

**FEDERATION EMPLOYMENT AND
GUIDANCE SERVICE, INC.
AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT**

JUNE 30, 2014

**FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.
AND SUBSIDIARIES**

TABLE OF CONTENTS

Independent Auditor's Report

Exhibit

A - Consolidated Balance Sheet

B - Consolidated Statement of Activities

C - Consolidated Statement of Expenses

D - Consolidated Statement of Cash Flows

Notes to Consolidated Financial Statements



LOEB & TROPER LLP

Independent Auditor's Report

**Board of Directors
Federation Employment and Guidance Service, Inc.
and Subsidiaries**

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Federation Employment and Guidance Service, Inc. and Subsidiaries, which comprise the consolidated balance sheet as of June 30, 2014, and the related consolidated statements of activities, expenses and cash flows for the year then ended, and the related notes to the 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 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 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.

Emphasis of Matters

As discussed in Note 9 to the consolidated financial statements, FECS Home Attendant Services, Inc. received notification from the New York State Office of Medicaid Inspector General of a potential audit adjustment. Our opinion is not modified with respect to this matter.

As discussed in Note 17 to the consolidated financial statements, Federation Employment and Guidance Service, Inc. and Subsidiaries have suffered losses from operations. Management's plans in regard to these matters, which include restructuring, are also described in Note 17. Our opinion is not modified with respect to this matter.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Federation Employment and Guidance Service, Inc. and Subsidiaries as of June 30, 2014, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Federation Employment and Guidance Service, Inc. and Subsidiaries' June 30, 2013 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated December 2, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Loeb & Troper LLP

December 1, 2014

EXHIBIT A**FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.
AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEET****JUNE 30, 2014****(With Summarized Financial Information for June 30, 2013)**

	<u>2014</u>	<u>2013</u>
ASSETS		
Cash and cash equivalents	\$ 10,205,618	\$ 6,734,624
Investments (Notes 2, 9 and 16)	22,668,184	27,519,723
Accounts receivable (net of allowance for accounts doubtful of collection of \$7,500,000 in 2014 and \$6,700,000 in 2013)	54,577,726	58,875,681
Assets held for deferred compensation (Note 17)	1,686,502	1,404,552
Contributions receivable (balance due within one year) (net of allowance for accounts doubtful of collection of \$100,000 in 2014)	342,497	486,819
Prepaid expenses and other assets	6,615,226	6,492,109
Deposits	2,383,480	2,951,181
Fixed assets (Note 4)	46,220,520	48,266,393
Intangible assets	4,524	5,652
Total assets	<u>\$ 144,704,277</u>	<u>\$ 152,736,734</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable, accrued expenses and other liabilities	\$ 38,159,458	\$ 33,523,053
Accrued salaries and vacations payable	13,865,295	13,613,569
Allowance for third-party adjustments	5,477,700	7,299,401
Advances	16,564,513	11,921,442
Liability for deferred compensation	1,686,502	1,404,552
Mortgages payable (Note 5)	14,909,257	16,660,239
Loans payable (Note 6)	6,605,429	3,040,091
Capital leases payable (Note 7)	5,268,959	3,607,979
Construction advances (Note 8)	2,587,094	2,671,297
Total liabilities	<u>105,124,207</u>	<u>93,741,623</u>
Net assets (Exhibit B)		
Unrestricted	29,931,405	49,211,722
Temporarily restricted (Note 16)	7,572,781	7,699,549
Permanently restricted (Note 16)	1,968,436	1,968,436
Total net assets	39,472,622	58,879,707
Noncontrolling interest (Exhibit B)	<u>107,448</u>	<u>115,404</u>
Total net assets and noncontrolling interest	<u>39,580,070</u>	<u>58,995,111</u>
Total liabilities, net assets and noncontrolling interest	<u>\$ 144,704,277</u>	<u>\$ 152,736,734</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

**FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.
AND SUBSIDIARIES**

EXHIBIT B

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2014

(With Summarized Financial Information for the Year Ended June 30, 2013)

				Total	
	Unrestricted	Temporarily Restricted	Permanently Restricted	2014	2013
Revenues, gains (losses) and other support					
Program revenues and support	\$ 246,362,002			\$ 246,362,002	\$ 234,439,608
Fees for services and other revenue	7,178,122			7,178,122	7,665,495
UJA/Federation - basic and pension grants	3,203,818			3,203,818	3,222,671
Contributions and foundations	4,085,230	\$ 37,619		4,122,849	4,347,839
Special events	1,455,076			1,455,076	1,222,183
Less direct cost of special events expenses (Exhibit C)	(283,438)			(283,438)	(289,195)
Investment income (Note 3)	1,161,662	481,872		1,643,534	2,414,084
Gain (loss) on sale of real estate	(117,987)			(117,987)	193,033
Net assets released from restrictions					
Satisfaction of program restrictions (Note 16)	646,259	(646,259)			
Total revenues, gains (losses) and other support	263,690,744	(126,768)		263,563,976	253,215,718
Expenses					
Program services					
Educational, vocational and youth services	72,669,193			72,669,193	62,277,076
Behavioral health and family services	55,909,679			55,909,679	53,417,340
Developmental disabilities and work services	32,787,320			32,787,320	33,410,053
Residential	52,141,356			52,141,356	49,940,308
Various other	30,900,960			30,900,960	17,556,846
Total program services	244,408,508			244,408,508	216,601,623
Supporting services					
Management and general	39,138,480			39,138,480	34,167,696
Fund raising	1,451,841			1,451,841	914,638
Total supporting services	40,590,321			40,590,321	35,082,334
Total expenses (including provision for income tax of \$43,488) (Exhibit C)	284,998,829			284,998,829	251,683,957
Change in net assets before other changes	(21,308,085)	(126,768)		(21,434,853)	1,531,761
Insurance proceeds	2,027,768			2,027,768	838,680
Goodwill impairment loss					(208,100)
Change in net assets (Exhibit D)	(19,280,317)	(126,768)		(19,407,085)	2,162,341
Net assets - beginning of year	49,211,722	7,699,549	\$ 1,968,436	58,879,707	56,717,366
Net assets - end of year (Exhibit A)	\$ 29,931,405	\$ 7,572,781	\$ 1,968,436	\$ 39,472,622	\$ 58,879,707
Noncontrolling interest - beginning of year	\$ 115,404			\$ 115,404	\$ 93,562
Changes in net assets attributable to noncontrolling interest	(7,956)			(7,956)	21,842
Noncontrolling interest - end of year (Exhibit A)	\$ 107,448			\$ 107,448	\$ 115,404

See independent auditor's report.

The accompanying notes are an integral part of these statements.

EXHIBIT C

**FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.
AND SUBSIDIARIES**

CONSOLIDATED STATEMENT OF EXPENSES

YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Salaries and stipends	\$ 140,365,757	\$ 127,983,325
Payroll taxes and employee benefits	<u>47,512,001</u>	<u>37,512,366</u>
Total salaries and related expenses	187,877,758	165,495,691
Rent	25,258,022	24,121,704
Utilities	5,369,054	5,408,657
Contract/subcontract services	10,781,392	10,981,581
Skills training supplies	873,934	793,810
Office equipment	492,112	422,629
Building and equipment maintenance	3,837,946	3,203,620
Janitorial	754,626	742,042
Consultants	5,280,802	7,193,073
Professional fees	843,292	539,948
Travel	1,217,041	1,048,622
Client transportation	8,889,963	8,356,377
Office supplies/printing	769,788	915,680
Advertising	367,981	342,871
Postage and delivery	335,797	301,653
Dues and subscriptions	323,292	279,974
Food	1,970,854	1,900,995
Medical/test supplies	838,441	673,708
Equipment leasing	541,387	566,973
Accreditation	295,308	264,454
Temporary help	4,068,475	3,994,494
Insurance	3,743,646	2,067,864
Client trips/entertainment/clothing	575,536	764,620
Provision for bad debts	7,757,170	1,436,238
Interest	1,415,450	1,126,107
Catering and facilities	283,438	289,195
Investment management fees	70,085	55,082
Provision for income tax	40,934	28,540
Miscellaneous	<u>1,090,180</u>	<u>1,074,563</u>
Total expenses before depreciation and amortization	275,963,704	244,390,765
Depreciation and amortization	9,346,873	7,595,694
Amortization of finance costs	<u>41,775</u>	<u>41,775</u>
Total expenses	285,352,352	252,028,234
Less investment management fees	(70,085)	(55,082)
Less cost of special events deducted from revenue on the consolidated statement of activities	<u>(283,438)</u>	<u>(289,195)</u>
Total expenses as reported on the consolidated statement of activities	<u>\$ 284,998,829</u>	<u>\$ 251,683,957</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

EXHIBIT D

**FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.
AND SUBSIDIARIES**

CONSOLIDATED STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ (19,407,085)	\$ 2,162,341
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	9,346,873	7,595,694
Amortization of finance costs	41,775	41,775
Investment losses from SinglePoint Care Network LLC	1,774,991	214,905
Goodwill impairment loss		208,100
(Gain) loss on sale of real estate	117,987	(193,033)
Net gains on investments	(2,606,504)	(1,901,937)
Change in noncontrolling interests	(7,956)	21,842
Decrease (increase) in assets		
Accounts receivable	4,297,955	(8,101,439)
Contributions receivable	144,322	(86,264)
Prepaid expenses and other assets	(164,892)	(872,980)
Deposits	567,701	301,371
Increase (decrease) in liabilities		
Accounts payable, accrued expenses and other liabilities	3,541,508	1,067,569
Accrued salaries and vacations payable	251,726	2,629,536
Allowance for third-party adjustments	(1,821,701)	93,953
Advances	4,643,071	1,358,472
Liability for deferred compensation	281,950	184,261
Net cash provided by operating activities	<u>1,001,721</u>	<u>4,724,166</u>
Cash flows from investing activities		
Purchase of fixed assets	(4,886,542)	(7,459,561)
Proceeds from sale of fixed assets	497,510	206,826
Purchase of investments	(1,292,133)	(610,533)
Proceeds from sale of investments	8,070,082	258,845
Decrease in escrow account		37,182
Increase in assets held for deferred compensation	(281,950)	(184,261)
Net cash provided (used) by investing activities	<u>2,106,967</u>	<u>(7,751,502)</u>

-continued-

**FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.
AND SUBSIDIARIES**

CONSOLIDATED STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Cash flows from financing activities		
Payments on loan and mortgage principal	\$ (2,337,643)	\$ (1,997,738)
Proceeds from loan and mortgages	4,151,999	750,000
Repayment of construction advances	(84,203)	(84,313)
Principal payments on capital lease obligation	<u>(1,367,847)</u>	<u>(486,137)</u>
Net cash provided (used) by financing activities	<u>362,306</u>	<u>(1,818,188)</u>
Net change in cash and cash equivalents	3,470,994	(4,845,524)
Cash and cash equivalents - beginning of year	<u>6,734,624</u>	<u>11,580,148</u>
Cash and cash equivalents - end of year	<u>\$ 10,205,618</u>	<u>\$ 6,734,624</u>
Supplemental disclosure of cash flow information		
Cash paid for interest during the year	<u>\$ 1,318,024</u>	<u>\$ 1,132,635</u>
Capital lease acquisitions	<u>\$ 3,028,827</u>	<u>\$ 4,094,116</u>
Cash paid for income taxes	<u>\$ 94,594</u>	<u>\$ 44,035</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

**FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 1 - NATURE OF ORGANIZATION

Federation Employment and Guidance Service, Inc. and Subsidiaries' ("FEGS") consolidated financial statements include the following:

Federation Employment and Guidance Service, Inc. (the "Agency"), established in 1934, is a voluntary, not-for-profit health and human services organization.

The Agency's extensive service delivery network provides a range of services to more than 120,000 individuals annually in the areas of Health/Disabilities; Housing; Home Care; Employment/Workforce; Education; Youth and Families. In developing these comprehensive and responsive programs to meet ever-changing needs in the community, the Agency utilizes resources from both the private and public sectors, and integrates services from a wide array of professional disciplines throughout the organization.

The Agency is a tax-exempt organization pursuant to Section 501(c)(3) of the Internal Revenue Code and New York State Tax Commission Regulation Section 1-3.4(b)(6). The Agency is funded primarily by fee-for-service and reimbursement contracts with New York State and New York City.

AllSector Technology Group, Inc., also doing business as AllSector was incorporated on August 19, 1998 and commenced operations on October 5, 1998. AllSector is a full service, systems integration technology company providing technology consulting; managed services and application development on an outsource and project basis to not-for-profit, for-profit and public sector organizations. AllSector is subject to federal income tax and applicable state and local taxes. The Agency is a 95% owner of AllSector.

HR Dynamics, Inc., ("HRD") is a wholly owned subsidiary of the Agency, was incorporated on November 19, 1996 and commenced operations on March 31, 1997. HRD is a full-service human resource consulting company offering full outsource solutions and project-based services across the following practice areas: Employee/Labor Relations; Talent Recruitment and Staffing; Benefits Management; Compensation Management; HRIS, Learning and Organizational Development. HRD is subject to federal income tax and applicable state and local taxes. Subsequent to year end, the Board of Directors of HRD made a determination to cease operations during fiscal year 2015.

-continued-

**FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 1 - NATURE OF ORGANIZATION (continued)

Staff Resources, Inc., incorporated on January 1, 1997, is a wholly owned subsidiary of the Agency and is a for-profit corporation. The Corporation is inactive.

FEGS Home Attendant Services, Inc., a New York State Licensed Home Care Services Agency ("Home Attendant") was incorporated in 1983 to provide home care services to Medicaid-eligible New York City residents under contract with the New York City Human Resources Administration ("HRA"). In addition to the HRA contract, since August 1, 2011, under the New York State Medicaid Redesign Plan, the organization has been contracting with Managed Care Organizations ("MCO") and Managed Long Term Care Plans ("MLTC") to provide home care services to members of those plans. The Agency is the Sole Corporate Member of this entity and, as such, has a controlling financial interest in the MCO and MLTC lines of business.

SinglePoint Care Network, LLC ("SinglePoint") is an integrated, specialty delegated care management company with a subsidiary Independent Practice Association (IPA) of health care and community providers. The parent company was incorporated in Delaware in February 2012 and the subsidiary New York Corporation in June 2012. Operations started in July of 2012. The Agency and Selfhelp Community Services, Inc. are equal partners in SinglePoint, which is recorded on the equity method within these financial statements. During May 2014, the Board of Managers of SinglePoint decided to cease the care management line of business, which represented approximately 95% of SinglePoint's total business model. In December 2014, SinglePoint will cease the remaining balance of its operations.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Method of Accounting

The financial statements are prepared on the accrual basis of accounting.

B. Basis of Consolidation

All material intercompany transactions and balances have been eliminated in the consolidation.

-continued-

**FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Use of Estimates

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

D. Cash Equivalents

FEGS considers highly liquid investments with original maturities of 90 days or less to be cash equivalents.

E. Investments

Investments are reported at fair value.

Investment securities, in general, are exposed to various risks such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term, based upon the markets' fluctuations, and that such changes could be material.

F. Fair Value Measurements

Fair Value Measurements establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below. Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that FEGS has the ability to access. Level 2 inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;

-continued-

**FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Fair Value Measurements (continued)

- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The 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, 2014 as compared to those used at June 30, 2013.

Cash equivalents and common stocks - Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds - Valued at the net asset value (NAV) of shares held at year end.

Alternative investments - Estimated fair values, in the absence of readily ascertainable market values, have been determined by the investment managers. The methods and procedures used to value these investments may include, but are not limited to: (1) performing comparisons with prices of comparable or similar securities; (2) obtaining valuation-related information from issuers; and/or (3) other analytical data relating to the investment and using other available indications of value.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while FECS believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

-continued-

**FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Fair Value Measurements (continued)

The following table sets forth by level, within the fair value hierarchy, the assets at fair value as of June 30, 2014:

	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>
Cash equivalents	\$ <u>231,603</u>		\$ <u>231,603</u>
Mutual funds			
Mutual funds - bonds	6,870,145		6,870,145
Mutual funds - common stocks	<u>1,994,300</u>		<u>1,994,300</u>
Total mutual funds	<u>8,864,445</u>		<u>8,864,445</u>
Common stocks			
Consumer staples and services	140,490		140,490
Energy	657,763		657,763
Financials	807,286		807,286
Health care	368,511		368,511
Industrial	1,202,843		1,202,843
Insurance	591,210		591,210
Technology	469,832		469,832
Media	251,517		251,517
Other	<u>77,253</u>		<u>77,253</u>
Total common stocks	<u>4,566,705</u>		<u>4,566,705</u>
Alternative investments		\$ <u>9,005,431</u>	<u>9,005,431</u>
	\$ <u>13,662,753</u>	\$ <u>9,005,431</u>	\$ <u>22,668,184</u>
Assets held for deferred compensation			
Mutual funds - domestic	\$ <u>1,686,502</u>		\$ <u>1,686,502</u>

-continued-

**FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Fair Value Measurements (continued)

Level 3 Investments:

Fund Name	Redemption Period	Notice Period	Description of Fund	Amount
Fund A	Fund is winding down and distributing proceeds from the remaining assets as they are liquidated	N/A	Real estate holding	\$ 17,735
Fund B	Annually - December 31	90 days 30 days to redeem profits	A commodity pool that invests a substantial portion of its capital in another limited partnership which engages in the business of trading equities, fixed income products, options, futures and other financial instruments.	2,972,803
Fund C	Annually - June 30	90 days	The fund's stated goal is to achieve positive annual returns that are superior to long-term equity market returns with low beta and low volatility. The fund is not limited with respect to the types of investment strategies it employs or the markets or instruments in which it invests. The fund invests opportunistically, primarily in North America, Europe and Asia.	1,417,028

-continued-

**FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Fair Value Measurements (continued)

Level 3 Investments (continued):

Fund Name	Redemption Period	Notice Period	Description of Fund	Amount
Fund D	Every six months	60 days	Long/short credit strategy that invests in full spectrum of high yield bonds, bank loans, stressed securities, special situations and capital structure opportunities.	\$ 1,103,652
Fund E	Annually - June 30	45 days	Feeder fund to an offshore partnership. Investments are broad in nature.	1,593,271
Fund F	Can redeem (without penalty) up to 25% per quarter	90 days	The investment objective of the fund is to generate consistent long-term appreciation through active leveraged trading and investment on a global basis. The fund has maximum flexibility to invest in a wide range of instruments including, but not limited to, debt securities and obligations (which may be below investment grade), bank loans, listed and unlisted equities, other collective investment schemes (which may be open-ended or close-ended, listed or unlisted, may employ leverage and of which the manager or the investment manager may be an affiliate of the Manager or the Investment Manager), currencies, commodities, futures, options, warrants, swaps and other derivative instruments.	1,123,749

-continued-

**FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Fair Value Measurements (continued)

Level 3 Investments (continued):

Fund Name	Redemption Period	Notice Period	Description of Fund	Amount
Fund G	Permitted quarterly on the last day of the month preceding each three month anniversary date of the investment date (October 1)	60 days	Trading in securities, primarily by participating in event-driven arbitrage transactions.	
				\$ <u>777,193</u>
			Total Level 3 investments	\$ <u>9,005,431</u>

There are no unfunded commitments on the Level 3 investments.

-continued-

**FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Fair Value Measurements (continued)

The following table discloses the change in Level 3 assets during the year:

	Fair Value Measurements Using Significant Unobservable Inputs
Beginning balance	\$ 8,572,539
Total gains (realized and unrealized gains and losses) included in changes in net assets for 2014	932,892
Sales	<u>(500,000)</u>
Ending balance	<u>\$ 9,005,431</u>
The amount of total gains for the period included in changes in net assets attributable to the change in unrealized gains relating to assets still held at the reporting date	<u>\$ 529,927</u>

G. Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded when services are rendered. FECS management determines whether an allowance for uncollectible accounts should be provided for accounts receivable. Such estimates are based on management's assessment of the aged basis of its receivables, current economic conditions, subsequent collections and historical information. Receivables are charged to bad debt expense when they are deemed to be uncollectible based upon a periodic review of the accounts by management. Interest is not recorded on outstanding accounts receivable.

-continued-

**FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Contributions Receivable and Allowance for Doubtful Accounts

Unconditional promises to give that are expected to be collected within one year are recorded at fair value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. Allowance for doubtful accounts is an estimate based on management's assessment of the aged receivable, current economic condition, subsequent receipts and historical information.

I. Fixed Assets

FECS capitalizes all expenditures in excess of \$1,000 for property and equipment having a useful life of greater than one year. Depreciation and amortization are computed on the straight-line method over the shorter of the estimated useful lives of the assets or the remaining terms of the leases, as applicable.

J. Advances

Advances are funds received from various government agencies that are used to fund future expenditures funded by those agencies.

K. Construction Advances

Construction advances represent advances received from government agencies for various construction projects.

L. Net Assets

Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors.

Temporarily restricted net assets are those whose use by the Agency has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Agency in perpetuity.

-continued-

**FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. Program Revenues and Support

Federation Employment and Guidance Service, Inc. receives funding for its Employment, Career and Workforce Development, Behavioral Health, Education and Youth Services, Residential and Housing Services, Developmental Disabilities and Family Services from contracts principally entered into with New York State and New York City. Certain other governmental revenues are recognized based on expenditures incurred and are subject to audit and adjustment by Medicaid and other regulatory agencies. Third-party reimbursement adjustments are recorded when reasonably determinable.

The current third-party-payor programs, including Medicaid and Medicare, are based upon extremely complex laws and regulations. Noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs.

The Agency receives certain support for its programs in the form of operational grants, which usually run for a period of one year or longer. This support is restricted to operations within the terms of the grants and, accordingly, recognition of grant support is deferred until qualified expenditures are incurred. Any excess of grant support over expenses incurred is recorded as an allowance for third-party adjustments on the consolidated balance sheet.

N. Fees For Services and Other Revenues

Fees for services and other revenues and products are recognized when earned. Accounts receivable for such services are recorded at rates established by governmental payors (principally with New York State and New York City). Revenues are recorded based on estimated allowable costs and are subject to audit and adjustment by governmental payors. The effects of such adjustments are recorded when reasonably determinable.

O. Contributions

Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. The gifts are reported as temporarily restricted or permanently 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 as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

-continued-

**FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

P. Advertising

Advertising costs are expensed in the year incurred.

Q. Operating Leases

Operating leases are recorded on the straight-line method. When material differences exist between the payments and straight-lined expense, a deferred asset or liability is recorded.

R. Functional Expenses

The costs of providing FEGS's services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services for which the costs have been incurred.

S. Summarized Financial Information

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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended June 30, 2013, from which the summarized information was derived.

T. Accounting for Uncertainty in Income Taxes

FEGS has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending June 30, 2011 and subsequent remain subject to examination by applicable taxing authorities.

U. Subsequent Events

Subsequent events are evaluated through the date the financial statements were available to be issued.

-continued-

**FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 3 - INVESTMENT INCOME

Investment income consists of the following:

Net gains on investments	\$ 2,606,504
Interest and dividend income	882,106
Investment losses on SinglePoint	(726,521)
SinglePoint exit cost losses	(1,048,470)
Investment management fees	<u>(70,085)</u>
	<u>\$ 1,643,534</u>

NOTE 4 - FIXED ASSETS

	<u>2014</u>	<u>2013</u>	Estimated Useful Lives (in Years)
Land	\$ 2,789,555	\$ 2,741,956	
Building	28,346,856	29,201,919	25-30
Building improvements	13,993,377	14,077,410	28-30
Leasehold improvements	30,364,590	29,009,737	2-15
Equipment	45,767,462	42,301,816	2-10
Office equipment	10,013,359	9,579,601	2-10
Construction in progress	<u>3,515,346</u>	<u>1,440,582</u>	
	134,790,545	128,353,021	
Accumulated depreciation and amortization	<u>(88,570,025)</u>	<u>(80,086,628)</u>	
	<u>\$ 46,220,520</u>	<u>\$ 48,266,393</u>	

Depreciation and amortization of fixed assets was \$9,345,745 in 2014 and \$7,594,566 in 2013.

-continued-

**FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 5 - MORTGAGES PAYABLE

	<u>Interest Rate</u>	<u>Amount Outstanding</u>
A. The Agency has various signed building loan notes with the Dormitory Authority of the State of New York ("DASNY") amounting to a total of \$23,250,693, issued on its behalf. These notes are secured by the properties. The building loan notes have various maturity dates through December 1, 2031.		
As of June 30, 2014, the Agency was not in compliance with the debt service coverage ratio on three DASNY bond issues covering eight properties operated under the auspices of OPWDD. The Agency is in technical default and is seeking a waiver from DASNY.	3.92% - 7.50%	\$ 11,924,257
B. The Agency has various signed building loan notes with the Industrial Development Agency of the State of New York and Suffolk County amounting to a total of \$4,595,000 issued on its behalf. These notes are secured by the properties. The building loan notes have various maturity dates through July 1, 2026.		
	5.70% - 5.86%	<u>2,985,000</u>
Total		<u>\$ 14,909,257</u>

Principal payments for all mortgages for the next five years and thereafter are as follows:

2015	\$ 1,393,975
2016	1,252,205
2017	1,219,697
2018	1,279,648
2019	1,301,858
Thereafter	<u>8,461,874</u>
	<u>\$ 14,909,257</u>

The net book value of properties securing the above mortgages approximated \$9,800,000.

-continued-

**FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 6 - LOANS PAYABLE

On March 24, 2012, the Agency received a \$3,000,000 equipment loan from JP Morgan Chase for the purchase of a Voice over Internet Protocol telephone system and information technology infrastructure investments. The loan is for a period of five years at a fixed interest rate of 2.89%. The loan is secured by the aforementioned equipment. The balance of the loan is \$1,703,429.

The Agency has an uncollateralized \$5,000,000 line of credit with JP Morgan Chase, of which \$3,000,000 is for working capital and \$2,000,000 is for acquisitions and renovation of properties. The interest rate charged on amounts drawn on the line of credit is the prime rate, which was 3.25% at June 30, 2014. The credit line expires March 27, 2015. As of June 30, 2014, the balance outstanding is \$4,042,000.

On August 30, 2013, the Agency initiated two loans totaling \$860,000 from the Fund for the City of New York. The interest-free loans were granted to provide short-term financing in the aftermath of Hurricane Sandy. The loans are to be fully repaid on or before December 31, 2014. The balance at June 30, 2014 was \$860,000.

Principal payments for the next three years are as follows:

2015	\$ 5,505,842
2016	621,526
2017	<u>478,061</u>
	<u>\$ 6,605,429</u>

NOTE 7 - CAPITAL LEASES PAYABLE

The Agency entered into capital lease arrangements for the purchase of IT hardware and software. The leases expire between December 2015 and 2018 with monthly installments at an interest rate of 2.854%. The equipment acquired under the capital leases totaled \$7,122,943. Accumulated amortization on the property is \$1,853,984.

-continued-

**FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 7 - CAPITAL LEASES PAYABLE (continued)

Future minimum lease payments are as follows:

2015	\$ 1,514,562
2016	1,514,562
2017	1,514,562
2018	<u>1,012,148</u>
	5,555,834
Less amount representing interest	<u>(286,875)</u>
Present value of net minimum lease payments	\$ <u>5,268,959</u>

NOTE 8 - CONSTRUCTION ADVANCES

Construction advances at June 30, 2014 totaled \$2,587,094, comprised of the following:

- A. The Department of Housing and Urban Development gave the Agency a \$400,000 construction advance for the Burnside Avenue project. As of June 30, 2014, the construction advance balance is \$45,000. The final repayment date is December 15, 2015.
- B. New York State Office of Mental Health gave the Agency a \$1,064,712 capital advance for the design and construction of a 43-bed Community Residence to be located at 265 Burnside Avenue, Bronx, New York. As of June 30, 2014, the construction advance balance is \$108,456. The final repayment date is December 15, 2015.
- C. The Department of Housing and Urban Development gave the Agency a \$400,000 construction advance for the 124th Street SRO project. As of June 30, 2014, the construction advance balance is \$92,000. The final repayment date is June 1, 2022.
- D. The Agency received \$2,341,638 from the New York State Department of Mental Health as a capital advance for the design and construction of a residence located at 15-19 Duryea Place, Brooklyn, New York. The funds have been fully expended, and the advance is payable after tax-exempt bonds are issued for the financing of this property.

-continued-

**FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 8 - CONSTRUCTION ADVANCES (continued)

Repayments of construction advances under the above agreements as of June 30, 2014 are as follows:

2015	\$ 2,425,841
2016	84,202
2017	33,051
2018	16,000
2019	<u>28,000</u>
	<u>\$ 2,587,094</u>

NOTE 9 - COMMITMENTS AND CONTINGENCIES

A. Operating Leases

Rent expense was \$25,258,022 for the year ended June 30, 2014. FECS leases space under various operating lease agreements which expire between July 2014 and June 2033. Future minimum rental commitments exclusive of real estate taxes and maintenance charges under noncancelable operating leases as of June 30, 2014 are as follows:

<u>Year Ending June 30</u>	
2015	\$ 20,732,531
2016	17,634,477
2017	14,343,363
2018	13,234,777
2019	5,720,432
Thereafter	<u>18,671,637</u>
	<u>\$ 90,337,217</u>

B. Letter of Credit

The Agency maintains a letter of credit related to leased property. The collateral for the letter is an investment with a market value of approximately \$3.9 million. The letter of credit is in the amount of \$3,500,000 with a fee rate of 0.45%. On August 18, 2014 the letter of credit was reduced to \$1,750,000 based on a reduction of leased space.

-continued-

**FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 9 - COMMITMENTS AND CONTINGENCIES (continued)

C. Unemployment Insurance

The Agency is a self-insurer for any unemployment compensation claims from former employees.

D. Third-party Audits

FEGS is responsible to report to and is regulated by various governmental third parties, among which are the Centers for Medicare and Medicaid Services (CMS) and New York State Department of Health (DOH). These agencies, as well as the New York State Office of the Attorney General's Medicaid Fraud Control Unit (MFCU), the Internal Revenue Service, the New York State Office of the Attorney General's Charities Bureau, the New York State Department of Health's Independent Office of Medicaid Inspector General (OMIG), and other agencies have the right to audit fiscal, as well as programmatic compliance, i.e., clinical documentation, among other compliance requirements.

In a letter dated November 6, 2014, Home Attendant received an Exit Conference Summary and Audit Disallowance Binder from the New York State Office of Medicaid Inspector General (OMIG) related to an audit that was conducted in 2011 covering services provided during the period January 1, 2006 through December 31, 2009. The materials provided by the OMIG state that there is an adjusted point estimate overpayment of \$20,769,266 and an adjusted lower confidence limit overpayment of \$13,783,287. The exit conference on this audit is scheduled for December 11, 2014 and a Draft Audit Report has not yet been issued. Home Attendant intends to contest the audit. Management has not recorded an adjustment in these financial statements due to its inability to quantify the potential exposure.

NOTE 10 - PENSION PLAN

Employees of the Agency are covered under the UJA/Federation of Jewish Philanthropies of New York's pension plan. The UJA/Federation pension plan is noncontributory for all nonunion employees, but contributory for employees who are covered by a collective bargaining agreement. In addition, certain key employees participate in a nonqualified deferred compensation plan. The Agency's pension expense was \$4,726,489 in 2014.

-continued-

**FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 10 - PENSION PLAN (continued)

HRD and AllSector make matching contributions to a pension fund with assets maintained by Fidelity Investments Institutional Services Company, Inc. Individuals are eligible if they have been employed for more than six months. The first contributions made by employees up to three percent of eligible compensation are fully matched by the employer. There is an additional fifty percent matching rate for the next two percent of employee contributions; employees are fully vested upon eligibility. Pension expense for HRD was \$77,075 in 2014. Pension expense for AllSector was \$175,423 in 2014.

Home Attendant makes discretionary contributions to a pension fund with assets maintained by Principal Financial Group, Inc. for nonunion employees that have been employed by Home Attendant for more than three months. Discretionary contributions by the employer were based on six percent of the employee's annual salary. Employees are fully vested upon eligibility. Pension expense was \$88,946 in 2014.

Union Plan

All union employees of Home Attendant are covered by an employer contributory pension plan administered by 1199 SEIU Home Care Employees Pension Fund. Union pension expense was \$214,752 for the year ended June 30, 2014. Home Attendant does have a Collective Bargaining Agreement covering their union employees for the year ended June 30, 2014.

The following information applies to the union-managed pension plan:

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status	FIP/RP Status Pending/ Implemented	Contributions	Surcharge Imposed	Expiration Date of Collective Bargaining Agreement
1199 SEIU Home Care Employees Pension Fund	EIN 13-3943904 Plan No. 001	Green	Yes	\$214,752	No	March 31, 2015

The plan was certified by its actuary to be in "green zone" status - neither endangered nor critical status as of January 1, 2013.

As of the date the financial statements were issued, Form 5500 was available for the plan year ending December 31, 2012.

-continued-

**FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 11 - POSTRETIREMENT MEDICAL BENEFIT PLAN

The Agency has a noncontributory postretirement medical benefit plan. The postretirement medical insurance plan covers a closed group of retirees.

The following table sets forth the plan's funded status and amounts recognized in the balance sheet at June 30, 2014:

Benefit obligation at June 30, 2014	\$ 224,191
Fair value of plan assets at June 30, 2014	<u>-</u>
Accrued postretirement liability	<u>\$ 224,191</u>

Weighted average assumptions as of June 30, 2014:

Discount rate	2.60%
Expected return on plan assets	N/A

For measurement purposes, a 2.9% annual rate of increase in the per capita cost of covered health benefits was assumed for 2014.

Benefit cost	\$ 32,310
Employer contributions	38,412
Plan participants' contributions	-
Benefits paid	38,412

NOTE 12 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of financial instruments as reported on the balance sheet of FECS's financial statements approximate their fair value.

NOTE 13 - CONCENTRATIONS

Financial instruments which potentially subject FECS to a concentration of credit risk are cash accounts with major financial institutions in excess of FDIC insurance limits. Management believes that credit risk related to these accounts is minimal.

-continued-

**FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 13 - CONCENTRATIONS (continued)

Financial instruments which potentially subject FECS to a concentration of credit risk are the outstanding accounts receivable from agencies of New York State and New York City and Medicaid, totaling approximately \$48,700,000.

The majority of services are paid by New York State, New York City and Medicaid totaling approximately \$200,000,000.

NOTE 14 - RELATED PARTIES

The Agency, FECS Home Care Services, Inc., FECS Holding Corp. and Jewish Care Services of Long Island, Inc. are related through common board control.

The Agency is the Sponsor Organization for Waverly Residence, Inc., a not-for-profit corporation, which is a single-asset housing corporation established for the construction of an Individual Residential Alternative (IRA) program for the developmentally disabled.

The Agency is the sole member of Tanya Towers, Inc., a not-for-profit corporation, which is a single-asset housing corporation operating under Section 223F of the National Housing Act and regulated by New York City Housing Development Corporation.

The Agency is the Sponsor Organization for NYSD Forsyth Housing Development Fund Company, Inc., NYSD Housing Development Fund Company and NYSD Rombouts HDPC, Inc., not-for-profit corporations, which are each a single-asset housing corporation regulated by HUD with respect to rent charges and operating methods.

On February 17, 2012, the Agency and Selfhelp Community Services, Inc., a New York-based not-for-profit corporation, formed SinglePoint Care Network, LLC, a specialty care management company, which will terminate operations in December 2014.

-continued-

**FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 14 - RELATED PARTIES (continued)

Due from related parties are the following:

Waverly Residence, Inc.	\$ 124,309
Tanya Towers, Inc.	474,308
NYSD Forsyth HDFC, Inc. (184(F))	84,977
NYSD HDFC, Inc. a/k/a Tanya Towers II (174(F))	<u>171,060</u>
Total	<u>\$ 854,654</u>

A member of the Board is a partner of a firm that provides legal services for the Agency. Fees for the year ended June 30, 2014 totaled \$75,866.

NOTE 15 - BENEFICIARY TRUST

Federation Employment and Guidance Service, Inc. is named as a beneficiary of at least a 25% share of the remainder of the UJA-Federation Community Trust for Disabled Adults under the auspices of UJA-Federation of New York. A receivable has not been recorded on the financial statements, since it cannot be determined if any principal will remain at the termination of the trust.

As of June 30, 2014, the UJA-Federation Community Trust for Disabled Adults was valued at approximately \$11.9 million.

NOTE 16 - RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

Awards and scholarships	\$ 987,577
Long Island services	5,536,636
Training and intern programs	<u>1,048,568</u>
	<u>\$ 7,572,781</u>

-continued-

**FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 16 - RESTRICTED NET ASSETS (continued)

Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by donors:

Awards and scholarships	\$ 22,449
Long Island services	606,778
Training and intern programs	<u>17,032</u>
	<u>\$ 646,259</u>

General

Federation Employment and Guidance Service, Inc.'s permanently restricted net assets consist of investments to be held in perpetuity. The income from the assets can be used to support the Agency's training and intern programs.

As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of the Agency has adopted the New York Prudent Management of Institutional Funds Act (NYPMIFA). NYPMIFA moves away from the "historic dollar value" standard, and permits charities to apply a spending policy to endowments based on certain specified standards of prudence. The Agency is now governed by the NYPMIFA spending policy, which establishes a standard maximum prudent spending limit of 7% of the average of its previous five years' balance. As a result of this interpretation, the Agency classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standards of prudence prescribed by NYPMIFA.

Any interest, dividends, rents, royalties or other revenue generated by donor-restricted endowment funds is used by the organization in a manner consistent with the standard of prudence required by law, absent explicit donor stipulations.

-continued-

**FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 16 - RESTRICTED NET ASSETS (continued)

Return Objectives, Strategies Employed and Spending Policy

The objective of the Agency is to earn investment income while maintaining the principal of the endowment funds at the original amount designated by the donor. The investment policy to achieve this objective is to invest in low-risk securities. Investment income earned in relation to the endowment funds is recorded as temporarily restricted income and released from restriction upon expenditure for the program for which the endowment fund was established.

Funds with Deficiencies

The Agency does not have any funds with deficiencies.

Endowment Net Asset Composition by Type of Fund as of June 30, 2014

The endowment net asset composition of \$1,968,436 consists of the following:

Investment in perpetuity, the income from which is expendable to support training and intern activities of the organization, as well as scholarships for refugees.	<u>\$ 1,968,436</u>
--	---------------------

Changes in Endowment Net Assets for the Year Ended June 30, 2014

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year		\$ 1,968,436	\$ 1,968,436
Net gains on investments	\$ 193,317		193,317
Interest and dividends	70,621		70,621
Appropriated for expenditures	<u>(137,791)</u>	<u> </u>	<u>(137,791)</u>
Endowment net assets, end of year	\$ <u>126,147</u>	\$ <u>1,968,436</u>	\$ <u>2,094,583</u>

-continued-

**FEDERATION EMPLOYMENT AND GUIDANCE SERVICE, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 17 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 1, 2014.

In 2015, the contracts between the City of New York and the Agency will expire for the Back to Work and WeCare programs, both of which FECS has operated for many years. Exit costs for both programs have been determined based on a set of assumptions including no transfer of space or staff, full unemployment, a write-off of undepreciated fixed assets and continuation of leases for a year. The impact of these closures is an estimated \$11 million loss of which \$3.1 million has been recorded in the consolidated financial statements.

Additionally, FECS will engage in a major restructuring effort in 2015 to address the financial challenges it currently faces in terms of liquidity, profitability and long-term sustainability. A thorough review of every program/contract, administrative expenses and financial operations is currently underway and restructuring actions including additional program closures/transfers and negotiations with government, the unions and other stakeholders is anticipated. The financial impact of this effort cannot be quantified at this time but it will be significant.