	54	400	275	729
Client assistance	1,233	171	-	-	-	-	1,404	-	-	1,404
Dues and subscriptions	660	1,424	-	-	-	314	2,398	10,192	936	13,526
Equipment	-	759	-	228,332	-	415	229,506	1,479	600	231,585
Insurance	-	-	-	-	-	-	-	86,986	-	86,986
Interest expense	-	-	-	-	-	3,580	3,580	1,253	-	4,833
Licenses	100	645	-	-	65	5,142	5,952	208	-	6,160
Maintenance	185	227	-	-	214	5,354	5,980	14,984	-	20,964
Meals	11,690	140	-	26	-	-	11,856	1,626	158	13,640
Miscellaneous	30	907	-	290	711	12,293	14,231	7,650	-	21,881
Occupancy	35,511	43,691	1,544	23,412	46,956	10,808	161,922	49,187	3,088	214,197
Postage	-	206	-	-	-	207	413	2,084	203	2,700
Printing	-	1,145	-	-	39	1,608	2,792	741	3,477	7,010
Professional fees	-	557	-	-	-	2,488	3,045	43,020	3,232	49,297
Seminars	350	425	-	-	200	60	1,035	770	335	2,140
Special events	-	-	-	-	-	-	-	-	14,763	14,763
Subcontractors	2,434	3,100	-	-	-	-	5,534	800	-	6,334
Supplies	2,153	6,674	15	1,212	1,484	65,355	76,893	16,249	247	93,389
Telephone	793	3,494	352	761	576	2,353	8,329	1,304	307	9,940
Training	199	358	-	27	630	-	1,214	3,773	105	5,092
Transportation	-	33,668	-	-	-	-	33,668	474	-	34,142
Travel	506	23,369	5,627	4,241	1,966	8,851	44,560	1,745	106	46,411
Utilities	6,524	9,502	286	2,722	7,015	1,945	27,994	9,141	571	37,706
Total Expense Before Depreciation and Amortization	279,726	1,033,285	143,185	473,777	284,742	341,391	2,556,106	627,531	104,557	3,288,194
Depreciation and amortization	-	-	-	-	-	-	-	25,834	-	25,834
Total Expenses	<u>\$ 279,726</u>	<u>\$ 1,033,285</u>	<u>\$ 143,185</u>	<u>\$ 473,777</u>	<u>\$ 284,742</u>	<u>\$ 341,391</u>	<u>\$ 2,556,106</u>	<u>\$ 653,365</u>	<u>\$ 104,557</u>	<u>\$ 3,314,028</u>

Center for Head Injury Services
Statements of Cash Flows
Year Ended June 30, 2016 and 2015

	2016	2015
Cash Flows From Operating Activities		
Change in net assets	\$ (167,987)	\$ (108,832)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	24,749	25,834
Loss on disposal of equipment	13,578	476
(Increase) decrease in assets:		
Accounts receivable	(105,714)	82,367
Grants receivable	50,362	164,785
Prepaid expenses	1,493	1,638
Other assets	20,000	(19,400)
Increase (decrease) in liabilities:		
Accounts payable	131,804	(98,415)
Accrued expenses and other current liabilities	<u>(60,774)</u>	<u>23,705</u>
Net Cash Provided by (Used in) Operating Activities	<u>(92,489)</u>	<u>72,158</u>
 Cash Flows From Investing Activities		
Purchases of property and equipment	<u>(1,067,106)</u>	<u>-</u>
Net Cash Used in Investing Activities	<u>(1,067,106)</u>	<u>-</u>
 Cash Flows From Financing Activities		
Borrowings on line of credit	92,593	-
Payments on line of credit	-	(10,000)
Proceeds from long-term debt	910,101	-
Payments on long-term debt	<u>(19,682)</u>	<u>(18,425)</u>
Net Cash Provided By (Used in) Financing Activities	<u>983,012</u>	<u>(28,425)</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	(176,583)	43,733
 Cash and Cash Equivalents, Beginning of Year	<u>196,785</u>	<u>153,052</u>
 Cash and Cash Equivalents, End of Year	<u>\$ 20,202</u>	<u>\$ 196,785</u>
 Supplemental Disclosures of Cash Flow Information		
Cash paid for		
Interest	<u>\$ 26,764</u>	<u>\$ 4,833</u>

**Center for Head Injury Services
Notes to Financial Statements
June 30, 2016 and 2015**

1. Nature of Operations and Basis of Presentation

Organization

Center for Head Injury Services (the "Organization") was established in 1990 as a not-for-profit organization whose mission is to enhance the lives of people with brain injuries, autism and other developmental disabilities through a full continuum of community based services. The Organization's principal activities consist of low-cost programs to provide cognitive enrichment; training to improve social, recreational and leisure skills; training in adaptive physical fitness; experience in activities of daily living; family respite; and assistance to the clients to maximize prevocational potential and aid in eventual assimilation into the community. The Organization's clients are drawn from St. Louis City and the surrounding Missouri counties. Any Missouri resident is eligible to participate in the Organization's programs.

The Organization offers the following programs:

Day Services

Adult Day Program

The Organization's day programs are tailored to the health and rehabilitation needs of the participants. This is accomplished with a variety of services and supervised activities. Individualized program goals are established to build skills for independence that enable the participants to continue to live and participate in their community.

The services provided in the adult day program for persons with brain injuries or other cognitive impairments include, but are not limited to: health services and medication management as needed, cognitive and physical restorative rehabilitation therapies, training and assistance with activities of daily living and work related skills, therapeutic recreational activities and physical training, and behavioral programming and social skills training. This is accomplished through individualized goal setting and progress monitoring.

Midwest Adult Autism Project (MAAP)

Included in the Organization's day services is the Midwest Adult Autism Project. This program provides integrated therapies designed specifically for persons with severe autism in a structured day program setting. The program serves patients with severe autism who are not eligible to participate in school system provided programs due to age. This program provides continuing speech/communication, sensory, occupational and applied behavioral analysis therapy to improve the young adults' ability to function in their home and community as an alternative to institutional placement.

Center for Head Injury Services
Notes to Financial Statements
June 30, 2016 and 2015

Vocational/Employment Services

This program gives people who have sustained a brain injury or other neurological impairment the opportunity to evaluate and build their work potential. Medical therapists and licensed counselors provide work-oriented neuro-rehabilitation activities such as physical and cognitive assessments, assessing work capabilities, treatment to improve physical and mental stamina, neuropsychological evaluations, independent living assessments, compensatory strategy training, accommodation and technology training, disability adjustment counseling and behavior therapies. After the person meets their rehabilitation goals, employment specialists continue training as needed in other areas to develop a successful work personality by building work skills in the areas of orientation to work rules and expectations. Employment specialists also provide assistance to improve job seeking and interviewing skills and to obtain employment. Once employed, the Organization provides continuing employment support to assist the individual in maintaining employment.

Medical Services

Outpatient Rehabilitation

This program includes physical, occupational and speech therapies specifically designed to meet participants' individual needs.

Comprehensive Medical Rehabilitation

This program provides more frequent therapies. Traditional therapies and counseling services are available up to five days a week depending on the needs of the individual. Full and partial day rehabilitation programs are offered.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with the provisions of Financial Accounting Standards Board ("FASB"), Accounting Standards Codification (the "FASB ASC"), which is the source of authoritative, non-governmental accounting principles generally accepted in the United States of America ("GAAP"). All references to authoritative accounting guidance contained in our disclosures are based on the general accounting topics within the FASB ASC.

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 Organization and changes therein are classified into three categories of net assets, as applicable, and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations. Board designated funds are established by the Board of Directors and represent unrestricted net assets that have been set aside for future needs.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time.

Center for Head Injury Services
Notes to Financial Statements
June 30, 2016 and 2015

Permanently restricted net assets - Net assets subject to donor-imposed stipulations required to be maintained permanently by the Organization. The income earned on any related investments may also be subject to donor-imposed stipulations. No permanently restricted net assets were held during the years ended June 30, 2016 and 2015 and, accordingly, these financial statements do not reflect any activity related to this class of net assets.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Fair Value Measurements

The Organization follows guidance issued by the FASB on fair value measurements, which establishes a framework for measuring fair value, clarifies the definition of fair value within that framework, and expands disclosures about the use of fair value measurements. This guidance applies whenever fair value is the applicable measurement. The three general valuation techniques used to measure fair value are the market approach, cost approach, and income approach.

Carrying amounts of certain financial instruments such as cash and cash equivalents, accounts receivable, grants receivable, prepaid expenses, line of credit, accounts payable, accrued expenses and other current liabilities, and notes payable approximate fair value due to their short maturities or because the terms are similar to market terms. There have been no changes in the methodologies used at June 30, 2016 and 2015.

Cash and Cash Equivalents

The Organization considers all short-term investments with an original maturity of three months or less at the time of purchase to be cash equivalents.

Accounts Receivable

Accounts receivable are uncollateralized client and third party obligations due under normal trade terms generally requiring payment within 30 days of the invoice date.

The Organization provides an allowance for doubtful accounts equal to the estimated losses that will be incurred in the collection of accounts receivable. This estimate is based on historical experience coupled with a review of the current status of existing receivables. The allowance and associated accounts receivable are reduced when the receivables are determined to be uncollectible. The allowance for doubtful accounts totaled \$6,000 at June 30, 2016 and 2015.

Center for Head Injury Services
Notes to Financial Statements
June 30, 2016 and 2015

Grants Receivable

Grants receivable include amounts due from various funding sources under binding contracts with the Organization for services rendered prior to year-end.

Property and Equipment

Purchased property and equipment is stated at cost and donated assets are recorded at fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Major additions and improvements are capitalized, while maintenance and repairs are expensed as incurred. When assets are sold or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts. Any gain or loss arising from such disposition is included as income or expense in the year of disposition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the life of the related asset or the term of the lease.

The estimated lives for computing depreciation and amortization on property and equipment are:

<u>Classification</u>	<u>Years</u>
Leasehold improvements	7-10
Furniture and fixtures	5-7
Machinery and equipment	5-7
Vehicles	5

Long-Lived Asset Impairment

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended June 30, 2016 and 2015.

Center for Head Injury Services
Notes to Financial Statements
June 30, 2016 and 2015

Support and Revenue

Contributions, including unconditional promises to give, are recorded as received. All contributions are available for unrestricted use unless specifically restricted by the donor. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Donor restricted contributions in which the restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

Government contracts and program fees are recognized as income in the period that specific services are provided.

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support.

Donated Materials and Services (In Kind)

Donated noncash assets are recorded as contributions at their fair values at the date of donation. The estimated fair value of donated materials and services were approximately \$- and \$2,500 for the years ended June 30, 2016 and 2015, respectively.

Donated services are recognized as contributions if the services create or enhance nonfinancial assets or require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Volunteers provided various services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria were not met.

Functional Expense Allocation

The Organization allocates expenses on a functional basis among various programs and supporting services. Expenses that can be identified with a specific program and supporting service are allocated directly according to their natural expenditure classifications. Other expenses that are common to several functions are allocated by various statistical bases.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code"), except on net income derived from unrelated business activities as defined in the Code. Accordingly, the Organization files as a tax exempt organization.

Center for Head Injury Services
Notes to Financial Statements
June 30, 2016 and 2015

The Organization follows guidance issued by the FASB on accounting for income taxes and has evaluated its tax positions, expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings, and believes that no provision for income taxes is necessary to cover any uncertain tax positions. The Organization's returns for tax years 2012 and later remain subject to examination by taxing authorities.

Subsequent Events

The Organization has evaluated subsequent events through March 10, 2017, the date the financial statements were available to be issued.

Recent Accounting Pronouncements

Not-for-profit Entities

The FASB has issued new guidance on financial reporting for not-for-profit entities. The guidance requires a not-for-profit entity to present on the face of the statement of financial position amounts for two classes of net assets at the end of the period, rather than for the currently required three classes. That is, a not-for-profit entity will report amounts for *net assets with donor restrictions* and *net assets without donor restrictions*, as well as the currently required amount for total net assets. The guidance also requires a not-for-profit entity to present on the face of the statement of activities the amount of the change in each of the two classes of net assets rather than that of the currently required three classes. Not-for-profit entities will continue reporting the currently required amount of the change in total net assets for the period. The guidance also requires a not-for-profit entity to continue to present on the face of the statement of cash flows the net amount for operating cash flows using either the direct or indirect method of reporting but no longer requires the presentation or disclosure of the indirect method (reconciliation) if using the direct method. The guidance also requires enhanced disclosures about the following:

- Amounts and purposes of governing board designations, appropriations, etc.,
- Composition of net assets with donor restrictions at the end of the period,
- Qualitative information that communicates how an entity manages its liquid resources,
- Quantitative and additional qualitative information as necessary that communicates the availability of an entity's financial assets,
- Amounts of expenses by both their natural classification and their functional classification.
- Method(s) used to allocate costs among program and support functions.
- Underwater endowment funds.

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The guidance also requires that the Organization report investment return net of external and direct internal investment expenses and no longer require disclosure of those netted expenses. The guidance also require that the Organization use, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset.

The guidance will be required for the first fiscal year beginning after December 15, 2017. Based on a preliminary analysis, Organization does expect the new guidance will have a significant impact on its financial statements.

3. Grants Receivable

Grants receivable at June 30, are as follows:

	<u>2016</u>	<u>2015</u>
Poses Foundation	\$ -	\$ 31,250
Developmental Disability Resources	23,248	36,658
Productive Living Board	-	5,702
	<u>\$ 23,248</u>	<u>\$ 73,610</u>

4. Property and Equipment

Property and equipment are as follows:

	<u>2016</u>	<u>2015</u>
Construction in progress	\$ 1,067,107	\$ -
Leasehold improvements	89,107	97,857
Furniture and fixtures	24,129	24,129
Machinery and equipment	34,859	42,635
Vehicles	108,885	108,885
	<u>1,324,087</u>	<u>273,506</u>
Less accumulated depreciation and amortization	<u>142,439</u>	<u>120,637</u>
	<u>\$ 1,181,648</u>	<u>\$ 152,869</u>

Depreciation and amortization expense for the years ended June 30, 2016 and 2015 totaled \$24,749 and \$25,834, respectively.

5. Line of Credit

The Organization has available a line of credit of \$150,000 scheduled to expire in September 2016. Borrowings are charged interest at the prime rate (3.25 percent at June 30, 2016), but no less than 4.75 percent per annum, and are secured by the Organization's assets. At June 30, 2016 and 2015, borrowings outstanding under the line of credit totaled \$117,693 and \$25,100, respectively.

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6. Long-Term Debt

Long-term debt is as follows:

	2016	2015
Note payable, secured by vehicle, interest at 5.0 percent, monthly payments of \$1,884 including interest, maturing in June 2018.	\$ 40,219	\$ 59,900
Note payable, secured by property on Lackland, interest of 4.675 percent, maturing in July 2016.	534,709	-
Mortgage payable, secured by deed of trust, payable when the Organization sells, trades or disposes of the Morganford property.	375,392	-
	950,320	59,900
Less current maturities	555,146	19,422
	\$ 395,174	\$ 40,478

Maturities of long-term debt as of June 30, 2016 are as follows:

<u>June 30,</u>	
2017	\$ 555,146
2018	19,782
Thereafter	375,392
	\$ 950,320

7. Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods:

	June 30,	
	2016	2015
Purpose restrictions	\$ 11,204	\$ -
Time restrictions	\$ -	\$ 31,250
	\$ 11,204	\$ 31,250

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Net assets released from restrictions for the years ended June 30, are as follows:

	2016	2015
Released from restrictions of time	\$ 31,250	\$ 125,000

8. Retirement Plans

The Center maintains a contributory retirement savings plan under Section 401(k) of the Internal Revenue Code covering substantially all employees who meet certain eligibility requirements. There were no employer contributions to the plan for the years ended June 30, 2016 and 2015.

Employees are eligible to participate upon hiring. Benefits under the plan depend solely on amounts contributed to the plan plus investment earnings and forfeitures of other participants' benefits that may be allocated to such participant's account.

9. Risks and Uncertainties

Concentrations of Risk

Financial instruments, which potentially subject the Organization to concentrations of credit risk, consist principally of cash and cash equivalents, accounts receivable and grants receivable.

The Organization maintains its cash primarily with one financial institution. Deposits at this bank are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. As of June 30, 2016, the balances were fully insured. The Organization performs ongoing credit evaluations of its patients and maintains allowances, as needed, for potential credit losses. Although the Organization is directly affected by the financial stability of its client base, management does not believe significant credit risk exists at June 30, 2016.

10. Commitments and Contingencies

Leases

The Organization leases office space under noncancellable operating leases. Future minimum lease payments are as follows:

<u>Years Ending June 30,</u>	
2017	\$ <u>15,000</u>

Rent expense related to operating leases for the years ended June 30, 2016 and 2015 totaled approximately \$210,487 and \$214,197, respectively.