

DARE FAMILY SERVICES, INC.

**FINANCIAL STATEMENTS FOR THE
YEAR ENDED JUNE 30, 2013**

**(With Comparative Totals for 2012)
(With Independent Auditors' Report Thereon)**

DARE FAMILY SERVICES, INC.

CONTENTS

Independent Auditors' Report	1-2
---	-----

Financial Statements

Statement of Financial Position	3
Statement of Activities.....	4
Statement of Cash Flows	5
Statement of Functional Expenses	6

Notes to Financial Statements	7-21
--	------



INDEPENDENT AUDITORS' REPORT

BOARD OF DIRECTORS
DARE FAMILY SERVICES, INC.
Somerville, Massachusetts

We have audited the accompanying financial statements of Dare Family Services, Inc. (a Massachusetts not-for-profit corporation), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Dare Family Services, Inc. as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The prior year summarized comparative information has been derived from the financial statements as of June 30, 2012, which were audited by Parent, McLaughlin & Nangle, Certified Public Accountants, Inc., who consolidated with Marcum LLP as of February 1, 2013, and whose report dated November 7, 2012, expressed an unmodified opinion on those statements.

Marcum LLP

Marcum LLP
November 21, 2013

DARE FAMILY SERVICES, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2013

(With Comparative Amounts for 2012)

Assets	2013	2012
Assets		
Cash and cash equivalents:		
Cash and cash equivalents	\$ 3,303,207	\$ 3,237,830
Cash - client funds	<u>25,832</u>	<u>38,175</u>
	3,329,039	3,276,005
Certificates of deposit	1,573,879	1,565,408
Accounts receivable - less allowance for doubtful accounts of \$1,400 in both years	1,928,458	1,665,712
Prepaid expenses and deposits	123,284	126,774
Restricted cash and cash equivalents	80,959	137,086
Investments designated for endowment	1,732,085	1,598,855
Property and equipment, net	<u>830,424</u>	<u>894,384</u>
Total Assets	<u>\$ 9,598,128</u>	<u>\$ 9,264,224</u>
Liabilities		
Accounts payable	\$ 214,269	\$ 209,966
Accounts payable - client funds held	25,832	38,175
Deferred revenue	100,744	98,356
Accrued expenses	868,355	701,744
Obligations under capital leases	<u>78,858</u>	<u>102,975</u>
Total Liabilities	<u>1,288,058</u>	<u>1,151,216</u>
Net Assets:		
Unrestricted net assets:		
Operations	5,918,944	5,815,269
Property and equipment	659,041	698,884
Board designated endowment fund	<u>1,732,085</u>	<u>1,598,855</u>
Total Net Assets	<u>8,310,070</u>	<u>8,113,008</u>
Total Liabilities and Net Assets	<u>\$ 9,598,128</u>	<u>\$ 9,264,224</u>

See accompanying notes to financial statements.

DARE FAMILY SERVICES, INC.

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2013 (With Comparative Amounts for 2012)

	2013			
	Unrestricted Net Assets			
	Board			
	Programs	Endowment Fund	Total	Total
		2013	2012	
Support and Revenue				
Department of Children & Families	\$ 16,043,052	\$ --	\$ 16,043,052	\$ 16,137,483
Department of Developmental Services	3,532,194	--	3,532,194	3,374,830
Department of Mental Health	30,970	--	30,970	11,212
Executive Office of Human Services	37,996	--	37,996	35,166
Client contributions	320,813	--	320,813	312,085
Private service fees	9,562	--	9,562	10,516
Other state income	2,315,435	--	2,315,435	2,173,104
Subcontracted revenue	329	--	329	7,764
Total	22,290,351	--	22,290,351	22,062,160
Other				
Contributions	94,720	--	94,720	143,234
Investment return	8,882	133,230	142,112	54,324
Gain (loss) on disposal of assets	(2,024)	--	(2,024)	4,181
Other	1,633	--	1,633	1,112
Total	103,211	133,230	236,441	202,851
Total Support and Revenue	22,393,562	133,230	22,526,792	22,265,011
Expenses				
Program services				
Residential services	2,983,494	--	2,983,494	2,985,702
Counseling services	563,748	--	563,748	501,518
Mentor services	16,259,781	--	16,259,781	16,203,251
Total program services	19,807,023	--	19,807,023	19,690,471
Supporting services				
General and administrative	2,442,793	--	2,442,793	2,408,714
Fundraising	79,914	--	79,914	64,024
Total supporting services	2,522,707	--	2,522,707	2,472,738
Total expenses	22,329,730	--	22,329,730	22,163,209
Change in net assets	63,832	133,230	197,062	101,802
Net assets, beginning of year	6,514,153	1,598,855	8,113,008	8,011,206
Net assets, end of year	\$ 6,577,985	\$ 1,732,085	\$ 8,310,070	\$ 8,113,008

See accompanying notes to financial statements.

DARE FAMILY SERVICES, INC.

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2013 (With Comparative Amounts for 2012)

	2013	2012
Cash Flows from Operating Activities		
Change in net assets	\$ 197,062	\$ 101,802
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	137,989	146,573
Unrealized (appreciation) depreciation on investments	(33,796)	83,094
Realized gain on sales of investments, net	(70,513)	(90,637)
Loss (gain) on disposal of equipment	2,024	(4,181)
Decrease (increase) in		
Accounts receivable	(262,746)	(9,407)
Prepaid expenses and deposits	3,490	13,232
Restricted cash and cash equivalents	56,127	60,404
Increase (decrease) in		
Accounts payable	4,303	15,147
Accounts payable - client funds held	(12,343)	(32,900)
Deferred revenue	2,388	(38,059)
Accrued expenses	166,611	(319,472)
Total adjustments	(6,466)	(176,206)
Net cash provided by (used in) operating activities	190,596	(74,404)
Cash Flows from Investing Activities		
Purchases of investments	(958,178)	(371,549)
Proceeds from sales of investments	929,257	335,770
Purchases of property and equipment	(68,253)	(125,919)
Purchase of certificates of deposit	(8,471)	(10,502)
Net cash used in investing activities	(105,645)	(172,200)
Cash Flows from Financing Activities		
Payments of obligations under capital leases	(31,917)	(37,183)
Net cash used in financing activities	(31,917)	(37,183)
Net increase (decrease) in cash and cash equivalents	53,034	(283,787)
Cash and cash equivalents, beginning of year	3,276,005	3,559,792
Cash and cash equivalents, end of year	\$ 3,329,039	\$ 3,276,005
Supplemental Disclosures		
Capital lease obligations incurred in acquisition of equipment	\$ 7,800	\$ 92,337
Forgiveness of capital lease obligations	\$ --	\$ 31,776
Cash paid during the year for interest	\$ 8,455	\$ 4,337

See accompanying notes to financial statements.

DARE FAMILY SERVICES, INC.

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2013 (With Comparative Amounts for 2012)

	2013							Total Expenses	
	Program Services			Supporting Services					
	Residential	Counseling	Mentor Services	Total Program Services	Management and General	Fundraising	2013	2012	
Salaries	\$ 1,879,639	\$ 291,702	\$ 4,222,867	\$ 6,394,208	\$ 1,596,939	\$ 53,748	\$ 8,044,895	\$ 8,045,857	
Payroll taxes and fringe benefits	564,148	87,550	1,267,437	1,919,135	479,300	16,132	2,414,567	2,439,750	
Professional consultants	--	--	--	--	--	--	--	3,892	
Outside services	34,916	70,550	90,479	195,945	110,515	600	307,060	188,707	
Advertising	160	109	26,150	26,419	--	--	26,419	35,022	
Clothing/birthday supplements	6,403	--	461,724	468,127	--	--	468,127	463,795	
Depreciation and amortization	57,986	5,884	51,109	114,979	22,091	920	137,990	146,573	
Dues and subscriptions	491	--	648	1,139	7,430	1,570	10,139	8,609	
Equipment rental	30	699	6,550	7,279	1,948	81	9,308	11,551	
Mentor payments	--	--	8,761,771	8,761,771	--	--	8,761,771	8,735,819	
Food	84,143	--	595	84,738	3,194	--	87,932	92,198	
Insurance	44,041	3,163	36,907	84,111	31,314	349	115,774	111,488	
Interest	461	412	2,941	3,814	4,473	168	8,455	4,337	
Legal and accounting	853	--	--	853	90,670	--	91,523	82,615	
Noncapital equipment and furnishings	4,327	106	1,064	5,497	--	--	5,497	2,391	
Rent	109,668	53,803	576,065	739,536	--	3,820	743,356	830,975	
Office supplies/expenses	5,290	3,613	48,674	57,577	18,492	665	76,734	74,406	
Postage	1,429	874	17,566	19,869	13,319	142	33,330	34,120	
Printing	1,498	753	7,759	10,010	5,497	610	16,117	8,200	
Recreation and youth expenses	3,931	8,573	287,665	300,169	87	--	300,256	176,010	
Repairs and maintenance	47,450	3,478	32,430	83,358	7,343	277	90,978	95,839	
Staff training	3,729	12	10,801	14,542	670	115	15,327	19,530	
Supplies	17,622	1,439	339	19,400	27	--	19,427	15,491	
Telephone	17,182	6,211	87,925	111,318	15,229	462	127,009	119,429	
Travel and transportation	12,227	22,788	231,362	266,377	27,703	--	294,080	287,705	
Utilities	58,247	2,029	27,211	87,487	5,459	222	93,168	94,384	
Vehicle leasing and other expense	26,959	--	--	26,959	--	--	26,959	28,468	
Miscellaneous	225	--	1,742	1,967	1,093	33	3,093	5,215	
Property and excise taxes	439	--	--	439	--	--	439	833	
Total expenses	\$ 2,983,494	\$ 563,748	\$ 16,259,781	\$ 19,807,023	\$ 2,442,793	\$ 79,914	\$ 22,329,730	\$ 22,163,209	

See accompanying notes to financial statements.

DARE FAMILY SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

(WITH COMPARATIVE AMOUNTS FOR 2012)

NOTE 1 - NATURE OF BUSINESS

Dare Family Services, Inc. (the "Agency") is a Massachusetts not-for-profit corporation organized in 1964 under Chapter 180 of the General Laws of the Commonwealth of Massachusetts. The Agency provides foster care, residential, educational, counseling and adoption services. Substantially all of the Agency's business activities are with State government or government agencies within Massachusetts. The Agency is exempt from federal and state income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code. Donors may deduct contributions to the Service within the Internal Revenue Code regulations.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

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

COMPARATIVE FINANCIAL STATEMENTS

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Agency's financial statements for the year ended June 30, 2012, from which the summarized information was derived.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

FINANCIAL STATEMENT PRESENTATION

Under FASB ASC 958-205, *Presentation of Financial Statements of Not-for-Profit Entities*, the Agency is required to report information regarding its financial position and activities according to three classes of assets (unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets) based upon the existence or absence of donor imposed restrictions.

DARE FAMILY SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

(WITH COMPARATIVE AMOUNTS FOR 2012)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NET ASSETS

UNRESTRICTED NET ASSETS

Unrestricted net assets represent those assets either not subject to donor-imposed restrictions or releases from temporarily restricted net assets designated for stipulated activities or programs, which are expended within the same reporting period.

The Agency further subdivides this classification into a) Board-designated net assets, which have been designated by Board action for specific purposes; and b) other unrestricted net assets.

Restricted gains and investment income whose restrictions are met in the same reporting period are classified as unrestricted.

TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets represent contributions and other inflows of assets whose use by the Agency is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the Agency pursuant to those stipulations.

PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are those assets subject to donor-imposed stipulations that they be maintained permanently by the Agency. Generally, donors of these assets allow for the use of all or part of the income earned on related investments for general or specific purposes. The Agency did not have any permanently restricted net assets at June 30, 2013 or 2012.

REVENUE AND EXPENSE RECOGNITION

The Agency utilizes the accrual method of accounting whereby revenue is recorded when services are provided and expense are recorded when incurred. The majority of the Agency's clients are supported by agencies of the Commonwealth of Massachusetts. Therefore, the Agency is subject to the regulations and rate of formulas of the Massachusetts Operational Services Davison (OSD). Revenue is recorded at the Agency's rates of reimbursement as certified by OSD.

DARE FAMILY SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

(WITH COMPARATIVE AMOUNTS FOR 2012)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONTRIBUTIONS

Contributions, including unconditional promises to give, are recognized as revenues in the period received or pledged. 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 risk involved. Amortization of 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. The determination includes such factors as prior collection history, type of contribution, and nature of fundraising activity. The Agency reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions of services are reported as revenues and expenses of the unrestricted net asset class at the fair value of the service received, subject to certain criteria.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consists of short-term, highly liquid investments which are readily convertible into cash within ninety (90) days of purchase and money market mutual funds.

CERTIFICATES OF DEPOSIT

Certificates of deposit are carried at cost, which approximates fair value.

INVESTMENTS

Investments are stated at fair value in the statements of financial position. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date. Realized and unrealized gains and losses are included in the statements of activities for the period in which they occur. Dividend income is recorded on the ex-dividend date. Interest income is recorded on the accrual basis. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

DARE FAMILY SERVICES, INC.

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

(WITH COMPARATIVE AMOUNTS FOR 2012)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ACCOUNTS RECEIVABLE

Accounts receivable are carried at the amount management expects to collect from outstanding balances at year-end. When necessary, management provides for probable uncollectible amounts through a provision for doubtful accounts and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts and historical experience. Accounts that are unpaid after management has made reasonable collection efforts are written off by a charge to the valuation allowance and a credit to accounts receivable. As of June 30, 2013 and 2012, management has determined no valuation allowances were necessary.

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. Depreciation and amortization is provided over the estimated useful lives of the respective assets, on a straight-line basis. Amortization of leasehold improvements is provided over the shorter of the useful lives of the improvements or the terms of respective leases, using estimated useful lives ranging from three to thirty-three years. The net amount of property and equipment and related long-term debt has been reported as a separate component of unrestricted net assets.

Purchases are determined to be capital expenditures based on the Agency's policy of capitalizing assets acquired at a cost (or, if donated, at fair value) exceeding \$1,000. Those items which are not capital expenditures are immediately expensed.

At various times, government agencies provide the Agency with grants to purchase furniture and equipment, and can retain a reversionary interest in those assets. Title to such furniture and equipment does not pass to the Agency and must be returned to the grantor upon request.

RESTRICTED CASH AND CASH EQUIVALENTS

The Agency had restricted cash and cash equivalents amounting to \$80,959 and \$137,086, at June 30, 2013 and 2012, respectively. Restricted cash and cash equivalents is composed of government agency contract overpayments. These funds are required to be returned to those government agencies.

DARE FAMILY SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

(WITH COMPARATIVE AMOUNTS FOR 2012)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FUNCTIONAL ALLOCATION OF EXPENSES

The cost of providing the Agency's various programs and activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

ADVERTISING COSTS

The Agency expenses advertising costs as incurred.

INCOME TAX STATUS

The Agency is recognized as an organization exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code") whereby only unrelated business income, as defined by Section 512(a)(1) of the Code, is subject to Federal income tax. In addition, the Agency qualifies for the charitable income tax deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a) of the Code.

The Agency recognizes and measures its unrecognized tax positions in accordance with FASB ASC 740-10, *Accounting for Uncertainties in Income Taxes*. Under that guidance the Agency assesses the likelihood, based on their technical merit, that tax positions will be sustained upon examination based on the facts, circumstances and information available at the end of each period. The measurement of unrecognized tax positions is adjusted when new information is available, or when an event occurs that requires a change. The Agency has not identified any uncertain tax positions at June 30, 2013 or 2012. Interest and penalties associated with unrecognized income tax positions, if identified, would be classified as additional income taxes in the Statement of Activities. The Agency is generally no longer subject to examination by the Internal Revenue Service for years before 2009.

SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 21, 2013, which is the date the financial statements were available to be issued. No events requiring recognition or disclosure in the financial statements were identified.

DARE FAMILY SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

(WITH COMPARATIVE AMOUNTS FOR 2012)

NOTE 3 - CERTIFICATES OF DEPOSIT

The Agency holds certificates of deposit totaling \$1,573,879 which mature at various dates through July, 2014 and bear interest rates ranging between .3% and .5% at June 30, 2013.

The Agency held certificates of deposits totaling \$1,565,408 as of June 30, 2012. There were no sales of certificates of deposits during either of the years ended June 30, 2013 or 2012.

NOTE 4 - INVESTMENTS DESIGNATED FOR ENDOWMENT

The Agency's investments designated for endowment, stated at fair value consist of the following:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation</u>
	<u>June 30, 2013</u>		
Money market funds	\$ 21,156	\$ 21,156	\$ --
Mutual funds	673,382	676,982	3,600
Equity securities	645,773	955,416	309,643
Exchange traded funds	73,350	78,531	5,181
	<u>\$ 1,413,661</u>	<u>\$ 1,732,085</u>	<u>\$ 318,424</u>

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation</u>
	<u>June 30, 2012</u>		
Money market funds	\$ 11,456	\$ 11,456	\$ --
Mutual funds	613,752	650,107	36,355
Equity securities	592,014	836,870	244,856
Exchange traded funds	97,006	100,422	3,416
	<u>\$ 1,314,228</u>	<u>\$ 1,598,855</u>	<u>\$ 284,627</u>

Increase in unrealized appreciation, net \$ 33,797

Investments, in general, are exposed to various risks such as interest rate, credit, and overall market volatility. As such, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the Statements of Financial Position and Statements of Activities.

DARE FAMILY SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

(WITH COMPARATIVE AMOUNTS FOR 2012)

NOTE 4 - INVESTMENTS DESIGNATED FOR ENDOWMENT (CONTINUED)

The following schedule summarizes the unrestricted investment return and its classification in the statement of activities for the year ended June 30, 2013:

Operating Funds

Interest and dividend income	\$ 8,882
------------------------------	----------

Board Designated Funds

Interest and dividend income	45,174
Realized gain on sale of investments, net	70,513
Unrealized depreciation on investments, net	33,797
Investment management fees	<u>(16,254)</u>
	<u>133,230</u>
Total unrestricted investment return	<u>\$ 142,112</u>

NOTE 5 - PROPERTY AND EQUIPMENT

A summary of property and equipment is as follows:

	2013	2012
Land	\$ 237,060	\$ 237,060
Buildings	433,940	433,940
Building improvements	585,746	580,415
Leasehold improvements	163,845	162,814
Furniture and equipment	<u>974,637</u>	<u>942,559</u>
	2,395,228	2,356,788
Less accumulated depreciation and amortization	<u>(1,564,804)</u>	<u>(1,462,404)</u>
	<u>\$ 830,424</u>	<u>\$ 894,384</u>

At June 30, 2013, the Agency had in its possession approximately \$69,900 of furniture and equipment, purchased with grants from government agencies, \$9,900 of which it holds title. Certain of these assets have been capitalized in accordance with government regulations.

Depreciation and amortization expense charged to operations amounted to \$137,990 and \$146,573 for the years ended June 30, 2013 and 2012, respectively.

DARE FAMILY SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

(WITH COMPARATIVE AMOUNTS FOR 2012)

NOTE 6 - DEFERRED REVENUE

Deferred revenue includes two loans received to underwrite the cost of capital improvements to a residential facility and day care space. The Agency is not required to make repayments provided the properties are not mortgaged, sold, or beneficial interest or title is not transferred within fifteen years of project completion. Accordingly, the amounts have been recorded as deferred revenue, which will be recognized at the end of the fifteen years. If the Agency were to mortgage, sell, or transfer beneficial interest or title, there would be requirements of repayment. The total amounts of these loans received were \$29,225 and \$63,300, respectively. Repayments are secured by mortgages on the properties.

NOTE 7 - OBLIGATIONS UNDER CAPITAL LEASES

The Agency is obligated, under various capital lease agreements, for office equipment, which require monthly payments totaling \$3,090 through June 2016, at various interest rates. Depreciation of equipment under capital leases is included in depreciation expense. The Agency's office equipment at June 30, 2013, includes the following amounts for outstanding lease obligations that have been capitalized:

Office equipment	\$ 157,716
Accumulated amortization	<u>(105,676)</u>
	<u>\$ 52,040</u>

The following is a schedule by years of future minimum lease payments under the capital leases together with the present value of net minimum lease payments as of June 30, 2013:

<u>Year ending June 30</u>	
2014	\$ 37,065
2015	30,240
2016	<u>22,278</u>
Total minimum lease payments	89,583
Less amount representing interest	<u>(10,725)</u>
Present value of net minimum lease payments	<u>\$ 78,858</u>

DARE FAMILY SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

(WITH COMPARATIVE AMOUNTS FOR 2012)

NOTE 8 - LINE-OF-CREDIT

The Agency has a line-of-credit agreement with a bank which permits borrowings up to \$800,000 with interest payable at the greater of prime rate as published in the Wall Street Journal plus .5% (3.75% at June 30, 2013) or 4%. There was no outstanding balance on the note at either June 30, 2013 or 2012. The note is secured by all business assets of the Agency.

NOTE 9 - UNRESTRICTED NET ASSETS

In 1997, the Board of Directors of the Agency voted to designate \$1,000,000 of the available unrestricted net assets for endowment purposes in order to ensure the long-term viability of the Agency to continue its mission. These funds have been invested in a segregated investment account. All earnings, gains and losses derived from the segregated investment account in the future are added to Board Designated Endowment Net Assets.

NOTE 10 - RELATED PARTY TRANSACTIONS

The Agency employed several individuals that are family members of management staff of the Agency. Wages paid for these services to five individuals totaled approximately \$178,000 during the year ended June 30, 2013.

NOTE 11 - LEASE COMMITMENTS

The Agency is obligated under several lease agreements for building and office space as well as automobiles and office equipment. These leases expire through May, 2018. The following is a schedule by years of future minimum rental payments required under operating leases for the above-mentioned leases that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2013:

<u>Year ending June 30:</u>	
2014	\$ 412,611
2015	352,147
2016	325,696
2017	289,014
2018	180,565
	<u>\$ 1,560,033</u>

DARE FAMILY SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

(WITH COMPARATIVE AMOUNTS FOR 2012)

NOTE 11 - LEASE COMMITMENTS (CONTINUED)

Rent expense for building and office space charged to operations amounted to \$831,333 and \$826,175 for the years ended June 30, 2013 and 2012, respectively. Rent expense for vehicles and equipment charged to operations amounted to \$26,959 and \$28,468 for the years ended June 30, 2013 and 2012, respectively. Rent expense for the use of parking spaces charged to operations amounted to \$4,750 and \$4,800, for the years ended June 30, 2013 and 2012, respectively.

NOTE 12 - RETIREMENT PLAN

The Agency has a defined contribution retirement plan covering all eligible employees. The Agency contributes to the plan based on the discretion of the Board of Directors. Contributions to the plan amounted to \$0 and \$400,000 for the years ended June 30, 2013 and 2012, respectively.

NOTE 13 - CONCENTRATION OF CREDIT RISK

The Agency maintains cash deposits at several banks located in the Greater Boston area. Deposits at these banks are insured by the Federal Deposit Insurance Corporation up to \$250,000 as of June 30, 2013. At various times during the year, the Agency had balances at these banks in excess of the insured limit.

NOTE 14 – CONTINGENCIES

Certain claims and complaints arising in the ordinary course of business have been filed or are pending against the Agency. In the opinion of management, all such matters are without merit or are of such kind, or involve such amounts, as would not have a significant effect on the financial position or results of operations of the Agency if disposed of unfavorably.

DARE FAMILY SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

(WITH COMPARATIVE AMOUNTS FOR 2012)

NOTE 15 - BOARD DESIGNATED ENDOWMENT

Board designated endowment assets consist of funds designated by the Board of Directors to function as an endowment for long-term purposes. Since board designated endowment assets result from an internal designation and are not donor-restricted, they are classified and reported as unrestricted net assets. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors has interpreted Massachusetts Law Chapter 180A as requiring the preservation of the fair value of the original gift as of the gift date of any donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, the Agency classifies 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 Agency would classify, upon receipt of donor restricted endowment funds, 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 Agency in a manner consistent with the standard of prudence prescribed by Massachusetts Law Chapter 180A. In accordance with Massachusetts Law Chapter 180A, the Agency considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Agency and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Agency
- (7) The investment policies of the Agency

DARE FAMILY SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

(WITH COMPARATIVE AMOUNTS FOR 2012)

NOTE 15 - BOARD DESIGNATED ENDOWMENT (CONTINUED)

Endowment Net Asset Composition by Type of Fund as of June 30, 2013 and 2012:

	2013	2,012
Board designated endowment funds	<u>\$ 1,732,085</u>	<u>\$ 1,598,855</u>

Changes in Board Designated Endowment Net Assets for Years ended June 30, 2013 and 2012:

	Unrestricted	
	2013	2012
Endowment net assets, beginning of year	\$ 1,598,855	\$ 1,555,533
Net gain on investments	<u>133,230</u>	<u>43,322</u>
Endowment net assets, end of year	<u>\$ 1,732,085</u>	<u>\$ 1,598,855</u>

RETURN OBJECTIVES AND RISK PARAMETERS

Endowment assets include those assets of board-designated funds that the Agency holds for a board-specified period(s). Under this policy, as approved by the Board of Directors, the endowment assets are held for investment by Northeast Investment Management, Inc. The Agency expects its endowment funds, over time, to provide a rate of return equal to or exceeding various benchmarks, the principal one being the Standard & Poor's 500. Actual returns in any given year may vary from this amount.

STRATEGIES EMPLOYED FOR ACHIEVING OBJECTIVES

The Agency has directed Northeast Investment to maintain an equity/fixed income ratio utilizing a conservative measure in order to protect the principal of the endowment funds. The Agency has an investment committee which meets quarterly with representatives from Northeast Investment to assess performance and modify investment strategies based on perceived current market trends and the Agency's assessment of its preferred risk.

SPENDING POLICY AND HOW THE INVESTMENT OBJECTIVES RELATE TO SPENDING POLICY

The Agency has been accumulating the additions to the board designated endowment fund in order to grow the fund over time. The level of spending will vary with the Agency's needs and market conditions as determined by the Agency's Board of Directors.

DARE FAMILY SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

(WITH COMPARATIVE AMOUNTS FOR 2012)

NOTE 16 - FAIR VALUE MEASUREMENTS

The Agency uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Fair value is best determined based upon quoted market prices in active markets. However, in many instances, there are no quoted market prices for the Agency's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

FAIR VALUE HIERARCHY

In accordance with this guidance, the Agency groups its financial assets and financial liabilities in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value:

Level 1 – Valuation is based on quoted market prices in active markets for identical assets or liabilities that the Agency has the ability to access at the measurement date. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation must be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 – Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety, is determined based on the lowest level of input that is significant to the fair value measurement in its entirety.

DARE FAMILY SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

(WITH COMPARATIVE AMOUNTS FOR 2012)

NOTE 16 - FAIR VALUE MEASUREMENTS (CONTINUED)

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2013 and 2012.

Money market funds: Money market funds are valued at amortized cost, which approximates fair value. Therefore, these securities have been classified as Level 1 assets.

Mutual funds and equity securities: The fair value of mutual fund and equity securities is based on quoted market prices in an active exchange market. Therefore, these securities have been classified as Level 1 assets.

There were no liabilities measured at fair value on a recurring basis at June 30, 2013 or 2012. There were no transfers to or from Levels 1, 2 and 3 during the years ended June 30, 2013 and 2012.

Fair values of financial instruments measured on a recurring basis at June 30, 2013 and 2012, are as follows:

	Fair Value Measurements Using:			Total
	Level 1	Level 2	Level 3	
June 30, 2013				
Money market funds	\$ 21,156	\$ --	\$ --	\$ 21,156
Mutual funds				
Fixed income	624,794	--	--	624,794
Equities	52,188	--	--	52,188
	<u>676,982</u>	<u>--</u>	<u>--</u>	<u>676,982</u>
Equity securities				
Materials	20,421	--	--	20,421
Consumer discretionary	152,659	--	--	152,659
Consumer staples	107,572	--	--	107,572
Healthcare	136,476	--	--	136,476
Energy	120,381	--	--	120,381
Financials	117,643	--	--	117,643
Industrials	131,466	--	--	131,466
Information technology	168,798	--	--	168,798
	<u>955,416</u>	<u>--</u>	<u>--</u>	<u>955,416</u>
Exchange traded funds	78,531	--	--	78,531
	<u>\$ 1,732,085</u>	<u>\$ --</u>	<u>\$ --</u>	<u>1,732,085</u>

DARE FAMILY SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

(WITH COMPARATIVE AMOUNTS FOR 2012)

NOTE 16 - FAIR VALUE MEASUREMENTS (CONTINUED)

	Fair Value Measurements Using:			Total
	Level 1	Level 2	Level 3	
June 30, 2012				
Money market funds	\$ 11,456	\$ --	\$ --	\$ 11,456
Mutual funds:				
International fixed income	113,158	--	--	113,158
Fixed income	513,298	--	--	513,298
Equities	23,651	--	--	23,651
	<u>650,107</u>	--	--	<u>650,107</u>
Equity securities:				
Materials	19,672	--	--	19,672
Consumer discretionary	82,999	--	--	82,999
Consumer staples	116,159	--	--	116,159
Healthcare	124,480	--	--	124,480
Energy	111,237	--	--	111,237
Financials	120,046	--	--	120,046
Industrials	98,896	--	--	98,896
Information technology	163,381	--	--	163,381
	<u>836,870</u>	--	--	<u>836,870</u>
Exchange traded funds	100,422	--	--	100,422
	<u>\$ 1,598,855</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 1,598,855</u>