

Juvenile Assessment Center
(parent company only)

Financial Report
December 31, 2013

Juvenile Assessment Center

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Independent Auditor's Report

To the Board of Directors
Juvenile Assessment Center

We have audited the accompanying financial statements of Juvenile Assessment Center (parent company only) (the "Organization") which comprise the balance sheet as of December 31, 2013 and 2012 and the related statements of activities and changes 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 financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

To the Board of Directors
Juvenile Assessment Center

Opinion

Consolidated financial statements are required for conformity with accounting principles generally accepted in the United State of America. As discussed in Note 1, the 2013 and 2012 parent company-only financial statements, which include a subsidiary on the cost basis, are being issued in addition to consolidated financial statements for 2013 and 2012. Information regarding the subsidiary is disclosed in Note 6.

In our opinion, except for the effects of not consolidating the subsidiary as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Juvenile Assessment Center as of December 31, 2013 and 2012 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

June 4, 2014

Juvenile Assessment Center

Balance Sheet

	December 31, 2013	December 31, 2012
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,159,654	\$ 3,174,113
Receivables	2,410,907	1,423,028
Intercompany receivable (Note 7)	336,448	135,298
Prepaid expenses and other current assets	30,051	6,826
Total current assets	4,937,060	4,739,265
Deposits	14,234	14,234
Investments (Note 8)	250,000	250,000
Property and Equipment - Net (Note 2)	167,261	75,780
Investment in Wholly Owned Subsidiary (Notes 6 and 7)	1,000	1,000
Other Assets - Related party (Note 7)	-	50,000
Total assets	<u>\$ 5,369,555</u>	<u>\$ 5,130,279</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 1,022,072	\$ 1,086,072
Trade payables to related parties (Note 7)	241,241	114,848
Accrued liabilities and other	448,360	309,612
Total current liabilities	1,711,673	1,510,532
Net Assets - Unrestricted	3,657,882	3,619,747
Total liabilities and net assets	<u>\$ 5,369,555</u>	<u>\$ 5,130,279</u>

Juvenile Assessment Center

Statement of Activities and Changes in Net Assets

	Year Ended	
	December 31, 2013	December 31, 2012
Changes in Unrestricted Net Assets		
Revenue and support:		
Contracted services	\$ 12,472,387	\$ 11,970,294
Grant revenue	491,135	393,253
Revenue (Note 7)	87,396	31,895
Interest income	4,759	6,955
Miscellaneous income	7,908	1,273
Total revenue and support	13,063,585	12,403,670
Expenses:		
Salaries and wages	4,585,316	4,158,252
Employee benefits	1,511,610	1,240,065
Payroll taxes	498,282	409,010
Contracted services	4,915,110	4,972,193
Professional fees	96,705	135,135
Office supplies	151,190	162,140
Travel and lodging	161,134	152,775
Testing supplies	210,612	185,700
Telephone	92,828	85,383
Insurance	60,108	43,765
Postage and shipping	18,769	17,440
Occupancy	472,500	390,000
Depreciation	57,579	45,984
Conferences and meetings	38,592	5,532
Dues and subscriptions	3,396	2,865
Miscellaneous	63,568	70,941
Equipment	-	1,438
Equipment rental	71,644	64,459
Advertising	16,507	14,677
Total expenses	13,025,450	12,157,754
Increase in Net Assets	38,135	245,916
Net Assets - Beginning of year	3,619,747	3,373,831
Net Assets - End of year	\$ 3,657,882	\$ 3,619,747

Juvenile Assessment Center

Statement of Cash Flows

	Year Ended	
	December 31, 2013	December 31, 2012
Cash Flows from Operating Activities		
Increase in net assets	\$ 38,135	\$ 245,916
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation	57,579	45,984
Gain on disposal of property and equipment	(7,908)	(1,274)
Changes in operating assets and liabilities which (used) provided cash:		
Accounts receivable	(987,879)	1,072,283
Related party payable	126,393	(17,353)
Related party receivable	(201,150)	(16,317)
Prepaid expenses and other receivables	(23,225)	(6,226)
Accounts payable	(64,000)	(203,628)
Accrued liabilities and other	138,748	34,583
Net cash (used in) provided by operating activities	(923,307)	1,153,968
Cash Flows from Investing Activities		
Purchase of property and equipment	(149,060)	(72,211)
Proceeds from the sale of property and equipment	7,908	1,274
Purchases of investments	(285,795)	(250,000)
Proceeds from sales of investments	285,795	-
Payment on note receivable - Related party	50,000	35,000
Net cash used in investing activities	(91,152)	(285,937)
Cash Flows from Financing Activities - Payments on debt	-	(2,230)
Net (Decrease) Increase in Cash and Cash Equivalents	(1,014,459)	865,801
Cash and Cash Equivalents - Beginning of year	3,174,113	2,308,312
Cash and Cash Equivalents - End of year	\$ 2,159,654	\$ 3,174,113

Juvenile Assessment Center

Notes to Financial Statements December 31, 2013 and 2012

Note 1 - Nature of Activities and Significant Accounting Policies

Nature of Organization - Juvenile Assessment Center (the "Organization" or JAC) is a not-for-profit member corporation organized to encourage, strengthen, and sustain healthy, safe, and supportive environments in which children and families will flourish. Essential to its mission is the joint investment of resources and programs, the establishment of community partnerships, and the promotion of responsible policies that serve the best interests of Michigan's children and families. The Organization provides mental health care and social services to children and families throughout the state of Michigan.

Revenue from the Wayne County Department of Children and Family Services is substantially on a cost reimbursement basis. The contract for the period from January 1, 2012 through December 31, 2016 provided for a not-to-exceed amount of \$61,656,231. JAC billed approximately \$25,262,898 of these funds through December 31, 2013. The contract contains various provisions. Noncompliance with financial and other nonfinancial provisions of the contract could cause adjustments to the contract amounts.

Significant accounting policies are as follows:

Basis of Presentation - The Organization has issued consolidated financial statements for the years ended December 31, 2013 and 2012, which include the activity of Community Health Outreach, Intervention & Clinical Engagement Services (CHOICES), a wholly owned subsidiary of JAC. In addition to consolidated financial statements, the accompanying financial statements are being issued for the benefit of third parties who have a need for financial information of the Organization independent of the Organization's subsidiary. In the accompanying financial statements, the investment in the subsidiary is on the cost basis. Net assets on a consolidated basis are \$44,137 greater than that shown on the parent-only financial statements. Information regarding the subsidiary is disclosed in Note 6.

Basis of Accounting - The financial statements have been prepared on the accrual basis of accounting.

Cash Equivalents - The Organization considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Concentration of Credit Risk Arising from Deposit Accounts - The Organization maintains cash balances with a bank. Accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Organization evaluates the financial institutions with which it deposits funds.

Juvenile Assessment Center

Notes to Financial Statements December 31, 2013 and 2012

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Accounts Receivable - Accounts receivable are stated at the agreed-upon reimbursement amount per the contract service agreements. The Organization's policy is to record accounts receivable for services provided in agreement with established contracts. An allowance for doubtful accounts is established based on a specific assessment of amounts that remain unpaid. No provision for doubtful accounts has been provided since management believes all receivables are collectible in full. Amounts deemed to be uncollectible are charged against bad debt expense in the period that the determination is made.

Contract Revenue - The Organization recognizes revenue in accordance with the stipulations of the contracts entered into and grants received.

Property and Equipment - Property and equipment are recorded at cost when purchased or at fair value at the date of donation and are being depreciated on a straight-line basis over their estimated useful lives. Costs of maintenance and repairs are charged to expense when incurred.

Investments - Investments in debt securities are recorded at fair value based on market data for identical or comparable instruments.

Classification of Net Assets - Net assets of the Organization are classified as unrestricted, temporarily restricted, or permanently restricted depending on the presence and characteristics of donor-imposed restrictions limiting the Organization's ability to use or dispose of contributed assets or the economic benefits embodied in those assets.

Donor-imposed restrictions that expire with the passage of time or can be removed by meeting certain requirements result in temporarily restricted net assets. Permanently restricted net assets result from donor-imposed restrictions that limit the use of net assets in perpetuity. Earnings, gains, and losses on restricted net assets are classified as unrestricted unless specifically restricted by the donor or by applicable state law. There were no temporarily or permanently restricted net assets as of December 31, 2013 and 2012.

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 revenue, expenses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Juvenile Assessment Center

Notes to Financial Statements December 31, 2013 and 2012

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Functional Allocation of Expenses - Program expenses totaled \$11,613,832 and \$10,877,858 for the years ended December 31, 2013 and 2012, respectively. All other expenses of the Organization are considered management and general expenses.

Income Tax Status - The Organization is exempt from income tax under provisions of Internal Revenue Code Section 501(c)(3).

Accounting for Uncertainty in Income Taxes - Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by the Organization and has concluded that as of December 31, 2013 and 2012, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2010.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including June 4, 2014, which is the date the financial statements were available to be issued.

Note 2 - Property and Equipment

The cost of property and equipment is summarized as follows:

	2013	2012	Depreciable Life - Years
Leasehold improvements	\$ 247,494	\$ 225,379	3-5
Automobiles	38,368	38,965	5
Office equipment	108,310	108,310	5
Computer equipment and software	431,097	321,388	3-5
Total cost	825,269	694,042	
Accumulated depreciation	(658,008)	(618,262)	
Net property and equipment	\$ 167,261	\$ 75,780	

Depreciation expense for the years ended December 31, 2013 and 2012 was \$57,579 and \$45,984, respectively.

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Notes to Financial Statements December 31, 2013 and 2012

Note 3 - Line of Credit

The Organization has a financing agreement under which \$500,000 could be borrowed on a revolving line of credit. No amounts were drawn during 2012 or 2013. Borrowings bear interest at 6.5 percentage points over the effective LIBOR and are collateralized by substantially all assets of the Organization. The line of credit expires in September 2015.

Note 4 - Operating Leases

The Organization has commitments under various operating leases for facilities, equipment, and a vehicle expiring at various dates through 2016. Total rent expense under these leases approximated \$551,088 and \$460,600 for the years ended December 31, 2013 and 2012, respectively.

Future minimum rental commitments are as follows:

<u>Years Ending December 31</u>	<u>Amount</u>
2014	\$ 578,603
2015	574,089
2016	<u>550,887</u>
Total	<u>\$ 1,703,579</u>

Note 5 - Retirement Plan

The Organization participates in a defined contribution retirement plan. Under the plan, employees can elect to defer a portion of their compensation. In addition, the Organization may make contributions to the plan on behalf of eligible employees. Total Organization contributions made to the plan in 2013 and 2012 were approximately \$76,000 and \$72,000, respectively.

Note 6 - Information Regarding Subsidiary

During 2008, the Organization started a wholly owned subsidiary, Community Health Outreach, Intervention & Clinical Engagement Services (CHOICES), with an initial investment of \$1,000. CHOICES is a not-for-profit stock corporation. CHOICES was organized to encourage, strengthen, and enrich children and families via specialized services, treatments, and programs that assist and support children and families to stay together successfully and reduce out-of-home care necessity. Essential to its mission is the provision of mental health, substance abuse treatment, and adjunct programs that serve the best interests of Michigan's children and families. The Organization is the sole stockholder of CHOICES. An investment in CHOICES has been recorded at cost.

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Notes to Financial Statements December 31, 2013 and 2012

Note 6 - Information Regarding Subsidiary (Continued)

The results of the operations of CHOICES as of and for the years ended December 31, 2013 and 2012 are summarized below:

	2013	2012
Total assets	\$ 381,585	\$ 223,048
Total liabilities	336,448	185,298
Net equity	<u>\$ 45,137</u>	<u>\$ 37,750</u>
Total revenue	\$ 947,928	\$ 637,902
Total expenses	<u>940,541</u>	<u>606,047</u>
Increase in net assets	<u>\$ 7,387</u>	<u>\$ 31,855</u>

Note 7 - Related Party Transactions

The following is a description of transactions between the Organization and CHOICES:

Accounts Receivable - At December 31, 2013 and 2012, the Organization had accounts receivable from CHOICES totaling \$336,448 and \$135,298, respectively.

Accounts Payable - At December 31, 2013 and 2012, the Organization had accounts payable to CHOICES totaling \$241,241 and \$114,848, respectively.

Note Receivable - At December 31, 2013 and 2012, the Organization had a note receivable due from CHOICES totaling \$0 and \$50,000, respectively. The note was due on demand and bore interest on unpaid principal at a rate per annum equal to the lowest applicable federal rate determined under the Internal Revenue Code (0.20 percent at December 31, 2012).

Investment in Subsidiary - As disclosed in Note 6, at December 31, 2013 and 2012, the Organization owned \$1,000 in the common stock of CHOICES.

Contracted Services - For the years ended December 31, 2013 and 2012, the Organization purchased contracted services from CHOICES, in the ordinary course of business, totaling \$947,928 and \$637,902, respectively.

Management Fees - For the years ended December 31, 2013 and 2012, the Organization received management fee revenue from CHOICES of \$87,396 and \$31,895, respectively.

Leased Employee Revenue (Contra Expense) - For the years ended December 31, 2013 and 2012, the Organization leased JAC employees to CHOICES for \$853,145 and \$574,152, respectively.

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Notes to Financial Statements December 31, 2013 and 2012

Note 8 - Fair Value Measurements

Accounting standards require certain assets be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following table presents information about the Organization's assets measured at fair value on a recurring basis at December 31, 2013 and 2012 and the valuation techniques used by the Organization to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Organization has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Organization's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Assets Measured at Fair Value on a Recurring Basis at December 31, 2013

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2013
Assets				
Investment securities - Debt securities:				
U.S. government and federal agency bonds	\$ -	\$ 20,819	\$ -	\$ 20,819
Municipal bonds	-	98,334	-	98,334
Corporate bonds	-	115,810	-	115,810
Money market mutual funds	15,037	-	-	15,037
Total	\$ 15,037	\$ 234,963	\$ -	\$ 250,000

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Notes to Financial Statements December 31, 2013 and 2012

Note 8 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at December 31, 2012

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2012
Assets				
Investment securities - Debt securities:				
U.S. government and federal agency bonds	\$ -	\$ 21,098	\$ -	\$ 21,098
Municipal bonds	-	110,708	-	110,708
Corporate bonds	-	110,172	-	110,172
Money market mutual funds	8,022	-	-	8,022
Total assets	<u>\$ 8,022</u>	<u>\$ 241,978</u>	<u>\$ -</u>	<u>\$ 250,000</u>

The fair value of debt securities at December 31, 2013 was determined primarily based on Level 2 inputs. The Organization estimates the fair value of these investments based on other market data for the same or comparable instruments and transactions in establishing the prices, discounted cash flow models, and other pricing models. These models are primarily industry-standard models that consider various assumptions, including time value and yield curve as well as other relevant economic measures.

The Organization's policy is to recognize transfers between levels of fair value hierarchy as of the actual date of the event of change in circumstances that caused the transfer. There were no significant transfers between levels of fair value hierarchy during 2013.