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JUSTICE RESOURCE INSTITUTE, INC. AND AFFILIATES

**CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT**

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JUSTICE RESOURCE INSTITUTE, INC. AND AFFILIATES

**CONTENTS
JUNE 30, 2014 AND 2013**

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| | <u>PAGES</u> |
|---|---------------|
| INDEPENDENT AUDITOR'S REPORT | 1 - 1A |
| CONSOLIDATED FINANCIAL STATEMENTS: | |
| Consolidated Statements of Financial Position | 2 |
| Consolidated Statements of Activities | 3 |
| Consolidated Statements of Changes in Net Assets..... | 4 |
| Consolidated Statements of Cash Flows | 5 |
| Consolidated Statements of Functional Expenses | 6 - 7 |
| Notes to Consolidated Financial Statements | 8 - 23 |
| SUPPLEMENTAL INFORMATION: | |
| Consolidating Statements of Financial Position | 24 - 25 |
| Consolidating Statements of Activities..... | 26 - 27 |



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Alexander, Aronson, Finning & Co., P. C.

21 East Main Street, Westborough, MA 01581-1461 (508) 366-9100
Boston, MA (617) 205-9100 Wellesley, MA (781) 965-9100
www.aafcpa.com FAX (508) 366-9789 info@aafcpa.com

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Justice Resource Institute, Inc. and Affiliates:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Justice Resource Institute, Inc. (JRI) (a Massachusetts corporation, not for profit) and its Affiliates; Community Care Services, Inc. (CCS) and Community Care-A-Vans, Inc. (CCAV) (Massachusetts corporations, not for profit) and Eagle Community Care Estates, LLC (the LLC) (a Massachusetts limited liability company) (collectively, the Agency), which comprise the consolidated statements of financial position as of June 30, 2014 and 2013, and the related consolidated statements of activities, changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

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To the Board of Trustees of
Justice Resource Institute, Inc. and Affiliates
Page II

Opinion

In our opinion, the consolidated financial statements referred to on page one present fairly, in all material respects, the consolidated financial position of Justice Resource Institute, Inc. and Affiliates as of June 30, 2014 and 2013, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As described in Note 1 to the accompanying consolidated financial statements, JRI became the sole corporate member and obtained full control over the Affiliates effective January 1, 2013, and the Affiliates merged with JRI as of June 30, 2013. CCS and CCAV dissolved shortly after June 30, 2013, and the LLC continues to exist as a separate legal entity. Accordingly, the accompanying financial statements are presented on a consolidated basis and reflect the consolidated statements of financial position of the Agency as of June 30, 2014 and 2013, and the consolidated revenues and expenses of the Agency for the year ended June 30, 2014. The consolidated revenues and expenses for the year ended June 30, 2013, contain the activities of JRI for the year ended June 30, 2013, and of CCS, CCAV and the LLC for the period January 1, 2013 through June 30, 2013. Our opinion is not modified with respect to this matter.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary consolidating information shown on pages 24 through 27 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Alexander, Brown, Pinning & Co., P.C.

Wellesley, Massachusetts
November 3, 2014

JUSTICE RESOURCE INSTITUTE, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2014 AND 2013

| ASSETS | 2014 | | | | 2013 | | | |
|---|---------------|------------------------|------------------------|---------------|---------------|------------------------|------------------------|---------------|
| | UNRESTRICTED | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | TOTAL | UNRESTRICTED | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | TOTAL |
| CURRENT ASSETS: | | | | | | | | |
| Cash and cash equivalents | \$ 6,721,739 | \$ 1,663,197 | \$ 85,728 | \$ 8,470,664 | \$ 9,265,315 | \$ 984,823 | \$ 85,728 | \$ 10,335,866 |
| Accounts receivable, net of allowance for doubtful accounts of approximately \$230,000 and \$350,000 as of June 30, 2014 and 2013, respectively | 18,404,554 | - | - | 18,404,554 | 14,634,440 | - | - | 14,634,440 |
| Prepaid expenses and other | 6,203,944 | - | - | 6,203,944 | 3,344,246 | - | - | 3,344,246 |
| Investments | 9,308,332 | - | 50,000 | 9,358,332 | 7,313,310 | - | 50,000 | 7,363,310 |
| Total current assets | 40,638,569 | 1,663,197 | 135,728 | 42,437,494 | 34,557,311 | 984,823 | 135,728 | 35,677,862 |
| PROPERTY AND EQUIPMENT, at cost | | | | | | | | |
| Land, buildings and improvements | 64,116,902 | - | - | 64,116,902 | 59,145,969 | - | - | 59,145,969 |
| Office furniture and equipment | 3,986,669 | - | - | 3,986,669 | 4,186,139 | - | - | 4,186,139 |
| Motor vehicles | 2,981,557 | - | - | 2,981,557 | 2,832,382 | - | - | 2,832,382 |
| Leasehold improvements | 1,097,727 | - | - | 1,097,727 | 1,264,518 | - | - | 1,264,518 |
| Less - accumulated depreciation | 72,186,835 | - | - | 72,186,835 | 67,429,008 | - | - | 67,429,008 |
| Net property and equipment | 47,906,578 | - | - | 47,906,578 | 45,331,606 | - | - | 45,331,606 |
| OTHER ASSETS: | | | | | | | | |
| Construction in progress | 1,143,081 | - | - | 1,143,081 | 2,797,917 | - | - | 2,797,917 |
| Restricted cash | 172,218 | - | - | 172,218 | 150,434 | - | - | 150,434 |
| Financing fees, net of accumulated amortization of \$20,917 and \$13,796 as of June 30, 2014 and 2013, respectively | 206,799 | - | - | 206,799 | 215,549 | - | - | 215,549 |
| Total other assets | 1,522,098 | - | - | 1,522,098 | 3,163,900 | - | - | 3,163,900 |
| Total assets | \$ 90,065,245 | \$ 1,663,197 | \$ 135,728 | \$ 91,864,170 | \$ 83,052,835 | \$ 984,823 | \$ 135,728 | \$ 84,173,386 |
| LIABILITIES AND NET ASSETS | | | | | | | | |
| CURRENT LIABILITIES: | | | | | | | | |
| Current portion of long-term debt | \$ 565,335 | \$ - | \$ - | \$ 565,335 | \$ 503,204 | \$ - | \$ - | \$ 503,204 |
| Accounts payable | 2,651,383 | - | - | 2,651,383 | 2,022,086 | - | - | 2,022,086 |
| Accrued expenses and other current liabilities | 7,911,383 | - | - | 7,911,383 | 7,126,818 | - | - | 7,126,818 |
| Total current liabilities | 11,128,101 | - | - | 11,128,101 | 9,652,108 | - | - | 9,652,108 |
| LONG-TERM LIABILITIES: | | | | | | | | |
| Long-term debt, net of current portion | 15,364,313 | - | - | 15,364,313 | 16,312,318 | - | - | 16,312,318 |
| Contingent notes payable | 2,740,760 | - | - | 2,740,760 | 2,740,760 | - | - | 2,740,760 |
| Pension benefits liability | 5,336,519 | - | - | 5,336,519 | 6,230,261 | - | - | 6,230,261 |
| Total liabilities | 34,559,693 | - | - | 34,559,693 | 34,935,427 | - | - | 34,935,427 |
| NET ASSETS: | | | | | | | | |
| Unrestricted | | | | | | | | |
| Operating | 23,061,494 | - | - | 23,061,494 | 21,387,037 | - | - | 21,387,037 |
| Working capital | 27,583 | - | - | 27,583 | (3,466,797) | - | - | (3,466,797) |
| Pension plan | 23,089,077 | - | - | 23,089,077 | 17,920,340 | - | - | 17,920,340 |
| Property and equipment | 30,700,449 | - | - | 30,700,449 | 28,578,705 | - | - | 28,578,705 |
| Custodial property and equipment | 55,819 | - | - | 55,819 | 18,588 | - | - | 18,588 |
| Board designated | 1,660,207 | - | - | 1,660,207 | 1,599,855 | - | - | 1,599,855 |
| Total unrestricted | 55,505,552 | - | - | 55,505,552 | 48,117,338 | - | - | 48,117,338 |
| Temporarily restricted | - | 1,663,197 | - | 1,663,197 | - | 984,823 | - | 984,823 |
| Permanently restricted | - | - | 135,728 | 135,728 | - | - | 135,728 | 135,728 |
| Total net assets | 55,505,552 | 1,663,197 | 135,728 | 57,304,477 | 48,117,338 | 984,823 | 135,728 | 49,237,939 |
| Total liabilities and net assets | \$ 90,065,245 | \$ 1,663,197 | \$ 135,728 | \$ 91,864,170 | \$ 83,052,835 | \$ 984,823 | \$ 135,728 | \$ 84,173,386 |

The accompanying notes are an integral part of these consolidated statements

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JUSTICE RESOURCE INSTITUTE, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014 AND 2013

| | 2014 | | | 2013 | | | | |
|---|----------------|------------------------|------------------------|----------------|----------------|------------------------|------------------------|----------------|
| | UNRESTRICTED | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | TOTAL | UNRESTRICTED | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | TOTAL |
| OPERATING REVENUES: | | | | | | | | |
| Contracts and service fees | \$ 132,262,861 | \$ - | \$ - | \$ 132,262,861 | \$ 112,538,484 | \$ - | \$ - | \$ 112,538,484 |
| Grants and contributions | 1,836,903 | 835,342 | - | 2,672,245 | 1,151,305 | 575,929 | - | 1,727,234 |
| Consulting | 1,366,213 | - | - | 1,366,213 | 1,111,562 | - | - | 1,111,562 |
| Miscellaneous | 513,119 | - | - | 513,119 | 345,465 | - | - | 345,465 |
| Rental | 248,222 | - | - | 248,222 | 287,661 | - | - | 287,661 |
| Interest and dividends | 90,276 | - | - | 90,276 | 306,136 | - | - | 306,136 |
| Net assets released from purpose restrictions | 156,968 | (156,968) | - | - | 278,568 | (278,568) | - | - |
| Total operating revenues | 136,474,562 | 678,374 | - | 137,152,936 | 116,019,181 | 297,361 | - | 116,316,542 |
| OPERATING EXPENSES: | | | | | | | | |
| Program services | 119,175,048 | - | - | 119,175,048 | 104,120,868 | - | - | 104,120,868 |
| General and administrative | 11,394,141 | - | - | 11,394,141 | 9,136,780 | - | - | 9,136,780 |
| Total operating expenses | 130,569,189 | - | - | 130,569,189 | 113,257,648 | - | - | 113,257,648 |
| Changes in net assets from operations | 5,905,373 | 678,374 | - | 6,583,747 | 2,761,533 | 297,361 | - | 3,058,894 |
| NON-OPERATING REVENUES (EXPENSES): | | | | | | | | |
| Unrealized gain on funded status of pension plan | 903,742 | - | - | 903,742 | 3,964,387 | - | - | 3,964,387 |
| Investment gain, net | 757,605 | - | - | 757,605 | 241,491 | - | - | 241,491 |
| Contribution income - acquisition | - | - | - | - | 4,173,097 | - | - | 4,173,097 |
| Net gain (loss) on sale or disposal of property and equipment | (178,556) | - | - | (178,556) | 36,261 | - | - | 36,261 |
| Total non-operating revenues (expenses) | 1,482,791 | - | - | 1,482,791 | 8,415,236 | - | - | 8,415,236 |
| Changes in net assets | \$ 7,388,164 | \$ 678,374 | \$ - | \$ 8,066,538 | \$ 11,176,769 | \$ 297,361 | \$ - | \$ 11,474,130 |

The accompanying notes are an integral part of these consolidated statements.

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JUSTICE RESOURCE INSTITUTE, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

| | <u>UNRESTRICTED</u> | <u>TEMPORARILY RESTRICTED</u> | <u>PERMANENTLY RESTRICTED</u> | <u>TOTAL</u> |
|---------------------------|----------------------|-----------------------------------|-----------------------------------|----------------------|
| NET ASSETS, June 30, 2012 | \$ 36,940,619 | \$ 687,462 | \$ 135,728 | \$ 37,763,809 |
| Changes in net assets | <u>11,176,769</u> | <u>297,361</u> | <u>-</u> | <u>11,474,130</u> |
| NET ASSETS, June 30, 2013 | 48,117,388 | 984,823 | 135,728 | 49,237,939 |
| Changes in net assets | <u>7,388,164</u> | <u>678,374</u> | <u>-</u> | <u>8,066,538</u> |
| NET ASSETS, June 30, 2014 | <u>\$ 55,505,552</u> | <u>\$ 1,663,197</u> | <u>\$ 135,728</u> | <u>\$ 57,304,477</u> |

The accompanying notes are an integral part of these consolidated statements.

JUSTICE RESOURCE INSTITUTE, INC. AND AFFILIATES

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

| | <u>2014</u> | <u>2013</u> |
|--|---------------------|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Changes in net assets | \$ 8,066,538 | \$ 11,474,130 |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: | | |
| Depreciation | 3,308,750 | 3,060,066 |
| Amortization | 8,750 | 8,241 |
| Contribution income - acquisition | - | (4,173,097) |
| Unrealized (gain) loss on investments | (745,203) | 533,161 |
| Realized gain on sales of investments | (12,402) | (774,652) |
| Unrealized gain on funded status of pension plan | (903,742) | (3,964,387) |
| Net (gain) loss on sale or disposal of property and equipment | 178,556 | (36,261) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (3,770,114) | (217,764) |
| Prepaid expenses and other | (2,859,698) | 177,416 |
| Accounts payable | 94,474 | (29,039) |
| Accrued expenses and other current liabilities | 784,565 | 1,100,727 |
| Net cash provided by operating activities | <u>4,150,474</u> | <u>7,158,541</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Cash received via acquisition | - | 735,311 |
| Acquisition of property and equipment | (2,992,779) | (2,567,558) |
| Proceeds from the sale of property and equipment | 33,306 | 149,365 |
| Cash paid for construction in progress | (911,148) | (2,777,914) |
| Proceeds from sale of investments | 1,343,848 | 7,414,249 |
| Purchase of investments | (2,581,265) | (6,547,178) |
| Increase in restricted cash | (21,784) | (150) |
| Net cash used in investing activities | <u>(5,129,822)</u> | <u>(3,593,875)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Principal payments on long-term debt | <u>(885,874)</u> | <u>(488,606)</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (1,865,222) | 3,076,060 |
| CASH AND CASH EQUIVALENTS, beginning of year | <u>10,335,886</u> | <u>7,259,826</u> |
| CASH AND CASH EQUIVALENTS, end of year | <u>\$ 8,470,664</u> | <u>\$ 10,335,886</u> |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash paid for interest | <u>\$ 528,587</u> | <u>\$ 484,306</u> |
| SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS: | | |
| Unrealized gain (loss) on investments | <u>\$ 745,203</u> | <u>\$ (533,161)</u> |
| Purchase of property and equipment financed by accounts payable | <u>\$ 876,752</u> | <u>\$ 341,929</u> |
| Cost basis of property and equipment sold or disposed | <u>\$ 1,335,739</u> | <u>\$ 1,410,338</u> |
| Construction in progress placed in service | <u>\$ 2,565,984</u> | <u>\$ -</u> |

The accompanying notes are an integral part of these consolidated statements.

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JUSTICE RESOURCE INSTITUTE, INC. AND AFFILIATES
 CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
 FOR THE YEAR ENDED JUNE 30, 2014
 (With Summarized Comparative Totals for the Year Ended June 30, 2013)

| | 2014 | | | | | | | | | | 2013 | | |
|-----------------------------------|----------------------------|--------------------|---------------|--------------------------|--------------|---------------|-------------------------|-----------------------------------|------------------------|----------------|----------------------------|----------------|----------------|
| | PROGRAM SERVICES | | | | | | | | | | GENERAL AND ADMINISTRATIVE | TOTAL | TOTAL |
| COMMUNITY BASED SERVICES | DEVELOPMENTAL DISABILITIES | ADOLESCENT SCHOOLS | JUSTICE | ADOLESCENT MENTAL HEALTH | JRI HEALTH | TRAUMA CENTER | COMMUNITY CARE SERVICES | EAGLE COMMUNITY CARE ESTATES, LLC | TOTAL PROGRAM SERVICES | | | | |
| EMPLOYEE COMPENSATION: | | | | | | | | | | | | | |
| Salaries | \$ 12,852,091 | \$ 11,434,588 | \$ 21,262,565 | \$ 5,970,960 | \$ 4,775,476 | \$ 3,500,891 | \$ 2,920,458 | \$ 5,692,569 | \$ 83,948 | \$ 70,493,548 | \$ 5,159,985 | \$ 75,653,533 | \$ 65,224,759 |
| Payroll taxes and fringe benefits | 3,715,189 | 3,776,448 | 6,185,659 | 1,828,268 | 1,345,692 | 1,067,500 | 825,892 | 1,627,009 | 27,864 | 20,399,521 | 1,329,871 | 21,729,392 | 20,624,729 |
| Total employee compensation | 16,567,282 | 17,211,036 | 27,448,224 | 7,799,228 | 6,121,168 | 4,568,391 | 3,746,350 | 7,319,578 | 111,812 | 90,893,069 | 6,489,856 | 97,382,925 | 85,849,488 |
| OCCUPANCY: | | | | | | | | | | | | | |
| Facility | 843,180 | 1,410,419 | 1,883,052 | 8,474 | 33,953 | 308,859 | 266,647 | 611,611 | 120,189 | 5,486,384 | 860,578 | 6,346,962 | 5,508,351 |
| Facility operation | 895,911 | 1,235,709 | 1,858,396 | 140,278 | 174,263 | 216,900 | 69,472 | 640,379 | 31,787 | 5,282,195 | 883,336 | 6,165,531 | 4,468,387 |
| Total occupancy | 1,739,091 | 2,646,128 | 3,741,448 | 148,752 | 208,216 | 524,859 | 336,119 | 1,251,990 | 171,976 | 10,768,579 | 1,743,914 | 12,512,493 | 9,976,738 |
| OTHER EXPENSES: | | | | | | | | | | | | | |
| Subcontracted direct care | 881,756 | - | 16,340 | - | - | 1,508,063 | - | 1,083,337 | - | 3,490,096 | 26,648 | 3,516,744 | 2,871,908 |
| Consultation and direct care | 88,075 | 315,333 | 546,812 | 325,412 | 175,617 | 1,104,992 | 211,298 | 7,356 | - | 2,774,895 | 165,582 | 2,940,477 | 2,523,038 |
| Program supplies and materials | 282,067 | 206,013 | 1,020,705 | 38,602 | 139,229 | 303,896 | 22,609 | 160,619 | 1,298 | 2,175,038 | 79,261 | 2,254,299 | 1,875,220 |
| Meals | 227,139 | 400,662 | 844,074 | 20,454 | 216,350 | 51,447 | 10,936 | 135,110 | 103 | 1,900,275 | 54,314 | 1,960,589 | 1,829,216 |
| Client allowance/flex funds | 473,816 | 101,242 | 272,794 | 30,100 | 43,263 | 473,882 | 7,547 | 141,334 | - | 1,543,978 | 75 | 1,544,053 | 1,339,456 |
| Staff travel | 662,917 | 163,191 | 131,891 | 40,621 | 25,811 | 65,725 | 181,221 | 129,140 | 2,194 | 1,402,711 | 133,273 | 1,535,984 | 1,106,542 |
| Other | 216,721 | 141,589 | 213,246 | 50,488 | 41,152 | 36,457 | 64,685 | 69,179 | 1,210 | 834,727 | 353,972 | 1,188,699 | 989,978 |
| Transportation | 150,412 | 258,306 | 219,375 | 20,412 | 35,821 | 13,752 | 17,262 | 277,061 | - | 992,401 | 190,494 | 1,182,895 | 1,110,567 |
| Communications | 241,638 | 135,990 | 101,280 | 35,819 | 26,828 | 38,003 | 57,877 | 87,900 | 3,544 | 728,879 | 410,885 | 1,139,764 | 968,237 |
| Temporary help | 197,635 | 8,283 | 70,217 | - | 50,271 | 484 | 175,767 | 3,260 | - | 505,917 | 592,921 | 1,098,838 | 753,499 |
| Staff training and development | 107,870 | 94,423 | 242,981 | 15,275 | 43,231 | 43,104 | 28,431 | 24,617 | - | 599,932 | 87,388 | 687,320 | 490,201 |
| Insurance | 681 | - | - | - | 1,815 | - | 681 | - | 8,474 | 11,651 | 596,921 | 608,572 | 526,741 |
| Professional fees | - | 10,323 | 7,976 | - | - | - | - | - | 201 | 18,500 | 408,449 | 426,949 | 504,139 |
| Medicine and pharmacy | 8,533 | 64,967 | 109,202 | 183,764 | 18,336 | 11,704 | 1,291 | 3,599 | - | 401,396 | 337 | 401,733 | 369,096 |
| Printing and postage | 12,717 | 16,931 | 15,392 | 4,208 | 4,529 | 37,951 | 26,790 | 8,437 | 49 | 127,004 | 59,851 | 186,855 | 173,584 |
| Total other expenses | 3,551,977 | 1,917,253 | 3,812,285 | 765,155 | 822,253 | 3,690,060 | 806,395 | 2,130,949 | 17,073 | 17,513,400 | 3,160,371 | 20,673,771 | 17,431,422 |
| Total expenses | \$ 21,858,350 | \$ 21,774,417 | \$ 35,001,957 | \$ 8,713,135 | \$ 7,151,637 | \$ 8,783,310 | \$ 4,888,804 | \$ 10,702,517 | \$ 300,861 | \$ 119,175,048 | \$ 11,394,141 | \$ 130,569,189 | \$ 113,257,648 |

The accompanying notes are an integral part of these consolidated statements.

JUSTICE RESOURCE INSTITUTE, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013

| | PROGRAM SERVICES | | | | | | | | | GENERAL AND ADMINIS- TRATIVE | TOTAL | |
|-----------------------------------|--------------------------------|-------------------------------|-----------------------|---------------------|--------------------------------|---------------------|---------------------|-------------------------------|--|---------------------------------------|---------------------|------------------------------|
| | COMMUNITY BASED SERVICES | DEVELOPMENTAL DISABILITIES | ADOLESCENT SCHOOLS | JUSTICE | ADOLESCENT MENTAL HEALTH | JRI HEALTH | TRAUMA CENTER | COMMUNITY CARE SERVICES | EAGLE COMMUNITY CARE ESTATES, LLC | | | TOTAL PROGRAM SERVICES |
| EMPLOYEE COMPENSATION: | | | | | | | | | | | | |
| Salaries | \$ 8,754,828 | \$ 12,755,176 | \$ 19,170,729 | \$ 5,828,486 | \$ 4,321,227 | \$ 3,357,158 | \$ 2,126,722 | \$ 4,841,657 | \$ - | \$ 61,155,983 | \$ 4,068,776 | \$ 65,224,759 |
| Payroll taxes and fringe benefits | 2,814,191 | 4,092,107 | 6,199,002 | 1,917,653 | 1,386,330 | 1,079,724 | 687,171 | 1,143,681 | - | 19,319,859 | 1,304,870 | 20,624,729 |
| Total employee compensation | 11,569,019 | 16,847,283 | 25,369,731 | 7,746,139 | 5,707,557 | 4,436,882 | 2,813,893 | 5,985,338 | - | 80,475,842 | 5,373,646 | 85,849,488 |
| OCCUPANCY: | | | | | | | | | | | | |
| Facility | 746,456 | 1,422,167 | 1,731,599 | 38,190 | 41,769 | 270,111 | 205,530 | 269,382 | - | 4,725,204 | 783,147 | 5,508,351 |
| Facility operation | 554,838 | 1,053,624 | 1,546,625 | 68,797 | 210,080 | 154,309 | 68,371 | 466,617 | 109,601 | 4,232,862 | 235,525 | 4,468,387 |
| Total occupancy | 1,301,294 | 2,475,791 | 3,278,224 | 106,987 | 251,849 | 424,420 | 273,901 | 735,999 | 109,601 | 8,958,066 | 1,018,672 | 9,976,738 |
| OTHER EXPENSES: | | | | | | | | | | | | |
| Subcontracted direct care | 725,671 | - | - | - | 240 | 1,462,074 | - | 667,450 | - | 2,855,435 | 16,473 | 2,871,908 |
| Consultation and direct care | 125,910 | 222,685 | 444,385 | 339,116 | 193,047 | 775,330 | 200,060 | 37,003 | - | 2,337,536 | 185,502 | 2,523,038 |
| Program supplies and materials | 155,335 | 227,241 | 693,680 | 56,932 | 127,998 | 265,318 | 22,901 | 116,079 | 23,380 | 1,688,864 | 186,356 | 1,875,220 |
| Meals | 176,427 | 387,063 | 773,443 | 16,956 | 247,786 | 51,063 | 18,645 | 102,426 | - | 1,773,809 | 55,407 | 1,829,216 |
| Client allowance/flex funds | 386,559 | 103,033 | 236,404 | 33,423 | 51,715 | 427,306 | 4,537 | 96,479 | - | 1,339,456 | - | 1,339,456 |
| Staff travel | 419,597 | 132,533 | 91,377 | 40,796 | 25,061 | 75,393 | 116,711 | 94,110 | - | 995,578 | 110,964 | 1,106,542 |
| Other | 150,572 | 131,710 | 206,772 | 59,362 | 42,096 | 46,356 | 64,348 | 31,654 | 230 | 733,100 | 256,878 | 989,978 |
| Transportation | 116,123 | 308,435 | 166,694 | 16,536 | 34,576 | 4,707 | 18,446 | 285,916 | - | 951,433 | 159,134 | 1,110,567 |
| Communications | 201,923 | 143,814 | 144,110 | 37,836 | 27,437 | 34,428 | 28,001 | 71,117 | 1,046 | 689,712 | 278,525 | 968,237 |
| Temporary help | 66,621 | - | 72,568 | - | 31,984 | - | 119,336 | - | - | 290,509 | 462,990 | 753,499 |
| Staff training and development | 74,949 | 83,791 | 179,764 | 19,716 | 26,407 | 17,377 | 1,873 | 9,193 | - | 413,070 | 77,131 | 490,201 |
| Insurance | - | - | 6,253 | - | - | - | - | 53,285 | 2,870 | 62,408 | 464,333 | 526,741 |
| Professional fees | - | 13,770 | 6,772 | 16,500 | 105 | 457 | - | 4,175 | 17,916 | 59,695 | 444,444 | 504,139 |
| Medicine and pharmacy | 7,205 | 88,013 | 85,749 | 155,405 | 19,598 | 11,536 | 1,337 | - | - | 368,843 | 253 | 369,096 |
| Printing and postage | 14,015 | 34,169 | 23,011 | 1,457 | 4,995 | 15,028 | 27,440 | 7,286 | 111 | 127,512 | 46,072 | 173,584 |
| Total other expenses | 2,620,907 | 1,876,257 | 3,130,982 | 794,035 | 833,045 | 3,186,373 | 623,635 | 1,576,173 | 45,553 | 14,686,960 | 2,744,462 | 17,431,422 |
| Total expenses | \$ 15,491,220 | \$ 21,199,331 | \$ 31,778,937 | \$ 8,647,161 | \$ 6,792,451 | \$ 8,047,675 | \$ 3,711,429 | \$ 8,297,510 | \$ 155,154 | \$ 104,120,868 | \$ 9,136,780 | \$ 113,257,648 |

The accompanying notes are an integral part of these consolidated statements.

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JUSTICE RESOURCE INSTITUTE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES

OPERATIONS AND NONPROFIT STATUS

Justice Resource Institute, Inc. (JRI) was formed in 1973 to provide innovative program models to address the most complex problems confronting the health and human services system in Massachusetts and other parts of the eastern United States.

Effective January 1, 2013, JRI became the sole corporate member of Community Care Services, Inc. (CCS) and Community Care-A-Vans, Inc. (CCAV) (Massachusetts corporations, not for profit) and Eagle Community Care Estates, LLC (the LLC) (a Massachusetts limited liability company) (collectively, the Affiliates). On January 1, 2013, the Board of Directors of CCS resigned and two of the members joined the Board of Trustees of JRI. Effective June 30, 2013, each of the Affiliates was acquired by (merged with) JRI; CCS and CCAV were dissolved shortly after June 30, 2013. The LLC continues to exist as a separate legal entity and a wholly-owned subsidiary of JRI (a disregarded entity for tax purposes). The LLC's purpose is to own and operate seventeen units of housing for homeless families in Fall River, Massachusetts.

On the effective date of the merger, JRI assumed assets totaling \$11,156,275 (including a net write-down of real property to fair value totaling \$1,430,860), and assumed liabilities of \$6,983,178. The difference, \$4,173,097, was recognized as contribution income - acquisition on the accompanying consolidated statement of activities for the year ended June 30, 2013, in accordance with *Accounting and Reporting for Combinations of Not-for-Profit Organizations*. Accordingly, the accompanying financial statements are presented on a consolidated basis and reflect the consolidated statements of financial position of JRI and Affiliates as of June 30, 2014 and 2013, and the consolidated revenue and expenses of JRI for the years ended June 30, 2014 and 2013, and of the Affiliates for the year ended June 30, 2014, and for the period January 1, 2013 through June 30, 2013.

JRI, CCS and CCAV are exempt from Federal income taxes as organizations (not private foundations) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). JRI, CCS and CCAV are also exempt from state income taxes. Contributions made to JRI, CCS and CCAV are deductible by donors within the IRC's requirements.

SIGNIFICANT ACCOUNTING POLICIES

JRI, CCS, CCAV and the LLC's (collectively, the Agency) consolidated financial statements have been prepared in accordance with generally accepted accounting standards and principles established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

Principles of Consolidation

The consolidated financial statements include the accounts of JRI as of and for the years ended June 30, 2014 and 2013, the accounts of CCS and CCAV as of and for the six months ended June 30, 2013, and the LLC as of and for the year ended June 30, 2014, and as of and for the six months ended June 30, 2013. All significant inter-company accounts and transactions have been eliminated in the accompanying consolidated financial statements.

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JUSTICE RESOURCE INSTITUTE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)

(1) **OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES**
(Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Contracts and service fees are recorded as revenue when services are performed and costs are incurred. Contracts and service fees consist of unit-rate and cost reimbursable contract revenue. The unit-rate contract revenue is recognized based on the number of clients served. Cost reimbursable contract revenue is recognized to the extent of expenditures incurred. Contracts and service fees also include fees earned for various services provided to individuals and patient service revenue, which is recorded net of contractual allowances and free care. Contractual allowances are accrued on an estimated basis in the period the related services are rendered. The Agency's contractual allowances were approximately \$310,000 as of June 30, 2013. There was no contractual allowance as of June 30, 2014.

Unrestricted grants and contributions are recorded as revenue when received or unconditionally pledged. Revenues from donor-restricted grants and contributions are recorded as temporarily or permanently restricted revenue and net assets when the Agency receives a commitment. Temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated financial statements as net assets released from restrictions as costs are incurred or time restrictions or program restrictions have lapsed. Donor-restricted grants and contributions whose restrictions are met in the year they are received or pledged are recorded as unrestricted net assets. All other income is recorded as revenue when earned.

Net Assets

Unrestricted Net Assets:

Unrestricted net assets are those net resources that bear no external restrictions and are generally available for use by the Agency. The Agency has grouped its unrestricted net assets into the following categories:

- **Operating - working capital** - represents net assets that are available for operations and bear no external restrictions. Included in this category is the LLC's member's equity related to its operations.
- **Operating - pension plan** - represents pension plan activity in accordance with *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (see Note 8).
- **Property and equipment** - represents amounts expended and resources available for property and equipment, net of related debt. Financing fees and a portion of the restricted cash balance are also included in property and equipment net assets. Included in this category is the LLC's member's equity related to property and equipment, net of related debt.
- **Custodial property and equipment** - represents the net book value of property and equipment purchased with funds from the Commonwealth of Massachusetts (the Commonwealth) and other funders in which the funder retains a reversionary interest.

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JUSTICE RESOURCE INSTITUTE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)

(1) **OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES**
(Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

Unrestricted Net Assets: (Continued)

- **Board designated** - represents amounts restricted by the Board of Trustees for future program purposes for which expenditures require the approval of the Board of Trustees. These funds consist of the following at June 30:

| | <u>2014</u> | <u>2013</u> |
|---|--------------------|--------------------|
| Consulting and training, net revenue - Trauma Center | \$1,234,219 | \$ 866,769 |
| The Agency's match of Jacobus temporarily restricted gift and additional funds designated by the Agency | 375,988 | 375,988 |
| Match of Ward family permanently restricted gift (see below) | 50,000 | 50,000 |
| Reserve set aside for future capital needs | - | 258,946 |
| Funds designated for future shortfalls in operating budgets, to maintain, as close as possible, the current level of client service | - | 48,152 |
| | <u>\$1,660,207</u> | <u>\$1,599,855</u> |

Temporarily Restricted Net Assets:

Temporarily restricted net assets of \$1,663,197 and \$984,823 are restricted for various program purposes at June 30, 2014 and 2013, respectively.

Permanently Restricted Net Assets:

Permanently restricted net assets consist of an endowment fund from a donor-restricted gift of \$50,000 from the Ward Family Foundation to establish the Berkshire Meadows New Century Fund. Earnings from this gift may be used for Berkshire Meadows, a program of the Agency, for medically fragile children with developmental disabilities. The principal may not be spent. In accordance with Massachusetts law, realized and unrealized gains are accumulated as temporarily restricted net assets unless appropriated by the Board of Trustees. There are no realized or unrealized gains pertaining to this endowment as of June 30, 2014 and 2013. As a condition of the endowment, the Agency's Board of Trustees has designated \$50,000 of unrestricted contributions received for the Berkshire Meadows Program to match the contribution of the Ward Family Foundation. These contributions are reflected as Board designated net assets in the accompanying consolidated financial statements (see above).

Also included in permanently restricted net assets at June 30, 2014 and 2013, is \$85,728, which is comprised of several donations that may not be spent. The earnings on these donations are used to fund clients' emergency needs as designated by the Board of Trustees.

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JUSTICE RESOURCE INSTITUTE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)

(1) **OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES**
(Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expense Allocation

Expenses related directly to a program are distributed to that program, while other expenses are allocated to programs based upon management's estimate of the percentage attributable to each program.

Advertising Costs

The Agency expenses advertising costs as they are incurred. Advertising expense was approximately \$184,000 and \$39,000 for the years ended June 30, 2014 and 2013, respectively, and is included in other expenses on the accompanying consolidated statements of functional expenses.

Estimates

The preparation of consolidated financial statements in accordance with U.S. GAAP 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Property and Equipment and Depreciation

Depreciation of property and equipment is computed using the straight-line method over the following estimated useful lives:

| | |
|--------------------------------|--|
| Buildings and improvements | 5 - 40 years |
| Office furniture and equipment | 3 - 10 years |
| Motor vehicles | 3 - 5 years |
| Leasehold improvements | 5 years or lease term, whichever is greater |

Approximately \$221,000 and \$198,000 of office furniture and equipment was purchased with contract funds from the Commonwealth and other funders as of June 30, 2014 and 2013, respectively. The Agency acquired \$43,474 and disposed of \$19,808 of office furniture and equipment purchased with contract funds from other funders during fiscal year 2014. Depreciation on these custodial assets was \$6,143 and \$29,218 for the years ended June 30, 2014 and 2013, respectively, and is included in facility operation in the accompanying consolidated statements of functional expenses.

Depreciation expense was \$3,308,750 and \$3,060,066 for the years ended June 30, 2014 and 2013, respectively, and is included in facility in the accompanying consolidated statements of functional expenses.

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JUSTICE RESOURCE INSTITUTE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)

(1) **OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES**
(Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable

Accounts receivable are stated as unpaid balances, less an allowance for doubtful accounts. The allowance is based on collection experience and other circumstances, which may affect the ability of vendors to meet their obligations. It is the Agency's policy to charge-off uncollectible accounts receivable when management determines the receivable will not be collected.

Financing Fees and Amortization

Financing fees consist of legal fees and closing costs associated with acquiring financing (see Note 5) and are reported at cost, net of accumulated amortization. These costs are being amortized over the lives of the financing agreements (20 to 27 years) using the straight-line method. Amortization expense for the years ended June 30, 2014 and 2013, was \$8,750 and \$8,241, respectively, and is included in facility in the accompanying consolidated statements of functional expenses. Amortization expense for the next five years will be \$5,301 per year.

Cash and Cash Equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents consist of checking, money market and savings accounts and commercial paper with original maturity dates of three months or less, other than those amounts included in the Agency's investment portfolio (see Note 3).

Fair Value Measurements

ASC Topic, *Fair Value Measurements*, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The standards establish a fair value hierarchy that prioritizes the inputs and assumptions used to measure fair value.

The three levels of the fair value hierarchy are as follows:

- Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date. Instruments which are generally included in this category include equity and debt securities publicly traded on an exchange.
- Level 2 – Inputs other than quoted prices in active markets that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3 – Inputs that are unobservable and which require significant judgment or estimation.

A qualifying asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement. The Agency values all its qualified assets and liabilities using Level 1 inputs, except for the alternative investment in a limited partnership which uses Level 2 inputs (see Note 3), and the pension benefit obligation which uses Levels 1, 2 and 3 inputs (see Note 8).

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JUSTICE RESOURCE INSTITUTE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

(Continued)

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES

(Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments are maintained in two portfolios and are managed by investment managers. Investment income consists of interest, capital gain distributions, dividends, and net realized and unrealized gains and losses on investments (see Note 3). Interest income is recorded as earned and dividend income is recorded on the ex-dividend date. Realized gains and losses on investment transactions are recorded using the first-in, first-out (FIFO) method.

Subsequent Events

Subsequent events have been evaluated through November 3, 2014, which is the date the consolidated financial statements were issued. See Note 13 for events that met the criteria for disclosure in the consolidated financial statements.

Income Taxes

The Agency accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the consolidated financial statement regarding a tax position taken or expected to be taken in a tax return. The Agency has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the consolidated financial statements at June 30, 2014 and 2013. The Agency's information returns are subject to examination by the Federal and state jurisdictions and generally remain open for the most recent three years.

(2) FUNDING

The Agency receives income from various funding sources to compensate for services rendered under cost reimbursement and unit-rate contracts. Approximately 50% and 49% of contracts and service fees were received from various departments of the Commonwealth during the years ended June 30, 2014 and 2013, respectively. These contracts are subject to possible audits by the appropriate government agencies. In the opinion of management, the results of such audits, if any, will not have a material effect on the consolidated financial position of the Agency as of June 30, 2014 and 2013, or on its consolidated changes in net assets for the years then ended.

Approximately 50% and 46% of accounts receivable are due from the various departments of the Commonwealth at June 30, 2014 and 2013, respectively.

Included in contracts and service fees are charges to third-party payors. These charges are periodically reviewed and adjusted based upon the submission of cost reports and possible subsequent audits. In the opinion of management, the results of such audits, if any, will not have a material effect on the consolidated financial position of the Agency as of June 30, 2014 and 2013, or on its consolidated changes in net assets for the years then ended.

JUSTICE RESOURCE INSTITUTE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

(Continued)

(3) INVESTMENTS

The investment portfolio as of June 30, 2014 and 2013, summarized using fair value inputs (see Note 1) is as follows:

| <u>Investment Type</u> | <u>2014</u> | | | <u>Total</u> |
|--|--------------------|--------------------|----------------|--------------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | |
| Mutual funds - equities | \$3,715,830 | \$ - | \$ - | \$3,715,830 |
| Alternative investment - limited partnership | - | 2,607,069 | - | 2,607,069 |
| Mutual funds - bonds | 2,566,521 | - | - | 2,566,521 |
| Money market | <u>468,912</u> | <u>-</u> | <u>-</u> | <u>468,912</u> |
| | <u>\$6,751,263</u> | <u>\$2,607,069</u> | <u>\$ -</u> | <u>\$9,358,332</u> |
| | <u>2013</u> | | | |
| <u>Investment Type</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| Mutual funds - equities | \$2,708,949 | \$ - | \$ - | \$2,708,949 |
| Alternative investment - limited partnership | - | 2,094,976 | - | 2,094,976 |
| Mutual funds - bonds | 2,040,291 | - | - | 2,040,291 |
| Money market | 473,012 | - | - | 473,012 |
| Domestic common stock | <u>46,082</u> | <u>-</u> | <u>-</u> | <u>46,082</u> |
| | <u>\$5,268,334</u> | <u>\$2,094,976</u> | <u>\$ -</u> | <u>\$7,363,310</u> |

Investment gain, net is comprised of the following for the years ended June 30:

| | <u>2014</u> | <u>2013</u> |
|--|------------------|-------------------|
| Unrealized gains (losses) on investments | \$745,203 | \$(533,161) |
| Realized gain on sales of investments | <u>12,402</u> | <u>774,652</u> |
| | <u>\$757,605</u> | <u>\$ 241,491</u> |

Investments are not insured and are subject to ongoing market fluctuations. All investments have short-term liquidity and availability; accordingly, they are reflected as current assets on the accompanying consolidated statements of financial position. Interest and dividends are reflected in operations and investment gain, net is included in non-operating activity on the accompanying consolidated statements of activities.

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JUSTICE RESOURCE INSTITUTE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

(Continued)

(3) INVESTMENTS (Continued)

Investments include an alternative investment which is an interest in a partnership and is valued using Level 2 inputs given its forty-five day liquidation provision. In accordance with standards pertaining to *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, the Agency uses the fund's net asset value per share to calculate and report the fair value of its investment (Level 2 inputs). The Agency records its share of the realized activities of the partnership as increases or decreases in the cost basis of its investment. Distributions reduce the Agency's cost basis. The Agency records its share of unrealized gains and losses on the interest in partnership as increases or decreases in the accumulated appreciation (depreciation) component of its investment accounts. The asset valuation of the alternative investment is derived from valuations by the underlying fund manager. These estimated values may differ significantly from the values that would have been used had a ready market existed and those differences could be material.

(4) ENDOWMENT FUNDS

Changes in endowment net assets by class are as follows for the years ended June 30:

| | <u>Unrestricted</u> | <u>Donor Restricted</u> | | | |
|---|---------------------|-------------------------|--------------------|--------------------|------------------|
| | <u>Board-</u> | <u>Temporarily</u> | <u>Permanently</u> | <u>Total Donor</u> | <u>Total</u> |
| | <u>Designated</u> | <u>Restricted</u> | <u>Restricted</u> | <u>Restricted</u> | <u>Endowment</u> |
| Endowment net assets, June 30, 2012 | \$50,000 | \$ - | \$135,728 | \$135,728 | \$185,728 |
| Investment income | 26 | 44 | - | 44 | 70 |
| Appropriation of endowment assets for expenditure | <u>(26)</u> | <u>(44)</u> | <u>-</u> | <u>(44)</u> | <u>(70)</u> |
| Endowment net assets, June 30, 2013 | 50,000 | - | 135,728 | 135,728 | 185,728 |
| Investment income | 8 | 15 | - | 15 | 23 |
| Appropriation of endowment assets for expenditure | <u>(8)</u> | <u>(15)</u> | <u>-</u> | <u>(15)</u> | <u>(23)</u> |
| Endowment net assets, June 30, 2014 | <u>\$50,000</u> | <u>\$ -</u> | <u>\$135,728</u> | <u>\$135,728</u> | <u>\$185,728</u> |

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JUSTICE RESOURCE INSTITUTE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)

(5) LONG-TERM DEBT

Long-term debt consists of the following as of June 30:

| | <u>2014</u> | <u>2013</u> |
|--|--------------|--------------|
| <p>\$14,645,000 Massachusetts Development Finance Agency (MDFA) multi-mode revenue bonds payable (2011 bonds), which accrue interest at 2.95%. The interest rate on the 2011 bonds is subject to adjustment every seven years (next adjustment date is November 17, 2018) based upon the Federal Home Loan Bank of Boston (FHLB) rate in effect, plus 0.50%. The 2011 bonds require monthly payments of principal and interest of \$65,619. The proceeds from the issuance of the 2011 bonds were used to refinance previously existing debt with MDFA, and to pay specific capital project costs. The 2011 bonds may be redeemed prior to the maturity date at a redemption price equal to 100% of the principal amount plus accrued interest, if any, and are due in various installments through November 17, 2038, and are secured by specific properties owned by the Agency.</p> | \$13,692,201 | \$14,069,653 |
| <p>\$900,000 note payable agreement with a bank, which accrues interest at 4.5%. The note requires monthly payments of principal and interest of \$5,694. The note is secured by property located in Taunton, Berkley, and Freetown, Massachusetts. This note was refinanced during July, 2014 (see Note 13).</p> | 841,802 | 871,514 |
| <p>\$556,000 note payable agreement with a bank, which accrues interest at 4.75%. The note requires monthly payments of principal and interest of \$3,754. The note is secured by property located in Attleboro, Massachusetts. This note was refinanced during July, 2014 (see Note 13).</p> | 432,155 | 454,110 |
| <p>\$480,000 note payable agreement with a bank, which accrues interest at 4.25%. The note requires monthly payments of principal and interest of \$3,941. The note is secured by property located in Attleboro, Massachusetts. This note was refinanced during July, 2014 (see Note 13).</p> | 354,777 | 376,976 |
| <p>\$340,000 note payable agreement between the LLC and a bank through the FHLB Affordable Housing Program, due March 31, 2026. The note bears interest at 4.75% and is due in monthly payments of principal and interest of \$2,037 through August 31, 2017, at which time the interest rate adjusts to the FHLB rate, plus 3%. The interest rate adjusts again on August 31, 2022, to the FHLB rate on that date, plus 3%. The note is secured by a second mortgage on property located in Fall River, Massachusetts.</p> | 311,116 | 320,633 |

JUSTICE RESOURCE INSTITUTE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)

(5) **LONG-TERM DEBT** (Continued)

| | <u>2014</u> | <u>2013</u> |
|---|---------------------|---------------------|
| \$392,000 note payable agreement with a bank, which accrues interest at 4.75%. The note requires monthly payments of principal and interest of \$2,699 through August 22, 2016, at which time a balloon payment of approximately \$258,000 is due. The note is secured by property located in New Bedford, Massachusetts. | 297,597 | 313,939 |
| \$476,000 note payable agreement with a bank, which accrued interest at 4.75%. The note required monthly payments of principal and interest of \$3,269. The note was secured by property located in Berkeley, Massachusetts. The note was repaid in full in June, 2014. | - | 383,780 |
| Note payable to a finance company, due in monthly principal installments of \$470, through 2014. This note was secured by a vehicle. The note was repaid in full in February, 2014. | - | 24,917 |
| | 15,929,648 | 16,815,522 |
| Less - current portion | 565,335 | 503,204 |
| | \$15,364,313 | \$16,312,318 |

These notes contain certain financial and non-financial covenants with which the Agency must comply. As of June 30, 2014 and 2013, the Agency was in compliance with its debt covenants.

Future minimum principal payments of long-term debt, including the impact of the debt activity outlined in Note 13, over the next five years are as follows:

| | |
|------|-----------|
| 2015 | \$565,335 |
| 2016 | \$598,371 |
| 2017 | \$618,991 |
| 2018 | \$640,312 |
| 2019 | \$662,392 |

Total interest expense on the debt instruments disclosed above was \$528,587 and \$484,306 for the years ended June 30, 2014 and 2013, respectively, and is included in facility in the accompanying consolidated statements of functional expenses.

Line of Credit

The Agency has a demand line of credit agreement that allows for borrowings up to \$3,000,000 (\$3,500,000 at June 30, 2013). Interest is payable monthly at the *Wall Street Journal's* prime rate (3.25% at June 30, 2014 and 2013), plus 1%. The line of credit is secured by all assets of the Agency. There was no balance outstanding under this agreement as of June 30, 2014 and 2013. All outstanding principal and accrued interest are due and payable on demand. The Agency must comply with certain covenants and financial ratios as defined in the agreements. As of June 30, 2014 and 2013, the Agency was in compliance with these covenants. During fiscal year 2014, the Agency reduced the maximum borrowing limit on the line of credit to \$3,000,000 and obtained a separate stand-alone letter of credit from the same bank for up to \$500,000 pertaining to its being self-insured for worker's compensation. There was no interest charged on the line of credit or letter of credit during fiscal years 2014 and 2013.

JUSTICE RESOURCE INSTITUTE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)

(6) CONTINGENT NOTES PAYABLE

The Agency has the following contingent notes payable at June 30, 2014 and 2013:

| | |
|---|--------------------|
| \$890,760 note payable from the LLC to the Commonwealth of Massachusetts, Department of Housing and Community Development (DHCD). The note is non-interest bearing and is due in November 30, 2061. The note may be extended for an additional fifty-year term. | \$ 890,760 |
| \$850,000 non-interest bearing note payable from the LLC to DHCD under the Affordable Housing Trust Fund program. There are no payments due until November, 2041, when the note matures, unless the LLC has excess principal advances, as defined in the agreement. | 850,000 |
| \$750,000 note payable from the LLC to Community Economic Development Assistance Corporation (CEDAC). The note is non-interest bearing and is due November 30, 2041. | 750,000 |
| \$150,000 note payable from the LLC to the City of Fall River under the Fall River HOME program. The note accrues simple interest at 1% per annum. Principal and accrued interest are due on November 30, 2041. The LLC has not accrued interest on this note as the amount has been determined to be immaterial and the LLC does not believe the accrued interest will be due as long as the property is operated in accordance with the note payable agreement. | 150,000 |
| \$100,000 note payable from JRI to the City of Taunton for the renovations of a building owned by JRI. This contingent note payable is not required to be repaid unless the program fails to comply with conditions in the agreement or the building is sold. It is the intention of the Board of Trustees and management to maintain the property for the intended purpose; therefore, the loan has been classified as a contingent note payable and no interest has been accrued. | <u>100,000</u> |
| | <u>\$2,740,760</u> |

The LLC's contingent notes payable are secured by a shared first mortgage on land and buildings located in Fall River, Massachusetts.

As part of one of the contingent notes payable described above, CEDAC required the LLC to establish a cash reserve as additional security for the notes. The balance of this reserve was \$172,218 and \$150,434 as of June 30, 2014 and 2013, respectively, and is reflected as restricted cash in the accompanying consolidated statements of financial position.

The contingent notes payable contain certain financial and non-financial covenants with which the Agency must comply. As of June 30, 2014 and 2013, the Agency was in compliance with these covenants.

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JUSTICE RESOURCE INSTITUTE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)

(7) LEASES

The Agency leases several facilities under non-cancelable leases for its programs. The terms of these leases are from one to thirty years and expire at various dates through January, 2041. The monthly payments for these lease agreements range from approximately \$400 to \$32,000. In certain instances, the Agency is responsible for its proportionate share of condominium fees, real estate taxes and operating costs. The Agency has the option to renew these leases for additional terms of two to five years. In addition, the Agency also rents other facilities as a tenant-at-will.

Rent expense for the years ended June 30, 2014 and 2013, was \$2,669,396 and \$2,315,382, respectively. These costs are included in facility in the accompanying consolidated statements of functional expenses.

The future minimum lease payments over the next five fiscal years are as follows:

| | |
|------------------------------|--------------------|
| 2015 | \$1,554,133 |
| 2016 | 1,058,354 |
| 2017 | 770,410 |
| 2018 | 742,431 |
| 2019 | 648,552 |
| Later years | <u>3,881,252</u> |
| Total minimum lease payments | <u>\$8,655,132</u> |

The Agency sublets leased space to third parties with monthly payments ranging from approximately \$300 to \$15,500. These agreements expire at various dates through May, 2015. Total rental income for the years ended June 30, 2014 and 2013, was approximately \$77,000 and \$167,000, respectively, and is included in rental income in the accompanying consolidated statements of activities. The future minimum lease payments on these sublease agreements are \$170,156 for fiscal year 2015.

The LLC provides housing under lease agreements that include both tenant and subsidized monthly rent payments. Total rental income, including subsidies, totaled approximately \$171,000 and \$84,000 for the year ended June 30, 2014 and the six-month period ended June 30, 2013, respectively. These amounts are included in rental on the accompanying consolidated statements of activities and changes in net assets.

(8) PENSION PLANS

Defined Benefit Master Pension Plan

The Agency has a Cost of Living Defined Benefit Master Pension Plan (the Plan) covering all employees who are at least 21 years of age and have a minimum of one year of service, as defined in the Plan. The Plan was frozen during 2009, at which point new employees who began employment after November 15, 2008, were no longer eligible to participate in the Plan. During fiscal year 2010, the Plan was reinstated and opened retroactively to eligible employees hired after the date the Plan was frozen. The Plan provides pension benefits that are based upon the employee's compensation and years of service. The Agency's policy is to fund pension costs required under The Employee Retirement Income Security Act of 1974.

JUSTICE RESOURCE INSTITUTE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
 (Continued)

(8) PENSION PLANS (Continued)

Defined Benefit Master Pension Plan (Continued)

Net pension expense for fiscal years 2014 and 2013, which is included in payroll taxes and fringe benefits in the accompanying consolidated statements of functional expenses, includes the following components:

| | <u>2014</u> | <u>2013</u> |
|---|---------------------|---------------------|
| Interest cost on projected benefit obligation | \$ 2,950,722 | \$ 2,732,978 |
| Service cost, benefits earned during the period | 2,137,631 | 2,111,272 |
| Expected return on assets | (3,036,478) | (2,494,379) |
| Net amortization and gain deferral | <u>157,487</u> | <u>497,153</u> |
| Net pension costs | <u>\$ 2,209,362</u> | <u>\$ 2,847,024</u> |

The weighted average assumptions used in the accounting for pension expense included a discount of 7.0% at June 30, 2014 and 2013. In addition, an increase in compensation levels of 3.0% was used in fiscal years 2014 and 2013. The expected long-term rate of return on assets was 7.5% in fiscal years 2014 and 2013. Plan assets are invested in mutual funds traded on national exchanges, as well as certain non-publicly traded hedge funds.

The table below sets forth the Plan's funded status at June 30:

| | <u>2014</u> | <u>2013</u> |
|--|---------------------|-----------------------|
| Change in projected benefit obligation: | | |
| Projected benefit obligation at beginning of year | \$42,679,703 | \$39,354,873 |
| Interest cost | 2,950,722 | 2,732,978 |
| Service cost | 2,137,631 | 2,111,272 |
| Gain | (478,827) | (408,412) |
| Benefits paid | <u>(1,154,111)</u> | <u>(1,111,008)</u> |
| Projected benefit obligation at end of year | 46,135,118 | 42,679,703 |
| Fair value of plan assets at end of year | <u>46,162,701</u> | <u>39,212,906</u> |
| Plan assets in excess of (deficient of) projected benefit obligation | <u>\$ 27,583</u> | <u>\$ (3,466,797)</u> |
| Reconciliation of funded status: | | |
| Plan assets in excess of (deficient of) projected benefit obligation | \$ 27,583 | \$ (3,466,797) |
| Unrecognized net loss | <u>5,326,519</u> | <u>6,230,261</u> |
| Prepaid at year-end | <u>\$ 5,354,102</u> | <u>\$ 2,763,464</u> |

JUSTICE RESOURCE INSTITUTE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)

(8) PENSION PLANS (Continued)

Defined Benefit Master Pension Plan (Continued)

Plan benefit payments and employer contributions expected to be paid in the future are as follows:

| | <u>Benefit Payments</u> | <u>Employer Contributions</u> |
|-------------|-----------------------------|-----------------------------------|
| 2015 | \$ 1,265,188 | \$ 6,000,000 |
| 2016 | \$ 1,594,793 | \$ 6,000,000 |
| 2017 | \$ 1,824,595 | \$ 6,000,000 |
| 2018 | \$ 2,038,788 | \$ 6,000,000 |
| 2019 | \$ 2,340,599 | \$ 6,000,000 |
| 2020 - 2024 | \$16,562,645 | \$30,000,000 |

The prepaid pension costs at June 30, 2014 and 2013 are included in prepaid expenses on the accompanying consolidated statements of financial position.

Consistent with *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, the Agency reports all changes in the funded status of its plan within its consolidated statements of activities. The changes in the funded status of the Plan and prior year service costs were \$903,742 and \$3,964,387 for the years ended June 30, 2014 and 2013, respectively, and are reflected as an unrealized gain on funded status of pension plan in the accompanying consolidated statements of activities.

The fair value of the Plan is measured using Level 1 inputs (market values of publicly traded investments), Level 2 inputs (discount rates, default rates, and other factors), and Level 3 inputs (actuarial assumptions, mortality expectancy and projected investment returns) (see Note 1).

Defined Contribution Retirement Plans

JRI also maintains a qualified salary reduction plan under IRC Section 401(k), which covers substantially all employees who have completed six months of service and are at least 18 years of age. Employees may make contributions to the qualified salary reduction plan up to the maximum allowed by law. JRI matches up to \$800 of each employee's annual contribution. JRI's contributions to this plan totaled \$455,234 and \$370,519 for the years ended June 30, 2014 and 2013, respectively. These costs are included in payroll taxes and fringe benefits in the accompanying consolidated statements of functional expenses.

JRI has a defined contribution plan pursuant to IRC Section 403(b), which covers all qualifying full-time employees. JRI does not match employee contributions to the plan.

(9) CONTINGENCIES

The Agency, from time-to-time, is the defendant in lawsuits. It is management's opinion that the Agency will prevail in these lawsuits. Accordingly, no amounts have been reflected in the accompanying consolidated financial statements for any potential liability resulting from these lawsuits.

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JUSTICE RESOURCE INSTITUTE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)

(10) CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Agency to concentrations of credit risk consist principally of cash equivalents and investments.

The Agency maintains its cash balances in various banks in Massachusetts, Connecticut, Rhode Island, and Pennsylvania. The Federal Deposit Insurance Corporation (FDIC) insures balances at each bank up to certain amounts. At times during the year, certain cash balances exceeded the insured amounts. The Agency has not experienced any losses in such accounts. The Agency believes it is not exposed to any significant credit risk on cash and cash equivalents.

Also see Note 2 for additional concentrations.

(11) RELATED PARTY TRANSACTIONS

During the six months ended June 30, 2013, CCAV charged CCS \$101,828 for transportation services provided to CCS consumers and CCS charged CCAV \$68,060 for management services. CCS also pays for other costs on behalf of CCAV, which are reimbursed to CCS. These amounts have been eliminated in the accompanying consolidated financial statements.

JRI paid amounts on behalf of LLC, which are then reimbursed. These amounts have been eliminated in the accompanying consolidated financial statements. The LLC owed \$20,266 and \$16,345 to JRI as of June 30, 2014 and 2013, respectively.

A member of the Board of Trustees of JRI is employed by an insurance agency from which the Agency purchased certain insurance. Premiums totaling \$96,146 were paid to this insurance agency during fiscal year 2013. The insurance policy was discontinued on June 30, 2013.

The daughter of a Vice President of JRI provided website design services to the Agency and was compensated \$8,343 and \$5,125 for the services during fiscal years 2014 and 2013, respectively.

(12) CONSTRUCTION IN PROGRESS

At June 30, 2014, construction in progress consists primarily of renovations to the Agency's facilities at its Meadowridge and Southeast Alternative Schools locations, with total project costs incurred of approximately \$1,143,000. These renovations are expected to be placed in service during fiscal year 2015. At June 30, 2013, construction in progress consisted primarily of renovations to the Agency's facilities at its Meadowridge location, with project costs incurred of approximately \$2,340,000. These renovations were completed and placed in service during fiscal year 2014, with a total cost of approximately \$3,070,000. Also included in construction in progress as of June 30, 2013, are various other projects with project costs incurred totaling approximately \$458,000, which were all completed and placed in service during fiscal year 2014. All of these project costs were funded by operations.

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JUSTICE RESOURCE INSTITUTE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)

(13) SUBSEQUENT EVENTS

Merger

Effective September 17, 2014, Boston Employment Services, Inc., dba STRIVE (a Massachusetts corporation, not for profit) merged into the Agency. As a result of the merger, approximately \$332,000 of assets, \$106,000 of liabilities, and \$226,000 of net assets have been added to the consolidated statement of financial position of the Agency as of September 17, 2014.

Debt Refinance

On July 25, 2014, the Agency entered into a \$3,690,000 note payable agreement with a bank, which accrues interest at 4.14% per annum. This note requires eighty-three monthly payments of principal and interest of \$22,757 beginning on August 25, 2014, with a final balloon payment of \$2,737,734 due on July 25, 2021. This note is secured by a shared mortgage on specific properties owned by the Agency and contains a prepayment provision.

On July 25, 2014, the Agency entered into a \$1,200,000 note payable agreement with a bank, which accrues interest at 4.27% per annum. This note requires eighty-three monthly payments of principal and interest of \$7,484 beginning on August 25, 2014, with a final balloon payment of \$893,467 due on July 25, 2021. This note is secured by a shared mortgage on specific properties owned by the Agency.

The proceeds from the above notes were used to pay-off certain long-term debt (see Note 5) and to replenish operating cash previously utilized for significant capital projects.

Property Acquisition

On August 29, 2014, the Agency purchased a property in Attleboro, MA for \$565,000. This purchase was funded by operations and the Agency plans to develop it as a site to accommodate the re-location of an existing group home.

(14) RECLASSIFICATIONS

Certain amounts in the June 30, 2013 consolidated financial statements have been reclassified to conform to the 2014 consolidated presentation.

JUSTICE RESOURCE INSTITUTE, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014

| ASSETS | JUSTICE RESOURCE INSTITUTE, INC. | | | | EAGLE COMMUNITY CARE ESTATES, LLC | ELIMI- NATIONS | CONSOLIDATED TOTAL |
|--|----------------------------------|---------------------------|---------------------------|---------------|--|-------------------|-----------------------|
| | UNRESTRICTED | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | TOTAL | | | |
| CURRENT ASSETS: | | | | | | | |
| Cash and cash equivalents | \$ 6,631,200 | \$ 1,663,197 | \$ 85,728 | \$ 8,380,125 | 90,539 | \$ - | \$ 8,470,664 |
| Accounts receivable, net of allowance for doubtful accounts of approximately \$230,000 | 18,404,554 | - | - | 18,404,554 | - | - | 18,404,554 |
| Prepaid expenses and other | 6,197,137 | - | - | 6,197,137 | 6,807 | - | 6,203,944 |
| Investments | 9,308,332 | - | 50,000 | 9,358,332 | - | - | 9,358,332 |
| Total current assets | 40,541,223 | 1,663,197 | 135,728 | 42,340,148 | 97,346 | - | 42,437,494 |
| PROPERTY AND EQUIPMENT, at cost: | | | | | | | |
| Land, buildings and improvements | 61,006,192 | - | - | 61,006,192 | 3,110,710 | - | 64,116,902 |
| Office furniture and equipment | 3,986,669 | - | - | 3,986,669 | - | - | 3,986,669 |
| Motor vehicles | 2,985,557 | - | - | 2,985,557 | - | - | 2,985,557 |
| Leasehold improvements | 1,097,727 | - | - | 1,097,727 | - | - | 1,097,727 |
| | 69,076,145 | - | - | 69,076,145 | 3,110,710 | - | 72,186,855 |
| Less - accumulated depreciation | 24,177,015 | - | - | 24,177,015 | 105,262 | - | 24,282,277 |
| Net property and equipment | 44,899,130 | - | - | 44,899,130 | 3,005,448 | - | 47,904,578 |
| OTHER ASSETS: | | | | | | | |
| Construction in progress | 1,143,081 | - | - | 1,143,081 | - | - | 1,143,081 |
| Due from affiliate | 20,266 | - | - | 20,266 | - | (20,266) | - |
| Restricted cash | - | - | - | - | 172,218 | - | 172,218 |
| Financing fees, net of accumulated amortization of \$20,957 | 206,799 | - | - | 206,799 | - | - | 206,799 |
| Total other assets | 1,370,146 | - | - | 1,370,146 | 172,218 | (20,266) | 1,522,098 |
| Total assets | \$ 86,810,499 | \$ 1,663,197 | \$ 135,728 | \$ 88,609,424 | \$ 3,275,012 | \$ (20,266) | \$ 91,864,170 |
| LIABILITIES AND NET ASSETS | | | | | | | |
| CURRENT LIABILITIES: | | | | | | | |
| Current portion of long-term debt | \$ 555,398 | \$ - | \$ - | \$ 555,398 | \$ 9,937 | \$ - | \$ 565,335 |
| Accounts payable | 2,650,999 | - | - | 2,650,999 | 384 | - | 2,651,383 |
| Accrued expenses and other current liabilities | 7,902,487 | - | - | 7,902,487 | 8,896 | - | 7,911,383 |
| Total current liabilities | 11,108,884 | - | - | 11,108,884 | 19,217 | - | 11,128,101 |
| LONG-TERM LIABILITIES: | | | | | | | |
| Long-term debt, net of current portion | 15,063,134 | - | - | 15,063,134 | 301,179 | - | 15,364,313 |
| Contingent notes payable | 100,000 | - | - | 100,000 | 2,640,760 | - | 2,740,760 |
| Due to affiliate | - | - | - | - | 20,266 | (20,266) | - |
| Pension benefits liability | 5,326,519 | - | - | 5,326,519 | - | - | 5,326,519 |
| Total liabilities | 31,598,537 | - | - | 31,598,537 | 2,981,422 | (20,266) | 34,559,693 |
| NET ASSETS: | | | | | | | |
| Unrestricted: | | | | | | | |
| Operating: | | | | | | | |
| Working capital | 22,993,694 | - | - | 22,993,694 | 67,800 | - | 23,061,494 |
| Pension plan | 27,583 | - | - | 27,583 | - | - | 27,583 |
| Total operating | 23,021,277 | - | - | 23,021,277 | 67,800 | - | 23,089,077 |
| Property and equipment | 30,474,659 | - | - | 30,474,659 | 225,790 | - | 30,700,449 |
| Custodial property and equipment | 55,819 | - | - | 55,819 | - | - | 55,819 |
| Board designated | 1,660,207 | - | - | 1,660,207 | - | - | 1,660,207 |
| Total unrestricted | 55,211,962 | - | - | 55,211,962 | 293,590 | - | 55,505,552 |
| Temporarily restricted | - | 1,663,197 | - | 1,663,197 | - | - | 1,663,197 |
| Permanently restricted | - | - | 135,728 | 135,728 | - | - | 135,728 |
| Total net assets | 55,211,962 | 1,663,197 | 135,728 | 57,010,887 | 293,590 | - | 57,304,477 |
| Total liabilities and net assets | \$ 86,810,499 | \$ 1,663,197 | \$ 135,728 | \$ 88,609,424 | \$ 3,275,012 | \$ (20,266) | \$ 91,864,170 |

JUSTICE RESOURCE INSTITUTE, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013

| ASSETS | JUSTICE RESOURCE INSTITUTE, INC. | | | | EAGLE | ELIMI- | CONSOLIDATED |
|---|----------------------------------|---------------------------|---------------------------|----------------------|-----------------------------------|--------------------|----------------------|
| | UNRESTRICTED | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | TOTAL | COMMUNITY CARE ESTATES, LLC | | |
| CURRENT ASSETS: | | | | | | | |
| Cash and cash equivalents | \$ 9,168,572 | \$ 984,823 | \$ 85,728 | \$ 10,239,123 | \$ 96,763 | \$ - | \$ 10,335,886 |
| Accounts receivable, net of allowance for doubtful accounts of approximately \$350,000 | 14,634,440 | - | - | 14,634,440 | - | - | 14,634,440 |
| Prepaid expenses and other | 3,344,156 | - | - | 3,344,156 | 90 | - | 3,344,246 |
| Investments | 7,313,310 | - | 50,000 | 7,363,310 | - | - | 7,363,310 |
| Total current assets | <u>34,460,478</u> | <u>984,823</u> | <u>135,728</u> | <u>35,581,029</u> | <u>96,853</u> | <u>-</u> | <u>35,677,882</u> |
| PROPERTY AND EQUIPMENT, at cost: | | | | | | | |
| Land, buildings and improvements | 56,035,260 | - | - | 56,035,260 | 3,110,709 | - | 59,145,969 |
| Office furniture and equipment | 4,186,139 | - | - | 4,186,139 | - | - | 4,186,139 |
| Motor vehicles | 2,832,382 | - | - | 2,832,382 | - | - | 2,832,382 |
| Leasehold improvements | 1,264,518 | - | - | 1,264,518 | - | - | 1,264,518 |
| | 64,318,299 | - | - | 64,318,299 | 3,110,709 | - | 67,429,008 |
| Less - accumulated depreciation | 22,097,404 | - | - | 22,097,404 | - | - | 22,097,404 |
| Net property and equipment | <u>42,220,895</u> | <u>-</u> | <u>-</u> | <u>42,220,895</u> | <u>3,110,709</u> | <u>-</u> | <u>45,331,604</u> |
| OTHER ASSETS: | | | | | | | |
| Construction in progress | 2,797,917 | - | - | 2,797,917 | - | - | 2,797,917 |
| Due from affiliate | 16,345 | - | - | 16,345 | - | (16,345) | - |
| Restricted cash | - | - | - | - | 150,434 | - | 150,434 |
| Financing fees, net of accumulated amortization of \$13,796 | 215,549 | - | - | 215,549 | - | - | 215,549 |
| Total other assets | <u>3,029,811</u> | <u>-</u> | <u>-</u> | <u>3,029,811</u> | <u>150,434</u> | <u>(16,345)</u> | <u>3,163,900</u> |
| Total assets | <u>\$ 79,711,184</u> | <u>\$ 984,823</u> | <u>\$ 135,728</u> | <u>\$ 80,831,735</u> | <u>\$ 3,357,996</u> | <u>\$ (16,345)</u> | <u>\$ 84,173,386</u> |
| LIABILITIES AND NET ASSETS | | | | | | | |
| CURRENT LIABILITIES: | | | | | | | |
| Current portion of long-term debt | \$ 493,727 | \$ - | \$ - | \$ 493,727 | \$ 9,477 | \$ - | \$ 503,204 |
| Accounts payable | 2,008,313 | - | - | 2,008,313 | 13,773 | - | 2,022,086 |
| Accrued expenses and other current liabilities | 7,126,818 | - | - | 7,126,818 | - | - | 7,126,818 |
| Total current liabilities | <u>9,628,858</u> | <u>-</u> | <u>-</u> | <u>9,628,858</u> | <u>23,250</u> | <u>-</u> | <u>9,652,108</u> |
| LONG-TERM LIABILITIES: | | | | | | | |
| Long-term debt, net of current portion | 16,001,162 | - | - | 16,001,162 | 311,156 | - | 16,312,318 |
| Contingent notes payable | 100,000 | - | - | 100,000 | 2,640,760 | - | 2,740,760 |
| Due to affiliate | - | - | - | - | 16,345 | (16,345) | - |
| Pension benefits liability | 6,230,261 | - | - | 6,230,261 | - | - | 6,230,261 |
| Total liabilities | <u>31,960,281</u> | <u>-</u> | <u>-</u> | <u>31,960,281</u> | <u>2,991,511</u> | <u>(16,345)</u> | <u>34,935,447</u> |
| NET ASSETS: | | | | | | | |
| Unrestricted: | | | | | | | |
| Operating: | | | | | | | |
| Working capital | 21,320,302 | - | - | 21,320,302 | 66,735 | - | 21,387,037 |
| Pension plan | (3,466,797) | - | - | (3,466,797) | - | - | (3,466,797) |
| Total operating | <u>17,853,505</u> | <u>-</u> | <u>-</u> | <u>17,853,505</u> | <u>66,735</u> | <u>-</u> | <u>17,920,240</u> |
| Property and equipment | 28,278,955 | - | - | 28,278,955 | 299,750 | - | 28,578,705 |
| Custodial property and equipment | 18,588 | - | - | 18,588 | - | - | 18,588 |
| Board designated | 1,599,855 | - | - | 1,599,855 | - | - | 1,599,855 |
| Total unrestricted | <u>47,750,903</u> | <u>-</u> | <u>-</u> | <u>47,750,903</u> | <u>366,485</u> | <u>-</u> | <u>48,117,388</u> |
| Temporarily restricted | - | 984,823 | - | 984,823 | - | - | 984,823 |
| Permanently restricted | - | - | 135,728 | 135,728 | - | - | 135,728 |
| Total net assets | <u>47,750,903</u> | <u>984,823</u> | <u>135,728</u> | <u>48,871,454</u> | <u>366,485</u> | <u>-</u> | <u>49,237,939</u> |
| Total liabilities and net assets | <u>\$ 79,711,184</u> | <u>\$ 984,823</u> | <u>\$ 135,728</u> | <u>\$ 80,831,735</u> | <u>\$ 3,357,996</u> | <u>\$ (16,345)</u> | <u>\$ 84,173,386</u> |

JUSTICE RESOURCE INSTITUTE, INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

| | JUSTICE RESOURCE INSTITUTE, INC. | | | | EAGLE COMMUNITY CARE ESTATES, LLC | ELIMI- NATIONS | CONSOLIDATED TOTAL |
|---|----------------------------------|---------------------------|---------------------------|----------------------|--|-------------------|-----------------------|
| | UNRESTRICTED | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | TOTAL | | | |
| OPERATING REVENUES: | | | | | | | |
| Contracts and service fees | \$ 132,209,522 | \$ - | \$ - | \$ 132,209,522 | \$ 53,339 | \$ - | \$ 132,262,861 |
| Grants and contributions | 1,836,903 | 835,342 | - | 2,672,245 | - | - | 2,672,245 |
| Consulting | 1,366,213 | - | - | 1,366,213 | - | - | 1,366,213 |
| Miscellaneous | 510,051 | - | - | 510,051 | 3,068 | - | 513,119 |
| Rental | 77,066 | - | - | 77,066 | 171,156 | - | 248,222 |
| Interest and dividends | 89,873 | - | - | 89,873 | 403 | - | 90,276 |
| Net assets released from purpose restrictions | 156,968 | (156,968) | - | - | - | - | - |
| Total operating revenues | <u>136,246,596</u> | <u>678,374</u> | <u>-</u> | <u>136,924,970</u> | <u>227,966</u> | <u>-</u> | <u>137,152,936</u> |
| OPERATING EXPENSES: | | | | | | | |
| Program services | 118,874,187 | - | - | 118,874,187 | 300,861 | - | 119,175,048 |
| General and administrative | 11,394,141 | - | - | 11,394,141 | - | - | 11,394,141 |
| Total operating expenses | <u>130,268,328</u> | <u>-</u> | <u>-</u> | <u>130,268,328</u> | <u>300,861</u> | <u>-</u> | <u>130,569,189</u> |
| Changes in net assets from operations | <u>5,978,268</u> | <u>678,374</u> | <u>-</u> | <u>6,656,642</u> | <u>(72,895)</u> | <u>-</u> | <u>6,583,747</u> |
| NON-OPERATING REVENUES (EXPENSES): | | | | | | | |
| Unrealized gain on funded status of pension plan | 903,742 | - | - | 903,742 | - | - | 903,742 |
| Investment gain, net | 757,605 | - | - | 757,605 | - | - | 757,605 |
| Net loss on sale or disposal of property and equipment | (178,556) | - | - | (178,556) | - | - | (178,556) |
| Total non-operating revenues (expenses) | <u>1,482,791</u> | <u>-</u> | <u>-</u> | <u>1,482,791</u> | <u>-</u> | <u>-</u> | <u>1,482,791</u> |
| Changes in net assets | <u>7,461,059</u> | <u>678,374</u> | <u>-</u> | <u>8,139,433</u> | <u>(72,895)</u> | <u>-</u> | <u>8,066,538</u> |
| NET ASSETS, beginning of year | <u>47,750,903</u> | <u>984,823</u> | <u>135,728</u> | <u>48,871,454</u> | <u>366,485</u> | <u>-</u> | <u>49,237,939</u> |
| NET ASSETS, end of year | <u>\$ 55,211,962</u> | <u>\$ 1,663,197</u> | <u>\$ 135,728</u> | <u>\$ 57,010,887</u> | <u>\$ 293,590</u> | <u>\$ -</u> | <u>\$ 57,304,477</u> |

JUSTICE RESOURCE INSTITUTE, INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

| | JUSTICE RESOURCE INSTITUTE, INC. | | | | EAGLE | | | ELIMI- NATIONS | CONSOLIDATED TOTAL |
|---|----------------------------------|---------------------------|---------------------------|----------------------|-------------------------------------|-----------------------------------|-----------------------------------|-------------------|-----------------------|
| | UNRESTRICTED | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | TOTAL | COMMUNITY CARE SERVICES, INC. | COMMUNITY CARE ESTATES, LLC | COMMUNITY CARE-A-VANS, INC. | | |
| OPERATING REVENUES: | | | | | | | | | |
| Contracts and service fees | \$ 103,420,404 | \$ - | \$ - | \$ 103,420,404 | \$ 8,673,960 | \$ - | \$ 545,948 | \$ (101,828) | \$ 112,538,484 |
| Grants and contributions | 1,062,693 | 575,929 | - | 1,638,622 | 44,634 | 33,466 | 10,512 | - | 1,727,234 |
| Consulting | 1,104,833 | - | - | 1,104,833 | 6,729 | - | - | - | 1,111,562 |
| Miscellaneous | 323,882 | - | - | 323,882 | 89,643 | - | - | (68,060) | 345,465 |
| Rental | 166,867 | - | - | 166,867 | 36,462 | 84,332 | - | - | 287,661 |
| Interest and dividends | 287,746 | - | - | 287,746 | 18,239 | 151 | - | - | 306,136 |
| Net assets released from purpose restrictions | 278,568 | (278,568) | - | - | - | - | - | - | - |
| Total operating revenues | 106,644,993 | 297,361 | - | 106,942,354 | 8,869,667 | 117,949 | 556,460 | (169,888) | 116,316,542 |
| OPERATING EXPENSES: | | | | | | | | | |
| Program services | 95,668,204 | - | - | 95,668,204 | 7,851,186 | 155,154 | 548,152 | (101,828) | 104,120,868 |
| General and administrative | 7,962,466 | - | - | 7,962,466 | 1,174,314 | - | 68,060 | (68,060) | 9,136,780 |
| Total operating expenses | 103,630,670 | - | - | 103,630,670 | 9,025,500 | 155,154 | 616,212 | (169,888) | 113,257,648 |
| Changes in net assets from operations | 3,014,323 | 297,361 | - | 3,311,684 | (155,833) | (37,205) | (59,752) | - | 3,058,894 |
| NON-OPERATING REVENUES: | | | | | | | | | |
| Unrealized gain on funded status of pension plan | 3,964,387 | - | - | 3,964,387 | - | - | - | - | 3,964,387 |
| Investment gain, net | 169,512 | - | - | 169,512 | 71,979 | - | - | - | 241,491 |
| Contribution income - acquisition | 3,769,407 | - | - | 3,769,407 | - | 403,690 | - | - | 4,173,097 |
| Net gain on sale or disposal of property and equipment | 1,707 | - | - | 1,707 | - | - | 34,554 | - | 36,261 |
| Total non-operating revenues | 7,905,013 | - | - | 7,905,013 | 71,979 | 403,690 | 34,554 | - | 8,415,236 |
| Changes in net assets | 10,919,336 | 297,361 | - | 11,216,697 | (83,854) | 366,485 | (25,198) | - | 11,474,130 |
| NET ASSET TRANSFERS - MERGER | (109,052) | - | - | (109,052) | 83,854 | - | 25,198 | - | - |
| Changes in net assets after net asset transfers - merger | \$ 10,810,284 | \$ 297,361 | \$ - | \$ 11,107,645 | \$ - | \$ 366,485 | \$ - | \$ - | \$ 11,474,130 |