

**JUDSON CENTER, INC. AND
SUBSIDIARIES**

AUDITED CONSOLIDATED FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

Years ended September 30, 2013 and 2012

JUDSON CENTER, INC. AND SUBSIDIARIES

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Judson Center, Inc. and Subsidiaries

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Judson Center Foundation (Michigan not-for-profit organizations), which comprise the consolidated statements of financial position as of September 30, 2013 and 2012, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

To the Board of Trustees
of Judson Center, Inc. and Subsidiaries
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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Judson Center, Inc. and Subsidiaries as of September 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

UHY LLP

Farmington Hills, Michigan
February 14, 2014

JUDSON CENTER, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	<u>September 30,</u>	
	<u>2013</u>	<u>2012</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,065,696	\$ 2,886,676
Accounts receivable - net	2,150,517	1,913,813
Prepaid expenses and other	136,609	163,385
	<u>4,352,822</u>	<u>4,963,874</u>
FIXED ASSETS		
Land	237,054	237,054
Buildings and building improvements	6,869,724	6,814,427
Furniture and fixtures	1,272,951	1,309,317
Computer equipment and software	866,432	1,076,489
Transportation equipment	787,157	812,278
	<u>10,033,318</u>	10,249,565
Less accumulated depreciation and amortization	5,851,022	5,718,625
	<u>4,182,296</u>	<u>4,530,940</u>
NET FIXED ASSETS		
OTHER ASSETS		
Marketable securities	11,194,941	10,482,501
Cash surrender value of life insurance	170,909	69,851
	<u>11,365,850</u>	<u>10,552,352</u>
Total other assets	<u>11,365,850</u>	<u>10,552,352</u>
	<u>\$ 19,900,968</u>	<u>\$ 20,047,166</u>

	September 30,	
	2013	2012
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 234,811	\$ 341,834
Accrued expenses	863,332	714,829
Deferred revenue	65,000	75,758
Capital lease, current portion	7,072	9,057
	<hr/>	<hr/>
Total current liabilities	1,170,215	1,141,478
CAPITAL LEASE , net of current portion	25,074	34,594
PENSION LIABILITY	2,329,587	3,436,333
ACCRUED POSTRETIREMENT COSTS	551,892	615,838
	<hr/>	<hr/>
Total liabilities	4,076,768	5,228,243
NET ASSETS		
Unrestricted	15,704,414	14,774,428
Temporarily restricted	119,786	44,495
	<hr/>	<hr/>
Total net assets	15,824,200	14,818,923
	<hr/>	<hr/>
	\$ 19,900,968	\$ 20,047,166
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JUDSON CENTER, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

	Years ended September 30,	
	2013	2012
CHANGES IN UNRESTRICTED NET ASSETS		
Revenues and Support		
Government agencies fees and grants	\$ 14,686,610	\$ 14,739,082
Public contributions	871,772	1,333,221
Interest and dividends	433,483	289,384
Unrealized gain on marketable securities	276,678	1,020,229
Realized gain on sale of marketable securities	96,893	150,209
(Loss) on sale of fixed assets	(7,462)	(19,973)
Rental income	114,015	109,781
Net assets released from restrictions	473,182	205,733
Miscellaneous	268,999	247,119
	17,214,170	18,074,785
EXPENSES		
Program Services	14,714,300	14,668,913
Supporting Services		
Management and general	2,109,139	1,687,247
Development	523,865	362,692
	17,347,304	16,718,852
Change in unrestricted net assets before change in unrecognized pension losses	(133,134)	1,355,933
Change in pension and postretirement liabilities	1,063,120	(845,658)
CHANGE IN UNRESTRICTED NET ASSETS	929,986	510,275
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Restricted public contributions	548,473	238,565
Net assets released from restrictions	(473,182)	(205,733)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	75,291	32,832
CHANGE IN NET ASSETS	1,005,277	543,107
NET ASSETS, beginning of year	14,818,923	14,275,816
NET ASSETS, end of year	\$ 15,824,200	\$ 14,818,923

**JUDSON CENTER, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Years ended September 30,	
	2013	2012
OPERATING ACTIVITIES		
Change in net assets	\$ 1,005,277	\$ 543,107
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Reserve for contractual adjustments	116,859	(272,886)
Depreciation and amortization	456,112	491,053
Non-cash contribution of stock / life insurance	(100,993)	(54,189)
Non-cash transfer of asset	17,970	13,286
Loss on sale of assets	7,462	19,973
Unrealized (gain) on marketable securities	(276,678)	(1,020,229)
Realized (gain) on marketable securities	(96,893)	(150,209)
Changes in:		
Accounts receivable	(353,563)	162,835
Prepaid expenses	26,776	175,047
Cash surrender value of life insurance	(65)	(69,851)
Accounts payable	(107,026)	58,337
Accrued expenses	148,503	(15,938)
Deferred revenue	(10,758)	75,758
Accrued pension liability	(1,106,746)	598,718
Accrued postretirement costs	(63,946)	150,182
Net cash (used in) provided by operating activities	<u>(337,709)</u>	<u>704,994</u>
INVESTING ACTIVITIES		
Purchases of marketable securities	(1,558,532)	(801,443)
Proceeds from sale of marketable securities	1,219,666	79,935
Purchases of fixed assets	(135,900)	(176,590)
Proceeds from sale of fixed assets and donated property	<u>3,000</u>	<u>2,200</u>
Net cash (used in) investing activities	<u>(471,766)</u>	<u>(895,898)</u>
FINANCING ACTIVITY		
Repayments of capital lease	<u>(11,505)</u>	<u>(5,071)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	(820,980)	(195,975)
CASH AND CASH EQUIVALENTS, at beginning of year	<u>2,886,676</u>	<u>3,082,651</u>
CASH AND CASH EQUIVALENTS, at end of year	<u>\$ 2,065,696</u>	<u>\$ 2,886,676</u>
NON-CASH ACTIVITY		
Contribution of stock / life insurance policy	<u>\$ 100,993</u>	<u>\$ 54,189</u>
Transfer of asset	<u>\$ 17,970</u>	<u>\$ 13,286</u>
Capital lease	<u>\$ -</u>	<u>\$ 48,722</u>

JUDSON CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2013 and 2012

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES

Organization

Judson Center, Inc. and Subsidiaries are Michigan non-profit organizations. The purpose of Judson Center, Inc. (“Judson”) is to conduct residential care for emotionally impaired and developmentally disabled children, conduct a foster care program, adoption program and an in-house family treatment program for emotionally impaired and autistic children. Judson Center, Inc. also conducts a family training program and organizes various other community programs with regard to children.

The Judson Center Foundation (the “Foundation”) is a 100% controlled subsidiary of Judson. The purpose of the Foundation is to support Judson.

On June 11, 2013 Judson Center, Inc. established Judson Center Staffing Solutions, Inc. (“Staffing”), a 100% controlled subsidiary. The purpose of Staffing is to help adults with disabilities obtain and maintain gainful employment in the community. Staffing had no activity during the years ended September 30, 2013 and 2012.

Principles of Consolidation

The accompanying consolidated financial statements reflect the consolidated assets and liabilities, changes in net assets, and cash flows of Judson Center, Inc., Judson Center Foundation, and Judson Center Staffing Solutions, Inc. (collectively, the “Organization”). All significant interrelated transactions have been eliminated in consolidation.

Basis of Presentation

The Organization follows accounting standards set by the Financial Accounting Standards Board (FASB). The FASB sets generally accepted accounting principles (GAAP) that the Organization follows to ensure they consistently report their financial condition, results of operations and cash flows. References to GAAP issued by the FASB in the following footnotes are the *FASB Accounting Standards Codification (ASC)*.

Financial statement presentation follows the recommendations of the ASC topic Presentation of Financial Statements for Not-for-Profit Entities. 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. No permanently restricted assets were held by the Organization and accordingly, these consolidated financial statements do not reflect any activities related to this class of net assets.

JUDSON CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2013 and 2012

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of consolidated financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from these estimates.

Concentrations of Credit Risk

Financial instruments which potentially subject the Organization to concentrations of credit risk consist of cash and cash equivalents, marketable securities and accounts receivable. The Organization places its cash, cash equivalents and marketable securities with high credit qualified financial institutions. At times the Organization has balances on deposit with certain institutions that may exceed federally insured limits. The Organization has not experienced any losses in such accounts. Management believes that the Organization is not exposed to any significant credit risk for cash. Marketable securities, other than cash deposits, are at risk equal to their market value. With respect to accounts receivable, the Organization attempts to minimize credit risk by reviewing and monitoring credit exposure on a continuing basis. Any unanticipated change in credit worthiness or other matters affecting the collectibility of accounts receivable could have a material effect on the Consolidated Statements of Activities or the Consolidated Statements of Financial Position in the period in which such events occur.

Accounts Receivable and Allowance for Doubtful Accounts and Contractual Adjustments

The Organization receives funding, through contracts, from various governmental agencies and organizations and from private payors and third party insurance carriers. The Organization carries its accounts receivables, at the invoice amount less an allowance for doubtful accounts and contractual adjustments. As of September 30, 2013 and 2012, the allowance for doubtful accounts was \$140,243 and \$51,958, respectively. As of September 30, 2013 and 2012, the allowance for contractual adjustments was \$28,574 and \$-0-, respectively.

Pledges Receivable

The Organization's pledges receivable are comprised of amounts committed from individuals, including the Organization's Board members, for use in its current capital campaign. The receivables are recorded at the amount pledged by the donor without a discount for the present value of estimated future cash flows. The impact of the lack of discounting is immaterial to the consolidated financial statements as a whole. Pledges receivable are included in accounts receivable on the Consolidated Statements of Financial Position.

JUDSON CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2013 and 2012

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (Continued)

Marketable Securities

The Organization records its investments in marketable securities in accordance with ASC topic Not-for-Profit Entities Investments. Accordingly, investments in equity securities with readily determinable fair values and all investments in debt securities are stated at fair market value. Any related gains or losses are reported in the Consolidated Statements of Activities.

Fixed Assets and Depreciation and Amortization

Fixed assets are stated at cost. Expenditures for additions, renewals and betterments are capitalized; expenditures for maintenance and repairs are charged to expense as incurred. Depreciation and amortization expense are computed over the estimated useful lives of the assets (ranging from 3 to 40 years) using the straight-line method. Upon sale or retirement of property and equipment, the cost and related accumulated depreciation or amortization are eliminated from the respective accounts and the resulting gain or loss is included in Consolidated Statements of Activities. For trade-ins, any gain becomes an adjustment to the new asset basis and any loss is included in the Consolidated Statements of Activities.

Revenue and Support

Revenue from government contracts under expense reimbursement programs is recognized in the period during which the related expenses are incurred. In cases where expenses are incurred in advance of receiving the funds, revenue and contract receivable are recorded in the period during which the expenses are incurred.

Retroactive determination of allowable costs by resource providers may result in final settlements different from interim payments for reimbursable services submitted by the Organization. Revenue is reported at the estimated net realizable amounts from resource providers for services rendered, including estimated retroactive adjustments under reimbursement agreements. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Contributions

The Organization reports contributions of cash and other assets as restricted support if they are received with donor stipulations that limit the use of 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 Consolidated Statements of Activities as net assets released from restrictions. However, donor restricted contributions whose restrictions are met in the same reporting period are reported by the Organization as unrestricted support in these consolidated financial statements.

JUDSON CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2013 and 2012

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (Continued)

Donated Goods and Services

A substantial number of volunteers have donated significant amounts of their time in the Organization's program services and its fund raising campaigns. Donated services were not recognized in the consolidated financial statements since they did not meet the criteria for recognition under ASC topic Contributions. For the year ended September 30, 2013, the Organization recorded in kind donations of \$166,900 in the Consolidated Statements of Activities as public contributions. Prior to September 30, 2012, donated goods were considered to be immaterial to the consolidated financial statements as a whole and were not recognized in the consolidated financial statements.

Deferred Revenue

Revenues received for special events occurring after year end are deferred until the date of the event. Deferred revenues as of September 30, 2013 and 2012 were \$65,000 and \$75,758, respectively.

Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

ASC guidance regarding accounting for uncertainty in income taxes clarifies the accounting for income taxes by prescribing the minimum recognition threshold income tax position is required to meet before being recognized in the financial statements and applies to all income tax positions. Each income tax position is assessed using a two-step process. A determination is first made as to whether it is more likely than not that the income tax position will be sustained, based upon technical merits, upon examination by the taxing authorities. If the income tax position is expected to meet the more likely than not criteria, the benefit recorded in the financial statements equals the largest amount that is greater than 50% likely to be realized upon its ultimate settlement. At September 30, 2013 and 2012, there were no uncertain tax positions that required accrual.

The Organization believes that it has been operating within its tax exempt status and has no unrelated business income. Further, it is not currently under examination by the Internal Revenue Service or state authorities, however, fiscal year 2010 and later remain subject to examination.

Interest Expense

Interest expense for the years ended September 30, 2013 and 2012 was \$2,330 and \$1,459 respectively.

JUDSON CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2013 and 2012

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (Continued)

Financial Allocation

The costs of providing program and supporting services have been reported on a functional basis in the Consolidated Statements of Activities. Indirect costs have been allocated between the various programs and supporting services based on estimates by management.

Subsequent Events

The Organization has performed a review of events subsequent to the Consolidated Statements of Financial Position through February 14, 2014, the date the financials were available to be issued.

NOTE 2 – CASH AND CASH EQUIVALENTS

For purposes of the Consolidated Statements of Cash Flows, the Organization considers all money market funds to be used for current operations and certificates of deposits purchased with a maturity of three months or less to be cash equivalents.

NOTE 3 – MARKETABLE SECURITIES

Marketable securities are classified as “Other Assets” in the accompanying Consolidated Statements of Financial Position because management does not intend to use these investments to finance current operations. Marketable securities consisted of the following:

	September 30,	
	<u>2013</u>	<u>2012</u>
Money market funds	\$ 440,397	\$ 78,190
Bond funds	5,894,707	6,337,381
Equity funds	4,685,640	3,882,243
Common stocks	-	17,954
Exchange traded funds	174,197	166,733
	<u>\$ 11,194,941</u>	<u>\$ 10,482,501</u>

JUDSON CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2013 and 2012

NOTE 4 – FAIR VALUE MEASUREMENTS

ASC topic *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides 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 unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC topic *Fair Value Measurements* are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the abilities to access.

Level 2 Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means

If the asset or liability has a specific (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

Money market funds: Valued at cost plus interest earnings through the year end.

Equity funds: Valued at the net asset value of shares held by the Organization at year end.

Bond funds, common stocks, and exchange traded funds: Valued at the closing price reported in the active market on which the individual securities are traded.

JUDSON CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2013 and 2012

NOTE 4 – FAIR VALUE MEASUREMENTS (Continued)

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value or certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value.

	September 30, 2013			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds	\$ 440,397	\$ -	\$ -	\$ 440,397
Bond funds	5,894,707	-	-	5,894,707
Equity funds	4,685,640	-	-	4,685,640
Exchange traded funds	174,197	-	-	174,197
Total	<u>\$ 11,194,941</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,194,941</u>
	September 30, 2012			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds	\$ 78,190	\$ -	\$ -	\$ 78,190
Bond funds	6,337,381	-	-	6,337,381
Equity funds	3,882,243	-	-	3,882,243
Common stock	17,954	-	-	17,954
Exchange traded funds	166,733	-	-	166,733
Total	<u>\$ 10,482,501</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,482,501</u>

JUDSON CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2013 and 2012

NOTE 5 – CAPITAL LEASE

Capital lease consists of the following:

	<u>September 30,</u>	
	<u>2013</u>	<u>2012</u>
In March 2012, the Organization became the lessee of equipment under a capital lease agreement through February 2017. The capital lease bears interest at 5% and is payable in monthly installments of \$919 including interest.	\$ 32,146	\$ 43,651
Less: current portion	<u>7,072</u>	<u>9,057</u>
	<u>\$ 25,074</u>	<u>\$ 34,594</u>

Following is the maturity of the capital lease for each of the next four years:

<u>Year ending September 30,</u>	<u>Amount</u>
2014	\$ 7,072
2015	10,007
2016	10,517
2017	<u>4,550</u>
	<u>\$ 32,146</u>

The assets and liabilities under the capital lease are recorded at the lower of present value of the minimum lease payments for the fair value of the assets. The assets are depreciated over the lower of its related lease terms or its estimated productive lives.

Assets acquired under capital lease have the following book value:

	<u>September 30,</u>	
	<u>2013</u>	<u>2012</u>
Phone system	\$ 48,722	\$ 48,722
Less: accumulated depreciation	<u>15,428</u>	<u>5,684</u>
	<u>\$ 33,294</u>	<u>\$ 43,038</u>

JUDSON CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2013 and 2012

NOTE 5 – CAPITAL LEASE (Continued)

Depreciation on assets under capital lease charged to expense was \$9,744 and \$5,684 for the years ended September 30, 2013 and 2012, respectively. Interest expense on the capital lease charged to expense was \$1,977 and \$1,365 for the years ended September 30, 2013 and 2012, respectively.

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

The temporarily restricted activities of the Organization consist of contributions received and endowment earnings that are restricted as to use or time as specified by the donor. The restrictions expire when the purpose of the restriction has been accomplished.

The temporarily restricted net assets were comprised of the following:

	September 30,	
	2013	2012
Motivational interviewing techniques	\$ -	\$ 30,000
Parent education and support	-	1,125
Macomb Early Head Start	7,534	2,114
Hope Begins Here Campaign - time restricted	-	441
Security cameras	10,000	-
Autism Center	69,842	-
Specialized residential treatment program	12,000	-
Relocation Fund	5,000	5,000
Other time restrictions	5,815	5,815
Other purpose restrictions	9,595	-
	<u>\$ 119,786</u>	<u>\$ 44,495</u>

NOTE 7 – OPERATING LEASES

The Organization leases meeting space and residential homes with monthly payments totaling \$34,834 expiring through September 2015. Lease expense for the years ended September 30, 2013 and 2012 was approximately \$417,000 and \$434,000, respectively.

JUDSON CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2013 and 2012

NOTE 7 – OPERATING LEASES (Continued)

The following is a schedule by the years of future minimum lease payments required under operating leases that have initial or remaining non-cancellable lease terms in excess of one year at September 30, 2013:

<u>Year ending September 30,</u>	<u>Amount</u>
2014	\$ 193,710
2015	<u>130,125</u>
	<u><u>\$ 323,835</u></u>

NOTE 8 – PENSION PLAN

Through December 31, 2005, the Organization participated with the United Community Services of Metropolitan Detroit (UCS) in a noncontributory, multi-employer defined benefit retirement plan which covered all eligible employees.

Effective January 1, 2006, due to a significant underfunding in the UCS plan, the Organization elected to disaffiliate from the UCS plan and began sponsoring its own new single-employer defined benefit retirement plan, Judson Center Defined Benefit Plan (the "Plan"). The new Plan's benefits are frozen with no further benefits accruing to existing participants.

The net periodic pension cost was as follows:

	<u>Years ended September 30,</u>	
	<u>2013</u>	<u>2012</u>
Service cost*	\$ -	\$ -
Interest cost	341,078	375,591
Expected return on plan assets	(341,591)	(294,827)
Amortization of actuarial loss	<u>275,133</u>	<u>217,487</u>
Net periodic pension cost	<u><u>\$ 274,620</u></u>	<u><u>\$ 298,251</u></u>

*Plan is frozen

JUDSON CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2013 and 2012

NOTE 8 – PENSION PLAN (Continued)

The following table presents the Plan's funded status:

	September 30,	
	2013	2012
Change in projected benefit obligation:		
Projected benefit obligation, beginning of year	\$ 8,799,273	\$ 7,595,793
Service cost	-	-
Interest cost	341,078	375,591
Actuarial (gain) loss	(439,541)	1,442,506
Benefits paid	(505,931)	(614,617)
Projected benefit obligation, end of year	\$ 8,194,879	\$ 8,799,273
	September 30,	
	2013	2012
Change in plan assets:		
Fair value of plan assets, beginning of year	\$ 5,362,940	\$ 4,758,178
Actual return on plan assets	569,643	780,739
Contributions	438,640	438,640
Benefits paid	(505,931)	(614,617)
Plan assets at fair value	\$ 5,865,292	\$ 5,362,940
Funded status, end of year		
Projected benefit obligation in excess of plan assets	\$ 2,329,587	\$ 3,436,333

The amount of net actuarial loss that arose previously and is expected to be recognized as a component of net periodic benefit cost over the next fiscal year is \$275,133. The accumulated unrecognized actuarial loss at September 30, 2013 and 2012 was \$3,564,202 and \$4,506,928, respectively.

The funded status of the Plan, which measures the projected benefit obligation in excess of Plan assets, at the end of each of the past fiscal years was as follows:

September 30,	Amount
2011	\$ 2,837,615
2012	\$ 3,436,333
2013	\$ 2,329,587

JUDSON CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2013 and 2012

NOTE 8 – PENSION PLAN (Continued)

Expected future annual benefit payments to retirees are as follows:

<u>Year ending September 30,</u>	<u>Amount</u>
2014	\$ 291,793
2015	\$ 300,871
2016	\$ 322,621
2017	\$ 349,200
2018	\$ 361,912
2019- 2024	\$ 2,071,595

The assumptions used to determine net periodic benefit cost for the Plan were as follows:

	<u>September 30,</u>	
	<u>2013</u>	<u>2012</u>
Discount rate	4.00%	5.20%
Expected rate of long-term return on plan assets	6.50%	6.50%
Rate of compensation increase	N/A	N/A

The expected long-term rate of return of Plan assets is determined by reflecting expectations regarding future rates of return at prevailing rates, as published.

The assumptions used to determine the above benefit obligations and fair value of Plan assets include:

	<u>September 30,</u>	
	<u>2013</u>	<u>2012</u>
Discount rate	4.80%	4.00%
Rate of compensation increase	N/A	N/A

JUDSON CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2013 and 2012

NOTE 8 – PENSION PLAN (Continued)

Plan Assets

The allocations of Plan assets were as follows:

	September 30,	
	2013	2012
Equity securities	60.2%	58.0%
Debt securities	37.2%	38.1%
Other	2.6%	3.9%
	<u>100.0%</u>	<u>100.0%</u>

Contributions

The Organization expects to contribute \$440,000, during the year ended September 30, 2014, to the Plan.

NOTE 9 – POSTRETIREMENT PLANS

The Organization has a Retiree Health Stipend Plan covering all employees having attained age 21 and 1,000 work hours. The benefits are payable upon the attainment of age 65. The Plan is not funded, accordingly, there are no employer or participant contributions made to the Plan. Benefits under the Plan are paid as incurred.

The benefit obligation and net benefit costs were determined using an assumed weighted average discount rate of 4.8% and 4.0% for 2013 and 2012, respectively.

The following relates to postretirement benefits provided by the Organization:

	As of and for the year ended September 30,	
	2013	2012
Accumulated postretirement benefit obligation	\$ 551,892	\$ 615,838
Net periodic postretirement cost	\$ 71,208	\$ 56,031
Benefits paid	\$ 14,760	\$ 12,400

Healthcare costs trends have no effect on the Organization's liability and thus sensitivity analysis of those trends is not applicable.

JUDSON CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2013 and 2012

NOTE 9 – POSTRETIREMENT PLANS (Continued)

The net periodic cost related to this plan was as follows:

	<u>Years ended September 30,</u>	
	<u>2013</u>	<u>2012</u>
Service cost	\$ 31,048	\$ 24,202
Interest cost	24,382	23,948
Amortization of prior service costs	15,778	15,778
Amortization of actuarial loss	-	(7,897)
Net periodic cost	<u>\$ 71,208</u>	<u>\$ 56,031</u>

The following benefit payments are expected to be paid:

<u>Year ending September 30,</u>	<u>Amount</u>
2014	\$ 20,640
2015	\$ 20,880
2016	\$ 22,560
2017	\$ 23,760
2018	\$ 24,600
2019 - 2023	\$ 159,420

NOTE 10 – DEFINED CONTRIBUTION PLAN

The Organization established the Judson Center Employees' 401(k) Retirement Plan, a defined contribution plan. Employees are eligible to participate with respect to salary reduction contributions subsequent to the completion of three months of service and attainment of the age of 18.

With respect to the receipt of matching contributions and discretionary profit sharing contributions, participants must complete one year of service. The Organization matches 150% of salary reduction amounts up to the first 2% of compensation, plus 100% of salary reduction amounts up to the next 1% of compensation. The Organization's contributions vest over five years of service. The Organization contributed approximately \$188,000 and \$176,000 to the plan during the years ended September 30, 2013 and 2012, respectively.

NOTE 11 – COMMUNITY FOUNDATION ENDOWMENT

The Organization has an agreement with the Community Foundation for Southeast Michigan ("Foundation"), whereby endowment funds are contributed by donors directly to the Foundation who owns, holds, invests and administers the funds.

JUDSON CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2013 and 2012

NOTE 11 – COMMUNITY FOUNDATION ENDOWMENT (Continued)

In accordance with ASC topic Not-for-Profits Investments, the endowment investments are not reflected in the Organization's financial statements. As of September 30, 2013 and 2012, \$1,510,070 and \$1,509,470, respectively, had been contributed to the Foundation. The market value of the endowment fund was \$2,100,883 and \$2,042,885 at September 30, 2013 and 2012, respectively.

NOTE 12 – SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid for interest for the years ended September 30, 2013 and 2012 was approximately \$2,300 and \$1,500, respectively.

NOTE 13 – RELATED PARTY TRANSACTIONS

During the years ended September 30, 2013 and 2012, the Organization paid \$8,691 and \$52,298, respectively for services from companies that are owned by or employ Board members. The Organization's conflict of interest policies were complied with in all related party transactions.

NOTE 14 – CONTINGENT LIABILITY

During the year ended September 30, 2013, the Organization received a letter from the Pension Benefit Guaranty Corporation (PBGC) regarding the United Way for Southeastern Michigan Plan (United Way Plan) that the Organization elected to disaffiliate from effective January 1, 2006. The United Way Plan filed for distressed termination and it was granted that status effective March 1, 2010. Based on the letter received, the PBGC noted that under section 4062(b) of ERISA, the Organization's portion of the unfunded liability was \$490,413 and the PBGC requested information to establish a payment plan or compromise amount.

The Organization disagrees with their portion of the unfunded liability noted in the letter, and have sent a response letter to the PBGC. As of the date of this report, no response to this letter had been received from the PBGC and no liability had been reflected in the consolidated financial statements as of September 30, 2013 and 2012.

NOTE 15 – LITIGATION

Various claims and lawsuits incidental to the ordinary course of business are pending against the Organization. In the opinion of management, after consultation with legal counsel, resolution of these matters is not expected to have a material effect on the Organization's consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Trustees of
Judson Center, Inc. and Subsidiaries

We have audited the consolidated financial statements of Judson Center, Inc. and Subsidiaries as of and for the years ended September 30, 2013 and 2012, and have issued our report thereon dated February 14, 2014, which contained an unmodified opinion on those consolidated financial statements. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidated statements of program expenses, management and general expenses, and development expenses are presented for the purposes of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

UHY LLP

Farmington Hills, Michigan
February 14, 2014

JUDSON CENTER, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF PROGRAM EXPENSES
Year ended September 30, 2013 (with comparative totals for September 30, 2012)

	<u>Residential Care</u>	<u>Families First</u>	<u>Family Preservation</u>	<u>Foster Care</u>
SALARIES AND RELATED EXPENSES				
Salaries	\$ 447,458	\$ 382,133	\$ 3,112,991	\$ 471,899
Payroll taxes	48,158	36,674	298,068	44,986
Benefits	48,799	89,084	517,413	94,188
Pension	25,612	23,081	174,806	40,954
Total Salaries and Related Expenses	<u>570,027</u>	<u>530,972</u>	<u>4,103,278</u>	<u>652,027</u>
OTHER FUNCTIONAL EXPENSES				
Professional fees and services	14,138	2,400	102,486	7,198
Supplies, food and equipment	34,966	13,823	132,643	13,919
Utilities	31,073	8,794	112,357	7,434
Home expenses	51,849	35,300	284,752	45,845
Vehicle expenses	15,447	43,621	246,448	32,902
Conferences, meetings and lunches	879	335	15,888	1,006
Subscriptions, training and recruitment	8,226	2,947	31,220	6,774
Medical expenses	34,741	-	68,964	259
Bad debts expense	8,101	-	-	-
Program specific expenses	4,272	52,135	60,808	11,825
Start-up costs and miscellaneous	139	-	-	-
Total Other Functional Expenses	<u>203,831</u>	<u>159,355</u>	<u>1,055,566</u>	<u>127,162</u>
DEPRECIATION AND AMORTIZATION	<u>116,101</u>	<u>4,539</u>	<u>22,916</u>	<u>17,622</u>
Total Program Expenses	<u>\$ 889,959</u>	<u>\$ 694,866</u>	<u>\$ 5,181,760</u>	<u>\$ 796,811</u>

Autism	Group Homes	DD Supported Employment	Adoptions	Total	
				2013	2012
\$ 697,803	\$ 1,914,026	\$ 1,445,887	\$ 433,791	\$ 8,905,988	\$ 8,197,666
71,957	227,215	165,712	40,540	933,310	923,668
43,103	198,814	180,996	67,559	1,239,956	1,197,106
21,871	70,578	38,936	34,653	430,491	490,681
<u>834,734</u>	<u>2,410,633</u>	<u>1,831,531</u>	<u>576,543</u>	<u>11,509,745</u>	<u>10,809,121</u>
16,585	11,407	10,796	34,272	199,282	165,978
65,720	95,312	19,410	66,923	442,716	494,675
48,705	81,609	39,676	13,455	343,103	376,100
77,391	119,158	56,710	38,457	709,462	750,376
19,851	109,330	170,827	25,406	663,832	612,145
606	2,420	3,505	6,409	31,048	17,347
9,377	11,402	14,066	3,865	87,877	108,628
-	800	-	-	104,764	90,317
14,336	12,134	57,430	-	92,001	-
3,161	1,829	1,400	49,172	184,602	825,600
82	338	175	-	734	784
<u>255,814</u>	<u>445,739</u>	<u>373,995</u>	<u>237,959</u>	<u>2,859,421</u>	<u>3,441,950</u>
<u>61,265</u>	<u>77,029</u>	<u>37,541</u>	<u>8,121</u>	<u>345,134</u>	<u>417,842</u>
<u>\$ 1,151,813</u>	<u>\$ 2,933,401</u>	<u>\$ 2,243,067</u>	<u>\$ 822,623</u>	<u>\$ 14,714,300</u>	<u>\$ 14,668,913</u>

JUDSON CENTER, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF MANAGEMENT AND GENERAL EXPENSES

	<u>Years ended September 30,</u>	
	<u>2013</u>	<u>2012</u>
SALARIES AND RELATED EXPENSES		
Salaries	\$ 1,126,788	\$ 939,432
Payroll taxes	122,431	84,110
Benefits	93,142	130,518
Pension	83,812	87,851
	<hr/>	<hr/>
Total Salaries and Related Expenses	1,426,173	1,241,911
	<hr/>	<hr/>
OTHER FUNCTIONAL EXPENSES		
Professional fees and services	335,458	156,424
Supplies, food and equipment	36,985	45,780
Utilities	42,328	39,036
Home expenses	45,048	45,595
Vehicle expenses	11,348	8,463
Conferences, meetings and lunches	14,678	17,379
Subscriptions, training and recruitment	89,094	28,457
Start-up costs and miscellaneous	4,190	32,589
	<hr/>	<hr/>
Total Other Functional Expenses	579,129	373,723
	<hr/>	<hr/>
DEPRECIATION AND AMORTIZATION	103,837	71,613
	<hr/>	<hr/>
Total Expenses	\$ 2,109,139	\$ 1,687,247
	<hr/>	<hr/>

JUDSON CENTER, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF DEVELOPMENT EXPENSES

	<u>Years ended September 30,</u>	
	<u>2013</u>	<u>2012</u>
SALARIES AND RELATED EXPENSES		
Salaries	\$ 170,274	\$ 194,316
Payroll taxes	16,360	18,725
Benefits	15,837	20,535
Pension	15,631	23,425
	<u>218,102</u>	<u>257,001</u>
OTHER FUNCTIONAL EXPENSES		
Professional fees and services	33,429	56,996
Supplies, food and equipment	36,592	26,959
Utilities	6,054	2,767
Home expenses	8,108	1,807
Vehicle expenses	814	304
Conferences, meetings and lunches	172	410
Subscriptions, training and recruitment	3,534	2,406
Bad debts expense	24,690	-
Program specific expenses	185,229	12,444
	<u>298,622</u>	<u>104,093</u>
DEPRECIATION AND AMORTIZATION		
	<u>7,141</u>	<u>1,598</u>
Total Expenses	<u><u>\$ 523,865</u></u>	<u><u>\$ 362,692</u></u>