

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

FINANCIAL STATEMENTS

With Independent Auditors' Report

DECEMBER 31, 2015 AND 2014

PINE TREE SOCIETY FOR HANDICAPPED CHILDREN & ADULTS, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

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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, 2015 and 2014, which comprise the statements of financial position, and the related statements of activities, functional expenses, 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.

Auditors' 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 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, 2015 and 2014, 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.

Albin, Rendell & Bennett

April 18, 2016

PINE TREE SOCIETY FOR HANDICAPPED CHILDREN & ADULTS, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2015 AND 2014

ASSETS	<u>2015</u>	<u>2014</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 568,836	901,829
Accounts receivable	367,733	308,612
Bequest receivable	114,308	800,000
Pledges receivable, current portion	69,093	44,189
Inventory	24,225	24,327
Prepaid expenses	<u>32,737</u>	<u>36,864</u>
Total current assets	<u>1,176,932</u>	<u>2,115,821</u>
PROPERTY AND EQUIPMENT:		
Land	118,956	118,956
Buildings	6,889,174	5,761,159
Equipment	1,715,015	1,594,990
Construction in process	<u>755,463</u>	<u>512,026</u>
	9,478,608	7,987,131
Less accumulated depreciation	<u>2,847,569</u>	<u>2,645,756</u>
Net property and equipment	<u>6,631,039</u>	<u>5,341,375</u>
INVESTMENTS:		
Unrestricted	8,376,897	9,553,810
Temporarily restricted	530,271	731,588
Permanently restricted	<u>2,850,633</u>	<u>1,855,633</u>
Total investments	<u>11,757,801</u>	<u>12,141,031</u>
OTHER ASSETS:		
Pledges receivable, net of current portion	8,091	22,566
Beneficial interest in perpetual trusts	4,141,000	4,384,000
Contributions receivable from remainder trusts	<u>348,000</u>	<u>353,000</u>
Total other assets	<u>4,497,091</u>	<u>4,759,566</u>
	<u>\$ 24,062,863</u>	<u>24,357,793</u>

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

LIABILITIES AND NET ASSETS

	<u>2015</u>	<u>2014</u>
CURRENT LIABILITIES:		
Bank lines of credit	\$ -	345,712
Accounts payable	143,714	65,243
Accrued expenses	<u>247,237</u>	<u>204,400</u>
Total current liabilities	<u>390,951</u>	<u>615,355</u>
NET ASSETS:		
Unrestricted	15,709,307	15,260,391
Temporarily restricted	622,942	1,089,384
Permanently restricted	<u>7,339,663</u>	<u>7,392,663</u>
Total net assets	<u>23,671,912</u>	<u>23,742,438</u>
	<u>\$ 24,062,863</u>	<u>24,357,793</u>

PINE TREE SOCIETY FOR HANDICAPPED CHILDREN & ADULTS, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>Unrestricted</u>	
	<u>2015</u>	<u>2014</u>
PUBLIC SUPPORT, PROGRAM SERVICES AND REVENUE:		
Public support:		
Bequests	\$ 1,513,095	106,870
Donations and gifts	58,300	-
Special events	203,516	206,266
Mail campaigns and other support	<u>404,365</u>	<u>537,561</u>
Total public support	<u>2,179,276</u>	<u>850,697</u>
Program services:		
Interpreting services	954,323	977,210
Family and community support services	1,235,021	1,124,603
Pine Tree Camp recreational services	243,819	256,128
Speech, hearing and assistive technology services	330,612	235,983
Other	<u>57,812</u>	<u>90,729</u>
Total program services	<u>2,821,587</u>	<u>2,684,653</u>
Revenue:		
Hearing aid sales, net	395,483	397,758
Interest and dividends	356,526	369,817
Net realized and unrealized (losses) gains	(683,376)	168,442
Change in value of beneficial interest in perpetual trusts and contributions receivable from remainder trusts	-	-
Donated services	17,306	22,948
Donated equipment and other	67,608	276,337
Other	<u>-</u>	<u>6,354</u>
Total revenue	153,547	1,241,656
Net assets released by satisfaction of program restrictions	<u>644,492</u>	<u>710,739</u>
Total public support, program services and revenue	<u>5,798,902</u>	<u>5,487,745</u>
EXPENSES:		
Program services	4,658,524	3,768,064
Support services	<u>691,462</u>	<u>1,330,367</u>
Total expenses	<u>5,349,986</u>	<u>5,098,431</u>
Change in net assets	448,916	389,314
NET ASSETS AT BEGINNING OF YEAR	15,260,391	14,699,625
Net asset reclassification	<u>-</u>	<u>171,452</u>
Net assets at end of year	<u>\$ 15,709,307</u>	<u>15,260,391</u>

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

Temporarily Restricted		Permanently Restricted		Totals	
<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
-	136,091	150,000	800,030	1,663,095	1,042,991
292,321	621,495	45,000	38,807	395,621	660,302
-	-	-	-	203,516	206,266
-	-	-	-	404,365	537,561
<u>292,321</u>	<u>757,586</u>	<u>195,000</u>	<u>838,837</u>	<u>2,666,597</u>	<u>2,447,120</u>
-	-	-	-	954,323	977,210
-	-	-	-	1,235,021	1,124,603
-	-	-	-	243,819	256,128
-	-	-	-	330,612	235,983
-	-	-	-	57,812	90,729
-	-	-	-	<u>2,821,587</u>	<u>2,684,653</u>
-	-	-	-	395,483	397,758
45,433	89,718	-	-	401,959	459,535
(159,704)	(10,764)	-	-	(843,080)	157,678
-	-	(248,000)	100,000	(248,000)	100,000
-	-	-	-	17,306	22,948
-	-	-	-	67,608	276,337
-	-	-	-	-	6,354
(114,271)	78,954	(248,000)	100,000	(208,724)	1,420,610
<u>(644,492)</u>	<u>(710,739)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(466,442)</u>	<u>125,801</u>	<u>(53,000)</u>	<u>938,837</u>	<u>5,279,460</u>	<u>6,552,383</u>
-	-	-	-	4,658,524	3,768,064
-	-	-	-	691,462	1,330,367
-	-	-	-	<u>5,349,986</u>	<u>5,098,431</u>
(466,442)	125,801	(53,000)	938,837	(70,526)	1,453,952
1,089,384	963,583	7,392,663	6,625,278	23,742,438	22,288,486
-	-	-	(171,452)	-	-
<u>622,942</u>	<u>1,089,384</u>	<u>7,339,663</u>	<u>7,392,663</u>	<u>23,671,912</u>	<u>23,742,438</u>

PINE TREE SOCIETY FOR HANDICAPPED CHILDREN & ADULTS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2015

	Program Services			<u>Total</u>
	<u>Client Services</u>	Public Health <u>Education</u>	<u>Research</u>	
Salaries	\$ 2,151,612	21,751	60,118	2,233,481
Benefits	360,435	4,694	5,124	370,253
Payroll taxes	155,688	1,645	4,050	161,383
Professional fees	476,294	36,136	15,427	527,857
Supplies	274,318	727	1,560	276,605
Telephone	48,084	288	-	48,372
Postage	14,416	14,857	92	29,365
Occupancy	242,978	3,273	-	246,251
Printing	11,501	17,287	-	28,788
Advertising	10,644	531	-	11,175
Travel	163,788	485	2,629	166,902
Training and conferences	16,240	-	-	16,240
Board expense	-	-	-	-
Specific aid	5,507	-	-	5,507
Memberships	18,384	-	-	18,384
Awards and grants	-	-	-	-
Fuel	13,754	23	-	13,777
Miscellaneous	50	-	-	50
Insurance	81,599	86	-	81,685
Bad debts	15,481	-	-	15,481
Interest	2,290	-	-	2,290
Service provider taxes	25,057	-	-	25,057
Workers compensation	30,851	-	-	30,851
Special events	-	7,950	-	7,950
Depreciation	316,109	141	-	316,250
Staff meetings/events	268	-	222	490
Vehicle	23,301	-	-	23,301
Wellness program	-	-	-	-
Tuition reimbursement	779	-	-	779
	<u>\$ 4,459,428</u>	<u>109,874</u>	<u>89,222</u>	<u>4,658,524</u>

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

Support Services

<u>Fund Raising - General</u>	<u>Fund Raising - Special Events</u>	<u>Management and General</u>	<u>Total</u>	<u>2015 Total Expenses</u>
101,562	14,712	149,380	265,654	2,499,135
30,643	2,452	28,756	61,851	432,104
8,670	492	16,632	25,794	187,177
48,179	8,925	127,721	184,825	712,682
2,121	12,917	2,512	17,550	294,155
382	-	1,109	1,491	49,863
21,084	2,580	531	24,195	53,560
9,412	-	-	9,412	255,663
30,728	6,703	627	38,058	66,846
2,093	375	-	2,468	13,643
6,680	4,873	8,374	19,927	186,829
354	-	4,604	4,958	21,198
-	-	932	932	932
-	-	-	-	5,507
-	142	390	532	18,916
6,143	-	-	6,143	6,143
-	481	-	481	14,258
-	-	2,741	2,741	2,791
342	1,061	3,540	4,943	86,628
-	-	-	-	15,481
-	-	-	-	2,290
-	-	-	-	25,057
-	-	-	-	30,851
-	7,050	36	7,086	15,036
153	-	-	153	316,403
-	-	7,283	7,283	7,773
-	-	-	-	23,301
-	-	1,681	1,681	1,681
-	-	3,304	3,304	4,083
<u>268,546</u>	<u>62,763</u>	<u>360,153</u>	<u>691,462</u>	<u>5,349,986</u>

PINE TREE SOCIETY FOR HANDICAPPED CHILDREN & ADULTS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2014

	Program Services			
	<u>Client Services</u>	Public Health <u>Education</u>	<u>Research</u>	<u>Total</u>
Salaries	\$ 1,641,277	13,772	53,443	1,708,492
Benefits	306,287	2,510	5,019	313,816
Payroll taxes	126,329	1,090	2,918	130,337
Professional fees	412,841	34,357	235	447,433
Supplies	251,030	804	358	252,192
Telephone	33,517	238	-	33,755
Postage	11,639	15,182	-	26,821
Occupancy	214,990	3,174	-	218,164
Printing	9,310	18,609	59	27,978
Advertising	3,510	659	-	4,169
Travel	130,692	405	1,873	132,970
Training and conferences	11,229	-	602	11,831
Board expense	-	-	-	-
Specific aid	5,000	-	-	5,000
Memberships	14,636	-	-	14,636
Awards and grants	-	-	-	-
Fuel	735	-	-	735
Miscellaneous	-	-	-	-
Insurance	70,355	78	-	70,433
Bad debts	46,494	-	-	46,494
Interest	11,703	-	-	11,703
Service provider taxes	24,670	-	-	24,670
Workers compensation	-	-	-	-
Special events	-	7,500	-	7,500
Depreciation	245,997	646	-	246,643
Staff meetings/events	-	-	-	-
Vehicle	<u>32,292</u>	<u>-</u>	<u>-</u>	<u>32,292</u>
	<u>\$ 3,604,533</u>	<u>99,024</u>	<u>64,507</u>	<u>3,768,064</u>

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

Support Services

<u>Fund Raising - General</u>	<u>Fund Raising - Special Events</u>	<u>Management and General</u>	<u>Total</u>	<u>2014 Total Expenses</u>
87,856	9,198	453,433	550,487	2,258,979
7,491	2,156	92,064	101,711	415,527
4,624	1,012	40,536	46,172	176,509
41,985	6,915	208,892	257,792	705,225
2,689	17,514	17,240	37,443	289,635
263	56	13,911	14,230	47,985
20,881	3,470	6,069	30,420	57,241
16,678	706	63,543	80,927	299,091
32,273	6,260	4,882	43,415	71,393
2,295	1,316	3,445	7,056	11,225
6,901	4,926	29,022	40,849	173,819
-	-	6,316	6,316	18,147
-	-	1,035	1,035	1,035
-	-	2,500	2,500	7,500
300	105	4,625	5,030	19,666
6,143	-	-	6,143	6,143
-	-	51	51	786
-	-	1,886	1,886	1,886
313	971	31,292	32,576	103,009
-	-	-	-	46,494
-	-	-	-	11,703
-	-	-	-	24,670
-	-	2,897	2,897	2,897
-	11,000	-	11,000	18,500
709	136	49,488	50,333	296,976
-	-	98	98	98
-	-	-	-	32,292
<u>231,401</u>	<u>65,741</u>	<u>1,033,225</u>	<u>1,330,367</u>	<u>5,098,431</u>

PINE TREE SOCIETY FOR HANDICAPPED CHILDREN & ADULTS, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
OPERATING ACTIVITIES:		
Change in net assets	\$ (70,526)	1,453,952
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Change in allowance for doubtful accounts	-	14,945
Depreciation	316,403	296,976
Donation of property and equipment	(67,608)	(276,337)
Net realized and unrealized loss (gain) on investments	843,080	(157,678)
Change in value of beneficial interest in perpetual trusts and contributions receivable from remainder trusts	248,000	(100,000)
Change in operating assets and liabilities:		
Accounts receivable	(59,121)	57,547
Bequest receivable	685,692	(800,000)
Inventory	102	1,759
Prepaid expenses	4,127	3,784
Accounts payable	78,471	3,374
Accrued expenses	<u>42,837</u>	<u>16,699</u>
Net cash provided by operating activities	<u>2,021,457</u>	<u>515,021</u>
INVESTING ACTIVITIES:		
Purchases of property and equipment	(1,538,459)	(565,816)
Purchases of investments	(10,129,845)	(592,031)
Proceeds from sale of investments	<u>9,669,995</u>	<u>704,034</u>
Net cash used by investing activities	<u>(1,998,309)</u>	<u>(453,813)</u>
FINANCING ACTIVITIES:		
Net repayments on line of credit	(345,712)	(94,296)
Change in contributions restricted for long-lived assets	<u>(10,429)</u>	<u>43,621</u>
Net cash used by financing activities	<u>(356,141)</u>	<u>(50,675)</u>
(Decrease) increase in cash and cash equivalents	(332,993)	10,533
Cash and cash equivalents at beginning of year	<u>901,829</u>	<u>891,296</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 568,836</u>	<u>901,829</u>

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

PINE TREE SOCIETY FOR HANDICAPPED CHILDREN & ADULTS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

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 children and adults with disabilities and their families in Maine and other New England states.

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

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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Investments - Investments in equity securities with readily determinable fair values and all investments in debt securities and alternative investments 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.

Donated assets - Donated marketable securities and other non-cash donations are recorded as contributions at their estimated fair values at the date of donation.

Inventory - The Society values inventory, primarily consisting of hearing aids and other audiology equipment, at the lower of cost or market, determined on a first-in, first-out (FIFO) basis.

In-kind contributions - In-kind contributions represent donated services and facilities and have been recorded at fair value.

Property and equipment - Donated property is recorded at its fair 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.

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 support services.

PINE TREE SOCIETY FOR HANDICAPPED CHILDREN & ADULTS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Reclassifications - The financial statement presentation for 2014 has been changed to conform with the 2015 presentation. Total net assets are unchanged as a result of the reclassifications.

Subsequent events - The Society has evaluated events, if any, that have occurred subsequent to December 31, 2015 through April 18, 2016, 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. As disclosed in Note 14, the Society acquired Pathways, Inc. subsequent to year end.

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:

	<u>2015</u>	<u>2014</u>
Capital Campaign:		
Receivable in less than one year	\$ 69,983	47,467
Receivable in one to five years	<u>8,608</u>	<u>24,933</u>
	78,591	72,400
Less discounts to net present value	407	645
Less allowance for uncollectible pledges	<u>1,000</u>	<u>5,000</u>
	77,184	66,755
Less current portion	<u>69,093</u>	<u>44,189</u>
	8,091	22,566
Long-term pledges receivable, net of current portion	<u>\$ 8,091</u>	<u>22,566</u>

Pledges receivable expected to be collected in more than one year were discounted at rates from 0.25% to 1.76% based upon the expected date of collection.

PINE TREE SOCIETY FOR HANDICAPPED CHILDREN & ADULTS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

4. INVESTMENTS

The composition of investments is as follows:

	<u>2015</u>		<u>2014</u>	
	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>
Cash and cash equivalents	\$ 781,528	781,528	414,462	414,462
Equities funds	7,507,060	7,547,684	4,348,876	6,887,815
Bond funds	1,481,075	1,469,947	1,770,602	2,290,561
Real estate funds	-	-	233,788	478,456
Commodities	-	-	248,839	171,769
Multi-strategy mutual funds	-	-	555,014	536,189
Treasury inflation protected securities	-	-	396,861	367,018
Alternative funds	963,856	806,067	789,988	994,761
Certificate of deposit	100,000	99,928	-	-
Fixed income	<u>1,064,182</u>	<u>1,052,647</u>	<u>-</u>	<u>-</u>
	<u>\$ 11,897,701</u>	<u>11,757,801</u>	<u>8,758,430</u>	<u>12,141,031</u>

The change in fair value consists of the following:

	<u>2015</u>	<u>2014</u>
Fair value, beginning of year	<u>\$ 12,141,031</u>	<u>12,095,356</u>
Contributions	195,000	181,349
Transfers in	800,000	193,905
Interest and dividends	247,068	301,030
Net change in realized and unrealized (losses) gains	(844,609)	161,954
Custodial fees	(65,669)	(71,623)
Withdrawals	<u>(715,020)</u>	<u>(720,940)</u>
	<u>(383,230)</u>	<u>45,675</u>
Fair value, end of year	<u>\$ 11,757,801</u>	<u>12,141,031</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 \$4,141,000 and \$4,384,000 at December 31, 2015 and 2014, respectively.

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 is calculated using discount rates from 1.68% to 2.74% and applicable mortality tables, which was approximately \$348,000 and \$353,000 as of December 31, 2015 and 2014, respectively.

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:

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 five to twenty-four years, based on life expectancy of the income beneficiary, discounted at the applicable federal rate for the periods ended December 31, 2015 and 2014.

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, 2015 and 2014 factored by the beneficiary percentage to which the Society is entitled.

PINE TREE SOCIETY FOR HANDICAPPED CHILDREN & ADULTS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

7. FAIR VALUE MEASUREMENTS, CONTINUED

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, 2015 and 2014 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>			
	<u>Totals</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
December 31, 2015:				
Investments	\$ 11,757,801	10,951,734	-	806,067
Beneficial interest in perpetual trusts	4,141,000	-	-	4,141,000
Contributions receivable from remainder trusts	<u>348,000</u>	<u>-</u>	<u>-</u>	<u>348,000</u>
	<u>\$ 16,246,801</u>	<u>10,951,734</u>	<u>-</u>	<u>5,295,067</u>
December 31, 2014:				
Investments	\$ 12,141,031	11,146,270	-	994,761
Beneficial interest in perpetual trusts	4,384,000	-	-	4,384,000
Contributions receivable from remainder trusts	<u>353,000</u>	<u>-</u>	<u>-</u>	<u>353,000</u>
	<u>\$ 16,878,031</u>	<u>11,146,270</u>	<u>-</u>	<u>5,731,761</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>
December 31, 2015:				
Balance at beginning of year	\$ 994,761	4,384,000	353,000	5,731,761
Investment purchases	151,476	-	-	151,476
Net realized and unrealized losses	(241,832)	-	-	(241,832)
Distributions	(98,338)	-	-	(98,338)
Change in value of beneficial interests in perpetual trusts and contributions receivable from remainder trusts	<u>-</u>	<u>(243,000)</u>	<u>(5,000)</u>	<u>(248,000)</u>
Balance at end of year	<u>\$ 806,067</u>	<u>4,141,000</u>	<u>348,000</u>	<u>5,295,067</u>

	<u>Alternative investments</u>	Beneficial interest in perpetual <u>trusts</u>	Contributions receivable from remainder <u>trusts</u>	<u>Total</u>
December 31, 2014:				
Balance at beginning of year	\$ 712,341	4,326,000	311,000	5,349,341
Investment purchases	181,728	-	-	181,728
Net realized and unrealized gains	138,762	-	-	138,762
Distributions	(38,070)	-	-	(38,070)
Change in value of beneficial interests in perpetual trusts and contributions receivable from remainder trusts	<u>-</u>	<u>58,000</u>	<u>42,000</u>	<u>100,000</u>
Balance at end of year	<u>\$ 994,761</u>	<u>4,384,000</u>	<u>353,000</u>	<u>5,731,761</u>

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

PINE TREE SOCIETY FOR HANDICAPPED CHILDREN & ADULTS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

8. LINES OF CREDIT

The Society maintains a line of credit which allows for maximum borrowings of \$200,000 and any balance outstanding accrues interest at the Bank's float prime rate plus 0.75% (4.25% at December 31, 2015). The line is secured by all business assets of the Society with a carrying value of \$24,062,863 at December 31, 2015. The Society had a line of credit with a maximum borrowing limit of \$3,000,000 and any balance outstanding accrued interest at the Bank's float prime rate less 0.25%. The line was secured by one of the Society's investment accounts. In December 2015 the Society closed this line of credit. No amounts were advanced on the line at December 31, 2015. The combined outstanding borrowings against the lines were \$345,712 at December 31, 2014.

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>	<u>Bequests</u>	
December 31, 2015:					
Any activities of the Society	\$ 397,977	1,775,679	4,181,304	-	6,354,960
Program services	33,421	-	-	-	33,421
Pine Tree Camp operations	132,295	1,074,954	223,726	-	1,430,975
Pine Tree Camp capital expenditures	28,506	-	-	-	28,506
Scholarships	<u>30,743</u>	<u>-</u>	<u>84,000</u>	<u>-</u>	<u>114,743</u>
	<u>\$ 622,942</u>	<u>2,850,633</u>	<u>4,489,030</u>	<u>-</u>	<u>7,962,605</u>
December 31, 2014:					
Any activities of the Society	\$ 419,620	825,679	4,409,274	800,030	6,454,603
Program services	21,564	-	-	-	21,564
Pine Tree Camp operations	228,729	1,029,954	237,726	-	1,496,409
Pine Tree Camp capital expenditures	376,228	-	-	-	376,228
Scholarships	<u>43,243</u>	<u>-</u>	<u>90,000</u>	<u>-</u>	<u>133,243</u>
	<u>\$ 1,089,384</u>	<u>1,855,633</u>	<u>4,737,000</u>	<u>800,030</u>	<u>8,482,047</u>

Reclassification of permanently restricted net assets of \$171,452 represent contributions received from a remainder trust.

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.

Spending Policy - The Society maintains a spending policy to distribute 4% annually of the total market value of the endowment, calculated as the average of the prior 12 quarters' 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 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
December 31, 2015:				
Donor restricted endowment funds	\$ -	530,271	2,850,633	3,380,904
Board designated endowment funds	<u>8,376,897</u>	<u>-</u>	<u>-</u>	<u>8,376,897</u>
	<u>\$ 8,376,897</u>	<u>530,271</u>	<u>2,850,633</u>	<u>11,757,801</u>
December 31, 2014:				
Donor restricted endowment funds	\$ -	731,588	1,855,633	2,587,221
Board designated endowment funds	<u>9,553,810</u>	<u>-</u>	<u>-</u>	<u>9,553,810</u>
	<u>\$ 9,553,810</u>	<u>731,588</u>	<u>1,855,633</u>	<u>12,141,031</u>

PINE TREE SOCIETY FOR HANDICAPPED CHILDREN & ADULTS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

10. ENDOWMENT FUNDS, CONTINUED

Changes in endowment net assets are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
December 31, 2015:				
Endowment net assets, beginning of year	\$ 9,553,810	731,588	1,855,633	12,141,031
Investment return:				
Investment income	201,635	45,433	-	247,068
Net depreciation	<u>(684,905)</u>	<u>(159,704)</u>	<u>-</u>	<u>(844,609)</u>
Total investment loss	(483,270)	(114,271)	-	(597,541)
Contributions	-	-	195,000	195,000
Transfers to endowment	-	-	800,000	800,000
Appropriation of endowment assets for expenditure	<u>(693,643)</u>	<u>(87,046)</u>	<u>-</u>	<u>(780,689)</u>
Change in endowment net assets	<u>(1,176,913)</u>	<u>(201,317)</u>	<u>995,000</u>	<u>(383,230)</u>
Endowment net assets, end of year	<u>\$ 8,376,897</u>	<u>530,271</u>	<u>2,850,633</u>	<u>11,757,801</u>
December 31, 2014:				
Endowment net assets, beginning of year	\$ 9,624,100	654,430	1,816,826	12,095,356
Investment return:				
Investment income	229,112	71,918	-	301,030
Net appreciation (depreciation)	<u>172,718</u>	<u>(10,764)</u>	<u>-</u>	<u>161,954</u>
Total investment return	401,830	61,154	-	462,984
Contributions	41,502	101,040	38,807	181,349
Transfers to endowment funds	193,905	-	-	193,905
Appropriation of endowment assets for expenditure	<u>(707,527)</u>	<u>(85,036)</u>	<u>-</u>	<u>(792,563)</u>
Change in endowment net assets	<u>(70,290)</u>	<u>77,158</u>	<u>38,807</u>	<u>45,675</u>
Endowment net assets, end of year	<u>\$ 9,553,810</u>	<u>731,588</u>	<u>1,855,633</u>	<u>12,141,031</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).

	<u>2015</u>	<u>2014</u>
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	<u>\$ 2,850,633</u>	<u>1,855,633</u>
Temporarily restricted net assets		
The portion of perpetual endowment funds subject to a time restriction under UPMIFA, with purpose restrictions	<u>\$ 530,271</u>	<u>731,588</u>

11. LEASES

The Society leases property under operating leases expiring in 2016 and 2020. Monthly lease payments total \$10,655 with various provisions for increases. Rental expense was \$155,881 and \$171,698 for the years ended December 31, 2015 and 2014, respectively. 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, 2016	\$ 46,559	82,088	128,647
December 31, 2017	-	84,550	84,550
December 31, 2018	-	87,087	87,087
December 31, 2019	-	89,699	89,699
December 31, 2020	-	<u>69,120</u>	<u>69,120</u>
	<u>\$ 46,559</u>	<u>412,544</u>	<u>459,103</u>

12. 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 \$33,220 and \$24,771 for the years ended December 31, 2015 and 2014, respectively. Discretionary employer contributions totaled \$80,857 and \$75,853 for the years ended December 31, 2015 and 2014, respectively.

PINE TREE SOCIETY FOR HANDICAPPED CHILDREN & ADULTS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

13. 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:

	<u>2015</u>	<u>2014</u>
Fundraising	\$ 123,761	125,689
Public health education	<u>90,746</u>	<u>86,102</u>
Total joint costs	<u>\$ 214,507</u>	<u>211,791</u>

14. BUSINESS COMBINATION

Effective January 4, 2016 the Society acquired Pathways, Inc. (Pathways). Pathways was a non-profit organization located in Auburn, Maine that provided programming to enrich the lives of children and adults with disabilities. The Society's Strategic Plan identified the opportunity for expanding its impact through the addition of satellite sites. The acquisition of Pathways allows the Society to provide an impact in an under-served area in accordance with this plan. The Society obtained full possession of the operating assets as of January 4, 2016.

No consideration was transferred for the acquisition. The transaction resulted in a contribution received in the acquisition of Pathways of \$610,111 as the fair value of the assets acquired exceeded the liabilities assumed. The following table summarizes the amounts of assets acquired and liabilities assumed at the acquisition date.

Recognized amounts of identifiable assets acquired:

Cash	\$ 16,523
Accounts receivable	143,264
Building and equipment	<u>832,807</u>
	<u>\$ 992,594</u>

Recognized amounts of identifiable liabilities acquired:

Line of credit	\$ 150,000
Accrued expenses	77,397
Long-term debt	<u>155,086</u>
	<u>\$ 382,483</u>

The fair value of accounts receivable acquired from Pathways totaled \$143,264. All amounts are expected to be collected.

15. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	<u>2015</u>	<u>2014</u>
Cash paid for interest	<u>\$ 2,290</u>	<u>11,703</u>