



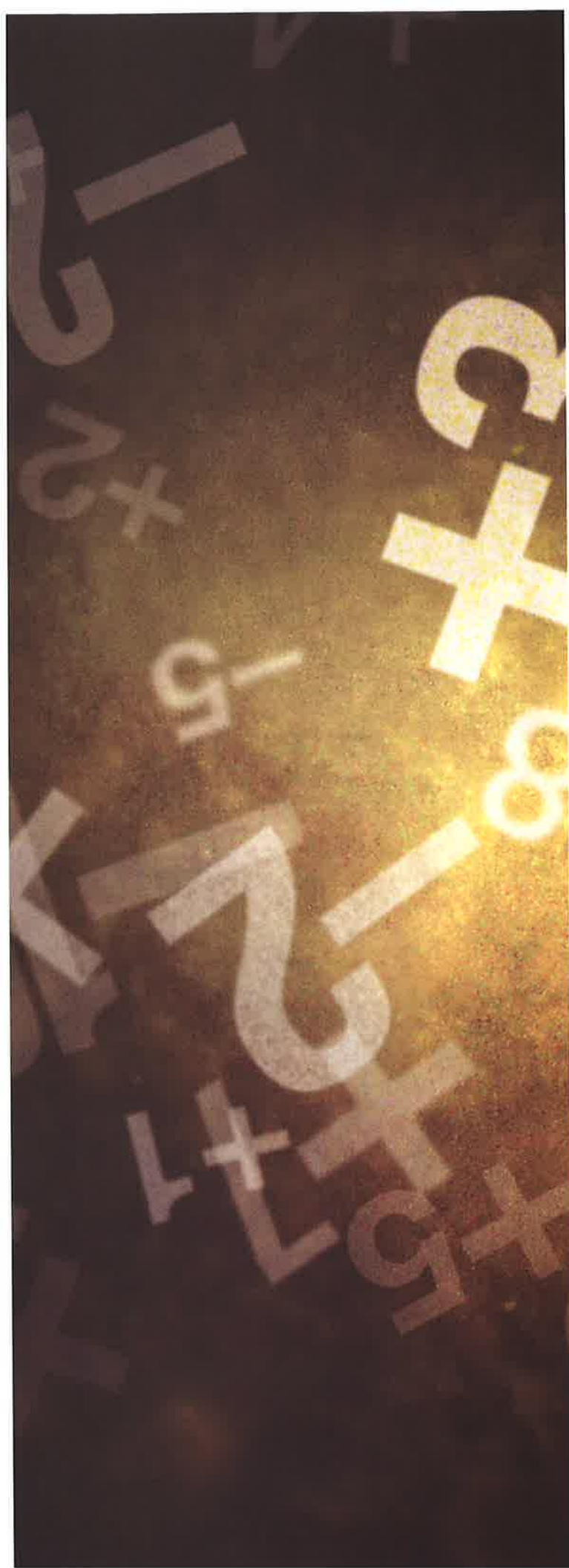
Certified Public Accountants

ricci&company llc

RCI, INC.

**FINANCIAL STATEMENTS
With Supplemental
Schedule of Activities**

June 30, 2010



RCI, INC.

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RCI, INC.

**Official Roster
June 30, 2010**

Board of Directors

Carol Guerra	Chairman
Catherine Salazar	Vice Chair
Joan Schofield	Secretary
Cathy Rypma-Dixon	Treasurer
Brad Vaughn	Director
Kathleen Cates	Director
Leslie Strickler	Director
Linda Geiszler	Director
Myron Andrew Saldyt	Director
Catherine Thompkins	Director

Administrative Personnel

Angela Vigil	President and CEO
Deborah Kubler	Director of Finance

Independent Auditors' Report

To the Board of Directors
RCI, Inc.
Albuquerque, New Mexico

We have audited the accompanying statement of financial position of RCI, Inc. (a nonprofit organization) as of June 30, 2010, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of RCI, Inc. as of June 30, 2009 were audited by other auditors whose report dated September 21, 2009, expressed an unqualified opinion on those statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of RCI, Inc. as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2010, on our consideration of RCI, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Ricci & Company, LLC

Albuquerque, New Mexico
September 15, 2010

RCI, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2010 and 2009

ASSETS

	2010	2009
Current Assets		
Cash and cash equivalents	\$ 204,965	356,495
Accounts receivable	532,834	428,708
Contracts receivable		
NISH and other service contracts, net	721,124	630,326
State of New Mexico	16,258	19,953
United Way - promise to give	57,000	84,495
Prepaid expense and deposits	12,381	29,830
	<hr/>	<hr/>
Total current assets	1,544,562	1,549,807
Other Assets		
Investments	799,171	861,220
Property and equipment, net	2,971,193	2,973,381
	<hr/>	<hr/>
Total other assets	3,770,364	3,834,601
	<hr/>	<hr/>
Total assets	\$ 5,314,926	5,384,408

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts payable	\$ 354,823	377,713
Accrued wages and benefits	206,547	154,859
Accrued compensated absences	136,665	113,933
Line of credit	100,000	75,000
Current portion of long-term debt	50,664	38,961
	<hr/>	<hr/>
Total current liabilities	848,699	760,466
Long-term Debt	1,686,751	1,687,637
	<hr/>	<hr/>
Total liabilities	2,535,450	2,448,103
Net Assets		
Unrestricted		
Property and equipment	1,243,200	1,246,783
Operating	1,475,305	1,590,027
Total unrestricted net assets	2,718,505	2,836,810
Temporarily restricted	60,971	99,495
	<hr/>	<hr/>
Total net assets	2,779,476	2,936,305
	<hr/>	<hr/>
Total liabilities and net assets	\$ 5,314,926	5,384,408

See Notes to Financial Statements.

RCI, INC.
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
Year Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Total
Support and Revenue			
Grants	\$ 15,125	-	15,125
United Way funding	-	57,000	57,000
Contributions	14,620	-	14,620
Program service revenue:			
NISH and other service contracts	4,348,101	-	4,348,101
Program service fees, net	2,654,552	-	2,654,552
NM Department of Health contracts	1,216,726	-	1,216,726
Realized gain on investments	71,537	-	71,537
Unrealized gain on investments	28,891	-	28,891
Dividends and interest	26,344	-	26,344
Other income	14,141	-	14,141
	<hr/>		
Total support, revenue and gains	8,390,037	57,000	8,447,037
	<hr/>		
Net assets released from restrictions	95,524	(95,524)	-
	<hr/>		
Expenses			
Program services	7,360,237	-	7,360,237
Supporting service:			
Fundraising expense	20,646	-	20,646
General and administration	1,222,983	-	1,222,983
	<hr/>		
Total expenses	8,603,866	-	8,603,866
	<hr/>		
Change in net assets	(118,305)	(38,524)	(156,829)
	<hr/>		
Net assets at beginning of year	2,836,810	99,495	2,936,305
	<hr/>		
Net assets at end of year	\$ 2,718,505	60,971	2,779,476
	<hr/> <hr/>		

See Notes to Financial Statements.

RCI, INC.
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
Year Ended June 30, 2009

	Unrestricted	Temporarily Restricted	Total
Support and Revenue			
Grants	\$ 8,000	2,495	10,495
United Way funding	9,284	82,000	91,284
Contributions	4,660	15,000	19,660
Program service revenue:			
NISH and other service contracts	4,038,036	-	4,038,036
Program service fees, net	2,643,330	-	2,643,330
NM Department of Health Contracts	1,365,438	-	1,365,438
Realized loss on investments	(114,342)	-	(114,342)
Unrealized loss on investments	(49,476)	-	(49,476)
Investment income	46,551	-	46,551
Other income	525	-	525
	<hr/>		
Total support, revenue and gains	7,952,006	99,495	8,051,501
	<hr/>		
Net assets released from restrictions	91,750	(91,750)	-
	<hr/>		
Expenses			
Program services	7,100,290	-	7,100,290
Supporting service:			
Fundraising expense	18,797	-	18,797
General and administration	1,200,431	-	1,200,431
	<hr/>		
Total expenses	8,319,518	-	8,319,518
	<hr/>		
Change in net assets	(275,762)	7,745	(268,017)
	<hr/>		
Net assets at beginning of year	3,112,572	91,750	3,204,322
	<hr/>		
Net assets at end of year	\$ 2,836,810	99,495	2,936,305
	<hr/> <hr/>		

See Notes to Financial Statements.

RCI, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2009

	Program Services										Total Program Expenses	
	Government Contracts		Community Service					General & Administrative				
	Custodial	Console Operators	Day Habilitation	Vocational Services	Career Discovery	Literacy	Children & Therapy					
Salaries and benefits												
Salaries	\$ 154,584	14,008	557,467	344,080	29,299	28,263	864,522				597,828	2,590,051
Clients and other	1,047,357	252,719	8,174	147,365	4,733	-	-				-	1,460,348
Employee benefits and taxes	126,657	28,408	115,314	94,095	4,630	4,024	123,910				107,136	604,174
Total salaries and benefits	<u>1,328,598</u>	<u>295,135</u>	<u>680,955</u>	<u>585,540</u>	<u>38,662</u>	<u>32,287</u>	<u>988,432</u>				<u>704,964</u>	<u>4,654,573</u>
Professional fees and contract labor												
General and administration	1,605,576	-	22,962	18,238	1,009	1,259	844,811				98,485	2,592,340
Supplies	363,318	43,782	291,316	153,736	11,714	11,714	297,135				(1,172,715)	-
Utilities	150,150	381	17,346	2,289	4,212	308	10,906				4,400	189,992
Commissions	72,300	14,395	589	-	-	-	-				35,895	36,484
Depreciation	-	-	-	-	-	-	-				-	86,695
Telephone	3,288	90	6,815	8,212	536	12	9,839				104,079	104,079
Insurance	-	48	-	-	-	-	-				20,640	49,432
Travel and conferences	1,525	394	-	573	-	-	1,035				57,482	57,530
Transportation services	16,392	247	15,600	17,047	46	6	35,665				5,382	8,909
Interest	-	-	29,948	-	-	-	-				71,560	90,299
Miscellaneous	849	128	2,391	990	-	85	33,096				9,204	101,508
Bad debt expense	-	-	5,626	12,917	5,407	83	95,560				20,640	46,743
Rental and maintenance	1,077	-	44,814	-	521	-	12,786				-	119,593
Postage and shipping	632	7	85	-	-	-	-				22,466	81,664
Office expenses	1,065	-	1,174	1,048	29	280	7,674				4,505	5,229
Bank and investment fees	-	-	-	-	-	-	-				24,156	35,426
Fundraising expense	-	-	-	-	-	-	-				9,983	9,983
Advertising and marketing	507	-	454	2,654	-	-	4,258				18,797	18,797
Dues and subscriptions	109	-	251	-	-	-	75				12,603	20,476
Total functional expenses	<u>\$ 3,545,386</u>	<u>354,607</u>	<u>1,120,326</u>	<u>803,244</u>	<u>62,136</u>	<u>46,034</u>	<u>2,341,272</u>				<u>46,513</u>	<u>8,319,518</u>

See Notes to Financial Statements.

RCI, INC.
STATEMENTS OF CASH FLOWS
June 30, 2010 and 2009

	2010	2009
Cash Flows From Operating Activities		
Decrease in net assets	\$ (156,829)	(268,017)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities		
Depreciation	96,314	104,079
Realized (gains) losses on investments	(71,537)	114,342
Unrealized (gains) losses on investments	(28,891)	49,476
Changes in assets and liabilities		
Accounts receivable	(104,126)	(151,098)
Contracts receivable	(87,103)	69,235
United Way receivable	27,495	5,505
Prepaid expense and deposits	17,449	(55,316)
Accounts payable	(22,890)	66,868
Accrued expenses	74,420	16,056
	<hr/>	<hr/>
Net cash used by operating activities	(255,698)	(48,870)
	<hr/>	<hr/>
Cash Flows From Investing Activities		
Purchase of investments	(974,817)	(595,012)
Proceeds from sale of investments	1,137,294	563,108
Purchase of property and equipment	(41,326)	(44,889)
	<hr/>	<hr/>
Net cash provided (used) by investing activities	121,151	(76,793)
	<hr/>	<hr/>
Cash Flows From Financing Activities		
Principal payments on long-term debt	(41,983)	(36,807)
Proceeds from line of credit	484,243	-
Principal payments on line of credit	(459,243)	(25,000)
	<hr/>	<hr/>
Net cash used by financing activities	(16,983)	(61,807)
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(151,530)	(187,470)
	<hr/>	<hr/>
Cash and cash equivalents at beginning of year	356,495	543,965
	<hr/>	<hr/>
Cash and cash equivalents at end of year	\$ 204,965	356,495
	<hr/> <hr/>	<hr/> <hr/>
Supplemental Noncash Financing Activities		
Assets acquired through issuance of note payable	\$ 52,800	-
	<hr/> <hr/>	<hr/> <hr/>

See Notes to Financial Statements.

RCI, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 1. ORGANIZATION

RCI, Inc. is a New Mexico not-for-profit corporation organized in 1958 to provide appropriate education, treatment, and other services for developmentally, physically, and/or emotionally disabled adults and children. RCI, Inc.'s mission is to enable children and adults with special needs to achieve their highest level of self-sufficiency. RCI, Inc. is headquartered in Albuquerque, New Mexico, and operates with locations in Albuquerque and Rio Rancho, New Mexico.

RCI provides the following programs for the benefit of its service recipients:

Federal Contracts

Employment opportunities are provided to adults with disabilities and special needs under the federal set-aside program known as Javits Wagner O'Day (JWOD). National Institute for the Severely Handicapped (NISH) assists RCI in contracting matters using the JWOD program, which creates employment opportunities for people with severe disabilities. Examples of these employment opportunities include console operators and custodians. In addition, other employment opportunities are created outside of the JWOD program for individuals with disabilities. Many of these employees are supported on the job through the vocational services program. As of June 30, 2010 and 2009, approximately 88 and 84 individuals with disabilities were employed under NISH and other service contracts, respectively.

Community Services

Day Habilitation - Day Habilitation serves adults with developmental disabilities by providing integrated and individualized community-based services. Individuals participate in activities such as exploration, recreation, education and community service, each customized for the individual's needs.

Vocational Services - provide opportunities in the world of work to adults with disabilities and special needs. RCI, Inc. matches individuals with employers to jobs that fit both parties' needs and abilities.

Career Discovery - is for adults who want to increase their exposure to the world of work. This includes work assessment and job coaching.

RCI, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 1. ORGANIZATION (CONTINUED)

Literacy - Within the Literacy Program, the time, space and equipment is provided so individuals can discover their natural gifts. Through specifically designed curriculums and within a differentiated instructional framework, individuals will clarify vocational pursuits and obtain the specific resources and employment strategies to succeed in realizing their passion in the community. The Literacy Program defines and implements a curriculum that parallels the overall mission of CAREER. Literacy is person-centered where students create, develop and manage their educational and career interests. The curriculum is designed to encourage students to learn independently, develop critical thinking skills and to participate in group activities. Students will have access to individualized instruction, computer assisted technology and vocational data bases, while preparing for employment in the workplace or individuals currently employed can maintain employment by continued studies. The Literacy program consists of three units:

- Career Readiness
- Language Arts
- Math

Children 's and Therapy Services

Child Development - Child development services provide therapeutic support for children ages birth to three by working with families to identify the needs of children who may have delays in development, uneven patterns of growth, or are at risk due to factors in their environment. Services are delivered in the child's home or at one of RCI, Inc.'s locations and consist of:

- Evaluation and assessment
- Speech, occupational and physical therapies
- Therapeutic educational services
- Specialized infant program
- Service coordination

Therapy Services - Provide certified and licensed therapy for children and adults in the following areas:

- *Occupational therapy* - helps people learn practical skills and adapt to changing job environments.
- *Physical therapy* - helps with an individual's endurance, body awareness and strengthening to achieve optimal abilities.
- *Speech and language therapy* - helps people with all levels of communication realize confidence and independence.

RCI, Inc. was incorporated under the provisions of the New Mexico Nonprofit Corporation Act. A volunteer board of directors governs RCI, Inc.

RCI, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting. The financial statements have been prepared on the accrual basis of accounting in conformity with generally accepted accounting principles. Under this method, all revenues earned and determinable in amount and receivable by the organization are recognized. Expenses incurred but not paid as of the close of business at June 30 are accrued.

Financial Statement Presentation. Financial statement presentation follows the recommendations of the Financial Accounting Standards Board. Under the standards, 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.

Cash and Cash Equivalents. For purposes of reporting cash flows, the Organization considers all unrestricted cash and other highly liquid investments available for current use with a maturity of three months or less to be cash equivalents.

Investment Securities. Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. In accordance with generally accepted accounting principles, unrealized gains and losses are included in the change in net assets. Investment return consists of investment income, realized gain (loss) and unrealized gain (loss). Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized. Investment transactions are recorded as of the trade date.

The Organization has classified its investment portfolio as available-for-sale and, accordingly, has accounted for its investments, respectively, at fair market value in 2010 and 2009. The Organization adopted new accounting guidance related to fair value measurements beginning in 2010 which establishes a framework for measuring fair value and using inputs (Levels 1-3). All of the Organization's investments are considered to be Level 1, which are determined by reference to quoted market prices generated by market transactions.

Accounts and Contracts Receivable. Accounts and contracts receivable are stated at face value. Management uses historical experience applied to an aging of accounts. Accounts and contracts receivable are written off when deemed uncollectible. Receivables are considered past due if the balance is outstanding for more than 90 days. No interest is charged on late receivables. Management believes that the entire amount of receivables is collectible, and that any uncollectible amount would be insignificant.

RCI, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Assets for which historical cost or fair market value at the date of donation are not known have been recorded at estimated value. Depreciation is computed using primarily the straight-line method. RCI, Inc. capitalizes all expenditures for property and equipment with a cost of \$500 or more. Items with a cost of less than \$500 are expensed in the year of acquisition. Repairs and-maintenance expenses are charged to operations when incurred and major betterments and replacements are capitalized.

The major classifications of property and equipment and the related depreciable lives are as follows:

Classification	Depreciable Lives
Buildings and improvements	15-39 years
Furniture and equipment	3-7 years
Vehicles	5 years

Assets donated with explicit restrictions regarding their use and contributions of cash earmarked to acquire property and equipment are reported as temporarily restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, RCI, Inc. reports expirations of donor restrictions when the donated or acquired assets are placed in service. RCI, Inc. reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Public Support and Revenue. Contributions received and unconditional promises to give are measured at their fair value and are reported as an increase in net assets. RCI, Inc. 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, or if they are designated as support of future periods. 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 activity as net assets released from restrictions.

RCI, Inc. reports gifts of goods and equipment 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, RCI, Inc. reports expirations of donor restrictions over the estimated useful life of the donated or acquired long-lived assets.

RCI, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions received have been recorded as unrestricted, except for allocations from United Way. United Way typically notifies its non-profits of the amount of grant funds they will receive in the upcoming fiscal year(s). RCI, Inc. has recorded this amount as temporarily restricted net assets and as United Way allocation receivable. The amount will be released to unrestricted contributions when the funds have been received and expended. Program revenues are recognized when services are rendered.

Program Services Fees. New Mexico Department of Health and New Mexico Department of Human Services revenues and certain program service fees are reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered.

Donated Goods and Services. Donated materials and equipment are recognized as revenue at their estimated values at the date of receipt. Contributions of services are recognized as revenue at their estimated values only if the services received:

- (a) create or enhance non-financial assets, or;
- (b) require specialized skills and are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation

A large number of volunteers have given significant amounts of their time to the Organization. However, those services do not meet the criteria described above and, therefore, no amounts have been recorded for donated services.

Functional Allocation of Expenses. RCI, Inc. allocates its expenses on a functional basis among its various programs including fund-raising activities and support services. Expenses and support services that can be identified with a specific program are allocated directly according to the natural expenditure classification. Other expenses that are common to several programs are allocated, based on various relationships.

Temporarily Restricted Net Assets. Temporarily restricted net assets result from contributions and other inflows of assets whose use by RCI, Inc. is limited by donor-imposed stipulations that expire by passage of time or can be fulfilled and removed by actions of RCI, Inc. pursuant to those stipulations.

Permanently Restricted Net Assets. Permanently restricted net assets result from contributions and other inflows of assets whose use by RCI, Inc. is limited by donor-imposed stipulations that cannot be removed by actions of the RCI, Inc. There were no permanent net assets held at June 30, 2010 and 2009 and, accordingly, these financial statements do not reflect any activity related to this class of net assets.

RCI, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes. RCI, Inc. is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and therefore has made no provision for federal income taxes in the accompanying financial statements. In addition, RCI, Inc. has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code. There was no unrelated business income at June 30, 2010 and 2009.

The Organization would record a liability for uncertain tax positions when it became probable that a loss has been incurred and the amount can be reasonably estimated. Interest would be recognized and accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. Management continually evaluates expiring statutes of limitations, proposed settlements, changes in tax law and new authoritative rulings. As of June 30, 2010 and 2009, no liabilities for uncertain tax positions have been recorded.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Concentrations of Risk. Financial instruments that potentially subject the Organization to concentrations of risk consist primarily of investments in marketable securities. The Organization's investments are in high-quality securities placed with financial institutions. Management attempts to reduce risk through diversification of the investment portfolio among instruments and issuers.

The Organization maintains cash and cash equivalents with financial institutions. At times, such amounts may exceed FDIC limits. The Organization limits the amount of credit exposure with any one financial institution and believes that no significant credit risk exists with respect to cash and cash equivalents.

Advertising Costs. The Organization expensed nondirect-response advertising costs in 2010 and 2009 of \$43,600 and \$20,476, respectively. Amounts are included in advertising and marketing expense along with other marketing expense.

Subsequent Events. The Organization has evaluated subsequent events through September 15, 2010, the date which the financial statements were available to be issued.

Reclassifications. Certain reclassifications have been made to the June 30, 2009 financials to conform to the June 30, 2010 presentation.

RCI, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 3. RECEIVABLES

RCI, Inc. has several contracts receivable as a result of services rendered regarding contracts with various state and local governmental agencies. Receivables consist of Medicaid insurance payments and other monies due from clients. The following is a summary of receivables as of June 30:

	2010	2009
DD waiver	\$ 152,270	172,670
Patients	308,061	207,838
Vocational services	39,543	49,200
Mi Via	3,494	-
Salud and private pay	2,483	-
Other	26,983	-
	<u>\$ 532,834</u>	<u>428,708</u>

NOTE 4. INVESTMENTS

The Organization applies generally accepted accounting principles (GAAP) for fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis. GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

RCI, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 4. INVESTMENTS (CONTINUED)

The following table presents assets that are measured at fair value on a recurring basis at June 30:

	2010	2009
Book value	\$ 840,317	931,257
Unrealized loss	<u>(41,146)</u>	<u>(70,037)</u>
Market value (Level 1)	<u>\$ 799,171</u>	<u>861,220</u>

The fair value of investment securities at June 30 was as follows:

	2010	
	Fair Values	Quoted Market Prices (Level 1)
Equities	\$ 363,813	363,813
Fixed income	354,996	354,996
Other	<u>80,362</u>	<u>80,362</u>
Total	<u>\$ 799,171</u>	<u>799,171</u>

	2009	
	Fair Values	Quoted Market Prices (Level 1)
Mutual funds	\$ <u>861,220</u>	<u>861,220</u>
Total	<u>\$ 861,220</u>	<u>861,220</u>

The following schedule summarizes the investment gain (loss):

	2010	2009
Dividends and interest	\$ 26,344	46,551
Realized gains (losses)	71,537	(114,342)
Net unrealized gain (loss)	<u>28,891</u>	<u>(49,476)</u>
Total investment gain (loss)	<u>\$ 126,772</u>	<u>(117,267)</u>

RCI, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	2010	2009
Land	\$ 380,000	380,000
Buildings	2,764,501	2,764,501
Equipment and furniture	266,123	241,122
Vehicles	412,673	357,632
Leasehold improvements	13,064	-
	<u>3,836,361</u>	<u>3,743,255</u>
Less accumulated depreciation	<u>865,168</u>	<u>769,874</u>
Net property and equipment	<u>\$ 2,971,193</u>	<u>2,973,381</u>

Depreciation expense was \$96,314 and \$104,079 at June 30, 2010 and 2009, respectively.

NOTE 6. LINE OF CREDIT

RCI, Inc. has a \$200,000 line of credit with a local bank. As of June 30, 2010 and 2009, \$100,000 and \$75,000 was drawn on the line of credit. The line of credit carries a variable interest rate of .50% over the prime rate (3.25% as of June 30, 2010 and 2009) as set by the lender, with a maximum rate of 6.0%. As of June 30, 2010 and 2009, the effective rate was 3.75% and 4.25%. The line is secured by accounts receivable and chattel paper. All outstanding principal and interest on the line of credit is due on December 31, 2010.

NOTE 7. NOTES PAYABLE

In April 2006, RCI, Inc. signed a loan agreement with Bank of America, N.A. to finance the purchase of a building for a total value of \$1,270,000. On December 31, 2006, the note was amended and increased to \$1,815,000 to partially finance the construction of a Day Habilitation building adjacent to the purchased building. Significant terms of the loan are as follows:

- 8 monthly consecutive interest payments, beginning May 31, 2006, with interest calculated on the unpaid balances at an interest rate of 5.625% per annum
- 299 consecutive monthly principal and interest payments of \$11,370, beginning January 31, 2007, with interest calculated on the unpaid balance at the rate of 5.625% per annum

RCI, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 7. NOTES PAYABLE (CONTINUED)

- One final principal and interest payment of approximately \$11,556 on October 31, 2031
- The note is secured by the buildings.

In January 2010, RCI, Inc. signed a loan agreement with First Community Bank to finance the purchase of three vehicles for \$52,800. Significant terms of the loan are as follows:

- 59 consecutive monthly principal and interest payments of \$1,035, beginning February 7, 2010, with interest calculated on the unpaid balance at the rate of 6.5% per annum
- One final principal and interest payment of approximately \$1,035 on January 7, 2015
- The note is secured by the three vehicles financed by this loan.

Future minimum payments on the loans are as follows:

2011	\$	50,664
2012		53,455
2013		56,944
2014		60,377
2015		59,845
Thereafter		<u>1,456,130</u>
	\$	<u>1,737,415</u>

NOTE 8. LEASING COMMITMENTS

RCI Inc. rents the facilities for the Rio Rancho Day Habilitation under an operating lease agreement, which expires August 31, 2014, with one five-year extension. Rent is \$3,000 per month, with annual increases of \$150. RCI, Inc. also leases a postage meter and scale with payments due on a quarterly basis that expires June 30, 2013, with monthly payments of \$99. Additionally, RCI, Inc. leases four copiers, which expire August 31, 2012 and one copier, which expires September 12, 2012, with monthly payments ranging between \$473 - \$490.

RCI, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 8. LEASING COMMITMENTS (CONTINUED)

Minimum future rental payments under these leases are as follows:

2011	\$	50,241
2012		52,041
2013		44,700
2014		42,900
2015		<u>7,200</u>
	\$	<u>197,082</u>

NOTE 9. PRIMARY FUNDING SOURCES

A significant portion of RCI Inc.'s funding is received from the New Mexico Department of Human Services (19% and 17% for the years ended June 30, 2010 and 2009, respectively) and the New Mexico Department of Health (28% for the years ended June 30, 2010 and 2009). Another important source of revenue is the federal contracts developed through NISH for custodial work and telephone console operators with Kirtland Air Force Base and the Metropolitan Court. These contracts provided 49% and 47% of the total revenue for 2010 and 2009, respectively.

NOTE 10. CLIENT SALARIES EXPENSE

Salaries to persons with disabilities for the years ended June 30, 2010 and 2009 totaled \$1,708,663 and \$1,436,220, respectively.

NOTE 11. DEFINED CONTRIBUTION PLAN

RCI, Inc. has a defined contribution employee benefit plan under Internal Revenue Code 403(b) covering all employees except for employees under supported employment programs, federal contracts and those who are highly compensated. RCI, Inc. contributes three percent of compensation. RCI, Inc.'s contributions for the years ended June 30, 2010 and 2009 were \$56,139 and \$46,828, respectively. On July 1, 2010, the plan was amended so that the 3% employer match will only apply to those employees that are participating by deferring a portion of their compensation.

RCI, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 12. TEMPORARILY RESTRICTED NET ASSETS

For the years ended June 30, 2010 and 2009, temporarily restricted net assets totaled \$60,971 and \$99,495, respectively, as follows:

	2010	2009
United Way - promise to give	\$ 57,000	82,000
Family Fun Fiesta	3,971	15,000
United Way technology grant	<u>-</u>	<u>2,495</u>
Total	<u>\$ 60,971</u>	<u>99,495</u>

Ricci & Company LLC

CERTIFIED PUBLIC ACCOUNTANTS
6200 UPTOWN BLVD, NE - SUITE 400
ALBUQUERQUE, NM 87110

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors of RCI, Inc.
Albuquerque, New Mexico

We have audited the financial statements of RCI, Inc. (Organization) as of and for the year ended June 30, 2010, and have issued our report thereon dated September 15, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered RCI, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of RCI, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of RCI, Inc.'s internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

To the Board of Directors of RCI, Inc.
Albuquerque, New Mexico

Compliance and Other Matters

As part of obtaining reasonable assurance about whether RCI, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of RCI, Inc. in a separate letter dated September 15, 2010.

This report is intended solely for the information and use of management, board of directors, audit committee and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

Ricci & Company, LLC

Albuquerque, New Mexico
September 15, 2010

RCI, INC.
SUPPLEMENTAL SCHEDULE OF ACTIVITIES AND CHANGE IN NET ASSETS
Year Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Total
Support and Revenue			
Grants	\$ 15,125	-	15,125
United Way funding	-	57,000	57,000
Contributions	14,620	-	14,620
Contract income	4,348,101	-	4,348,101
Program service revenue:			
SGF	219,245	-	219,245
Private pay	7,966	-	7,966
DVR	83,232	-	83,232
CYFD	7,098	-	7,098
EPSDT	2,326,509	-	2,326,509
Mi Via	5,742	-	5,742
C&T	4,760	-	4,760
NM DD Waiver	1,216,726	-	1,216,726
Realized gain on investments	71,537	-	71,537
Unrealized gain on investments	28,891	-	28,891
Investment income	26,344	-	26,344
Other income	14,141	-	14,141
	<hr/>		
Total support and revenue	8,390,037	57,000	8,447,037
	<hr/>		
Net assets released from restrictions	95,524	(95,524)	-
	<hr/>		
Expenses			
Program services	7,360,237	-	7,360,237
Supporting service:			
Fundraising expense	20,646	-	20,646
General and administration	1,222,983	-	1,222,983
	<hr/>		
Total expenses	8,603,867	-	8,603,867
	<hr/>		
Change in net assets	(118,306)	(38,524)	(156,830)
	<hr/>		
Net assets at beginning of year	2,836,810	99,495	2,936,305
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Net assets at end of year	\$ 2,718,504	60,971	2,779,475
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