

THE FINANCIAL STATEMENTS OF  
**REHABILITATION AND EMPLOYMENT  
SERVICES OF THE EAST BAY, INC.**



FOR THE YEAR ENDED DECEMBER 31, 2022

*With Summarized Comparative Totals for the  
Year Ended December 31, 2021*



**ISLIP+COMPANY** LLP  
CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
**Rehabilitation and Employment  
Services of the East Bay, Inc.**

**Opinion**

We have audited the accompanying financial statements of **Rehabilitation and Employment Services of the East Bay, Inc.** (RES Success) (a nonprofit organization), which comprise the statement of financial position as of December 31, 2022 and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Rehabilitation and Employment Services of the East Bay, Inc.** as of December 31, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of **Rehabilitation and Employment Services of the East Bay, Inc.** and to meet our ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Responsibilities of Management 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, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about **Rehabilitation and Employment Services of the East Bay, Inc.**'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 **Rehabilitation and Employment Services of the East Bay, Inc.**'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about **Rehabilitation and Employment Services of the East Bay, Inc.**'s ability to continue as a going concern for a reasonable period of time.

### **Report on 2021 Financial Statements**

The financial statements of **Rehabilitation and Employment Services of the East Bay, Inc.** as of December 31, 2021, prior to restatement, were audited by a predecessor auditor who expressed an unmodified opinion in their report dated June 27, 2022. The summarized totals are included in these financial statements for comparative purposes.



## Report on Restated Adjustments to 2021 Financial Statements

As part of our audit of the 2022 financial statements, we also audited the adjustments described in Notes 2 and 3 that were applied to restate the 2021 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2021 financial statements of the entity other than with respect to the adjustments, and, accordingly, we do not express an opinion or any other form of assurance on the 2021 financial statements as a whole.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Islip + Company, LLP

*Islip + Company, LLP*

Sacramento, California  
September 12, 2023



# REHABILITATION AND EMPLOYMENT SERVICES OF THE EAST BAY, INC.

## STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2022

	2022	2021
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,189,129	\$ 1,382,054
Accounts receivable	533,901	442,203
Prepaid expenses	52,521	51,177
<b>TOTAL CURRENT ASSETS</b>	<b>1,775,551</b>	<b>1,875,434</b>
<b>NONCURRENT ASSETS</b>		
Security deposits	22,500	22,500
Deferred compensation assets for 457(b) Plan (Note 12)	-	10,035
Property and equipment, net	2,024,253	1,926,240
Operating lease - right of use asset (Note 11)	1,511,201	1,093,996
<b>TOTAL NONCURRENT ASSETS</b>	<b>3,557,954</b>	<b>3,052,771</b>
<b>TOTAL ASSETS</b>	<b>\$ 5,333,505</b>	<b>\$ 4,928,205</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and credit cards	\$ 80,144	\$ 42,069
Accrued payroll, payroll taxes, and vacation/PTO	133,978	137,808
Other accrued expenses	236	33,775
Payable to funder (Note 9)	-	460,459
Notes payable - current portion	-	18,575
Mortgages payable - current portion	50,689	48,563
Operating lease liability - current portion (Note 11)	241,474	234,506
<b>TOTAL CURRENT LIABILITIES</b>	<b>506,521</b>	<b>975,755</b>
<b>NONCURRENT LIABILITIES</b>		
Deferred compensation (Note 12)	-	10,027
Notes payable - long-term portion	-	45,965
Mortgages payable - long-term portion	826,614	877,450
Operating lease liability - long-term portion (Note 11)	1,313,170	887,686
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>2,139,784</b>	<b>1,821,128</b>
<b>TOTAL LIABILITIES</b>	<b>2,646,305</b>	<b>2,796,883</b>
<b>NET ASSETS</b>		
Without donor restrictions	2,679,902	2,115,320
With donor restrictions	7,298	16,002
<b>TOTAL NET ASSETS</b>	<b>2,687,200</b>	<b>2,131,322</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 5,333,505</b>	<b>\$ 4,928,205</b>

*See accompanying notes*

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# REHABILITATION AND EMPLOYMENT SERVICES OF THE EAST BAY, INC.

## STATEMENTS OF ACTIVITY FOR THE YEAR ENDED DECEMBER 31, 2022 (with summarized comparative totals for 2021)

	Without Donor Restrictions	With Donor Restrictions	2022 Total	Summarized 2021 Total
<b>SUPPORT AND REVENUE</b>				
Support				
Contributions and grants	\$ 13,248	\$ 188,109	\$ 201,357	\$ 94,950
PPP forgiveness revenue (Note 9)	-	-	-	524,217
In-kind contributions	14,652	-	14,652	6,031
Revenue				
Program service fees	5,029,114	-	5,029,114	4,253,067
Interest and dividend income	12,538	-	12,538	15,069
Miscellaneous income	4,554	-	4,554	8,207
Total support and revenue	5,074,106	188,109	5,262,215	4,901,541
Net assets released from restrictions	196,813	(196,813)	-	-
Total support and revenue	5,270,919	(8,704)	5,262,215	4,901,541
<b>EXPENSES</b>				
Program services expenses	3,995,609	-	3,995,609	3,736,986
Supporting services expenses				
Management and general	626,074	-	626,074	613,350
Fundraising	84,654	-	84,654	18,207
Total supporting services expenses	710,728	-	710,728	631,557
Total expenses	4,706,337	-	4,706,337	4,368,543
CHANGE IN NET ASSETS	564,582	(8,704)	555,878	532,998
NET ASSETS AT BEGINNING OF YEAR	2,115,320	16,002	2,131,322	1,598,324
NET ASSETS AT END OF YEAR	\$ 2,679,902	\$ 7,298	\$ 2,687,200	\$ 2,131,322

See accompanying notes

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## REHABILITATION AND EMPLOYMENT SERVICES OF THE EAST BAY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2022  
(with summarized comparative totals for 2021)

	Supporting Services				Summarized 2021 Total Expenses
	Program Services	Management & General	Fundraising	Total Supporting Services	
	2022	2022	2022	2022	2021
	Expenses	Expenses	Expenses	Expenses	Expenses
Salaries	\$ 2,628,146	\$ 343,572	\$ 59,561	\$ 403,133	\$ 2,891,847
Payroll taxes	208,394	25,465	4,664	30,129	234,348
Employee benefits	271,041	25,961	5,951	31,913	335,899
Total salaries and related expenses	3,107,581	394,998	70,176	465,175	3,462,094
Accounting	*	110,198	*	110,198	112,915
Agency development	1,769	4,595	2,651	7,246	13,334
Association fees	8,412	*	*	*	8,268
Automobiles	58,370	*	357	357	29,175
Computer & IT costs	60,592	13,939	2,973	16,912	18,925
COVID safety supplies	14,075	1,820	102	1,922	13,730
Insurance	18,659	15,434	166	15,600	27,347
Interest and finance charges	41,488	210	84	294	49,571
Legal	*	11,369	*	11,369	3,330
Office and other miscellaneous	79,451	46,265	2,318	48,583	98,974
Other professional fees	*	*	*	*	10,947
Program expense	41,276	*	1	1	41,277
Operating lease expense & storage	266,513	20,513	4,999	25,512	292,025
Repairs and maintenance	38,219	388	95	483	38,703
Staff development & training	81,888	2,727	90	2,818	84,706
Taxes, property and other	5,111	1,047	-	1,047	6,158
Travel, meals and parking	*	*	*	*	10,147
Utilities	73,694	2,208	552	2,760	35,049
Total expenses before depreciation	3,897,098	625,713	84,564	710,277	4,283,940
Depreciation	98,511	361	90	451	84,603
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>\$ 3,995,609</b>	<b>\$ 626,074</b>	<b>\$ 84,654</b>	<b>\$ 710,728</b>	<b>\$ 4,368,543</b>

# REHABILITATION AND EMPLOYMENT SERVICES OF THE EAST BAY, INC.

## STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2022

	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 555,878	\$ 532,998
Loss on disposal of fixed assets	-	28,768
Forgiveness of PPP Loan (Note 9)	-	(524,217)
Correction of prior period misstatements (Note 3)		(20,472)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	98,962	84,603
Decrease (increase) in assets		
Accounts receivable	(91,698)	71,774
Prepaid expenses	(1,344)	14,946
Security deposits	-	(6,531)
Deferred compensation assets	10,035	-
Increase (decrease) in liabilities		
Accounts payable	38,073	3,992
Accrued payroll, payroll taxes, and vacation/PTO	(13,857)	(3,593)
Other accrued expenses	(33,539)	24,005
Payable to funder (Note 9)	(460,459)	460,459
Deferred interest	-	(3,361)
Operating lease liability, net	15,247	20,268
Net cash provided (used) by operating activities	117,298	683,639
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of fixed assets	(196,973)	(163,001)
Net cash provided (used) by investing activities	(196,973)	(163,001)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from notes and mortgages payable	-	64,540
Repayments of mortgages and notes payable	(113,250)	(46,522)
Net cash provided (used) by financing activities	(113,250)	18,018
<b>NET CHANGE IN CASH</b>	(192,925)	538,656
Cash and cash equivalents at beginning of year	1,382,054	843,398
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	\$ 1,189,129	\$ 1,382,054

See accompanying notes

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# REHABILITATION AND EMPLOYMENT SERVICES OF THE EAST BAY, INC.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 1 - NATURE OF ACTIVITIES

The mission of Rehabilitation and Employment Services of the East Bay, Inc., dba RES Success (the Organization), is to provide program services to adults with intellectual challenges and autism spectrum disorders that instill dignity and respect for greater independence. RES Success programs are designed to achieve individual aspirations of each participant, providing participants the opportunity to become productive members of the community and local social network. Through community integration and education, participants gain a level of independence and self-worth, thus contributing to self-satisfaction in personal and social endeavors throughout all aspects of their lives. The program operates on the principals of meaningful activities that are goal oriented and purpose based.

The Organization receives revenue primarily from the Regional Center of the East Bay, Inc., a resource agency for persons with intellectual challenges and autism spectrum disorders. The revenues are unrestricted and are contingent upon the availability of funding from the State of California. The Organization also receives contributions from the general public.

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Presentation:

The financial statements of the Organization have been prepared on the accrual basis of accounting. The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) "Audit and Accounting Guide for Not-for-Profit Organizations" (the "Guide"). Net assets, revenues, gains, and losses, are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Organization's board may designate assets without restrictions for specific operational purposes from time to time.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.



**REHABILITATION AND EMPLOYMENT  
SERVICES OF THE EAST BAY, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *continued***

**Comparative Information:**

The financial statements include certain summarized comparative information from the prior year, which was audited by predecessor auditors. This information is presented in total and not by net asset class and does not include sufficient detail to be in conformity with generally accepted accounting principles. Such information should be read together with RES Success's financial statements for the year ended December 31, 2021, from which the summarized information was derived.

**Correction of Errors:**

The statement of financial position as of December 31, 2021 and statement of activities for the year then ended have been restated to correct for errors. Lease right-of-use assets and related liability accounts were not properly calculated and reported. The adjustments are described in Note 3. Certain comparative footnote information, related statement of functional expense totals, and the statement of cash flows have also been adjusted accordingly. In addition, the net assets at the beginning of the year for 2021 have also been restated to correct the lease asset and liability balances in the 2020 financial statements, which was the year of adoption.

**Cash and Cash Equivalents:**

The Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. The Organization does not currently have any cash equivalents.

**Accounts Receivable:**

The Organization considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been established. If accounts become uncollectible, they will be charged to operations when that determination is made. Primarily, trade receivables consist of program services receivable within thirty days.

**Estimates:**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates, and those differences could be material.



**REHABILITATION AND EMPLOYMENT  
SERVICES OF THE EAST BAY, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *continued***

**Property and Equipment:**

The Organization capitalizes property and equipment over \$2,500. Property and equipment are stated at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 5 to 39 years, except for leasehold improvements, which are depreciated over the remaining duration of the lease. Maintenance and repairs that do not improve or extend the useful lives of the respective assets are charged to expense when incurred. Expenditures for additions and improvements, where significant in amount, are capitalized.

**Revenue Recognition and Contracts with Customers:**

Revenue from contracts with customers, disaggregated by type, is depicted on the face of the statement of activities. The Organization receives the majority of its income from its day program services, which are exchange transactions. Revenues for providing these services are recognized in the year in which the services take place. As the Organization invoices its services at the end of each month after the services have taken place, the Organization has already satisfied its contractual obligations; as such, there is no unfulfilled contract (liability) at the end of the month or year-end, and therefore there is no liability account for deferred income on those revenues.

**Contributions:**

Unconditional contributions or grants are recognized when received and recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Conditional contributions or grants, that is, those with a measurable performance or other barrier, and a right of return, are recognized when the conditions of release have been substantially met or explicitly waived.

Consequently, at December 31, 2022, grant contributions approximating \$47,000 have not been recognized in the accompanying statement of activities because the conditions on which they depend have not yet been met. Of the total conditional contributions, \$9,000 depends on evaluating communication systems in programs and the remainder depends on different milestones towards developing person-centered practices.

Gifts of cash and other assets are reported with donor restricted support if they are received with donor stipulations that limit the use of the donated assets. When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.



**REHABILITATION AND EMPLOYMENT  
SERVICES OF THE EAST BAY, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - *continued*

**In-kind Contributions:**

In-kind contributions include donated computer equipment, donated antigen test kits, and reductions in lease expense. In-kind contributions are recorded at fair value at the date of donation and without donor restriction.

**Functional Expenses:**

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statement of activities and in the statement of functional expenses. Certain categories of expenses are attributable to both program services and supporting activities. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Allocated expenses include office and occupancy costs of space related to the clinical team, agency-wide staff relations, and general liability insurance. Allocations are based on occupancy space usage or staff time and effort.

**Income Tax Status:**

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and from California Franchise Tax under section 23701(d) of the California Revenue and Taxation Code. The Organization is subject to income taxes on any unrelated business income.

**Recently Adopted Accounting Standards:**

On January 1, 2020, RES Success adopted Accounting Standards Update (ASU) No. 2016-02, *Leases*, which requires lessees to recognize leases on the statement of financial position and disclose key information about leasing arrangements. The Organization elected the package of practical expedients permitted under the new standard that allowed RES Success to carry forward historical lease classification without reassessing (i) whether any expired or existing contracts contain leases; (ii) the lease classification for any expired or existing leases; and (iii) initial direct costs for any existing leases.

The right-of-use (ROU) assets represent RES Success's right to use the underlying assets for the lease term, and the lease liabilities represent their obligation to make lease payments arising from these leases. The ROU assets and lease liabilities, all of which arise from operating leases, were calculated based on the present value of future lease payments over the lease terms. RES Success's leases consist of real estate leases for office and program space.



**REHABILITATION AND EMPLOYMENT  
SERVICES OF THE EAST BAY, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - CORRECTION OF ERRORS**

At the year ended December 31, 2021, the Organization reported an operating lease right of use asset of \$1,005,005 and a related liability of \$1,026,031 (short- and long-term portions). The Organization also reported a lease expense of \$239,095. These financial statements were audited by other auditors. During the 2022 audit, management reviewed the formulas and methods for the lease accounting and discovered errors in the calculations. The errors were material and required correction.

The 2021 financial statements have been restated with respect to these corrections as part of our 2022 audit. Additionally, the net assets at the beginning of the year for 2021 have also been restated to correct the lease liability balances in the 2020 financial statements, which was the year of adoption of FASB ASU No. 2016-02, *Leases*.

Corrections have the following effect on the 2021 financial statements:

	As Reported	Restated
Operating lease - right of use asset	\$ 1,005,005	\$ 1,093,996
Total assets	\$ 4,839,214	\$ 4,928,205
Operating lease - liability, current portion	\$ 227,560	\$ 234,506
Operating lease - liability, long-term portion	\$ 798,471	\$ 887,686
Total liabilities	\$ 2,700,722	\$ 2,796,883
Total net assets	\$ 2,138,492	\$ 2,131,322
Total liabilities and net assets	\$ 4,839,214	\$ 4,928,205
Total program service expenses	\$ 3,742,953	\$ 3,736,986
Total expenses	\$ 4,374,510	\$ 4,368,543
Change in net assets	\$ 527,031	\$ 532,998
Net assets at beginning of year	\$ 1,611,461	\$ 1,598,324
Operating lease expense and storage	\$ 239,095	\$ 233,128

**NOTE 4 - CONCENTRATION OF CREDIT RISK**

The Organization manages deposit concentration by placing cash with financial institutions they believe to be creditworthy. At times, amounts on deposit may exceed insured limits. The federal government, FDIC, guarantees cash balances up to \$250,000 for each institution. The Organization exceeds the guaranteed amounts at December 31, 2022 and 2021 by \$687,603 and \$877,855, respectively. To date, the Organization has not experienced losses in any of these accounts.



**REHABILITATION AND EMPLOYMENT  
SERVICES OF THE EAST BAY, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the date of the statement of financial position, comprise the following:

	<b>2022</b>	<b>2021</b>
Financial assets at year-end	\$ 1,723,029	\$ 1,824,257
Less those unavailable for general expenditures within one year, due to:		
Donor-restricted	7,298	16,002
Financial assets available to meet cash needs for general expenditure within one year	\$ 1,715,731	\$ 1,808,255

The Organization has a goal to maintain cash on hand to meet 30 days of normal operating expenses, which are, on average, approximately \$390,000. As part of its liquidity management, the Organization has a line of credit with Heritage Bank of Commerce in the amount of \$300,000. At December 31, 2022, the Organization had not drawn on the line of credit, and the full amount remained available.

**NOTE 6 - CASH AND CASH EQUIVALENTS**

At December 31, 2022 and 2021, cash and cash equivalents consist of the following:

	<b>2022</b>	<b>2021</b>
Petty cash	\$ 1,515	\$ 1,982
Cash in banks	1,187,614	1,380,072
	\$ 1,189,129	\$ 1,382,054

**NOTE 7 - LINE OF CREDIT**

The Organization has a line of credit with Heritage Bank for borrowings up to \$300,000. The line matures on July 3, 2023 and bears an interest rate of 1.000 percentage point over the index, with an initial rate of 4.250%. As of December 31, 2022, there was no outstanding balance.



**REHABILITATION AND EMPLOYMENT  
SERVICES OF THE EAST BAY, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 - PROPERTY AND EQUIPMENT**

At December 31, 2022 and 2021, property and equipment accounts are comprised of the following:

	<b>2022</b>	<b>2021</b>
Land	\$ 360,084	\$ 360,084
Buildings	1,936,504	1,801,948
Vans	285,986	227,649
Furniture and equipment	103,607	103,607
Leasehold improvements	78,129	198,629
Building Work in Progress	180,367	55,787
Total cost	2,944,677	2,747,704
Less accumulated depreciation	(920,424)	(821,464)
Net book value	<u>\$ 2,024,253</u>	<u>\$ 1,926,240</u>

**NOTE 9 - PPP Loan Payable**

On May 11, 2020, RES Success received a loan from Customers Bank (the Borrower) in the aggregate amount of \$524,217 pursuant to the Paycheck Protection Program (the PPP) under Division A, Title I of the CARES Act, which was enacted on March 27, 2020.

The loan, which was in the form of a Note dated May 11, 2020 issued by the Borrower, had an original maturity date of May 11, 2022 and bore interest at the rate of 1% per annum. The loan was forgiven on October 7, 2021 and was recognized as PPP Loan Forgiveness revenue as of December 31, 2021.

As part of its agreement with the Regional Center of the East Bay, Inc. (RCEB), where the Organization receives primarily all of its revenue, the Organization had to forward a substantial amount of the PPP funds to RCEB as funding reimbursement. This liability was reflected on the statement of financial position as of December 31, 2021 as Payable to Funder in the amount of \$460,459. The funds were paid to RCEB in 2022.

**NOTE 10 - MORTGAGES PAYABLE**

The Organization's mortgages payable consists of two mortgages. The first is on 2980 Railroad Avenue, Pittsburg, California. The loan originated on August 1, 2008 and has been modified, most recently on November 3, 2020. The loan matures on October 31, 2035. The loan is payable to Heritage Bank of Commerce and is due in monthly installments of \$6,095.91, including interest at the rate of 4.50%. Payments and interest rates change in 2030. The loan is secured by the land and building.



**REHABILITATION AND EMPLOYMENT  
SERVICES OF THE EAST BAY, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 10 - MORTGAGES PAYABLE - *continued***

The second is on 702 Alfred Nobel Drive, Hercules, California. The loan originated on April 14, 2016 and matures on April 14, 2026. The loan is payable to Heritage Bank of Commerce and is due in monthly installments of \$1,428.44, including interest at the rate of 4.70%. There is a final balloon payment of approximately \$137,563.50 due at maturity. The loan is secured by the land and building.

Future scheduled maturities of mortgages payable are as follows:

Years ending December 31:

2023	\$	50,689
2024		52,909
2025		55,226
2026		196,032
2027		50,409
Thereafter		<u>472,038</u>
Total mortgage payable		877,303
Less current portion		<u>(50,689)</u>
Long-term portion		<u>\$ 826,614</u>

**NOTE 11 - LEASES**

RES Success leases certain office facilities at various terms under long-term non-cancelable operating lease agreements. The leases are included in the right-of-use (ROU) assets and lease liabilities in the statement of financial position. ROU assets and lease liabilities reflect the present value of the future minimum lease payments over the lease term. Operating lease expenses is recognized on a straight-line basis over the lease term. The leases expire in various dates through 2030 and some provide for renewal options in five-year increments. The Organization includes in the determination of the right-of-use assets and lease liabilities any renewal options when the options are reasonably certain to be exercised. Some of the operating leases provide for increases in future minimum rental payments. Additionally, the operating lease agreements require the Organization to pay real estate taxes, insurance, and repairs.

The weighted-average discount rate is not implicit in the leases, therefore, the Organization estimates an applicable incremental borrowing rate. The incremental borrowing rate is estimated using their applicable borrowing rates and the contractual lease term. Incremental borrowing rates range from 4.25% to 5.25%.

The organization elected the practical expedient to not separate lease and non-lease components for a real estate lease.





**REHABILITATION AND EMPLOYMENT  
SERVICES OF THE EAST BAY, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 11 - LEASES - *continued***

For the years ended December 31, 2022 and 2021, total operating lease expense was \$281,504 and \$225,338, respectively. As of December 31, 2022, the average remaining lease term for RES Success's operating leases was approximately 5.25 years.

Cash paid for operating leases for the years ended December 31, 2022 and 2021 was \$257,790 and \$212,390, respectively. There were no noncash investing and financing transactions related to leasing

Future maturities of lease liabilities under noncancelable operating leases with original terms greater than one year are as follows:

Years ending December 31:

2023	\$ 270,486
2024	281,484
2025	289,498
2026	297,804
2027	211,860
Thereafter	<u>450,238</u>
Total lease payments	1,801,370
Less interest	<u>(246,726)</u>
Present value of lease liabilities	<u>\$ 1,554,644</u>

**NOTE 12 - EMPLOYEE BENEFIT PLANS**

The Organization offers a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. The plan covers full-time employees of the Organization. The Organization does not ordinarily contribute to the plan for qualified employees. Employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code. Plan expenses are paid by the Organization.

The Organization also offers its officer a deferred compensation plan created in accordance with Internal Revenue Code Section 457(b). The plan, available only to the Executive Director, permits him to defer a portion of his salary, or the Organization may contribute to the plan on his behalf. The deferred compensation in the plan is not available to its employee until termination, retirement, death, or unforeseeable emergency.



**REHABILITATION AND EMPLOYMENT  
SERVICES OF THE EAST BAY, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 12 - EMPLOYEE BENEFIT PLANS - *continued***

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the Organization (without being restricted to the provisions of benefits under the plan), subject only to the claims of the Organization's general creditors. The Organization's invested assets of the deferred compensation plan consist of a money market mutual fund account with a major investment securities company, which is classified as a Level 1 security in accordance with generally accepted accounting principles (GAAP). The balance in the 457(b) deferred compensation asset account was \$10,035 at December 31, 2021.

In May 2022, the Board of Directors resolved that the plan be terminated, with no further contributions to be made to it. They resolved further that the accounts of the participants in the plan shall be 100% vested as of the date of plan termination and that the benefits held under the plan shall be distributed to the plan participants as soon as administratively feasible pursuant to the terms of the plan. The account was liquidated in June 2022 and the payment was made to the Executive Director in July 2022. As of December 31, 2022, the balance of the 457(b) deferred compensation asset account was \$0.

**NOTE 13 - RELATED PARTY TRANSACTIONS**

A member of the Board of Directors and the RES Success Executive Director are married to each other. Under the Organization's conflict-of-interest policy, all business and financial relationships between the Organization, members of the Board of Directors, and officers, are subject to review and approval by the Board of Directors.

**NOTE 14 - CONTINGENCIES**

Certain grants received by the Organization are subject to audit or review by the grantors. As a result of these audits or reviews, if any, the Organization may be required to repay a portion of grant funds received. However, management does not believe any liability related to its grants would be material.

**NOTE 15 - EVALUATION OF SUBSEQUENT EVENTS**

RES Success has evaluated subsequent events through September 12, 2023, the date the financial statements were available to be issued, and determined that there are no subsequent events requiring adjustment to, or disclosure in, the financial statements.

