



ALBIN, RANDALL & BENNETT
Certified Public Accountants ▪ Business Consultants

April 14, 2014

Noel Sullivan
Pine Tree Society for Handicapped Children & Adults, Inc.
PO Box 518
Bath, Maine 04530

Dear Noel:

Enclosed are 30 copies of the Pine Tree Society for Handicapped Children & Adults, Inc. Financial Statements with Independent Auditors' Report, Management Letter, and Board Communication Letter for December 31, 2013.

Please give me a call if you have any questions.

Yours truly,

Jason C. LeBlanc

Enclosure

**PINE TREE SOCIETY FOR HANDICAPPED
CHILDREN & ADULTS, INC.**

FINANCIAL STATEMENTS

With Independent Auditors' Report

DECEMBER 31, 2013

PINE TREE SOCIETY FOR HANDICAPPED CHILDREN & ADULTS, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2013

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS:	
Statement of Financial Position	3
Statement of Activities	5
Statement of Functional Expenses	7
Statement of Cash Flows	9
Notes to Financial Statements	10



ALBIN, RANDALL & BENNETT
Certified Public Accountants ■ Business Consultants

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Pine Tree Society for Handicapped Children & Adults, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of the Pine Tree Society for Handicapped Children & Adults, Inc. (the Society) as of December 31, 2013, which comprise the statement of financial position, and the related statements of activities, functional expenses, and cash flows for the sixteen-month period 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.

Auditors' Responsibility

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pine Tree Society for Handicapped Children & Adults, Inc. as of December 31, 2013, and the results of its operations and its cash flows for the sixteen-month period then ended in accordance with accounting principles generally accepted in the United States of America.

April 6, 2014

PINE TREE SOCIETY FOR HANDICAPPED CHILDREN & ADULTS, INC.

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2013

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 891,296
Accounts receivable, net of allowance for doubtful accounts of \$14,945	381,104
Pledges receivable, current portion	55,628
Inventory	26,086
Prepaid expenses	<u>40,648</u>
Total current assets	<u>1,394,762</u>

PROPERTY AND EQUIPMENT:

Land	118,956
Buildings	5,304,191
Equipment	1,540,822
Construction in process	<u>320,047</u>
	7,284,016
Less accumulated depreciation	<u>2,487,818</u>
Net property and equipment	<u>4,796,198</u>

INVESTMENTS:

Unrestricted	9,624,100
Temporarily restricted	654,430
Permanently restricted	<u>1,816,826</u>
Total investments	<u>12,095,356</u>

OTHER ASSETS:

Pledges receivable, net of current portion	54,748
Beneficial interest in perpetual trusts	4,326,000
Contributions receivable from remainder trusts	<u>311,000</u>
Total other assets	<u>4,691,748</u>

\$ 22,978,064

See accompanying independent auditors' report and notes to financial statements.

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Bank lines of credit	\$ 440,008
Accounts payable	61,869
Accrued expenses	<u>187,701</u>
Total current liabilities	<u>689,578</u>

NET ASSETS:

Unrestricted	14,699,625
Temporarily restricted	963,583
Permanently restricted	<u>6,625,278</u>
Total net assets	<u>22,288,486</u>

\$ 22,978,064

PINE TREE SOCIETY FOR HANDICAPPED CHILDREN & ADULTS, INC.

STATEMENT OF ACTIVITIES

SIXTEEN-MONTH PERIOD ENDED DECEMBER 31, 2013

	<u>Unrestricted</u>
PUBLIC SUPPORT, PROGRAM SERVICES AND REVENUE:	
Public support:	
Bequests	\$ 293,922
Capital campaign contributions	-
Donations and gifts	-
Mail campaigns	609,787
Special events	293,335
Other	<u>179,987</u>
Total public support	<u>1,377,031</u>
Program services:	
American sign language services	1,267,163
Family and community support services	1,478,951
Pine Tree Camp recreational services	203,359
Speech, hearing and assistive technology services	240,166
Other	<u>85,542</u>
Total program services	<u>3,275,181</u>
Revenue:	
Hearing aid sales, net	474,686
Interest and dividends	574,527
Net realized and unrealized gains	1,267,830
Change in value of beneficial interest in perpetual trusts and contributions receivable from remainder trusts	-
Donated services	69,470
Donated equipment and other	212,997
Other	<u>28,976</u>
Total revenue	2,628,486
Net assets released by satisfaction of program restrictions	<u>272,481</u>
Total public support, program services and revenue	<u>7,553,179</u>
EXPENSES:	
Program services	5,593,050
Supporting services	<u>914,657</u>
Total expenses	<u>6,507,707</u>
Change in net assets before pension-related changes other than net periodic pension cost	1,045,472
Pension-related changes other than net periodic pension cost	<u>(269,910)</u>
Change in net assets	775,562
NET ASSETS AT BEGINNING OF PERIOD	<u>13,924,063</u>
Net assets at end of period	<u>\$ 14,699,625</u>

See accompanying independent auditors' report and notes to financial statements.

<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
6,000	170	300,092
256,168	-	256,168
117,693	-	117,693
-	-	609,787
-	-	293,335
-	-	179,987
<u>379,861</u>	<u>170</u>	<u>1,757,062</u>
-	-	1,267,163
-	-	1,478,951
-	-	203,359
-	-	240,166
-	-	85,542
<u>-</u>	<u>-</u>	<u>3,275,181</u>
-	-	474,686
138,900	-	713,427
258,097	-	1,525,927
-	537,452	537,452
-	-	69,470
-	-	212,997
-	-	28,976
<u>396,997</u>	<u>537,452</u>	<u>3,562,935</u>
<u>(272,481)</u>	<u>-</u>	<u>-</u>
<u>504,377</u>	<u>537,622</u>	<u>8,595,178</u>
-	-	5,593,050
-	-	914,657
<u>-</u>	<u>-</u>	<u>6,507,707</u>
504,377	537,622	2,087,471
-	-	(269,910)
504,377	537,622	1,817,561
<u>459,206</u>	<u>6,087,656</u>	<u>20,470,925</u>
<u>963,583</u>	<u>6,625,278</u>	<u>22,288,486</u>

PINE TREE SOCIETY FOR HANDICAPPED CHILDREN & ADULTS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

SIXTEEN-MONTH PERIOD ENDED DECEMBER 31, 2013

	Program Services			<u>Total</u>
	<u>Client Services</u>	<u>Public Health Education</u>	<u>Research</u>	
Salaries	\$ 2,549,581	42,041	6,307	2,597,929
Benefits	426,162	7,730	1,194	435,086
Payroll taxes	204,331	3,354	479	208,164
Supplies	235,504	12,048	28	247,580
Telephone	54,212	536	29	54,777
Postage	22,234	23,088	14	45,336
Occupancy	308,826	5,668	161	314,655
Printing	19,867	29,019	12	48,898
Advertising	14,017	1,537	13	15,567
Travel	166,185	1,295	407	167,887
Training and conferences	19,833	34	5	19,872
Board expense	-	-	-	-
Specific aid	6,961	101	15	7,077
Memberships	18,194	59	9	18,262
Repairs and maintenance	35,741	46	92	35,879
Miscellaneous	19,860	-	-	19,860
Insurance	129,548	684	86	130,318
Bad debts	10,889	-	-	10,889
Interest	19,637	-	-	19,637
Day Hab tax	36,939	-	-	36,939
Day Hab Education	25,614	-	-	25,614
Gift annuity payment	-	-	-	-
Depreciation	408,989	2,154	130	411,273
Contracted services	629,463	50,931	5,755	686,149
Vehicle	35,402	-	-	35,402
	<u>\$ 5,397,989</u>	<u>180,325</u>	<u>14,736</u>	<u>5,593,050</u>

See accompanying independent auditors' report and notes to financial statements.

Supporting Services

<u>Fund Raising - General</u>	<u>Fund Raising - Special Events</u>	<u>Management and General</u>	<u>Total</u>	<u>2013 Total Expenses</u>
127,436	49,269	23,250	199,955	2,797,884
23,211	9,026	5,509	37,746	472,832
10,239	4,104	1,808	16,151	224,315
6,425	21,664	1,651	29,740	277,320
986	316	145	1,447	56,224
39,276	4,619	279	44,174	89,510
25,942	2,380	-	28,322	342,977
54,672	18,696	540	73,908	122,806
6,081	26,308	61	32,450	48,017
9,652	10,416	10,042	30,110	197,997
322	378	9	709	20,581
-	-	2,997	2,997	2,997
307	121	70	498	7,575
200	102	-	302	18,564
139	55	6	200	36,079
-	-	31,650	31,650	51,510
2,173	1,939	5,339	9,451	139,769
75,000	-	-	75,000	85,889
-	-	-	-	19,637
-	-	-	-	36,939
-	-	-	-	25,614
9,214	-	-	9,214	9,214
4,092	1,359	514	5,965	417,238
147,715	22,517	114,436	284,668	970,817
-	-	-	-	35,402
543,082	173,269	198,306	914,657	6,507,707

PINE TREE SOCIETY FOR HANDICAPPED CHILDREN & ADULTS, INC.

STATEMENT OF CASH FLOWS

SIXTEEN-MONTH PERIOD ENDED DECEMBER 31, 2013

OPERATING ACTIVITIES:

Change in net assets	\$ 1,817,561
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation	417,238
Change in allowance for doubtful accounts	1,877
Discount on pledges	(892)
Net realized and unrealized gain on investments	(1,529,053)
Donation of property and equipment	(212,997)
Loss on disposal of property and equipment	4,090
Pension-related changes other than periodic pension cost	(1,180,090)
Change in value of beneficial interest in perpetual trusts and contributions receivable from remainder trusts	(537,452)
Change in operating assets and liabilities:	
Accounts receivable	(34,204)
Inventory	8,984
Prepaid expenses	19,948
Accounts payable	(49,904)
Accrued expenses	(64,844)
Deferred revenue	<u>(16,192)</u>
Net cash used by operating activities	<u>(1,355,930)</u>

INVESTING ACTIVITIES:

Purchases of property and equipment	(168,356)
Purchases of investments	(5,534,639)
Proceeds from sale of investments	7,247,126
Contributions received from remainder trust	<u>171,452</u>
Net cash provided by investing activities	<u>1,715,583</u>

FINANCING ACTIVITIES:

Net repayments on line of credit	(72,123)
Change in contributions restricted for long-lived assets	<u>157,202</u>
Net cash provided by financing activities	<u>85,079</u>
Increase in cash and cash equivalents	444,732
Cash and cash equivalents at beginning of period	<u>446,564</u>

CASH AND CASH EQUIVALENTS AT END OF PERIOD \$ 891,296

See accompanying independent auditors' report and notes to financial statements.

PINE TREE SOCIETY FOR HANDICAPPED CHILDREN & ADULTS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of the Society - Pine Tree Society for Handicapped Children & Adults, Inc. (the Society) is a not-for-profit corporation, which provides awareness education, health, and recreational services benefiting handicapped individuals in Maine and other New England states.

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

Accounting period - In 2012, the Society's Board of Directors voted to change the Society's fiscal year to be on a calendar year basis. The change is effective for the period beginning September 1, 2012. The period ending December 31, 2013 represents a sixteen month period due to the change in fiscal year.

Basis of presentation - The Society's net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Society and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that can be fulfilled by actions of the Society or by the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Society. Generally, the donors of these assets permit the Society to use all or part of the income earned on related investments for general or specific purposes of the Society.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents - The Society considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Accounts receivable - Accounts receivable are reported at the amount management expects to collect on balances outstanding at year-end. The Society determines its past due receivables based on contractual terms. The Society uses the reserve method of accounting for doubtful accounts. Losses are charged to the allowance when the account is considered uncollectible.

Contributions - Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, at the time when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Accretion of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions is provided based upon management's judgment of potential defaults, based upon such factors as prior collection history, type of contribution, and nature of fundraising activity.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Contributions, continued - Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the temporarily restricted net asset class, and a reclassification to unrestricted net assets is made to reflect the expiration of such restrictions.

Investments - Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statement of financial position.

Income and net realized and unrealized gains and losses on investments of endowment and similar funds are reported as increases in permanently restricted net assets if the terms of the gift requires that they be added to the principal of a permanent endowment fund; as increases in temporarily restricted net assets if the terms of the gift or the Society's interpretation of relevant state law impose restrictions on the use of the income; or as increases in unrestricted net assets in all other cases.

Investments are exposed to various risks such as significant world events, interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the fair value of investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

Inventory - The Society values inventory at the lower of cost or market, determined on a first-in, first-out (FIFO) basis.

Property and equipment - Donated property is recorded at its fair market value on the date received and all other property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Tax exempt status - The Society is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Society received a favorable tax determination letter in 1946.

Uncertain tax positions - U.S. GAAP prescribes a comprehensive model for how an organization should measure, recognize, present, and disclose in its financial statements uncertain tax positions that the organization has taken or expects to take on a tax return. Accordingly, the Society recognizes the tax benefits from uncertain tax positions if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Society is no longer subject to examinations by tax authorities for the fiscal years before 2010.

Advertising - The Society recognizes advertising expenses as incurred.

Functional allocation of expenses - The costs of providing the various program services have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services.

Subsequent events - The Society has evaluated events, if any, that have occurred subsequent to December 31, 2013 through April 6, 2014, the date the financial statements were available to be issued, and included information in the notes to the financial statements related to any identifiable events, if necessary.

PINE TREE SOCIETY FOR HANDICAPPED CHILDREN & ADULTS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

2. CONCENTRATIONS OF CREDIT RISK

The Society's financial instruments exposed to concentrations of credit risk consist primarily of cash and cash equivalents. At times, the Society maintains cash balances with financial institutions in excess of amounts federally insured. Management does not believe it is exposed to significant risk.

3. PLEDGES RECEIVABLE

Pledges receivable, net of allowance for uncollectible pledges and unamortized discount consist of the following:

Capital Campaign:

Receivable in less than one year	\$ 58,133
Receivable in one to five years	<u>57,888</u>
	116,021
Less discounts to net present value	645
Less allowance for uncollectible pledges	<u>5,000</u>
	110,376
Less current portion	<u>55,628</u>
Long-term pledges receivable, net of current portion	<u>\$ 54,748</u>

Pledges receivable expected to be collected in more than one year were discounted at rates from 0.13% to 1.75% based upon the expected date of collection.

4. INVESTMENTS

The composition of investments is as follows:

	<u>Cost</u>	<u>Market</u>
Cash reserve funds	\$ 360,039	360,039
Equities funds	5,732,777	7,087,779
Bond funds	2,220,482	2,202,379
Real estate funds	441,655	411,890
Commodities	425,603	400,680
Multi-strategy mutual funds	555,014	553,890
TIPS	395,378	366,358
Alternative funds	<u>549,204</u>	<u>712,341</u>
	<u>\$ 10,680,152</u>	<u>12,095,356</u>

PINE TREE SOCIETY FOR HANDICAPPED CHILDREN & ADULTS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

4. INVESTMENTS, CONTINUED

The change in market value consists of the following:

Market value, beginning of year	<u>\$ 12,278,790</u>
Contributions	89,686
Interest and dividends	507,237
Net realized gains	724,913
Net change in unrealized gains	804,140
Custodial fees	(73,915)
Withdrawals	<u>(2,235,495)</u>
	<u>(183,434)</u>
Market value, end of year	<u>\$ 12,095,356</u>

5. BENEFICIAL INTEREST IN PERPETUAL TRUSTS

The Society is the beneficiary of various trusts created by donors, the assets of which are not in the possession of the Society. The Society has legally enforceable rights and claims to such assets, including the sole or stated share of the income from each trust as applicable. Changes in value of the beneficial interest in perpetual trusts are reported as changes in permanently restricted net assets based on stipulations in the gift instruments. The fair value of the beneficial interest in perpetual trusts was approximately \$4,326,000 at December 31, 2013.

6. CONTRIBUTIONS RECEIVABLE FROM REMAINDER TRUST

The Society is the beneficiary of various charitable remainder trusts. A charitable remainder trust provides for the payment of distributions to the grantor and other beneficiaries over the trust's term (usually the beneficiary's lifetime). At the end of the trust's term, the remaining assets are available for the Society's use. At the time the Society is named beneficiary, it records contribution revenue equal to the present value of the estimated future benefits to be received. Future changes in value of the charitable remainder trusts are reported as changes in permanently restricted net assets based on stipulations in the gift instruments. The approximate present value of the future payments (\$311,000 as of December 31, 2013) is calculated using a discount rate of 3.32% for 2013 and applicable mortality tables.

7. FAIR VALUE MEASUREMENTS

Fair value is defined as the price at which an asset could be exchanged or a liability transferred (an exit price) in an orderly transaction between knowledgeable, willing parties in the principal or most advantageous market for the asset or liability. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied.

Financial assets recorded at fair value in the accompanying financial statements are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, defined by U.S. GAAP, and directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities, are as follows:

7. FAIR VALUE MEASUREMENTS, CONTINUED

Level 1 - Inputs are unadjusted, quoted prices in active markets for identical assets at the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - Inputs are other than quoted prices included in Level 1, which are either directly or indirectly observable for the asset or liability through correlation with market data at the reporting date and for the duration of the instrument's anticipated life.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities and which reflect management's best estimate of what market participants would use in pricing the asset or liability at the reporting date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

Management is responsible for valuation policies and procedures and determining fair value of investments. The valuation process is completed on an annual basis for Level 3 assets.

Valuation techniques of the Society's beneficial interest in charitable remainder trusts with Level 3 inputs include a net present value calculation using factors of seven to twenty-five years, based on life expectancy of the income beneficiary, discounted at the applicable federal rate for the period ended December 31, 2013.

Fair value of the Society's beneficial interest in perpetual trusts is based on the market value of assets held by the trust at December 31, 2013 factored by the beneficiary percentage to which the Society is entitled.

Alternative investments consist of ownership interests in investment partnerships. The Society values these investments at the entity level, rather than at the individual levels of underlying assets held by the partnership. The fair value at December 31, 2013 is based on the Society's capital account balance adjusted for performance allocation.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

		<u>Fair value measurements at reporting date using:</u>		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		<u>Totals</u>		
Investments	\$ 12,095,356	11,383,015	-	712,341
Beneficial interest in perpetual trusts	4,326,000	-	-	4,326,000
Contributions receivable from remainder trusts	311,000	-	-	311,000
	<u>\$ 16,732,356</u>	<u>11,383,015</u>	<u>-</u>	<u>5,349,341</u>

PINE TREE SOCIETY FOR HANDICAPPED CHILDREN & ADULTS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

7. FAIR VALUE MEASUREMENTS, CONTINUED

A reconciliation of assets measured at fair value on a recurring basis with the use of significant unobservable inputs (Level 3) is as follows:

	<u>Alternative investments</u>	Beneficial interest in perpetual <u>trusts</u>	Contributions receivable from remainder <u>trusts</u>	<u>Total</u>
Balance at beginning of year	\$ -	3,719,000	552,000	4,271,000
Investment purchases	546,115	-	-	546,115
Net realized and unrealized gains	166,226	-	-	166,226
Change in value of beneficial interests in perpetual trusts and contributions receivable from remainder trusts	-	607,000	(69,548)	537,452
Contributions received	<u>-</u>	<u>-</u>	<u>(171,452)</u>	<u>(171,452)</u>
Balance at end of year	<u>\$ 712,341</u>	<u>4,326,000</u>	<u>311,000</u>	<u>5,349,341</u>

Realized and unrealized gains and losses are included in net realized and unrealized gains in the statement of activities.

8. LINES OF CREDIT

The Society has two available lines of credit totaling \$3,200,000 with a bank. One line has a maximum borrowing limit of \$3,000,000 and any balance outstanding accrues interest at the Bank's float prime rate less 0.25% (3.00% at December 31, 2013). The line is secured by one of the Society's investment accounts with a carrying value of \$6,194,571. The second line has a maximum borrowing of \$200,000 and any balance outstanding accrues interest at the Bank's float prime rate plus 0.75% (4.00% at December 31, 2013). The line is secured by all business assets of the Society with a carrying value of \$22,978,064. The combined outstanding borrowings against the lines were \$440,008 at December 31, 2013.

PINE TREE SOCIETY FOR HANDICAPPED CHILDREN & ADULTS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

9. RESTRICTIONS ON USE OF NET ASSETS

Temporarily and permanently restricted net assets are available for the following purposes:

	<u>Temporarily restricted</u>	<u>Permanently restricted</u>		<u>Total</u>
		Investment in perpetuity - income only <u>expendable</u>	Beneficial interest in perpetual trusts and contributions receivable from remainder trusts - receipts only <u>expendable</u>	
Any activities of the Society	\$ 423,638	825,509	4,476,896	5,726,043
Program services	26,177	-	-	26,177
Pine Tree Camp operations	230,792	991,147	242,726	1,464,665
Pine Tree Camp capital expenditures	234,733	-	-	234,733
Scholarships	48,243	-	89,000	137,243
	<u>\$ 963,583</u>	<u>1,816,656</u>	<u>4,808,622</u>	<u>7,588,861</u>

10. ENDOWMENT FUNDS

The Society has interpreted the Maine Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Society classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. 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 Society in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the duration and preservation of the fund; the purposes of the Society and donor-restricted endowment fund; general economic conditions; the possible effect of inflation and deflation; the expected total return from income and the appreciation of investments; other resources of the Society; and the investment policies of the Society.

Endowment Investment - The Society has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a substantial and reasonably stable stream of income to support the operating budget of the Society and to achieve this result in perpetuity while preserving and enhancing the total value of the endowment. In order to achieve the Society's investment objectives, it is necessary to realize long-term investment returns in excess of their spending policy rate plus the inflation rate. The Society believes that a portfolio of mostly equity based investments is the best opportunity to achieve this objective. The Society's portfolio also maintains 10 - 30% of fixed income securities in order to realize some short term liquidity and to remain diversified.

PINE TREE SOCIETY FOR HANDICAPPED CHILDREN & ADULTS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

10. ENDOWMENT FUNDS, CONTINUED

Spending Policy - The Society maintains a spending policy to distribute 4.00% annually of the total market value of the endowment, calculated as the average of the prior 36 months' average market value of the endowment funds net of all fees and administrative expenses paid by the endowment. Any changes made to the spending policy are subject to approval by the Board of Directors.

Endowment net asset composition by type of fund as of December 31, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	654,430	6,453,826	7,108,256
Board designated endowment funds	<u>9,624,100</u>	<u>-</u>	<u>-</u>	<u>9,624,100</u>
Total available-for-sale investments	<u>\$ 9,624,100</u>	<u>654,430</u>	<u>6,453,826</u>	<u>16,732,356</u>

Changes in endowment net assets for the fiscal year ended December 31, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	<u>\$ 10,114,566</u>	<u>347,569</u>	<u>6,087,656</u>	<u>16,549,791</u>
Investment return:				
Investment income	383,557	123,680	-	507,237
Net appreciation	<u>1,271,920</u>	<u>258,097</u>	<u>-</u>	<u>1,530,017</u>
Total investment return	1,655,477	381,777	-	2,037,254
Contributions	89,686	-	170	89,856
Change in value of beneficial interest in trusts and contributions receivable from remainder trusts	-	-	537,452	537,452
Appropriation of endowment assets for expenditure	<u>(2,235,629)</u>	<u>(74,916)</u>	<u>(171,452)</u>	<u>(2,481,997)</u>
Change in endowment net assets	<u>(490,466)</u>	<u>306,861</u>	<u>366,170</u>	<u>182,565</u>
Endowment net assets, end of year	<u>\$ 9,624,100</u>	<u>654,430</u>	<u>6,453,826</u>	<u>16,732,356</u>

PINE TREE SOCIETY FOR HANDICAPPED CHILDREN & ADULTS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

10. ENDOWMENT FUNDS, CONTINUED

Description of amounts classified as permanently restricted net assets and temporarily restricted net assets (endowment only).

Permanently restricted net assets

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA \$ 1,816,826

Temporarily restricted net assets

The portion of perpetual endowment funds subject to a time restriction under UPMIFA, with purpose restrictions \$ 654,430

11. DONATED SERVICES

The Society recognizes contribution revenue for certain donated services at the estimated fair value of those services. Donated services include the following:

Pine Tree Camp:

Camp contractors and general laborers \$ 65,500
Miscellaneous services 3,970

Total donated services \$ 69,470

12. LEASES

The Society leases property under operating leases expiring in 2014 and 2021. Monthly lease payments total \$10,655 with various provisions for increases. Rental expense was \$197,060 for the period ended December 31, 2013. The Society is responsible for insurance, repairs and taxes on the property. Minimum rental commitments are as follows:

	<u>Location</u>		
	<u>Bath</u>	<u>Scarborough</u>	<u>Total</u>
December 31, 2014	\$ 46,559	77,376	123,935
December 31, 2015	-	79,697	79,697
December 31, 2016	-	82,088	82,088
December 31, 2017	-	84,550	84,550
December 31, 2018	-	87,087	87,087
Thereafter	<u>-</u>	<u>174,179</u>	<u>174,179</u>
	<u>\$ 46,559</u>	<u>584,977</u>	<u>631,536</u>

PINE TREE SOCIETY FOR HANDICAPPED CHILDREN & ADULTS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

13. PENSION PLAN

The Society had a non-contributory defined benefit pension plan (the "Plan") covering certain employees and was subject to ERISA. On January 10, 2012, the Society's Board of Directors voted to terminate the Plan effective February 2012. All participants became fully vested and had the option to receive a lump sum payment or an annuity for the value of their accumulated benefits. Benefits were generally based on the employee's years of service and the average compensation of five consecutive years out of 10 years that produces the highest average prior to termination of employment or retirement.

The Society's funding policy, in effect up to January 10, 2012, was to contribute annually an amount to cover normal pension costs for that year, as actuarially computed. Contributions were intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. No contributions were made after the termination date. In conjunction with the Board's decision to terminate the Plan, the actuarial valuation of accumulated plan benefits was under a liquidation assumption.

In December 2012, the Plan's assets were distributed to all plan participants. The Society contributed approximately \$1,450,000 to the Plan to satisfy the unfunded liability prior to the distribution of plan assets to the participants.

14. RETIREMENT PLAN

The Society sponsors a 403(b) retirement savings plan covering employees after certain eligibility requirements are met. The Plan provides for employer matching contributions equal to 100% of the first 2% of compensation that a participant elects to contribute as a deferred cash contribution, for employees who do not also participate in the defined benefit plan. The Plan provides for discretionary employer contributions. Matching contributions totaled \$36,351 for the period ended December 31, 2013 and discretionary employer contributions totaled \$148,978 for the period ended December 31, 2013.

15. JOINT COSTS OF MULTI-PURPOSE FUNDRAISING MATERIALS

The Society incurred joint costs for informational materials and activities that include fundraising appeals. The costs were allocated to fundraising expense and public health education as follows:

Fundraising	\$ 225,376
Public health education	<u>137,924</u>
Total joint costs	<u>\$ 363,300</u>

16. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid for interest	<u>\$ 19,637</u>
------------------------	------------------