

**FAMILY AND CHILDREN'S
ASSOCIATION, INC. AND AFFILIATE**

Mineola, New York

COMBINED FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2013 and 2012

FAMILY AND CHILDREN'S ASSOCIATION, INC. AND AFFILIATE

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COMBINED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Family and Children's
Association, Inc. and Affiliate
Mineola, New York

Report on the Financial Statements

We have audited the accompanying combined financial statements of Family and Children's Association, Inc. and Affiliate (the "Organization") which comprise the combined statements of financial position as of December 31, 2013 and 2012, and the related combined statements of activities and change in net assets 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 combined 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 combined financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the combined 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 Organization'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 combined financial statements.

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

Board of Trustees
Family and Children's
Association, Inc. and Affiliate

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Family and Children's Association, Inc. and Affiliate as of December 31, 2013 and 2012, and the change in their net assets and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The supplementary information on page 16 is presented for the purposes of additional analysis and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audits of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

Baker Tilly Virchow Krause, LLP

Melville, New York
May 19, 2014

FAMILY AND CHILDREN'S ASSOCIATION, INC. AND AFFILIATE

Combined Statements of Financial Position

<i>As of December 31,</i>	2013	2012
Assets		
Current Assets:		
Cash and cash equivalents	\$ 565,793	\$ 300,371
Investments	4,212,952	4,531,018
Accounts receivable, net of allowance of approximately \$184,200 and \$169,500, respectively	3,533,185	2,862,824
Pledges receivable	202,500	207,500
Prepaid expenses and other current assets	234,741	112,830
Assets - discontinued operations (Note 16)	36,112	204,137
Investments held as collateral (Note 2)	6,482,412	5,000,000
Total Current Assets	<u>15,267,695</u>	<u>13,218,680</u>
Property, Plant and Equipment, net	4,618,669	5,152,546
Pledges Receivable, net	-	201,981
Other Assets	203,987	292,701
Total Assets	<u>\$ 20,090,351</u>	<u>\$ 18,865,908</u>
Liabilities and Net Assets		
Current Liabilities:		
Notes payable to bank	\$ 6,482,412	\$ 5,000,000
Accounts payable and accrued expenses	1,947,741	1,691,636
Refundable advances	221,592	152,003
Current portion of long-term debt	191,998	179,655
Liabilities - discontinued operations (Note 16)	2,483,109	2,550,534
Total Current Liabilities	<u>11,326,852</u>	<u>9,573,828</u>
Long-Term Debt	822,264	1,015,057
Other Long-Term Liabilities	26,873	32,665
Total Liabilities	<u>12,175,989</u>	<u>10,621,550</u>
Net Assets:		
Unrestricted	7,431,685	7,578,557
Temporarily restricted	300,344	483,468
Permanently restricted	182,333	182,333
Total Net Assets	<u>7,914,362</u>	<u>8,244,358</u>
Total Liabilities and Net Assets	<u>\$ 20,090,351</u>	<u>\$ 18,865,908</u>

FAMILY AND CHILDREN'S ASSOCIATION, INC. AND AFFILIATE

Combined Statements of Activities and Change in Net Assets

<i>For the Years Ended December 31,</i>	2013	2012
Change in Unrestricted Net Assets from Operations:		
Support and revenue:		
Contracts and fees from government agencies	\$ 14,525,386	\$ 14,403,492
Revenue from services to other agencies	978,533	1,576,513
Other program fees	817,072	905,266
Contributions and grants	767,416	777,814
Special events revenue	454,536	419,093
Special event costs of direct benefits to donors	(136,770)	(118,754)
Loss from rental operations	(194,811)	(215,366)
Other income	194,959	372,546
Net assets released from restriction	224,224	7,500
Total Unrestricted Support and Revenue	17,630,545	18,128,104
Expenses:		
Program services:		
Mental health services	4,195,252	4,268,925
Runaway and homeless youth services	2,781,102	2,872,382
Family services	3,273,781	3,165,031
Services to the aged	1,974,485	2,088,976
Drug and alcohol services	2,302,124	2,465,681
Group home services	74,285	159,239
Independent living services	571,998	549,437
Adult and children and general counseling services	219,970	361,168
Crisis intervention and advocacy services	51,544	16,049
Total program services	15,444,541	15,946,888
Supporting services:		
Management and general	2,281,083	2,222,492
Fundraising	334,738	335,708
Total supporting services	2,615,821	2,558,200
Services to other agencies	885,178	1,409,683
Total Expenses	18,945,540	19,914,771
Change in Unrestricted Net Assets before Transfer from Investments, Non-Operating Activities and Discontinued Operations	(1,314,995)	(1,786,667)
Transfer from Investments for Operations and Capital Expenditures	-	1,000,000
Change in Unrestricted Net Assets after Transfer for Operations and Capital Expenditures and before Non-Operating Activities and Discontinued Operations	(1,314,995)	(786,667)

FAMILY AND CHILDREN'S ASSOCIATION, INC. AND AFFILIATE

Combined Statements of Activities and Change in Net Assets (continued)

<i>For the Years Ended December 31,</i>	2013	2012
Change in Unrestricted Net Assets from Non-Operating Activities:		
Interest and dividend income, net of fees of \$68,395 and \$61,857, respectively	\$ 21,217	\$ 191,288
Net realized gains on sale of investments	522,741	136,774
Unrealized appreciation in fair market value of investments	624,165	515,796
Transfer from investments for operations and capital expenditures	-	(1,000,000)
Change in Unrestricted Net Assets from Non-Operating Activities	<u>1,168,123</u>	<u>(156,142)</u>
Change in Unrestricted Net Assets from Discontinued Operations:		
Loss from discontinued operations	-	(1,054,474)
Cost of discontinuing operations	-	(1,386,482)
Change in Unrestricted Net Assets	<u>(146,872)</u>	<u>(3,383,765)</u>
Change in Temporarily Restricted Net Assets:		
Contributions	41,100	460,854
Net assets released from restriction	(224,224)	(7,500)
Change in Temporarily Restricted Net Assets	<u>(183,124)</u>	<u>453,354</u>
Change in Net Assets	(329,996)	(2,930,411)
Net Assets, beginning of year	8,244,358	11,174,769
Net Assets, end of year	\$ 7,914,362	\$ 8,244,358

FAMILY AND CHILDREN'S ASSOCIATION, INC. AND AFFILIATE

Combined Statements of Cash Flows

<i>For the Years Ended December 31,</i>	2013	2012
Cash Flows from Operating Activities:		
Change in net assets	\$ (329,996)	\$ (2,930,411)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	637,339	410,913
Loss on sale of fixed assets	11,729	45,278
Increase in allowance for doubtful accounts	14,766	39,453
Net realized and unrealized gains on investments	(1,146,906)	(653,119)
Decrease (increase) in operating assets:		
Accounts receivable	(685,127)	1,422,650
Pledges receivable, net	206,981	(392,043)
Prepaid expenses and other current assets	(121,911)	(17,992)
Assets - discontinued operations	168,025	199,865
Other assets	88,714	174,596
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	256,105	(481,150)
Refundable advances	69,589	(206,049)
Liabilities - discontinued operations	(67,425)	1,511,532
Other long-term liabilities	(5,792)	(16,956)
Net Cash Used in Operating Activities	(903,909)	(893,433)
Cash Flows from Investing Activities:		
Purchase of property, plant and equipment	(115,191)	(84,608)
Proceeds from sale of fixed assets	-	11,251
Purchase of investments	(10,768,475)	(6,815,528)
Proceeds from the sale of investments	10,751,035	7,626,644
Net Cash (Used in) Provided by Investing	(132,631)	737,759
Cash Flows from Financing Activities:		
Proceeds from notes payable	6,732,412	232,472
Repayments of notes payable	(5,250,000)	-
Payments on long-term debt	(180,450)	(165,413)
Net Cash Provided by Financing Activities	1,301,962	67,059
Net Increase (Decrease) in Cash and Cash Equivalents	265,422	(88,615)
Cash and Cash Equivalents, beginning of year	300,371	388,986
Cash and Cash Equivalents, end of year	\$ 565,793	\$ 300,371
Supplemental Information:		
Interest paid	\$ 148,454	\$ 149,260

FAMILY AND CHILDREN'S ASSOCIATION, INC. AND AFFILIATE

Notes to Combined Financial Statements

As of and for the Years Ended December 31, 2013 and 2012

1. Description of Organization and Summary of Significant Accounting Policies

Nature of operations - Family and Children's Association, Inc. and Affiliate ("FCA" or the "Organization") is a New York State charitable not-for-profit organization established in 1998, following the merger of Family Services Association of Nassau County, Inc. with Children's House. The combined financial statements include the programs of its affiliate, Community Advocates Housing Development Fund Company, Inc. ("CAHD"), which operates a housing project in Roslyn Heights for low income families. All intercompany activities have been eliminated.

FCA provides a broad range of programs and services, which are designed to support families who are experiencing difficulties. Assistance is provided through professional counseling and through participation in community activities directed toward family well-being. The Organization works with other service providers and organizations to improve the well-being of its target population and to enhance the delivery and accessibility of programs through the greater Long Island region. Such programs include Mental Health Counseling, Family Support, Drug and Alcohol, Runaway and Homeless Youth Services, Crisis Intervention and Advocacy, Services to the Aged, as well as Independent Living Services and Group Homes.

Discontinued mental health clinic operations - In December 2011, the Organization's board approved a resolution to discontinue the operations of its Article 31 mental health clinics in West Hempstead and Roosevelt (the "Clinics"). As of March 31, 2012, the Clinics ceased operations (see Note 16).

Basis of presentation - The combined financial statements have been prepared on the accrual basis.

Revenue recognition - The Organization derives its revenue from, among other sources, contracts and fees for service from federal, state and county (Nassau and Suffolk Counties) governments; contributions and grants from individuals and organizations; Long Island's United Way contributions; fundraising drives and rental income. Revenues from contracts are recorded as expenditures are made in accordance with the contracts.

Contributions - The Organization reports gifts of cash or other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statements of activities and change in net assets as net assets released from restrictions. Temporarily restricted contributions that originate in a given year and are released from restriction in the same year by meeting the donors' restricted purposes are reflected in unrestricted net assets.

The Organization reports gifts of property, plant 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, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Net assets - The net assets of the Organization are reported as follows:

Unrestricted - Net assets which are not donor restricted and are available for general operations.

Temporarily restricted - Net assets which are limited by donor restrictions that either expire with the passage of time or can be fulfilled and removed by actions of the Organization.

Permanently restricted - Net assets subject to donor-imposed restrictions that stipulate resources be maintained in perpetuity, but generally permit the Organization to utilize earnings for unrestricted or temporarily restricted purposes.

FAMILY AND CHILDREN'S ASSOCIATION, INC. AND AFFILIATE

Notes to Combined Financial Statements

As of and for the Years Ended December 31, 2013 and 2012

Donated services and materials - A number of volunteers have donated significant amounts of their time in the Organization's program services and fundraising campaigns. The value of this contributed time is not reflected in the accompanying combined financial statements for the years ended December 31, 2013 and 2012, as it does not meet the criteria for recognition under generally accepted accounting principles.

Pledges (unconditional promises to give) - Pledges (unconditional promises to give) that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using a discount rate applicable to the year in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Investments - Investments consist primarily of cash and cash equivalents and corporate stocks which are carried at fair value. The change in unrealized appreciation (depreciation) in the fair value of investments is reflected in the accompanying combined statements of activities and change in net assets.

Fair value - In accordance with Accounting Standards Codification ("ASC") 820, the Organization must determine whether its assets and liabilities recorded at fair value are valued based on Level 1 (valued based on quoted prices in an active market for identical assets), Level 2 (valued based on significant other observable inputs) or Level 3 (valued based on significant unobservable inputs) measurements.

Property, plant and equipment, depreciation and amortization - Property, plant and equipment are stated at cost except for donated assets, which are recorded at fair value at the time of donation. The Organization capitalizes property and equipment with a cost of \$1,000 or higher, and a useful life of at least two years. Depreciation is provided using the straight-line method calculated over the estimated lives of the related assets, which range from 2 to 40 years. Amortization of leasehold improvements is provided over the shorter of their useful lives or the terms of the lease period using the straight-line method.

Functional allocation of expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the combined statements of activities and change in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on various allocation factors.

Tax status - The Organization's income is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of the New York State income tax laws, except for income not related to its tax-exempt purpose (revenue from certain rental income). No income taxes were incurred for the years ended December 31, 2013 and 2012.

Uncertain tax positions - Management evaluated the Organization's tax positions and concluded that the Organization had taken no uncertain tax provisions that require adjustment to the combined financial statements to comply with the provisions of FASB Accounting Standards Codification No. 740. Generally, the Organization is no longer subject to income tax examinations by the United States federal, state or local tax authorities for the years before 2010, which is the standard statute of limitations look-back period.

Use of estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents - The Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less on the date of purchase to be cash equivalents, except for amounts held by investment managers, which are included in investments.

Allowance for doubtful accounts - Management must make estimates of uncollectability of accounts receivable. Management specifically analyzes accounts receivable, historical bad debts, current funding trends and changes in payment trends and rates when evaluating the adequacy of the allowance for doubtful accounts.

FAMILY AND CHILDREN'S ASSOCIATION, INC. AND AFFILIATE

Notes to Combined Financial Statements

As of and for the Years Ended December 31, 2013 and 2012

Evaluation of subsequent events - Management has evaluated subsequent events through May 19, 2014, the date the combined financial statements are available for issuance, for inclusion or disclosure in the combined financial statements.

Reclassifications - Certain 2012 amounts and descriptions have been reclassified to conform to the 2013 combined financial statement presentation. These reclassifications have no effect on previously reported changes in net assets.

2. Investments

Investments consist of the following:

<i>As of December 31,</i>	2013		2012	
	Cost	Market Value	Cost	Market Value
Cash and Cash Equivalents	\$ 4,584,679	\$ 4,584,679	\$ 5,586,527	\$ 5,586,527
Corporate Stocks	5,303,012	6,110,685	3,760,983	3,944,491
Total	<u>\$ 9,887,691</u>	<u>\$ 10,695,364</u>	<u>\$ 9,347,510</u>	<u>\$ 9,531,018</u>

The following represents unrealized appreciation (depreciation) in fair market value of investments:

<i>For the Years Ended December 31,</i>	2013	2012
Unrealized Appreciation (Depreciation), beginning of year	\$ 183,508	\$ (332,288)
Unrealized Appreciation in Fair Market Value of Investments, during fiscal year	624,165	515,796
Unrealized Appreciation, end of year	<u>\$ 807,673</u>	<u>\$ 183,508</u>

Interest and dividend income was approximately \$3,700 and \$85,900, respectively, for 2013 and \$33,400 and \$219,100, respectively, for 2012.

Fair value measurements - The following table presents information about the Organization's assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2013 and 2012, and indicates the fair value hierarchy of the valuation techniques the Organization utilized to determine such fair value:

<i>For the Year Ended December 31, 2013</i>	Quoted Prices in Active Markets for Identical Assets (Level 1)
Cash and Cash Equivalents	\$ 4,584,679
Corporate Stocks	6,110,685
	<u>\$ 10,695,364</u>
<i>For the Year Ended December 31, 2012</i>	Quoted Prices in Active Markets for Identical Assets (Level 1)
Cash and Cash Equivalents	\$ 5,586,527
Corporate Stocks	3,944,491
	<u>\$ 9,531,018</u>

The Organization had no Level 2 or Level 3 investments at December 31, 2013 or 2012.

FAMILY AND CHILDREN'S ASSOCIATION, INC. AND AFFILIATE

Notes to Combined Financial Statements

As of and for the Years Ended December 31, 2013 and 2012

At December 31, 2013 and 2012, \$6,482,412 and \$5,000,000, respectively, of the investment portfolio was held as collateral for the note payable to the bank (Note 7).

3. Transfer from Investments

The board of trustees may authorize a transfer of a designated amount from investments to the Organization's operating account. This designated amount is identified in the Organization's annual budget in order to assist with operating expenses, and is at the discretion of management and the board of trustees. An endowment transfer did not occur for the year ended December 31, 2013.

4. Scholarship Fund

The Organization's scholarship fund consists of restricted cash, included in investments, and board designated funds, which together represent an endowment for scholarships.

Interpretation of relevant law - The spending of endowment funds by a not-for-profit corporation in the State of New York is governed by the New York Prudent Management of Institutional Funds Act ("NYPMIFA"). The Organization has interpreted NYPMIFA as requiring the preservation of the original value of a gift for gifts received prior to September 17, 2010, absent donor stipulations to the contrary, and for post September 17, 2010 gifts, as allowing the Organization to appropriate for expenditure or accumulate earnings as the Organization determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. As a result of this interpretation, the Organization has classified as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization.

Spending policy - The Organization may spend earnings from the scholarship fund annually to provide scholarships.

Endowment investment policy - The Organization has adopted an investment policy for endowment assets that attempts to provide a predictable stream of returns that can be utilized to fund scholarships while seeking to maintain the purchasing power of the endowment assets.

Under this policy, as approved by the board of trustees, the endowment assets are invested in a manner that is intended to achieve investment returns that are competitive versus pools of assets of similar nature and circumstances.

The following presents the composition of endowment net assets by fund type:

<i>As of December 31,</i>	2013		2012	
	Unrestricted	Permanently Restricted	Unrestricted	Permanently Restricted
Board Designated Endowment Funds	\$ 249,746	\$ -	\$ 225,167	\$ -
Donor Restricted Endowment Funds	-	182,333	-	182,333

The changes in endowment net assets were as follows:

<i>For the Years Ended December 31,</i>	2013		2012	
	Board Designated	Permanently Restricted	Board Designated	Permanently Restricted
Net Assets, beginning of year	\$ 225,167	\$ 182,333	\$ 224,805	\$ 182,333
Investment Income	24,579	19,844	362	16,104
Appropriated	-	(19,844)	-	(16,104)
Net Assets, end of year	\$ 249,746	\$ 182,333	\$ 225,167	\$ 182,333

FAMILY AND CHILDREN'S ASSOCIATION, INC. AND AFFILIATE

Notes to Combined Financial Statements

As of and for the Years Ended December 31, 2013 and 2012

5. Pledges Receivable

Pledges receivable consist of the following:

<i>As of December 31,</i>	2013	2012
Unconditional Promises to Give before Discount	\$ 202,500	\$ 410,000
Less Unamortized Discount	-	519
Net Unconditional Promises to Give	<u>\$ 202,500</u>	<u>\$ 409,481</u>
Amounts Due in:		
Less than one year	\$ 202,500	\$ 207,500
One to five years	-	201,981
	<u>\$ 202,500</u>	<u>\$ 409,481</u>

Discount rates used to calculate the net present value of the pledges ranged from .25% to .83%.

6. Property, Plant and Equipment, Net

Property, plant and equipment, net, consists of the following:

<i>As of December 31,</i>	2013	2012
Land	\$ 762,782	\$ 762,782
Building and Improvements	8,266,603	8,260,778
Furniture and Equipment	3,362,156	3,361,056
Vehicles	426,236	609,594
Construction in Progress	87,884	9,780
	<u>12,905,661</u>	<u>13,003,990</u>
Accumulated Depreciation and Amortization	8,286,992	7,851,444
	<u>\$ 4,618,669</u>	<u>\$ 5,152,546</u>

Total depreciation and amortization expense for the years ended December 31, 2013 and 2012 was approximately \$637,000 and \$411,000, respectively, including approximately \$9,700 and \$9,900 of depreciation expense that has been offset against income from rental operations in the years ended December 31, 2013 and 2012, respectively.

In October 2013, the Organization decided to close its After School and Day Care Programs effective April 30, 2014, causing a change in estimate in the useful life of the fixed assets used in these Programs. The resulting accelerated depreciation was approximately \$261,000 in 2013. An additional \$298,000 of accelerated depreciation will be recorded in 2014.

7. Notes Payable to Bank

At December 31, 2013, the Organization maintained a line of credit with a financial institution for \$7,500,000, of which, \$6,482,412 was outstanding. Interest was payable monthly at 30 day LIBOR (0.167% at December 31, 2013), plus 1.00%. The line of credit expires on October 1, 2014, and is secured by the Organization's investments as collateral as such term is defined in the Uniform Commercial Code of New York.

FAMILY AND CHILDREN'S ASSOCIATION, INC. AND AFFILIATE

Notes to Combined Financial Statements

As of and for the Years Ended December 31, 2013 and 2012

At December 31, 2012, the Organization maintained a line of credit with a financial institution for \$5,000,000, of which, the full amount was outstanding. Interest was payable monthly at 30 day LIBOR (0.21% at December 31, 2012), plus 1.10%. The facility was collateralized by certain investments in marketable securities, as defined in the portfolio loan agreement. The credit facility limit was variable at the discretion of the financial institution based on the value of the collateralized assets. This line was repaid in 2013.

Interest expense on the line for the years ended December 31, 2013 and 2012 approximated \$79,000 and \$66,000, respectively.

8. Long-Term Debt

Long-term debt consists of the following:

<i>As of December 31,</i>	2013	2012
Mortgage Note (a) New York State Medical Care Facilities Finance Agency	\$ 705,625	\$ 832,862
Mortgage Payable (b) New York State Medical Care Facilities Finance Agency	91,604	120,496
Mortgage Payable (c)	<u>217,033</u>	<u>241,354</u>
	<u>1,014,262</u>	<u>1,194,712</u>
Less Current Portion of Debt	<u>191,998</u>	<u>179,655</u>
Long-Term Portion of Debt	<u>\$ 822,264</u>	<u>\$ 1,015,057</u>

- (a) The mortgage obtained from a financial institution is payable in monthly installments of \$14,576, including interest at 6.25%, through August 2018. The mortgage note is secured by the Organization's administrative offices located in Mineola, New York.
- (b) The mortgage obtained from New York State Medical Care Facilities Finance Agency bears interest at the rate of 9.59% per annum. Principal and interest of \$19,560 are payable semi annually until June 1, 2016, when the entire unpaid balance of principal and interest shall become due and payable. The Organization receives annual funding from DMH for payment of principal and interest.
- (c) The mortgage acquired through merger with West Nassau Counseling Center from New York State Medical Care Facilities Finance Agency bears interest at the rate of 5.58% per annum. Principal and interest of \$18,609 are payable semi annually until December 1, 2020, when the entire unpaid balance of principal and interest shall become due and payable. The Organization receives annual funding from DMH for payment of principal and interest.

Future principal payments on the above listed debt are approximately as follows:

<i>Years Ending December 31,</i>	
2014	\$ 192,000
2015	205,000
2016	204,000
2017	194,000
2018	146,000
Thereafter	<u>73,000</u>
	<u>\$ 1,014,000</u>

Interest expense for the years ended December 31, 2013 and 2012 approximated \$70,000 and \$83,000, respectively, of which, \$47,000 and \$56,000 has been offset against income from rental operations in 2013 and 2012, respectively.

FAMILY AND CHILDREN'S ASSOCIATION, INC. AND AFFILIATE

Notes to Combined Financial Statements

As of and for the Years Ended December 31, 2013 and 2012

9. Net Assets

Temporarily restricted net assets are available for the following purposes:

<i>As of December 31,</i>	2013	2012
Fund for the Future	\$ 207,733	\$ 407,733
Scholarships	62,730	36,630
McCormick Client Relief	-	24,224
Hempstead S.T.E.M. Project	15,000	-
Central Administration - Technology	14,881	14,881
	<u>\$ 300,344</u>	<u>\$ 483,468</u>

The following is a summary of the net assets that were released from donor restrictions:

<i>Years Ended December 31,</i>	2013	2012
Fund for the Future	\$ 200,000	\$ 5,000
McCormick Client Relief	24,224	2,500
	<u>\$ 224,224</u>	<u>\$ 7,500</u>

At December 31, 2013 and 2012, permanently restricted net assets consisted of amounts restricted for endowed scholarships.

At each of December 31, 2013 and 2012, approximately \$250,000 of unrestricted net assets have been designated by the Organization's board of trustees for scholarships and \$100,000 of unrestricted net assets have been designated by the board for new program initiatives.

10. Special Events Revenue

The Organization generated revenue from the following special events during the years ended December 31, 2013 and 2012:

<i>For the Year Ended December 31, 2013</i>	Gross Revenue	Costs of Direct Benefits to Donors	Net Revenue
Holiday Ball	\$ 221,596	\$ 55,618	\$ 165,978
Golf Outing	140,360	73,964	66,396
Scholarship Dinner	92,580	7,188	85,392
Total	<u>\$ 454,536</u>	<u>\$ 136,770</u>	<u>\$ 317,766</u>

<i>For the Year Ended December 31, 2012</i>	Gross Revenue	Costs of Direct Benefits to Donors	Net Revenue
Holiday Ball	\$ 224,873	\$ (57,390)	\$ 167,483
Golf Outing	99,325	(53,672)	45,653
Scholarship Dinner	94,895	(7,692)	87,203
Total	<u>\$ 419,093</u>	<u>\$ (118,754)</u>	<u>\$ 300,339</u>

FAMILY AND CHILDREN'S ASSOCIATION, INC. AND AFFILIATE

Notes to Combined Financial Statements

As of and for the Years Ended December 31, 2013 and 2012

11. Services to Other Agencies

The Organization has entered into agreements with independent agencies, under which such agencies carry out the daily activities of groups of programs that are principally financed by grants from governmental agencies. The Organization maintains the financial records and incurs various expenses relating to these programs, which consist primarily of payroll and related expenses. The Organization does not direct the daily activities of such programs.

12. Defined Contribution Pension Plan

401(a) Plan - The Organization sponsors a defined contribution pension plan for employees who are eligible after one year of service. Annual contributions to the Plan are based on a percentage of each eligible employee's compensation, as determined by the Organization's board of trustees (5% for each of the years ended December 31, 2013 and 2012, respectively). Pension expense was approximately \$415,000 and \$493,000 for the years ended December 31, 2013 and 2012, respectively.

403(b) Plan - The Organization maintains a Tax-Deferred Annuity Plan as defined under Section 403(b) of the Internal Revenue Code. This Plan provides for employee deferrals only.

13. Commitments and Contingencies

Leases - The Organization is obligated under various noncancellable operating leases for certain of its facilities, expiring through fiscal 2019. Future minimum lease payments under these operating leases at December 31, 2013 are approximately as follows:

Years Ending December 31,

2014	
2015	\$ 199,000
2016	160,000
2017	163,000
2018	164,000
Thereafter	167,000
	<u>125,000</u>
	<u>\$ 978,000</u>

Rent expense for the years ended December 31, 2013 and 2012 approximated \$541,000 and \$658,000, respectively.

Litigation - The Organization is subject to lawsuits and claims with respect to matters arising in the normal course of business. The Organization defends its position on all actions. In the opinion of management, the ultimate liabilities, if any, from these lawsuits or claims will not materially affect the financial position of the Organization. Nevertheless, due to the uncertainty of the settlement process, management's view of the outcome may be modified in the future.

14. Government Funding and Rate Adjustments

Substantial funding of programs is provided to the Organization by federal, state and local government agencies. Continuation of such funding is dependent on budgetary allocations from such agencies. In addition, reimbursements under contracts are subject to audit by various agencies on a regular basis. Additional liabilities resulting from future audits are not presently determinable. Changes in contract amounts due or payable resulting from audit adjustments or rate appeals are reflected in the operations of the Organization when such adjustments are determined or can be reasonably estimated.

FAMILY AND CHILDREN'S ASSOCIATION, INC. AND AFFILIATE

Notes to Combined Financial Statements

As of and for the Years Ended December 31, 2013 and 2012

15. Concentrations of Credit Risk

Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of temporary cash investments and accounts receivable from government agencies and client fees. The Organization places its temporary cash investments with various financial institutions. Accounts receivable are predominately from federal, state and local government agencies, including Medicaid, Medicare, and other third-party and private payors. From time to time, the cash balances exceed the federal depository insurance coverage limit.

16. Discontinued Mental Health Clinic Operations

On December 16, 2011, the Organization issued a letter of intent to the Nassau County Department of Mental Health of its intent to the surrender of the licenses of the Clinics. As of March 31, 2012, the Clinics ceased operations. The operating activities of Clinics for the years ended December 31, 2013 and 2012 were reclassified to loss from discontinued operations and assets and liabilities specific to the Clinics were segregated on the statements of financial position.

Assets and liabilities of discontinued operations were as follows:

<i>As of December 31,</i>	2013	2012
Assets:		
Cash and cash equivalents	\$ 36,112	\$ 204,137
Total Assets - Discontinued Operations	\$ 36,112	\$ 204,137
Liabilities:		
Accounts payable and accrued expenses	\$ 2,483,109	\$ 2,550,534
Total Liabilities - Discontinued Operations	\$ 2,483,109	\$ 2,550,534

SUPPLEMENTARY INFORMATION

Combined Statement of Functional Expenses

For the Year Ended December 31, 2013 (with comparative totals for 2012)

	Mental Health Services	Runaway and Homeless Youth Services	Family Services	Services to the Aged	Drug and Alcohol Services	Group Home Services	Independer Living Services
Salaries	\$2,725,362	\$1,876,200	\$1,323,383	\$1,280,593	\$1,485,627	\$ 16,547	\$ 349,019
Payroll Taxes and Employee Benefits	721,770	450,165	461,208	403,391	297,348	5,469	84,688
	<u>3,447,132</u>	<u>2,326,365</u>	<u>1,784,591</u>	<u>1,683,984</u>	<u>1,782,975</u>	<u>22,016</u>	<u>433,707</u>
Occupancy Costs, Insurance and Utilities	108,938	78,534	157,949	72,113	231,116	13,534	60,340
Client Activity	35,989	28,313	601,832	83,004	31,112	1,295	16,830
Contracted Services	237,624	104,231	192,852	48,188	128,475	5,384	16,710
House Supplies and Equipment	21,412	20,505	12,401	2,511	13,797	963	1,800
Food and Clothing	37,625	42,139	34,030	2,892	13,020	75	1,098
Repairs and Maintenance	39,839	30,417	27,584	5,896	9,979	10,095	4,020
Travel	80,665	16,525	23,041	16,245	174	3	7,820
Telecommunications	32,148	19,596	29,901	19,616	25,637	2,231	10,960
Office Supplies	26,432	21,189	19,026	10,184	12,227	60	9,350
Dues, Licenses and Permits	6,276	4,648	3,695	4,725	6,479	60	740
Conference and Workshops	8,023	815	58,420	1,110	-	-	140
Staff Development	12,342	18,000	12,305	3,600	5,565	50	2,070
Scholarship	-	-	-	-	-	-	-
Interest and Bank Charges	23,126	60	10	-	728	-	-
Fundraising	1,047	1,622	130	7,867	2,014	1	390
Bad Debt and Other	3,128	(129)	(6,206)	-	256	-	-
Miscellaneous	600	(34)	10,516	18	-	-	210
Depreciation and Amortization	72,906	68,306	311,704	12,532	38,570	18,518	5,760
	<u>\$4,195,252</u>	<u>\$2,781,102</u>	<u>\$3,273,781</u>	<u>\$1,974,485</u>	<u>\$2,302,124</u>	<u>\$ 74,285</u>	<u>\$ 571,990</u>

See independent auditor's report on supplementary information.